

July 11, 2007

REFERENCE File Number PCAOB-2007-02

Dear Nancy,

We appreciate the opportunity to provide you with our comments as a follow up on your notice of Additional Solicitation of Comments on the Filing of Proposed Rule on Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements, and Related Independence Rule and Conforming Amendments.

We would like to comment on the following specific topics mentioned in your request under number (2), (3) and (6).

***(2) Please comment on the requirement in Paragraph 80 that the auditor consider whether there are any deficiencies or combination of deficiencies that are significant deficiencies and, if so, communicate those to the audit committee. Specifically, will the communication requirement regarding significant deficiencies divert auditors' attention away from material weaknesses?***

The objective of SOX 404 and the related Auditing Standard is to provide "...reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.." (AS 5 paragraph 2). Because a company's internal control cannot be considered effective if one or more material weaknesses exist, the auditor must plan and perform the audit to obtain reasonable assurance about whether any material weakness exist.

We do not believe that communication (to the audit committee) on significant deficiencies contributes to the above stated objective. Although it is specifically stated in AS 5 paragraph 82 that auditors are not required to perform procedures to identify all control deficiencies, there is no reference that this relates to **significant** deficiencies. In addition, there is a risk that the requested reporting on known deficiencies will actually increase audit procedures in practice. In our viewpoint this risk should not be taken, considering the above stated objective (i.e. reference to **material weaknesses**). This risk cannot be eliminated by simply changing the position towards the "Communication" section.

***(3) Is AS5 sufficiently clear that for purposes of evaluating identified deficiencies, multiple control deficiencies should only be looked at in combination if they are related to one another?***

In our viewpoint AS5 is not sufficiently clear about the conditions under which deficiencies should be looked at in combination. Aggregation of deficiencies is only relevant when deficiencies have the same root cause. We regret that the PCAOB did not specifically include the root cause criteria in AS5. This could result in a possible aggregation of deficiencies, which for example affect the same COSO component, but are anyway not related to each other. Statistically, it is highly unlikely that unrelated deficiencies could aggregate to a reasonable possibility since chances would have to be multiplied.

***(6) Will AS 5 reduce expected audit costs under Section 404, particularly for smaller public companies , to result in cost-effective, integrated audits?***

When we compare Audit Standard 5 to the superseded Audit Standard 2, we see the following improvements:

1. Top down, risk based approach: focus the auditor to the matters most important to internal control.
2. Elimination of unnecessary audit procedures and simplifying the requirements for auditors (e.g. elimination of several “must” and “should” instructions).
3. Elimination of the principal evidence provision and more possibilities for auditors to use the work of others.
4. Integration of the audit of internal control over financial reporting with an audit of financial statements.

Based on these improvements, we expect that AS5 will reduce the audit costs under Section 404, both for small and large companies. This is in line with the intentions of the PCAOB to better align benefits and audit costs under Section 404. Additionally, we expect that the financial audit costs will also reduce as a consequence of the improved internal controls.

However, some external auditors are claiming that the audit procedures of 2006 already reflected the improvements of AS5. As a consequence, they do not expect that audit costs under Section 404 will decline from fiscal year 2007 onwards.

Due to this, we are concerned that AS5 in fact may not lead to audit cost reductions, despite the clear intentions and expectations that are conveyed by the PCAOB.

We suggest that the PCAOB, during their inspections, will monitor the audit costs under Section 404 and determine the effect of AS5 on the audit fees for fiscal year 2007. Additionally, we would suggest that the PCAOB should re-affirm their clear expectations and intentions of cost reduction again to the audit firms.

Again, we would like to thank you for the opportunity to provide our comments and are looking forward to your follow up prior to final approval of the new PCAOB auditing standards.

In the meantime, should you have any questions, please don't hesitate to contact us.

Kindest regards,

Drs Simone Heidema RA  
Erick Noorloos RA RO AA EMIA

**Contact details:**

Simone Heidema

[sheidema@corqwell.nl](mailto:sheidema@corqwell.nl)

+31 6 22 416 539