



Business Roundtable

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May 5, 2006

VIA FACSIMILE

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
150 F Street N.E.
Washington, DC 20549-090

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Executive Director
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Re: Roundtable on Internal Control Reporting Requirements – File Number 4-511

Dear Ms. Morris:

~~This letter is submitted on behalf of Business Roundtable, an association of chief executive officers of leading corporations with over \$4.5 trillion in annual revenues and more than 10 million employees. Business Roundtable strongly supported the enactment of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), as well as the efforts of the Securities and Exchange Commission (SEC) to implement Sarbanes-Oxley.~~

We are all in agreement that, in the wake of Enron, Worldcom and several other high-profile corporate scandals, Congress needed to act to restore the integrity of financial reporting. One of the critical measures Congress enacted as part of Sarbanes-Oxley was Section 404, relating to internal controls. The Roundtable companies have embraced Sarbanes-Oxley, including Section 404, and the revised listing standards, and have used the opportunity to improve their corporate governance and their internal controls over financial reporting. The result has been -- as Congress intended -- improved investor confidence in our capital markets.

Now that we have gone through another cycle of the Section 404 process, it is a good opportunity to address implementation issues. Thus, we applaud the SEC for convening the roundtable on May 10, 2006 to reflect on the Section 404 implementation process for the second year in a row. In implementing Section 404 and its related rules, including, in particular, the PCAOB's Auditing Standard No. 2, it continues to be clear that the benefits of Section 404 do not always outweigh the burdens. In this letter, we would like to outline some of the challenges that Section 404 continues to present and offer some suggestions to the SEC and PCAOB with respect to Auditing Standard No. 2.

To be clear, we want to express our continued support for the underlying premise of Section 404 -- effective internal controls over financial reporting. However, as we indicated at the 2005 Section 404 Roundtable, there are steps that the SEC and the PCAOB can take to make the Section 404 process more effective and efficient, while still preserving the benefits Congress intended.

We appreciate the constructive statements in the guidance documents provided last summer by the SEC and the PCAOB, but we believe that more needs to be done to

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streamline the Section 404 process (see Commission Statement on Implementation of Internal Control Reporting Requirements, May 16, 2005; Staff Statement on Management's Report on Internal Control over Financial Reporting, May 16, 2005; and PCAOB Release No. 2005-009, Policy Statement Regarding Implementation of Auditing Standard No. 2, An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements, May 16, 2005). We are concerned that, against the tremendously detailed backdrop of the text of Auditing Standard No. 2 itself, the guidance offered in these releases last summer has not been sufficiently embraced. Accordingly, we think an actual amendment of Auditing Standard No. 2 is necessary to bring about effective and efficient implementation to diminish the Section 404 process. Among the topics to be addressed, which we noted in our statement filed on April 7, 2005, are:

- A Change in Tone: Encourage the auditor to exercise greater professional judgment in the internal control process.
- The Definition of Significant Deficiency: The definition in Auditing Standard No. 2 should be modified to reflect a reasonable assurance standard under which public companies and their auditors will focus on concerns that actually may impact financial reporting and thus are of concern to the investing public.
- Limit Walkthroughs: Propose that the independent auditor may use its professional judgment to conduct walkthroughs for only a random sampling, rather than all, of the major classes of transactions in any given audit year.
- Reliance by Auditors on Work of Others: Clarify that the independent auditor is encouraged to exercise its professional judgment and rely on the work of others, particularly a company's internal audit function, as principal evidence where the independent auditor has considered and reasonably tested the competence, objectivity and independence of those on whom it seeks to rely.

We appreciate the opportunity to present our views on this subject. The suggestions we have outlined are designed to enhance the efficiency of the Section 404 process and Auditing Standard No. 2, while retaining the most important benefit – effective internal controls.

Sincerely,



David Fannin
General Counsel, Office Depot, Inc.
Chairman, Coordinating Committee,
Corporate Governance Task Force Business Roundtable

cc: Hon. Christopher Cox, Chairman
Hon. Paul S. Atkins, Commissioner
Hon. Roel C. Campos, Commissioner
Hon. Cynthia A. Glassman, Commissioner
Hon. Annette L. Nazareth, Commissioner
Mr. John W. White, Director, Division of Corporation Finance