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The Hundred Group
of Finance Directors

July 12, 2007

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

Re: File Number PCAOB-2007-02

Dear Ms. Morris:

We would like to thank the Securities and Exchange Commission (the "**Commission**") for the opportunity to comment on the proposed rules relating to 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" ("**AS5**"), filed by the Public Company Accounting Oversight Board (the "**PCAOB**") with the Commission on May 25, 2007, and we applaud the Commission's continuing efforts to facilitate compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "**Act**") and the rules promulgated thereunder by the Commission (collectively, "**Section 404**").

By way of introduction, The Hundred Group of Finance Directors (the "**100 Group**") represents the finance directors of Britain's largest companies, mainly but not entirely drawn from the constituents of the FTSE 100 Index of the largest companies by market capitalisation listed on the London Stock Exchange. Almost 40 of our member companies are SEC registrants. We meet periodically to discuss issues affecting major corporations, and selectively respond to governmental and other consultation exercises where we believe that our role in companies and collective experience give us a particular insight into often complex matters.[1]

Following the publication of the proposed rules on AS5, a number of our member companies who are SEC registrants set out to consider the questions posed by the Commission on AS5. A response prepared at a workshop was subsequently circulated to members of the 100 Group who are SEC registrants for further comment.

[1] While this letter expresses the views of The Hundred Group of Finance Directors as a whole, such views are not necessarily those of individual members or their respective employers.

The consensus views that emerged from this process are described below and in Appendix A.

Our members broadly welcome the amendments to the proposed Auditing Standards “An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements and Related Other Proposals” and “Considering and Using the Work of Others in an Audit” of December 19, 2006, that are reflected in AS5, and we applaud the PCAOB’s efforts to facilitate more streamlined compliance with the Act.

In particular, we welcome the following:

1. The principles-based nature of the guidance for auditors contained in AS5. We expect that this will afford auditors the opportunity to use their professional judgment and experience in fulfilling their obligations under the Act.

2. The consistency between AS5 and the final Commission guidance for management on the evaluation of internal control over financial reporting (“**ICFR**”), which we would expect to minimise any inconsistency in approach between management and the auditors.

3. The reduced length and simplified content of AS5. We would expect the improved and shortened layout to make interpretation of the standard simpler and more consistent between different audit firms.

4. The effective date of AS5, which, subject to Commission approval of the proposed AS5 rules, means that AS5 can be applied for 2007 audits.

In addition to the general comments above, we have included our responses to the questions posed by the Commission and other specific comments on AS5 in Appendix A.

We continue to acknowledge that Section 404 is designed to improve corporate governance, increase the quality of financial and other disclosure and instil investor confidence in the financial markets. Nevertheless, many market participants and commentators have observed the high cost and burden associated with its implementation.

As stated in our response dated February 26, 2007 to the Commission’s proposed interpretative guidance, Management's Report on Internal Control Over Financial Reporting of December 20, 2006 (the “**Guidance**”), we believe that requiring auditors to opine only on management’s own evaluation process and removing the requirement that they provide their own assessment of the effectiveness of ICFR would result in the most cost-effective outcome in complying with the Act, primarily through the removal of duplicative documentation and testing requirements on auditors and management, while maintaining the benefits of improved corporate governance and an independent assessment of ICFR.

We acknowledge that the Commission indicated in the Amendments to Rules Regarding Management's Report on Internal Control Over Financial Reporting published on June 20, 2007 that it intends to retain the requirement for the auditor to provide a separate opinion on the effectiveness of ICFR, and that AS5 accordingly reflects this requirement. As such, we submit our comments contained herein on this basis. We would request, however, that the Commission continually seek, and provide interested parties such as ourselves regular opportunities to submit, feedback on the extent to which AS5, when implemented, does in fact reduce the cost and burden of compliance with the Act, given that this requirement has been maintained. We believe that it would be particularly useful for the Commission to obtain and consider such feedback following the completion of the first audit cycle in which AS5 is applied.

We would also request that the PCAOB, through its inspections of audit firms, consider the extent to which, and the expediency with which, audit firms implement AS5 in the manner expected by the Commission and the PCAOB. We are particularly concerned with ensuring that audit firms interpret and apply AS5 in a consistent manner, thus minimising uncertainty and maximising efficiency in the audit process. In conclusion, we would request that if, following implementation and application of AS5, the projected benefits fail to materialise, that the Commission, together with the PCAOB, re-assess AS5 and consider whether any amendments or clarifications may be warranted.

Once again, we appreciate the opportunity to comment on AS5, and hope that our comments will assist the Commission in evaluating the issues raised therein. We are also available to consult with the Commission concerning our comments.

Yours sincerely,

Philip Broadley
Chairman
The Hundred Group of Finance Directors

cc: Sebastian R. Sperber
Cleary Gottlieb Steen & Hamilton LLP

Appendix A

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?**

   Yes.

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?**

   If the auditor determines the scope of the procedures to be included in the annual assessment based on only those accounts or controls that do contain a reasonable possibility of misstatement, then the requirement as documented in Paragraph 80 is acceptable.

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.

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 are satisfied with the current definition.

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

   We consider that further clarification regarding the extent that auditors can rely on the work of others when conducting walkthroughs would be helpful. In this regard, we request that the guidance on the use of others when performing walkthroughs that is reflected in the discussion of comments on pages A4-3 and A4-4 be added to the main body of AS5. We view the principles and procedures regarding the use of others when performing walkthroughs as important elements of the standard. However, these are currently only partially dealt with in Paragraphs 16-19 of AS5, which do not include any reference to the extent to which the work of others could be used in the specific context of walkthroughs. We believe that embedding the guidance contained on pages A4-3 and A4-4 in the main body of AS5 is likely to result in greater consistency in interpretation of the rules relating to the use of the work of others by audit firms.

More generally, we refer the Commission to our general concern with ensuring that audit firms interpret and apply AS5 in a consistent manner, highlighted in the cover letter to this Appendix. Accordingly, we reiterate our request for the PCAOB, through its inspection process, to evaluate the audit firms' interpretation of AS5 in this regard, so as to promote a consistency of approach.

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

We expect AS5 to result in a reduction in audit costs, and consider this to be a critical factor in determining if AS5 is successful. As the impact of AS5 cannot be assessed until it is implemented, we would request the opportunity to provide feedback on this question after the first reporting cycle following the implementation of AS5.

We urge the Commission and the PCAOB to monitor closely the extent to which the standard achieves a reduction in audit costs. We would request that particular attention be paid to the impact of AS5 on the audit costs of foreign private issuers such as our member companies, most of whom are now entering their second year of compliance with the Act.

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

We do not believe so.

Additional request for clarity

Paragraph B10

We request that the Note contained within Paragraph B10 on page A1-47 be removed as it could potentially encourage auditors to consider risk and materiality at an inappropriately low level in order to cover the possibility of material misstatements emerging through aggregation of a number of, in themselves, low-risk or immaterial business units or locations. We believe that such an approach would be inconsistent with the top-down, risk-based approach that is at the core of AS5.