

July 11, 2007

REFERENCE File Number S7-24-06

Dear Nancy,

We appreciate the opportunity to provide you with our comments as a follow up on your request for additional comment on the definition of the term "significant deficiency".

For reference purposes we list the evolution in definitions below:

**New definition significant deficiency (AS 5, paragraph A11)**

Significant deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting.

**New definition material weakness (AS 5, paragraph A7)**

A material weakness is a deficiency, or a 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 will not be prevented or detected on a timely basis.

**Proposed definition**

A significant deficiency is a control deficiency, or combination of control deficiencies such that there is a reasonable possibility that a significant misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

**Old definition (AS 2, paragraph 9)**

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

We would like to stress that we appreciate the improvement in the new definition in AS5 compared to the definition in AS 2 paragraph 9 in general.

However, we would like to make two comments with respect to the new definition in AS5, which we do believe can have a major (unintended) impact on the Audit of Internal Control Over Financial Reporting.

Firstly, we do not understand what the motivation is for removing the likelihood component (that is reasonable possibility) explicitly from the definition. We believe that the likelihood component is essential to prevent any hypothetical deficiencies with an e.g. 0,001% chance to be reported on.

We could assume that the motivation is related to the fact that the likelihood component is implicitly stated through the reference to "...less severe than a material weakness, ...". The question then is whether severity relates to likelihood, to impact or to both? If it indeed

relates to likelihood and consequently the likelihood component is implicitly present, we would strongly suggest to make it explicit again in the definition.

Secondly, we would like to suggest to add the term “related “ into the definition, i.e. “..., or combination of **related** control deficiencies, ...”. This also references to the SEC question number (3) of File No. PCAOB-2007-02. We believe that it should be explicit that for purposes of evaluating deficiencies, multiple control deficiencies should only be looked at in combination if they are related to one another. We have outlined our motivation in a separate letter to Securities and Exchange Commission under the related reference.

If the SEC should decide to add the likelihood component to the definition of a significant deficiency, we do recommend to make a similar change to the definition in AS5 paragraph A11.

Again, we would like to thank you for the opportunity to provide our comments and are looking forward these potential changes in the final rule.

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

Kindest regards,

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