

July 12, 2007

Ms. Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-9303

RE: File No. PCAOB-2007-02, Public Company Accounting Oversight Board; Notice of Filing of Proposed Rule and Additional Solicitation of Comments on Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of the Financial Statements*, and Related Independence Rule and Conforming Amendments

Dear Ms. Morris:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Securities and Exchange Commission's ("Commission" or "SEC") proposed rule and additional solicitation of comments on the Public Company Accounting Oversight Board's ("PCAOB") Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of the Financial Statements* ("standard" or "AS 5"). We believe that AS 5 will enhance the effectiveness and efficiency of compliance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") and will preserve the increased transparency and reliability of financial information that has helped to restore investor confidence.

We support the Commission's prompt approval of AS 5, which will allow companies and auditors to maximize the benefits for current year audits. We believe that the standard's focus on principles rather than prescriptive requirements expands the opportunities to apply well-reasoned professional judgment. We also believe that the expanded use of professional judgment will have a meaningful impact on improving the effectiveness and efficiency of the integrated audit without diminishing the protection afforded to investors under Section 404.

Specifically, we believe that the standard, when combined with the Commission's interpretive guidance for management, *Commission Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934* ("management's guidance"), will help to reduce the total

costs of compliance with Section 404 (i.e., a combination of management's total internal and external costs, including the external audit). The degree of cost savings, however, will vary from company to company and will be dependent on many factors, including the extent to which a top-down, risk-based approach was previously implemented.

In the Appendix to this letter, we have included our responses to the Commission's additional solicitation of comments on the proposed rule on AS 5.

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We would be pleased to discuss our comments and to answer any questions that the SEC staff or the Commission may have. Please contact Vincent Colman (973-236-5390) or Jorge Milo (973-236-4300) regarding our submission.

Sincerely,

PriceWaterhouse Coopers LLP

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 the Financial Statements*, and Related Independence Rule and Conforming Amendments

In the text that follows, we offer our responses to the SEC's additional solicitation of comments on the proposed rule on AS 5 and related matters.

- 1. Is the standard of materiality appropriately defined throughout AS5 to provide sufficient guidance to auditors? For example, is materiality appropriately incorporated into the guidance regarding the matters to be considered in planning an audit and the identification of significant accounts?**

We believe that the standard of materiality is appropriately and consistently applied throughout AS 5 and that the standard provides sufficient guidance to auditors. The auditor's assessment of materiality is a critical component of an effective and efficient audit of internal control over financial reporting that is integrated with an audit of the financial statements. We agree with the guidance in paragraph 20 of the standard, which indicates that the auditor should rely on the same materiality considerations used in the audit of a company's *annual* financial statements to plan the audit of internal control over financial reporting.

We also believe that the risk factors in paragraph 29 of the standard provide the auditor with sufficient guidance to identify those significant accounts that could result in a material misstatement. Inherent in the auditor's consideration of the "size and composition of the account" is the auditor's consideration of materiality. We believe that the auditor should use well-reasoned professional judgment to identify significant accounts based on quantitative and qualitative factors, including the relevant factors provided in paragraph 29.

- 2. Please comment on the requirement in Paragraph 80 that the auditor consider whether there are any deficiencies or combinations 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?**

We recognize the value and importance of communicating, in writing, to management and the audit committee significant deficiencies and material weaknesses identified during the audit. We do not believe that the requirement to communicate significant deficiencies to the audit committee will divert the auditor's attention away from material weaknesses or create confusion as to the intended scope of the audit of internal control over financial reporting. AS 5 clearly directs the auditor to scope the audit to identify material weaknesses.

We believe that the effectiveness of the audit committee's oversight of a company is enhanced by the communication of significant deficiencies to the audit committee. We also believe that such communication is conceptually aligned with the definition of a significant deficiency (i.e., items important enough to merit attention by those responsible for oversight of the company's financial reporting).

We believe, however, that both the auditor's and management's ability to identify those deficiencies that should be communicated to the audit committee would be enhanced by the addition of the likelihood component "reasonable possibility" to the definition of significant deficiency, which would also more closely align the definition of significant deficiency with the definition of material weakness. While not necessary, we believe that this minor change in the definition would contribute to our collective goal of making the evaluation process more efficient and effective without detracting from the opportunity to exercise appropriate judgment or establishing "bright lines."

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?

We believe that the guidance in the note to paragraph 65 is sufficiently clear regarding the auditor's consideration of multiple control deficiencies that are related to one another. AS 5 defines a material weakness as a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements would not be prevented or detected on a timely basis. Accordingly, we believe that the auditor should consider whether multiple control deficiencies that impact the same significant account, disclosure, relevant assertion, or component of internal control over financial reporting collectively result in a material weakness. We do not believe that the guidance will encourage auditors to evaluate multiple deficiencies that are not related to one another.

4. Please comment on whether the definition of "material weakness" in Paragraph A7 (which is consistent with the definition that the SEC adopted) appropriately describes the deficiencies that should prevent the auditor from finding that ICFR is effective.

We believe that the definition of a material weakness in paragraph A7 of the standard appropriately describes those deficiencies that should prevent the auditor from concluding that internal control over financial reporting is effective. Specifically, such items represent a reasonable possibility that a material misstatement will not be prevented or detected in a timely manner. While we believe that reliable interim financial information is critically important to the capital markets, as indicated in our comment letter dated February 26, 2007 to the PCAOB on the proposed standard, we continue to believe that the requirement to evaluate the severity of all control

deficiencies against interim results, due to the reference to interim financial statements in the definition of a material weakness, should be eliminated. We offer the recommendation to consider our prior proposal but not at the risk of delaying the Commission's prompt approval of AS 5.

We also believe it is important that the definition of material weakness continues to be aligned between AS 5 and the SEC's management guidance, and consistently applied throughout the integrated audit of internal control over financial reporting and of the financial statements.

5. Is AS5 sufficiently clear about the extent to which auditors can use the work of others?

We believe that AS 5, coupled with AU Section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, provides sufficient guidance regarding the extent to which auditors can and should use the work of others who are competent and objective. We also believe that the principles-based framework for considering the use of the work of others appropriately enables the auditor to apply professional judgment in determining the extent to which he or she will rely on the use of the work of others.

6. Will AS5 reduce expected audit costs under Section 404, particularly for smaller public companies, to result in cost-effective, integrated audits?

As discussed in our cover letter, we believe that AS 5, when combined with the SEC's management's guidance, will result in a reduction of the total combined costs of compliance with the requirements of Section 404, although the degree of cost savings will vary from company to company. In addition, we believe that the standard and management's guidance, along with the COSO guidance for smaller public companies and the forthcoming PCAOB guidance on auditing smaller public companies, will result in meaningful total cost savings (including both internal and external costs), particularly for non-accelerated filers that have not yet complied with Section 404.

7. Does AS5 inappropriately discourage or restrict auditors from scaling audits, particularly for smaller public companies?

AS 5 does not inappropriately discourage or restrict the auditor from scaling the audit. We support one auditing standard that is scalable to the size and complexity of a company and that allows the auditor to align the level of effort with the assessed level of risk and complexity. We believe that the standard accomplishes these objectives. That is, we believe that AS 5 appropriately directs the auditor to scale the audit and provides relevant guidance to illustrate the scaling concept.