CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

March 10, 2008

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

RE: File Number S7-06-03, *Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-accelerated Filers*

Dear Ms. Morris,

The Center for Audit Quality (CAQ or the Center) is an autonomous public policy organization serving investors, public company auditors and the capital markets and is affiliated with the American Institute of Certified Public Accountants. The CAQ's mission is to foster confidence in the audit process and aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies. We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC or Commission) proposal on *Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-accelerated Filers.*

Under the Commission's proposal, non-accelerated filers would be required to provide auditors' attestation reports on internal control over financial reporting in annual reports filed for fiscal years ending on or after December 15, 2009, which would be a one-year delay from the current requirement.

The CAQ shares the Commission's view that the anticipated guidance from the Public Company Accounting Oversight Board (PCAOB or Board), as well as the forthcoming guidance from the Committee of Sponsoring Organizations (COSO) on management's monitoring activities, will assist auditors' attestation of smaller public companies' internal control over financial reporting. Accordingly, we understand the potential benefits of the proposed delay to accommodate the integration of that guidance into auditor assessments.

The CAQ has supported the adoption of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* (AS 5), and, with the support of the Commission and the PCAOB, auditors have been working diligently to implement the principles in the new standard since it was proposed in late 2006. The top-down, risk-based approach and scalability provisions of this standard are particularly important in allowing a concentrated focus on those issues that could result in material misstatements in financial statements. These and other aspects of AS 5, and of the Commission's "Guidance Regarding Management's Report on Internal Control Over Financial Reporting," are especially helpful to smaller public companies, and the auditors of those companies, as they file internal control reports for the first time.

To evaluate investors' views of the benefits of internal control assessments and other Sarbanes-Oxley Act requirements, the CAQ surveyed 1,001 investors during the spring of 2007. Our survey found that seventy-six percent of investors believe the requirement for companies to evaluate and disclose their internal controls and for external auditors to attest to such disclosure has been positive. The CAQ survey may be accessed at http://thecaq.org/newsroom/release_07282007.htm.

More recently, a "Yellow Card Trend Alert" from Glass Lewis & Co. supported the finding in the CAQ survey, and stated:

> "… the tide is turning. SOX 404 is working. Investors are basing decisions on more accurate financial reports than ever. One of the greatest competitive advantages of the U.S. capital markets – reliable and transparent financial statements – is as strong as it's ever been."

The Glass Lewis Alert, which was published on January 15, 2008, raises on page 7 the important question of "how many more material weaknesses would be discovered if independent accounting firms were required to conduct internal-control audits at [microcap] companies?"

The CAQ believes the benefits of complete 404 reporting, including the enhanced credibility and investor confidence that comes from the auditor attest function, should be available to investors in smaller public companies. We acknowledge, however, policymakers' interest in thoroughly evaluating the costs and benefits associated with the implementation of the new standards and guidance. In that respect, the CAQ suggests that the Commission's efforts to study whether AS 5 is being implemented in a manner that will be cost-effective for smaller reporting companies be expanded to include input not only from reporting companies, but also from other participants in the marketplace, such as investors, audit committee members, and auditors. The CAQ would be pleased to assist in these efforts.

* * * * * * *

We appreciate the opportunity to comment on the proposals and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc: SEC
Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Kathleen L. Casey
Conrad Hewitt, Chief Accountant
John W. White, Director of the Division of Corporation Finance

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