

2/26/2007

VIA ELECTRONIC MAIL

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket No. 021

Office of the Secretary,

Ventana Medical Systems, Inc., welcomes this opportunity to comment on the PCAOB's *Proposed Auditing Standard – An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of the Financial Statements and Related Other Proposals*. Compliance with the provisions of the Sarbanes-Oxley Act of 2002 and the guidelines derived from Audit Standard No. 2 comprise an important part of our daily corporate finance and governance duties. Ventana recognizes the importance of maintaining investor confidence and believes that establishing a strong internal control system is one measure companies can take to contribute to the integrity of the securities markets.

Ventana (NASDAQ: VMSI) is a Tucson, Arizona-based mid-cap developer and manufacturer of medical systems utilized in the diagnosis and treatment of cancer. Our Company, like many accelerated filers of our size, spent considerable internal resource time and monies to achieve compliance under the Sarbanes-Oxley Act as of 12/31/2004. While costs of compliance have decreased slightly over the past two years these activities still comprise the most costly segment of our external audit and occupies a disproportionate quantity of internal resource time.

Ventana was committed to establishing and maintaining an effective control environment before the requirements under the Sarbanes-Oxley Act and has been in each year since. We have not had any control issues during this period warranting disclosure, but believe that the required compliance activities under Sarbanes-Oxley have come at a cost to Ventana and our shareholders and we feel that improvements could be made to make the audit of internal controls more efficient and valuable.

There are many provisions of the proposed rule changes which would support Ventana's ongoing effort to achieve a strong internal control environment while reducing compliance costs. Ventana would like to express its support for the following key provisions of the proposed rule.

- Removing the Requirement to Evaluate Management's Process – this change over the current requirements under AS No. 2 should translate into immediate external audit

fee savings. While we believe that our external auditors make an attempt to integrate their assessment of management's testing when re-testing work that is relied-upon, the removal of this requirement will eliminate non-valued added external audit work steps around evaluating management's assessment of internal controls altogether.

- Clarifying the Role of Materiality in the Audit of Internal Controls – by directly correlating the materiality considered in audit of internal controls to that considered in the substantive audit of the financial statements will help to focus the internal and external audit of controls on only those most material aspects/accounts within financial reporting.
- Permitting Consideration of Knowledge Obtained During Previous Audits – this provision in theory will reduce external audit fees related to the audit of internal controls at Ventana each year as the auditor's cumulative knowledge of Ventana's internal control environment grows. Currently, the AS No. 2 does not directly support a 'continuous improvement' perspective that permeates nearly every other aspect of our business today. The support of the 'growing and learning' audit will support Ventana and similar companies to continuously improve our compliance methodologies and challenge our external auditors to do the same.
- Removing Barriers to Using the Work of Others – removing the 'principal evidence' and testing reliance provisions of AS No. 2 will allow the external auditors of companies including Ventana the ability to leverage a far greater degree of work already being performed by internal auditors and expert third parties. This will in turn reduce the amount of work required for external auditors to assess the internal control environment.
- Use of a Benchmarking Strategy to Evaluate Application Controls – this approach was one Ventana had requested our external auditors to adopt and after much deliberation this method of testing was accepted by them. This strategy will certainly save internal and external audit time without compromising the integrity of the audit. This specific guidance should help other companies adopt this methodology without the delays we experienced.

While we support the vast majority of the proposed rule there is one small provision that could create non-value added work and additional audit fees for companies similar to Ventana which have material subsidiary operations with non-integrated financial systems. This concern is discussed below.

- Evaluating Information Technology Controls – the language in the bulleted section under item 12 of the Introduction which states "the auditor's testing of information technology controls should focus on the application controls built into the pre-packaged software" may encourage external auditors to inappropriately 'over-audit' out-of-the-box software without considering alternative approaches to testing these systems. In the case of our Japanese subsidiary which utilizes out-of-the-box software for logistics and accounting record keeping we place limited reliance on these systems. One could argue under this statement that even this limited reliance could warrant the hiring of a Japanese-based expert to audit these systems forcing us to incur costs disproportionate to the relevant risks. We recommend less specific

language here allowing for judgment of risk to determine the extent of testing on out-of-the-box software relied upon.

In general we believe that the Board's assessments of the strengths and weaknesses of AS No. 2 are accurate and the changes made appropriately address the weaknesses identified. We look forward to the positive impact these rules will have on our ongoing internal controls compliance process and additionally appreciate the Board's intent to ensure that compliance rules do not negatively impact the competitiveness of US-based stock exchanges.

Sincerely,

Nicholas Malden
Senior Vice President, Chief Financial Officer
Ventana Medical Systems, Inc