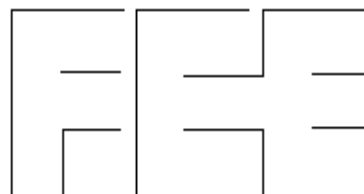


Date
17 May 2004

Le Président

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Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington D.C. – 20549-0609
USA



Dear Sir,

File No. PCAOB – 2004 – 03: PCAOB Auditing Standard No. 2 – An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements.

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) welcomes this opportunity, as the representative organisation of the European accountancy profession, to comment on the Commission's Notice of Filing of the Proposed Rule on Auditing Standard No. 2.

FEE wrote to the PCAOB on 21 November 2003 with our comments on the Proposed Standard that preceded Auditing Standard No. 2. We appreciate the efforts of the PCAOB in seeking to address the many comments received on the Proposed Standard, in particular those which sought greater recognition of the importance of auditors exercising professional judgement rather than simply "ticking boxes".

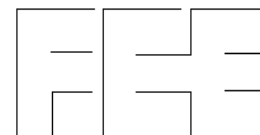
Like other commentators on the Proposed Standard, we could also identify comments that we believe to be important that would preferably have received greater attention; for example: the impact of the prohibition on auditors expressing "except for" opinions; and the practical implications of the definitions of "material weakness" and "significant deficiency". Other areas, regrettably, will probably need further guidance, for example: current year acquisitions; associates and joint ventures; outsourcing; documentation levels; independence; selection of locations; and the required scope of testing.

However, we are aware of the background against which the PCAOB had to finalise Auditing Standard No. 2 and against which the Commission has to consider its approval. We also understand the need to respect the urgent intent of Congress in passing the Sarbanes-Oxley Act in 2002 with its provisions relating to internal control. Consequently, rather than urge the Commission to reject Auditing Standard No. 2 in its present form, we suggest other measures that the Commission could take in order to make the Standard as successful as possible and promote its objectives more widely.

The approval of Auditing Standard No. 2 by the SEC will not signify that the problem of misleading information has been solved and that it is now merely a question of implementation to be left to the auditing firms and the PCAOB's inspections. Without the support of others, the prospects of success in providing a basis for reliance on financial reporting are limited.

Improvements in the quality of internal control and in the transparency of reporting internal control issues depend primarily on corporate boards and managements and their advisors who need to recognise that:

- they have to take responsibility for compliance with the requirements of the Act and recognise the size of the task they face;
- the criteria for testing, documentation and control effectiveness in Auditing Standard No. 2 and the definitions of material weakness and significant deficiency are theirs' as well as the



auditors' and they need to apply them objectively and in good faith in accordance with regulations applicable to registrants; and

- all the internal controls in the world amount to nothing if the "tone at the top" of the corporation allows management collusion and override or tolerates "earnings game" behaviour.

As regulators with powers to monitor and sanction, the Commission and the PCAOB need to reassure corporate boards and managements, as well as auditors, that they will not apply 20/20 hindsight if problems subsequently emerge and that the issuance of adverse reports will not of itself result in regulatory action. Otherwise, there is a risk that adverse reports will either become the norm or virtually unknown. In either case, they would fail to provide investors with useful information.

The Commission could also exercise a positive influence over the behaviour of investors and their advisors as well as analysts and commentators by leading public discussion to help them understand that:

- because internal control is a matter of judgement and does not give absolute assurance, investors should avoid over-reliance on conclusions about effectiveness;
- full compliance may not be possible immediately because effective control systems are not built overnight; and
- the meaningful disclosure of problems and improvements is important to the market which should, therefore, avoid over-reacting so as not to deter such reporting.

Finally, because global capital markets call for global standards of corporate governance and auditing, this new Standard should mark the beginning rather than the end of international dialogue on the subject of internal control reporting.

If you have any other questions about our views on these matters, do not hesitate to contact us.

Yours sincerely,

David Devlin
President

Cc: William H. Donaldson
SEC Chairman

Paul S. Atkins, Cynthia Glassman, Roel C. Campos, Harvey J Goldschmid
SEC Commissioners

William J. McDonough
PCAOB Chairman