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July 12, 2007

Via E-mail: rule-comments@sec.gov

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

**Re: File Number PCAOB 2007-02**

Dear Ms. Morris:

BDO Seidman, LLP appreciates this opportunity to comment on the U.S. Securities and Exchange Commission's release requesting additional comment on Public Company Accounting Oversight Board's (PCAOB) *Auditing Standard No. 5 (AS5) - 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 support the Commission's approval of AS5, the related independence rule and the conforming amendments. We believe the increased emphasis on auditor judgment and flexibility provided for in AS5, based on the application of principles-based guidance, will improve the effectiveness and efficiency with which audits are performed. Further, we believe the new auditing standard, along with the SEC's adoption of guidance for management's report on internal control over financial reporting, will improve the overall implementation of Section 404.

We are pleased to respond to your request for specific comments as follows:

- 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 defined throughout AS5 and provides sufficient guidance to auditors and that materiality is appropriately incorporated into the guidance regarding the matters to be considered in planning an audit and the identification of significant accounts.

- 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.**



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**Specifically, will the communication requirement regarding significant deficiencies divert auditors' attention away from material weaknesses?**

We do not believe that the communication requirement regarding significant deficiencies will divert the auditor's attention away from material weaknesses. AS5 clearly states that the auditor should plan and perform the audit to identify material weaknesses and not 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?**

AS5 is sufficiently clear that for purposes of evaluating identified deficiencies, auditors should only look at multiple control deficiencies in combination, if they are related to one another, e.g., if they affect the same significant account or disclosure, relevant assertion, or component of internal control.

**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 "material weakness" in AS5 is appropriate and clearly describes the deficiencies that should prevent the auditor from finding that ICFR is effective.

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

We believe AS5 is sufficiently clear about the extent to which auditors can use the work of others and provides sufficient flexibility in that regard.

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

We believe that AS5, along with the recently issued interpretive guidance for management relating to the evaluation and assessment of internal control over financial reporting, will improve the effectiveness and efficiency with which integrated audits are conducted for all companies and particularly smaller public companies. The extent of the efficiencies to be realized will vary, however, depending on factors such as size and



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complexity of the company, quality of internal control systems, and the extent to which management appropriately applies the SEC's management guidance.

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

We do not believe that AS5 inappropriately discourages or restricts scaling the audit for any company, and particularly for smaller public companies.

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We would be pleased to answer any questions you may have about our comments and look forward to continued dialogue and participation in the standard setting process. Please contact Wayne Kolins, National Director of Assurance, at (212) 885-8595 or via electronic mail at [wkolins@bdo.com](mailto:wkolins@bdo.com) with any questions.

Very truly yours,

*/s/ BDO Seidman, LLP*

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