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July 12, 2007

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

Re: File No. PCAOB-2007-02
Release Nos. 34-55876 and 34-55912

Dear Ms. Morris:

KPMG appreciates this opportunity to respond to the Securities and Exchange Commission's (the Commission) request for comment on the 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 believe that Auditing Standard No. 5, as approved by the PCAOB on May 24, 2007, will serve to enhance auditors' effectiveness and efficiency in conducting an integrated audit and, combined with the Commission's guidance on management's assessment of internal control over financial reporting, provides an appropriate framework directed toward achieving compliance with the provisions of Section 404 of Sarbanes-Oxley.

Compliance with the provisions of Section 404 provides needed protections to investors of all companies, regardless of size or complexity. Internal control reporting pursuant to Section 404 has made, and will continue to make, a significant contribution toward improving financial reporting, corporate governance and audit quality, all serving to further the public interest and sustain confidence in our capital markets. We are committed to supporting continued improvements in the effectiveness and efficiency of Section 404 compliance, and believe that Auditing Standard No. 5 will facilitate these improvements while continuing to uphold investor protections critical to the effective functioning of our capital markets.

We believe that Auditing Standard No. 5 as presented to the Commission for approval effectively achieves the Standard's originally-stated objectives to:

- Focus the audit on the matters most important to internal control;
- Eliminate unnecessary procedures;
- Scale the audit for smaller companies; and
- Simplify the requirements.

We encourage the Commission to expedite final approval of Auditing Standard No. 5, including the Related Independence Rule and Conforming Amendments, to facilitate the



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greatest impact on audits where auditors choose to implement the provisions of Auditing Standard No. 5 prior to the required effective date. In preparing for early implementation, we modified our integrated audit methodology and related guidance to incorporate the provisions of Auditing Standard No. 5 and trained, and continue to train, Auditing Standard No. 5 concepts.

With respect to the Commission's Additional Solicitation of Comments on the Filing of Proposed Rule on Auditing Standard No. 5, we believe that Auditing Standard No. 5 appropriately addresses the concept of materiality when planning and performing an integrated audit. Specifically, paragraph 20 of the Standard states that, "In planning the audit of internal control over financial reporting, the auditor should use the same materiality considerations he or she would use in planning the audit of the company's annual financial statements." While application of materiality concepts in the context of planning and performing an audit naturally requires use of professional judgment, Auditing Standard No. 5 specifies the basis on which those judgments should be made. In addition, paragraph 3 of the Standard indicates that the auditor must plan and perform the audit to determine whether material weaknesses exist as of the date specified in management's report. We believe that the auditors' requirement to communicate significant deficiencies that have been identified in the conduct of an integrated audit will not result in scoping decisions directed toward identification of significant deficiencies.

In addition, we believe that Auditing Standard No. 5 effectively eliminates certain restrictions in Auditing Standard No. 2 relative to using the work of others. Auditing Standard No. 5 provides substantial flexibility in the application of auditor judgment when determining whether, and to what extent, to use the work of others. Compliance with the provisions of Section 404 has placed important responsibilities on issuers and auditors that, in many instances, have required the dedication of significant resources. We believe that Auditing Standard No. 5, as approved by the PCAOB, together with the Commission's guidance for management on assessing internal control over financial reporting, will result in a reduction of total Section 404 compliance effort. In addition, we fully support the PCAOB's ongoing project intended to develop practical guidance for auditors when conducting integrated audits of smaller, less complex, organizations and the COSO project to evaluate effective monitoring activities. This additional guidance should aid auditors in scaling the provisions of Auditing Standard No. 5 in a smaller, less complex, issuer environment.

As previously noted, we believe that Auditing Standard No. 5 effectively achieves its originally intended objectives. Auditing Standard No. 5 directs the auditor to focus on areas most important to the integrated audit, appropriately allows for the use of professional judgment, and encourages auditors to scale their integrated audit approach to the characteristics of the particular organization. We recommend that the Commission approve the PCAOB's auditing standard and related conforming amendments in final form on an expedited basis.



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Proposed Rule 3525, *Audit Committee Pre-Approval of Non-Audit Services Related to Internal Control Over Financial Reporting*, would apply to internal control related services provided during years ending on or after November 15, 2007, subject to SEC approval. However, some internal control related services will already have been pre-approved by audit committees prior to the date the final rule is approved by the SEC. In order to clarify that internal control related services pre-approved by audit committees prior to the date the final rule is approved by the SEC do not require re-approval under Rule 3525, we suggest a transition provision be adopted similar to the transition provision adopted for Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*. Specifically, we believe that Rule 3525 should not apply to internal control related services pre-approved prior to 60 days after the date that the SEC approves the final rule.

If you have any questions regarding information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, or Craig W. Crawford, (212) 909-5536, ccrawford@kpmg.com.

Very truly yours,

KPMG LLP

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