

June 15, 2007

The Honorable John F. Kerry
Chairman, Committee on Small, Business & Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, DC 20510-6350

Dear Chairman Kerry:

Thank you for your May 8, 2007, letter addressed to both SEC Chairman Cox and me concerning issues that were raised during the Committee on Small Business & Entrepreneurship's April 18, 2007, hearing on Sarbanes-Oxley and its impact on small businesses. The PCAOB works closely with the SEC to achieve our shared goal of protecting the interests of the investing public. The Board shares your view that strong internal control protects shareholders and promotes confidence in capital markets. We are committed to making the implementation of the Act's internal control requirements as cost-effective as possible, while still retaining these important benefits.

As you know, on May 24, 2007, the Board voted to adopt a new standard for auditing internal control, Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*. If approved by the SEC, Auditing Standard No. 5 will replace the existing standard for auditing internal control, Auditing Standard No. 2. Auditing Standard No. 5 reflects the Board's careful consideration of 175 public comment letters. The principles-based standard that the Board adopted emphasizes a top-down, risk-based audit that is scalable based on the size and complexity of the company. We believe that smaller public companies will benefit from the scaling concepts that are incorporated throughout the standard. These concepts will be reinforced by guidance on auditing internal control in smaller companies that the Board plans to provide later this year.

In your letter, you recommend that the PCAOB carefully monitor auditors to make sure the final rules are implemented appropriately and do not result in unnecessary costs for small public companies. We agree this is a very important step in the process. The Board is committed to carefully monitoring the application of Auditing Standard No. 5 by working closely with the audit firms and adjusting our inspection program for consistency with the new standard. In addition, we will continue our outreach to small firms and issuers through the Board's Forums on Auditing in the Small Business Environment.

PCAOB

Public Company Accounting Oversight Board

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I appreciate the opportunity to have testified on the important issue of the impact of Sarbanes-Oxley on small businesses. Thank you once again for your letter. Please feel free to contact me at (202) 207-9201, or have your staff contact Mary Moore Hamrick, Director of the PCAOB Office of External Relations at (202) 207-9170, should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Mark Olson". The signature is written in a cursive, flowing style.

Mark W. Olson
Chairman

cc: Senator Olympia J. Snowe