April 27, 2004

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549-0609

Re: File No. PCAOB 2004-03

FILED ELECTRONICALLY (rule-comments@sec.gov)

Dear Mr. Katz:

Computer Sciences Corporation ("CSC") respectfully submits the following comments regarding PCAOB Rulemaking: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rule on Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements," Release No. 34-49544; File No. PCAOB-2004-03 issued April 8, 2004 (the "Proposed Standard").

We have supported the efforts of the President, Congress, the New York Stock Exchange and the Securities and Exchange Commission to enhance investor confidence in the integrity of our financial reporting system. Accurate and reliable financial information is fundamental to investor confidence, and effective internal control over financial reporting plays an important role in supporting the integrity of financial reporting.

Notwithstanding the importance of internal controls, audits of internal control over financial reporting certainly would not have detected or prevented the egregious fraudulent financial reporting and business failures of the past few years. Full financial statement audits were not sufficient to detect or prevent these abuses. Accordingly, while audits of internal control over financial reporting may help improve investor confidence, it is important to balance the cost of these measures with resulting benefits.

We commend the PCAOB on the refinements made to the original proposal which are included in the revised Proposed Standard, particularly the changes made to enable auditors to place reliance where appropriate on the work of company management, internal audit and others, subject to the criteria of SAS No. 65. Permitting auditors to rely on the work of management, internal auditors and others relating to evaluation of a company's IT general controls will somewhat reduce significant duplication of effort and cost. The revised Proposed Standard also has been better integrated into the existing auditing standards framework by more fully incorporating those standards wherever appropriate (e.g. AU Section 322, "Auditor's Consideration of An Internal Audit

Function in An Audit of Financial Statements", AU Section 324, "Service Organizations", etc.).

Notwithstanding these improvements and refinements, we continue to be gravely concerned the Proposed Standard, in fact, will result in very significant costs, wholly disproportionate to the resulting benefits. This is a matter we raised in our comment letter concerning the original proposed standard (letter number 151 of 194 on your website.) Accordingly, we reiterate our recommendation the PCAOB should use every possible means to mitigate the cost of these measures to registrants and, ultimately, U.S. investors and capital markets.

- We continue to have significant concerns with the overly broad and all-encompassing nature of the proposed definition of a significant deficiency as any deficiency where the likelihood of potential misstatement is more than remote and the magnitude is more than inconsequential. The end result would encompass substantially all deficiencies if the definition includes materiality of more than "an inconsequential amount" and likelihood of "more than remote." This result would make it difficult to distinguish more significant deficiencies in internal control over financial reporting from matters of far less importance and those unlikely to recur. We are concerned this could also have a number of unfavorable unintended consequences as well. For example, reporting relatively immaterial matters in this manner could result in significantly increased corporate insurance premiums, increased deductibles and uninsured losses where insurers either deny coverage on the basis of the exaggerated significance of implied director or officer negligence or through coverage exclusions.

- We also continue to have significant concerns regarding the exhaustive scope of required audit procedures and their prohibitively high cost without commensurate benefits.

- We strongly suggest the SEC and the PCAOB reconsider certain of the enumerated circumstances presumed to be at least a de facto significant deficiency and a strong indication of a material weakness.

We have provided further information regarding these matters in the following paragraphs.

<u>Definition of a Significant Deficiency</u>

As indicated in our original comment letter dated November 21, 2003, we think the definition of a significant deficiency is far too broad and all encompassing. Deficiencies with a potential misstatement of more than an inconsequential amount would encompass substantially all deficiencies. This would make it difficult to distinguish more significant deficiencies in internal control over financial reporting from matters of far less importance. Furthermore, we think this definition would mandate a standard which is virtually, if not wholly, unachievable for any large, global corporation, if anywhere.

Furthermore in our initial comment letter, we questioned the use of the term "inconsequential" indicating use of such a vague threshold would result in fairly significant diversity in practice since there is no existing usage of this term, either in auditing standards or generally accepted accounting principles. We acknowledge the PCAOB attempted to clarify this by providing the following definition of "inconsequential" in the revised Proposed Standard:

> A misstatement is *inconsequential* if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements. If a reasonable person could not reach such a conclusion regarding a particular misstatement, that misstatement is *more than inconsequential*.

However, we think this definition is equally problematic since we think it is impracticable to evaluate the "possibility of further undetected misstatements." We also think inclusion of a "reasonable person" standard in this definition adds further ambiguity rather than clarity. In fact, we think the definition is circular and not helpful

<u>Scope of Required Audit Procedures and Reliance on the Work of Management, Internal Audit, and Others</u>

Generally, we commend the PCAOB's revisions to the Proposed Standard which clarify required audit scope and permit appropriate levels of reliance on the work of management, internal auditors and others. However, the revised Proposed Standard continues to require the auditor to perform all walkthrough procedures for each major class of transactions and prohibits reliance on the work of others in this area. In principle, there is no reason the auditor should not be able to place reliance on walkthrough procedures performed by management, internal audit or others, provided the auditor has complied with the requirements of Statement on Auditing Standards No. 65. To not further modify this standard is a very costly decision, indeed, in terms of time and money.

<u>Cost Benefit Considerations</u>

Based on the above factors, the cost of audit work required under the Proposed Standard does not appear to be warranted in relation to the desired benefits. A recent survey by Financial Executives International indicates companies over $5 billion will, on average, (1) incur $1.4 million in external consulting, software and vendor charges, (2) expend 35,000 hours by internal personnel, and (3) incur audit fees for the external auditors' opinion on internal controls equal to 38% of financial statement audit fees or $1.5

million. Our current estimates are in line with, or higher than, this information. These costs will be even more substantial if the definition of circumstances constituting a significant deficiency is not more reasonably and narrowly defined. Representatives of the big four public accounting firms have indicated to us fees for the audit of internal control over financial reporting, in fact, could be significantly greater – up to a multiple of the financial statement audit fee. Based on actual filings of other companies in recent weeks, it is becoming apparent the costs of compliance are still greatly underestimated. There will be even more substantial costs for the affected public companies. Audits of internal control over financial reporting are generally thought to result in the following benefits: improvement of public confidence in our financial reporting system and, consequently, in our capital markets, and prevention of business and financial reporting failures such as Enron and WorldCom. While we think such audits may help improve public confidence, we continue to question whether such audits will provide much, if any, remedy toward business and financial reporting failures such as Enron and WorldCom.

Expectations Gap

Beyond the overall cost-benefit disparity, we are even more concerned with the widely held misperception that audits of internal control will eliminate business and financial reporting failures. We fear this "expectations gap" may serve to further undermine our markets if, or when, we experience the next serious business and financial reporting failure. This expectations gap has been further exacerbated by the dramatic increase in financial statement restatements by registrants arising from a wide range of circumstances. At least in part, this "expectations gap" has resulted from unrealistic expectations created by some of the recent rule-making initiatives. For example, the chief executive and chief financial officers of registrant companies must file quarterly and annual "certifications" under Section 302 of Sarbanes-Oxley. These "certifications" address: accuracy of financial statements filed with the SEC, effectiveness of disclosure controls and procedures, and changes in internal controls that could materially affect registrant financial statements.

We strongly disagree with this nomenclature. Terms such as "certification" and "ensure" imply a much higher level of assurance than can reasonably be applied to financial information and internal controls. As previously mentioned, internal controls provide reasonable, but not absolute, assurance that financial statements are not materially misstated. Financial statements present fairly a company's financial position, results of operations and cash flows in accordance with generally accepted accounting principles. These are not absolute standards. "Management certification" is far too strong a characterization. "Management representation" would more appropriately convey the degree of assurance investors should attach to such statements. It is precisely this type of rule making that widens, rather than narrows, the "expectations gap."

<u>Circumstances Regarded as at Least a Significant Deficiency and Strong Indicator of a Material Weakness</u>

We think each of the following circumstances do not warrant the presumption it "should be regarded as at least a significant deficiency and is a strong indicator a material weakness exists" without further evaluation of all the relevant facts and circumstances:

- Ineffective oversight by the company's audit committee.
- Fraud of any magnitude on the part of senior management.
- Significant deficiencies, which remain uncorrected.

We cannot presume the foregoing situations constitute either a de facto significant deficiency or material weakness without further consideration of the specific facts and circumstances. We think ineffectiveness of the audit committee should not be singled out from other elements comprising the control environment. We think the control environment must be considered in its entirety in evaluating whether a significant deficiency exists. Likewise, assessing whether management fraud constitutes a significant deficiency should be evaluated in the context of the overall control environment and relative significance of the amounts involved, given the high degree of judgment, for example, applied in separating fraud and negligence determinations from clearly inconsequential expense report or employment contract issues. Finally, there may be very good reasons certain significant deficiencies are not corrected (such as cost benefit considerations), particularly given the definitional issues discussed above regarding significant deficiencies.

In addition, deficiencies cannot reasonably be defined as "at least a significant deficiency" without regard to the significance of the amounts involved and all other pertinent facts and circumstances. More specifically, the categorical classification of the following deficiencies as "at least a significant deficiency" does not seem appropriate:

- Controls over the selection and application of accounting principles.
- Antifraud programs and controls.
- Controls over non-routine and non-systematic transactions.
- Controls over the period-end financial reporting process.

Changes in control procedures and practices, such as antifraud programs, controls and procedures, are not necessarily indicative of deficiencies. Controls and procedures evolve over time and adapt to a wide variety of factors including, among others, business innovation, technology and consequent changes in overall business practices. Moreover, changes in accounting practices are likewise not necessarily indicative of deficiencies as prevalent practices evolve over time with changes and improvements in financial reporting and accounting practices.

Auditor Responsibility for Reporting All Deficiencies to Management

The requirement for auditors to report ALL deficiencies to management is, without any possible doubt, much too broad. For example, CSC, like many large public multi-national corporations, is a complex organization with numerous subsidiary companies, operations in 76 countries, 90,000 employees and over 1,000 locations. As a consequence, we think this approach is not practicable for most large multi-national companies. Perhaps consideration should be given to hierarchy of scale, which is common in large, multinational companies, where certain deficiencies are discussed and resolved at the local level and are not escalated further.

Auditor Responsibility for Quarterly Disclosures

The scope of the auditor's responsibility for quarterly disclosures about internal control is ambiguous and there is no requirement under the Sarbanes-Oxley Act for the auditor to perform work relative to the company's quarterly disclosures. Furthermore, the differing levels of auditor responsibility regarding management's quarterly disclosures versus management's annual assessment may create more investor confusion and further widen the "expectations gap".

We thank you for the opportunity to express our views in this letter. If you have any questions or would like to further discuss our comments, please feel free to contact Dennis Dooley at (248) 372-3306 or me at (310) 615-1728.

Sincerely,

Leon J. Level
Chief Financial Officer
Computer Sciences Corporation

cc:
The Honorable William H. Donaldson, Chairman, Securities and Exchange Commission
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Cynthia A. Glassman, Commissioner
The Honorable Harvey J. Goldschmid, Commissioner
Mr. William J. McDonough, Chairman, Public Company Accounting Oversight Board
Mr. Dennis Dooley