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June 29, 2007

Nancy M. Morris
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. PCAOB-2007-02

To Whom It May Concern:

Accretive Solutions is a leading privately-held professional services firm which provides consulting and executive search solutions in the areas of accounting and finance, enterprise governance, and business and technology. Our services are provided via a network of offices located in 11 major metropolitan markets. Since the enactment and implementation of the Sarbanes-Oxley ("SOX") Act of 2002, Accretive Solutions has provided SOX Section 404 ("404") compliance services to hundreds of companies who either are or aspire to be public filers with the Securities and Exchange Commission ("SEC"). Working collaboratively with client management and our clients' external auditors, we have gained a unique perspective of the process by which SOX 404 compliance is demonstrated from both the client and external audit firm vantage points.

Accretive Solutions has a significant and continued interest in the rulemaking activities of the Public Company Accounting Oversight Board ("PCAOB") and the SEC. We welcome this opportunity to provide our comments to the SEC related to File No. PCAOB-2007-02 and regarding Management's Report on Internal Control Over Financial Reporting ("ICFR") under Section 13(a) and/or 15(d) of the Securities Exchange Act of 1934.

Executive Summary

We recognize and applaud the PCAOB's and SEC's efforts to provide further clarification to existing SOX 404 compliance guidance, most importantly Auditing Standard No. 2 – *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements* ("AS2"), which was formally approved by the SEC on June 17, 2004. While AS2 has been useful to the conceptual understanding of SOX 404 requirements, we believe that an overly conservative and often inconsistent interpretation of the AS2 requirements has been followed by some external audit firms, as supported by the number of comments that the PCOAB and the SEC have received to date regarding the high cost of implementation and maintenance of SOX 404 compliance to public filers.

Having reviewed the proposed Auditing Standard No. 5 - *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* ("AS5"), Accretive Solutions believes that the proposed AS5 guidance will facilitate a more consistent,

practical approach to the implementation and maintenance of SOX 404 compliance requirements.

We recognize that it is the intent of the PCAOB and the SEC to utilize AS5 and Management's Report on ICFR to:

- Focus management's activities on matters most important to ICFR;
- Eliminate unnecessary SOX 404 compliance activities and audit procedures;
- Scale SOX 404 compliance activities related to the audit of smaller companies; and
- Simplify SOX 404 compliance requirements for all public filers.

That being stated, we feel that the documented guidance and resulting interpretation of several critical paragraphs of the proposed AS5 standard and interpretation of the SEC's interpretive comments may still be too ambiguous and overly subjective to effectively ensure optimal and consistent implementation among all public filers and external audit firms. Our greatest concern continues to relate to the following themes:

- **Top-Down, Risk-Based Approach** - The documented concept of the top-down, risk-based approach is sound; however, implementation of AS5 as currently proposed will continue to require a high level of subjectivity due to a lack of definitive guidance as to the practical application of the approach. We believe that this lack of definitive guidance could lead to inconsistent application by public filers and their external audit firms.
- **Entity-Level Controls** - More detailed guidance is needed related to the level of reduction or elimination of substantive tests of internal controls in the event that entity-level controls are found to be effective.
- **Sample Sizes for Smaller Companies** - The use of absolute sample sizes without appropriate consideration of total population size will continue to result in "over-sampling" in smaller, non-accelerated filers, leading to relatively higher SOX 404 compliance costs for such companies.
- **Scope of Testing in Multi-Location Engagements** - The proposed AS5 guidance is too ambiguous related to the scope of testing in multi-location engagements. We feel that a combined coverage similar to AS2, taken in combination with the proposed top-down, risk-based approach, would allow for increased efficiency for the audit.
- **Definition of the Term "Significant"** - In serving our clients, we have observed that use of the term "significant" is overly subjective. We would prefer to see the PCAOB and the SEC require specific communication between company management and external auditors regarding the definition (i.e. dollar amount) of materiality during the planning stage of all public filers' SOX 404 compliance activities. We feel greater clarity in this regard will improve the overall efficiency of the audit.
- **Definition of the Terms "Material Weakness" and "Significant Deficiency"** - The proposed AS5 guidance does not provide significantly improved clarification of the definitions as previously documented in AS2. As a result, we fear that the determination of whether an internal control deficiency or aggregated deficiencies represent a "Material Weakness" or "Significant Deficiency" will continue to be overly subjective and highly influenced by each external audit firm's and audit partner's interpretation.

Accretive Solutions supports the spirit and intent of the proposed AS5 guidance and the SEC's refined comments related to Management's Report on ICFR. Nevertheless, we believe that the above points need additional clarification prior to the finalization and formal approval of AS5 so as to prevent inconsistent application of the refined guidance by key SOX compliance stakeholders.

Accretive Solutions' responses to the specific questions included in the SEC's most recent interpretation and request for comments, effective date June 27, 2007, are presented in the remainder of this document.

Detailed Responses:

- 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 matters to be considered in planning an audit and in the identification of significant accounts?**

No. We would prefer to see the PCAOB and SEC require specific communication between company management and their external audit firms regarding the definition (i.e. dollar amount) of materiality during the planning of an audit and in conjunction with the identification of significant accounts for SOX 404 compliance purposes. We feel greater clarity in this regard will improve the overall efficiency of the audit.

- 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?**

It is our opinion that Paragraph 80 is appropriately stated considering the fact that it uses the term "identified" significant deficiencies in its verbiage. We fully agree that the auditor should be required to communicate identified significant deficiencies to the audit committee. We do not expect that this requirement will divert auditor attention from identifying and communicating material weaknesses, unless the auditor scopes the audit to specifically search for significant deficiencies.

- 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?**

Yes. We believe that the evaluation of identified deficiencies in the aggregate has been appropriately addressed within the proposed AS5.

- 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?**

No, we believe that the proposed AS5 guidance and SEC interpretive comments do not provide significantly improved clarification of the definition of "material weakness" from

that which was previously documented in AS2. As a result, we fear that the determination of whether an internal control deficiency or aggregated deficiencies represent a “material weakness” or “significant deficiency” will continue to be highly influenced by each external audit firm’s and audit partner’s interpretation.

Additionally, the determination of material weakness when an actual material misstatement has not occurred continues to be a highly subjective assessment which is often made by the external audit firm based on who identified the potential misstatement and at what point in the audit the deficiency was identified. Additional guidance related to indicators for the identification and disclosure of material weaknesses would be appreciated as it relates to deficiencies that do not result in actual material misstatements.

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

Yes. We believe that AS5 is sufficiently clear regarding the extent to which auditors can use the work of others in evaluating the effectiveness of ICFR.

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

Yes. We believe that the effective implementation of the proposed AS5 guidance will result in reduced audit costs under SOX 404. The achievement of optimally reduced audit costs will be contingent upon the consistent and sincere translation of the fundamental AS5 concepts to practical application by public filers and their external audit firms.

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

No. We do not believe that AS5 inappropriately discourages or restricts auditors from scaling audits, particularly for smaller public companies.

Accretive Solutions sincerely appreciates the opportunity to provide our feedback and comments to the SEC. Please do not hesitate to contact our Company if you desire further feedback related to the proposed auditing standard. I can be reached by telephone at 214-453-7872 and by email at dhobgood@accretivesolutions.com should you wish to discuss any of Accretive Solutions’ comments in greater detail.

Respectfully Submitted,

A handwritten signature in black ink that reads 'Dirk D. Hobgood'.

Dirk D. Hobgood CPA, CIA
Senior Vice President, Accounting & Finance and Enterprise Governance
Accretive Solutions