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July 12, 2007

Securities and Exchange Commission
Attn: Nancy M. Morris, Secretary
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: **Release No. 34-55876; File No. PCAOB-2007-02**
Public Company Accounting Oversight Board; Notice of Filing of 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* ("AS5" or the "standard")

Dear Ms. Morris:

We appreciate the opportunity to provide comments to the Commission on the above referenced filing by the Public Company Accounting Oversight Board (the "PCAOB" or the "Board"). We commend the efforts of the Board and the Board's staff in developing AS5, analyzing and addressing comments received, and finalizing the standard in its current form. We support AS5 as approved by the PCAOB on May 24, 2007, and we urge the Commission to approve it as soon as reasonably practicable.

The attached Appendix addresses the questions put forth by the Commission in its Release No. 34-55912.

If you have any questions or would like to discuss our views further, please contact Robert Kueppers at (212) 492-4241, James Schnurr at (203) 761-3539, or John Fogarty at (203) 761-3227.

Sincerely,

/s/ Deloitte & Touche LLP

cc: Chairman Christopher Cox
Commissioner Paul Atkins
Commissioner Roel Campos
Commissioner Annette Nazareth
Commissioner Kathleen Casey
Conrad Hewitt, Chief Accountant
John White, Director, Division of Corporation Finance
Zoe-Vonna Palmrose, Deputy Chief Accountant for Professional Practice

Mark W. Olson, Chairman of the PCAOB
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Bill Gradison, Member
Charles D. Niemeier, Member
Thomas Ray, Chief Auditor and Director of Professional Standards

APPENDIX

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?***

   AS5, as approved by the PCAOB, provides sufficient guidance with respect to using materiality for purposes of planning the audit of internal control over financial reporting ("ICFR") and identifying significant accounts. Paragraph 20 specifically provides that "the auditor should use the same materiality considerations he or she would use in planning the audit of the company's annual financial statements." Additionally, paragraphs 28-33 provide clear guidance with respect to identifying 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. Specifically, will the communication requirement regarding significant deficiencies divert auditors' attention away from material weaknesses?***

   We believe it is both important and appropriate for the auditor to communicate matters that represent significant deficiencies and material weaknesses to the audit committee. We do not believe this communication requirement will divert auditors' attention away from identifying and evaluating deficiencies which rise to the level of material weaknesses.

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?***

   The note to paragraph 65 of AS5 provides sufficient guidance with respect to evaluating multiple control deficiencies that affect the same financial statement account balance or disclosure.

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 the definition of material weakness contained in AS5 (and adopted by the Commission) is appropriate and that it properly describes the deficiencies that should prevent the auditor from concluding that ICFR is effective.

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

   We believe the guidance in AS5 regarding the auditor's use of the work of others is clear and that the standard has appropriately removed restrictions which previously limited the ability of the auditor to use the work of others. We believe AS5 will better provide the auditor with the appropriate flexibility to exercise judgment in using the work of others in a manner that will improve the efficiency of the audit, without compromising audit effectiveness.

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

   We support the Commission's goal of reducing unnecessary costs and work associated with Section 404, while maintaining the same benefits and protections to investors. Various studies and surveys support the conclusion that significant reductions in overall Section 404 costs (internal management

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costs as well as external audit fees) have been achieved since the first year of implementation.[1] We believe that the combined efforts by the Commission, the PCAOB (including work being done to develop guidance for conducting audits of ICFR of smaller public companies), the Committee of Sponsoring Organizations (COSO), as well as efforts by the profession will result in additional improvements and refinements in the Section 404 process and in additional reductions in costs.

Because the largest component of 404 costs continues to be internal issuer costs and third-party out of pocket costs (excluding auditor fees), the manner in which management performs its assessment is likely to have the greatest impact on total 404 costs. As such, we believe the actions taken by the Commission to provide management guidance will help accelerated filers re-visit the current processes they have in place and potentially identify efficiencies. We also believe the Commission's management guidance will help non-accelerated filers develop an efficient ICFR assessment process and better manage first year implementation costs which were significant for accelerated filers when adopting Section 404 requirements.

As non-accelerated filers are not required to file the auditor's attestation report on ICFR until it files an annual report for its first fiscal year ending on or after December 15, 2008 and because the extent of the auditor's effort is dependent upon management's efforts in each individual circumstance, it is difficult to predict the impact of AS5 on audit fees for this group of companies which have not yet completed a management assessment of ICFR or been subject to an audit of ICFR. However, we do believe the revised auditing standard, as well as the PCAOB's development of a small business audit guide will 1) promote an effective and efficient audit of ICFR and 2) will result in audit fees that are lower than they would have been if the PCAOB had not revised its guidance.

Specifically, positive changes under AS5 which promote effective and efficient audits include the ability of an auditor to (a) determine audit coverage based upon risk, without any pre-established quantitative coverage requirement, relative to an issuer's operations, (b) adjust, under certain conditions, the nature, timing and extent of testing of particular controls, based in part on cumulative experience gained in prior audits, c) adjust and scale the nature, timing and extent of audit work, based on the size and complexity of an issuer's operations, and (d) increase the use of the work of others, if certain conditions are met.

In voting to propose these standards, Board Member Kayla Gillan noted that, although she expected the proposals to result in more efficient audits of ICFR overall, "the proposal will not reduce audit costs by X percent for all companies."[2] We agree with this statement because the efficiencies achieved will vary significantly based on the facts and circumstances for each particular company including the state of the ICFR within each company, and the extent to which management already has effective ICFR in place and an efficient means of performing management's assessment. We also believe that opportunities for efficiencies and effectiveness in the Section 404 process can be obtained if the auditor can use management's work to the maximum extent permitted under the standards. While management's evaluation and assessment of ICFR and the audit of ICFR are separate activities and need not be conducted in the same manner, there is important interaction between the two through the auditor's consideration of the work of others and the ability of the

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[1] The Sarbanes-Oxley Section 404 Costs and Implementation Issues: Spring 2006 Survey Update by CRA International indicates that total 404 costs declined significantly in year 2 of implementation, falling 30.7 percent for Smaller Companies and 43.9 percent for Larger Companies. Additionally, results of the March 2006 and May 2007 FEI Surveys on SOX Section 404 Implementation indicate that the total average cost for Section 404 compliance was $3.8 million during fiscal year 2005, down 16.3 percent from 2004, and $2.9 million in 2006, 23.2 percent less than 2005.

[2]See opening statement by Kayla Gillan, PCAOB Open Meeting December 19, 2006.

auditor to use the company's documentation as evidential matter to support the auditor's opinion. As a result, the manner in which management conducts its assessment, the competence and objectivity of those testing ICFR to support management's assessment, and the documentation available to support that assessment directly impact the potential efficiency of the audit process. For example, to the extent management decreases its reliance on self assessment for the purpose of supporting its assessment of ICFR and increases the extent of direct testing performed by highly competent and objective personnel or third parties, the auditor's ability to use management's work is increased, which would result in decreased audit effort and expense.

We would also like to note that, although we support the objective of conducting an effective audit in an efficient manner, we are concerned with the heightened focus on efficiencies within the text of the proposed standards and related communications. This language may detract from the overarching objective of generally accepted auditing standards, which is to set forth the performance standards for an effective audit. Further, we believe it is important to acknowledge that audit quality should not be compromised for the sake of audit efficiency. The Board faces a significant challenge (through both its standard setting and inspections functions) in maintaining a careful balance between achieving audit quality and achieving audit efficiencies, and consistent messages to auditors on this point is critical.

We also believe it is important to recognize that, although the implementation of the requirement to audit ICFR has been a significant factor in audit costs, there are a number of other significant factors that impact audit costs in general, outside of the Section 404 audit requirements. Other significant factors increasing audit costs include additional audit procedures and documentation requirements based on other new auditing and accounting standards (including the implementation of recommendations from the inspection process), increased demand and intense competition for accounting and auditing resources, increased compliance and regulatory requirements for auditors, practice protection costs, and litigation. We encourage the Commission, in its broader regulatory role, to consider these other factors and their cumulative impact on audit costs, and steps that might be taken to mitigate these factors, without impacting investor protection.

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

We are supportive of the guidance provided in AS5 regarding scaling the audit for size and complexity considerations. We do not believe that the proposed standard inappropriately limits the application of the scalability provisions. In fact, we believe AS5 encourages auditors to scale audit procedures based on identified risks, particularly for smaller public companies. We also support the efforts of the PCAOB to develop guidance for conducting audits of ICFR of smaller public companies, and we believe this guidance will further highlight and promote the appropriate scaling of the audit by providing practical steps auditors can employ during the course of an audit to achieve scalability.