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February 26, 2007

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

Re: File Number S7-24-06

Dear Ms. Morris:

Cisco Systems ("Cisco") appreciates the opportunity to provide our views on the U.S. Securities and Exchange Commission's ("SEC") proposed interpretive guidance ("Proposed Guidance") for management regarding its evaluation of internal control over financial reporting and related rule amendments. We are also submitting a comment letter to the Public Company Accounting Oversight Board ("PCAOB") in response to its proposed auditing standards, *An Audit of Internal Control Over Financial Reporting* ("ICFR")*That Is Integrated with An Audit of Financial Statements,* and *Considering and Using the Work of Others in an Audit* ("Proposed Standards").

Overall Observations

We support the overall direction of the Proposed Guidance and its intended goal to assist companies in making their evaluation process more efficient and effective. We also support the top-down, risk-based approach that allows for the exercise of significant judgment by management to conduct an evaluation of ICFR that is appropriate to their company's control environment. We anticipate that this guidance along with the PCAOB's Proposed Standards will provide the ability to reduce costs and increase effectiveness of the audits of internal control over financial reporting resulting in an appropriate balance of the cost of compliance with the intended benefits. We are appreciative of the efforts in the standard setting process whereby the SEC has elicited comments through the Roundtables and other forums and continues to work towards development and refinement of these standards. The Proposed Guidance allows companies to work with their auditors to evaluate its internal control and develop test plans that are based on risk-assessment rather than on purely prescriptive requirements that may not be aligned with the internal control and business risks. We are supportive of the shift towards principles based standards and the ability for companies and auditors to exercise appropriate judgment.

We have several observations that we believe will assist the SEC in achieving the intended goals of the Proposed Guidance. We believe that the Proposed Guidance should be more closely aligned with PCAOB's proposed standards. The level of detail in the PCAOB's Proposed Standards seems to be greater and more prescriptive as compared to the SEC Guidance. This could result in a misalignment of risk assessments and test plans between auditors and management which could result in inefficiencies and unnecessary costs.

To date, many companies' Sarbanes-Oxley Section 404 compliance approaches have been largely driven by the requirements set by external auditors. External auditors have been overly prescriptive in their requirements due to their perceived inability to apply judgment using a risk-based approach. Due to the absence of management guidance and an allowable risk-based approach, companies have been required to follow AS2 as well as strict interpretive guidance from the audit firms to satisfy the requirements of the integrated audit without the use of appropriate judgment. With proper alignment, the Proposed Standards and SEC Guidance should provide companies the flexibility to apply a top-down, risk-based approach using an appropriate level of judgment with external auditors being able to leverage a similar approach. We expect companies and auditors would focus their efforts on high risk areas achieving a better balance between internal control risk and the cost of compliance. Without alignment of the external audit standards and the SEC Guidance, companies would continue to focus efforts on the assessment of lower-risk control areas and incur additional costs failing to achieve the objective of a more risk-based and cost effective assessment.

We are also concerned that external auditors will need to be assured that the PCAOB examinations will align with the Proposed Standards. Consistent with the initial implementation of the AS2, auditors will be reluctant to adopt changes in their approach until sufficient PCAOB inspections of their firm's audits have occurred which will effectively result in a delayed implementation of the Proposed Standards. We encourage the SEC to work with the PCOAB to provide auditors timely and sufficient guidance as to its inspection expectations under the Proposed Standards to allow for earlier realization of the benefits for both auditors and companies inherent in the Proposed Standards and SEC Guidance.

Our overall concerns and observations are summarized as follows:

- Education should be provided to the audit firms in regards to expectations set by the standards in terms of level of change anticipated by the PCAOB including how the PCAOB inspection process will change to align to the Proposed Standards. We would encourage the PCAOB to focus its inspections based on the Proposed Standards and align its inspection criteria accordingly. We are concerned that external auditors will be unwilling to change their audit requirements based on the Proposed Standards until they complete a sufficient number of PCAOB inspections. External auditors may not have sufficient incentive to drive the efficiencies that

PCAOB and SEC intend and, consequently, there may be a natural time delay unless proactive education and reassurance is provided.

- We believe that there is a natural extension of the Proposed Standards to allow for the rotation of internal control testing. The Proposed Standards indicate that the assessment of internal control and related testing should take into consideration the results of prior year testing and the extent of changes in the controls as well as the benchmarking of automated controls. This approach could result in situations where the rotation of internal control is appropriate.
- We encourage the use of additional examples in the Proposed Standards to clearly describe how the concepts are intended to be applied. For example, how the assessment and testing of entity level controls can be leveraged to reduce the level of testing at the transactional level.
- We are supportive of the changes in definition and criteria in regards to the definition of "significant deficiencies" and "material weaknesses". We believe that these changes will drive consistency in the application and reporting of these internal control deficiencies.
- We believe that the focus of the deficiency evaluation is an annual process designed to determine whether internal control over financial reporting is operating effectively as of the end of the fiscal year. Consequently, we believe that the reference to "interim" financial statements be removed from the Proposed Standards.
- We support the elimination of the opinion on management's assessment process.

We have provided further detail on certain of these concerns and observations below.

Further Observations

Rotational Testing

We support the focus in the Proposed Standards on the use of prior knowledge and audit results in the current year risk assessment and testing approach. The Proposed Standards allow for reduced testing in subsequent years based on the results of prior year testing and extent of changes in the controls. The Proposed Standards also allow for the benchmarking of automated controls. These approaches will result in increased efficiencies for both management and auditors resulting in lower compliance costs. We believe further efficiencies could be gained, without increasing risk, by allowing for the rotation of control testing. The current expectation of "each year standing on its own" would be required to be modified in order for this approach to be utilized. The rotation of controls should, of course, be based on an assessment of changes in controls, control design, prior year test results and the overall control risk.

Entity-level Controls

Companies that have put considerable effort in enhancing entity-level controls should be able to leverage these controls to reduce testing at the transaction level. Paragraphs 16 and 17 of the Proposed Standards indicate that a top-down approach begins with company-level controls, that those controls must be tested, and that the evaluation could result in increasing or decreasing other auditor testing. The Proposed Standards do not clearly indicate how the testing of company-level controls impacts the extent of other testing. We recommend that the PCAOB more clearly describe, using examples, how strong entity level controls and their testing can be used to reduce the extent of transactional level controls.

Assessment of Deficiencies

We are supportive of the change in the definitions of significant deficiencies and material weaknesses. The change from the "more than remote" likelihood criteria to "reasonable possibility" will provide greater clarity and reduce the time spent discussing internal control deficiencies. Additionally, the change in the significant deficiency definition from "more than inconsequential" to "significant" will also be similarly beneficial. These definitional changes along with the factors indicated in the Proposed Standards that should be considered will provide consistency in the identification and reporting of these deficiencies across companies and audit firms eliminating the need for firm specific criteria.

Interim Financial Statements

The definitions of "significant deficiency" and "material weakness" in the Proposed Standards include a reference to the misstatement of the company's "annual or interim financial statements." The SEC Guidance indicates that, "As part of the evaluation of ICFR, management considers whether the deficiencies, individually or in combination, are material weaknesses as of the end of the fiscal year". The assessment of ICFR under Section 404 of the Sarbanes Oxley Act is an annual process designed in order to make a determination as of the end of a company's fiscal year as to the effectiveness of its controls. Consequently, the reference to the "interim financial statements" in these definitions seems inconsistent with that objective. We recommend that the reference to "interim financial statements" be removed with the focus limited to the annual financial statements.

Removal of Opinion on Management's Assessment

We do not expect to see substantial efficiencies result from the removal of the opinion on management's assessment as companies will continue to have a need to align their assessment process with those of their auditors. However, we do believe that the opinion should be eliminated as it does not provide any further assurance to investors. The removal of the opinion will provide companies the choice and ability to develop assessment processes that are tailored to their control environments.

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We are supportive of the Proposed Standards and SEC Guidance. We would encourage the PCAOB and SEC allow for their implementation as soon as possible in order to realize their benefits providing for a more efficient and effective audit process. We appreciate the opportunity to comment on the SEC proposed interpretive guidance. Please feel to contact me at (408) 527 0448 for any further discussion of our comments.

Sincerely,

Jonathan Chadwick

Jonathan Chadwick
Vice President, Corporate Controller, Principal Accounting Officer