Appendix A

Section I -- Responses to Questions Posed in Part III, "Proposed Interpretive Guidance" (pp. 49-51)

1. Will the proposed interpretive guidance be helpful to management in completing its annual evaluation process? Does the proposed guidance allow for management to conduct an efficient and effective evaluation? If not, why not?

We welcome the Commission's proposed principle-based guidance (the "Guidance"), which substantially recognises the concerns raised by registrants about the need to permit management to apply their own top-down, risk-based approach to the evaluation of internal control over financial reporting ("ICFR").

We also broadly support the proposed auditing standards replacing Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements" ("AS2") (we have commented on specific issues with the proposed standard in our responses below) and await demonstrable evidence of evolving practice of auditors applying a more effective and efficient integrated audit.

However, we have noted in the cover letter to this Appendix that we believe that the ambition of the Commission to reduce the cost and burdens of complying with the Act may be better served by requiring the auditor only to opine on management's evaluation process, and removing the requirement for the auditor to provide a completely separate assessment of ICFR. We believe that this requirement would remove duplicative documentation and testing procedures while maintaining the benefits of improved corporate governance and an independent assessment of ICFR.

Additionally, we encourage the Commission to keep under review any duplication of effort and cost imposed upon foreign registrants by like-for-like regulation in their local jurisdiction, with an eye towards removing duplicative U.S. requirements should local requirements achieve the same purpose.

We request that the Commission and the PCAOB confirm that firms and auditors can begin immediately to apply the final Guidance once issued and that the Commission and the PCAOB will, respectively, themselves apply the Guidance in evaluating filings made on or after January 1, 2006 and in inspections of audit firms. These measures are especially appropriate since several areas of the Guidance reflect that it was always the intention of the Commission and the PCAOB that both the Commission guidance and AS2 should be interpreted as is now set out in the Guidance.

2. Are there particular areas within the proposed interpretive guidance where further clarification is needed? If yes, what clarification is necessary?

In addition to our other recommendations made elsewhere herein, we recommend the paragraph on page 44 beginning "In evaluating the magnitude of the potential misstatement . . ." should clarify that due consideration should be given to the risk associated with a control deficiency, and that it is inappropriate simply to focus on the magnitude of the account affected by that control deficiency, as other controls may cover the affected account.

We also disagree with the presumption on pages 44 - 45 that "significant deficiencies that have been identified and remain unaddressed after some reasonable period of time" are a strong indicator of a material weakness. We welcome the application of professional judgement by auditors that can be applied in the consideration of unremediated significant deficiencies in the Foreword to the proposed new auditing standard, "An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements" ("AS5"), and consider the same latitude should be afforded to management, which would be consistent with principle-based guidance and the Commission's definition of "reasonable assurance" (including footnote 38) on page 15.

3. Are there aspects of management's annual evaluation process that have not been addressed by the proposed interpretive guidance that commentators believe should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?

We request the Commission provide principle-based guidance on documentation and testing standards that will aid management's judgement in a top-down, risk-based approach that seeks to place reliance on IT application controls and/or IT dependent controls, recognising the difficulty registrants face with the documentation requirements (base-lining) for legacy systems and the ongoing maintenance of that documentation (to reflect changes to ICFR) to support an IT benchmarking testing strategy.

Benchmarking of IT application controls is recognised as being an opportunity to achieve efficiencies in the testing of automated controls. Despite guidance issued on May 16, 2005 by the PCAOB, there are inconsistent interpretations by external auditors as to the nature, extent and timing of benchmarking permitted by management and the benefit that will accrue to the current and future evaluations of ICFR. We request that the Commission provide principle-based guidance on the reliance that management can place on benchmarking of IT application controls to reduce the nature, extent and timing of testing and the evaluation of ICFR.

4. Do the topics addressed in the existing staff guidance (May 2005 Staff Guidance and Frequently Asked Questions (revised October 6, 2004)) continue to be relevant or should such guidance be retracted? If yes, which topics should be kept or retracted?

To avoid ambiguity and redundancy, we request the Commission take this opportunity to consolidate all prior guidance and answers to frequently asked questions provided to issuers into one interpretive guidance that is internally consistent.

5. Will the proposed guidance require unnecessary changes to evaluation processes that companies have already established? If yes please describe.

No. Principle-based guidance that permits the application of management's judgement is welcomed.

6. Considering the PCAOB's proposed new auditing standards, An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements and Considering and Using the Work of Others In an Audit, are there any areas of incompatibility that limit the effectiveness or efficiency of an evaluation conducted in accordance with the proposed guidance? If so what are those areas and how would you propose to resolve the incompatibility?

The Guidance affords management the flexibility to apply its own top-down, risk-based approach, enabling management to conduct efficient and effective evaluations. Nonetheless, we observe that there will continue to be dependencies between management's evaluation and that of the auditors and therefore a need to ensure alignment between the Guidance and AS5 and the other proposed new auditing standard, "Considering and Using the Work of Others in an Audit" ("AS6"). Examples of these dependencies include management structuring their work to ensure efficiency can be achieved by the auditors placing maximum reliance on management's scoping, documentation and testing. Accordingly, we encourage the Commission through its approval process of AS5 and AS6 to ensure that these auditing standards are made consistently principle based, affording auditors maximum flexibility to use professional judgement in the same fashion as the Guidance permits management to do in its assessment.

A further example of an area where a difference of opinion between management and the auditors could arise is the definition of what constitutes a risk of a material misstatement. This is likely to occur in companies where the balance sheet and income statement are significantly disproportionate and do not justify the application of a single measure of materiality, as is sometimes required by auditors. Using a single measure of materiality in such circumstances makes incompatibility with a risk-based approach more likely. Clarification on the use of multiple materiality levels pertinent to the circumstances of the company would also be welcomed.

We welcome the principle-based approach applied in the Foreword to AS5, but consider the actual language contained in the proposed standard not to fully reflect the intention of the Board of the PCAOB to revise AS2. For example, on page 12 the Foreword permits the application of professional judgement of the auditors in their assessment of uncorrected significant deficiencies, whereas page A1-30 appears to remove their ability to apply that judgement. There are several other similar examples among the definitions and language used in the proposed standard, and we expect the planned review processes will ensure the full spirit of the Foreword is reflected in AS5.

7. Are there any definitions included in the proposed interpretive guidance that are confusing or inappropriate and how would you change the definitions so identified?

We request that the Commission define the term “senior management” used on page 45 in the context of “Identification of fraud of any magnitude on the part of senior management”. We consider the definition included in AS5 on page A1-30 to be consistent with principle-based guidance. Accordingly, if the words “the term ‘senior management’ includes the principal executive and financial officers signing the company’s certifications as required under Section 302 of the Act as well as any other members of management who play a significant role in the company’s financial reporting process” were incorporated as a footnote on page 45 this would clarify the scoping and evaluations required by management.

The Commission should incorporate a definition of “prudent official” in the Guidance**.**

8. Will the guidance for disclosures about material weaknesses result in sufficient information to investors and if not, how would you change the guidance?

Yes.

9. Should the guidance be issued as an interpretation or should it, or any part, be codified as a Commission rule?

Whether issued in the form of a Commission interpretation or Commission rule we would expect management to be able to rely upon the Guidance in conducting its assessments of internal control over financial reporting. We also strongly support the Commission's proposal to adopt the safe harbour for management conducting its annual evaluation in accordance with the proposed Guidance, and agree that embodying this safe harbour in Rules 13a-15(c) and 15d-15(c) through a rule amendment is appropriate.

10. Are there any considerations unique to the evaluation of ICFR by a foreign private issuer that should be addressed in the guidance? If yes, what are they?

We support the guidance in footnote 47 on page 21 that "Management of foreign private issuers that file financial statements prepared in accordance with home country generally accepted accounting principles or International Financial Reporting Standards with a reconciliation to U.S. GAAP should plan and conduct their evaluation process based on their primary financial statements (i.e., home country GAAP or IFRS) rather than the reconciliation to U.S. GAAP".

Any other issues for foreign private issuers have been reflected in our comments above.

Section 2 – Responses to Questions Posed in Part IV, "Proposed Rule Amendments" (pp. 52-54)

1. Should compliance with interpretive guidance, if issued in final form, be voluntary, as opposed to mandatory?

Compliance should be voluntary, not mandatory**.**

2. Is it necessary or useful to amend the rules if the proposed interpretive guidance is issued in final form, or are rule revisions unnecessary?

We support the proposed Guidance and the amendments to the Commission rules, subject to the requested clarification on the proposed rule alterations as discussed in our response to question 7 on page A-17 below.

3. Should the rules be amended in a different manner in view of the proposed interpretive guidance?

As noted above, we believe that a reduction in the cost and burdens of complying with the Act may be better served by a requirement for the auditor only to opine upon management's evaluation process. We would welcome the opportunity to participate in a cost/benefit analysis before the finalisation of the current proposal to have the auditor separately assess, and opine upon, the effectiveness of ICFR.

4. Is it appropriate to provide the proposed assurance in Rules 13a-15 and 15d-15 that an evaluation conducted in accordance with the interpretive guidance will satisfy the evaluation requirement in the rules?

Yes.

5. Does the proposed revision offer too much or too little assurance to management that it is conducting a satisfactory evaluation if it complies with the interpretive guidance?

We welcome the principle-based Guidance and consider it appropriate, subject to the observations made above. We encourage the Commission to continue to seek feedback from registrants, investors and auditors (through, for example, roundtable forums) and as appropriate provide additional guidance as practices evolve.

6. Are the proposed revisions to Exchange Act Rules 13a – 15(c) and 15d – 15 (c) sufficiently clear that management can conduct its evaluation using methods that differ from our interpretive guidance?

Yes.

7. Do the proposed revisions to Rules 1-02(a)(2) and 2-02(f) of Regulation S-X effectively communicate the auditor's responsibility? Would another formulation better convey the auditor's role with respect to management's assessment and/or the auditor's reporting obligation?

Although in the cover letter to this Appendix and elsewhere in our responses we suggest an alternative approach to the one proposed by the Commission, we make the following comments that would apply if the Commission adopts its proposal as currently worded.

It is our understanding that the Commission's current proposal is to remove the requirement for auditors to give an opinion on the effectiveness of management's evaluation process, leaving the auditors to express an opinion directly on the effectiveness of internal control over financial reporting. We have reviewed the language in the proposed rule amendment and consider it to be confusing in certain respects. If the current proposals for the role of the auditor are adopted, we request clarification that all that is required is for the auditor to express an opinion on the effectiveness of ICFR, and that there is no requirement for them to audit, assess or evaluate management's evaluation and/or assessment process, and/or opine on that process.

We consider the PCAOB's Foreword to AS5 beginning on page 14, paragraph B, through page 17, which states that "the auditor can perform an effective audit of internal control without conducting an evaluation on the adequacy of management's evaluation process", to reflect the public statement made by the PCAOB on 19 December 2006 about "Remov[ing] the requirement to evaluate management's process", [1] as well as the Commission's proposal on page 52 of the Guidance "to require the auditor to express an opinion directly on the effectiveness of ICFR", rather than on management's assessment of ICFR. However, the elimination of this requirement does not appear to be fully reflected in the Commission's proposed rule amendments on pages 67 - 70 or in proposed standard AS5, including the example reports on page A1-38.

We agree with the assertion made in question 15 on page 18 of the Foreword to AS5 to the effect that "an opinion only on the effectiveness of internal control, and not on management's assessment, more clearly communicate[s] the scope and results of the auditor's work". Accordingly, were this proposal for the role of the auditor adopted, we would request the removal of all references in the Commission and PCAOB guidance, and the Rules relating to an "attestation report on management assessment of ICFR" and would recommend replacing this term with an "attestation report on ICFR". We also request that the words "attest to, and" be deleted from the first sentence of the proposed revision to S-X Rule 210.2-02(f) on page 68 of the Guidance and that the words "indicate that the accountant has audited management's assessment" be deleted from the second sentence of the same paragraph.

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[1] See http://www.pcaob.org/News_and_Events/News/2006/12-19.aspx.

8. Should we consider changes to the other definitions or rules in light of these proposed revisions?

Issuing the clarification requested in previous responses will require conforming changes elsewhere in the interpretive Guidance, proposed rule amendments and AS5.

9. The proposed revision to Rule-2-02(f) highlights that disclaimers by the auditor would only be appropriate in the rare circumstance of a scope limitation. Does this adequately convey the narrow circumstances under which an auditor may disclaim an opinion under our proposed rule? Would another formulation provide better guidance to auditors?

Yes, the example is sufficiently narrow.

Section 3 – Responses to Question Posed in Part VI, "Cost-Benefit Analysis" (p. 56)

By encouraging managers to rely on guidance that is less prescriptive and better aligned with the objectives of Section 404, the proposed rule should reduce management's effort relative to current practice under existing auditing standards. The expenditure of effort by audit firms also may decline, in response, relative to what would occur otherwise. We are thus soliciting comments on how the proposed guidance and the proposed new auditing standard will affect the expenditure of effort, and division of labor, between the managers and employees of public companies and their audit firms.

We would welcome the opportunity to participate in a cost/benefit analysis of the current proposals, particularly with regard to the current proposals for the future role of the auditor as relates to Section 404.