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Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, N.W.
Washington, DC 20006-2803

RE: Rulemaking Docket 021: Proposed Auditing Standard – An Audit of
Internal Control Over Financial Reporting that is Integrated with an
Audit of Financial Statements

Dear Members of the Board:

Reznick Group welcomes this opportunity to respond to the request for comments from the Public Company Accounting Oversight Board (PCAOB) on the concepts and questions contained in the above referenced “proposed standard” or “AS5.”

Reznick Group is a national accounting, tax and business advisory firm that specializes in providing sound, strategic business counsel. The firm works with clients in a broad spectrum of industries; specifically in providing services to real estate professionals; lenders and investors; corporate executives, business owners and entrepreneurs; government professionals; nonprofit professionals; and healthcare administrators.

As always, we are supportive of any rule making that further demonstrates the profession’s resolve to independence and objectivity while also reducing the burden of compliance.

General Comments

Reznick Group strongly supports the need for effective internal controls over financial reporting. We believe that, on balance, the proposed standard would continue to improve the effectiveness and efficiency of audits of public company’s financial reporting.

We believe it is appropriate and more efficient for the auditor to integrate their audit procedures and opine on a company’s internal controls over financial reporting and the financial statements without issuing a separate opinion on management’s annual internal control evaluation process. We are hopeful that this will lead to additional audit efficiencies and reduced audit expenses.

We support the PCAOB’s position that the auditor should consider the size and complexity of a company, and consider ways of streamlining and eliminating unnecessary procedures, while planning and performing the audit of internal controls. We applaud the PCAOB for acknowledging that smaller, less-complex companies should have smaller, simpler audits, and that the auditors should expect and accept that smaller company’s control activities may be different and documentation of those controls less formal than found in some larger companies.

While we believe that AS5 is a significant step in the right direction, as with Accounting Standard No. 2, the way the accounting firms interpret and apply AS5 will be based on how they anticipate their compliance will be evaluated by the PCAOB. We encourage the PCAOB to take the lead and adopt the spirit and philosophy of the proposed standard while conducting its inspections.

Specific Comments

Some more specific comments and suggestions for the PCAOB's consideration follow:

- Auditing standards consider inquiry, observation, inspection of documentation, and reperformance as appropriate tests of controls. We are aware that many auditors focused primarily on existence of documentation and have essentially taken the position that in the absence of documentary evidence, controls must be presumed to be ineffective. Some additional guidance to clarify the PCAOB's intention would help increase understanding and consistency between auditors.
- It would be helpful if the PCAOB would provide additional explanation on the role and importance of information technology (IT) general controls as they relate to internal controls over financial reporting. Additional guidance would also be helpful that explains the relationships or dependencies between IT general controls and application controls, particularly in smaller companies, including examples of situations where an IT general control deficiency could result in an application control breakdown, in turn leading to a material misstatement. Some guidance or examples of the relationships between application controls in prepackaged software and IT general controls necessary to support them would also be helpful.
- Paragraphs 45 and 78 refer to anti fraud "programs and controls." We encourage the PCAOB to further explain its expectations for an anti fraud "program." The current wording may lead auditors to seek an undefined yet specific anti fraud "program" above and beyond the company's controls to prevent and detect fraud.
- Some companies have been reluctant to consult with their auditors and other advisors about internal controls due to fear that such a conversation might be construed as evidence of a material weakness. We encourage the PCAOB to further clarify this point so as to encourage management to have an open dialogue with their auditors on all matters including seeking advice to assist in maintaining sound internal controls.



Conclusion

Reznick Group strongly supports the need for effective internal controls over financial reporting. We believe that, on balance, the proposed new rules would continue to improve the effectiveness and efficiency of public company financial reporting. We look forward to further guidance from the PCOAB, and will continue to participate in the positive evolution of audit practices that promote ethical and effective financial reporting.

We would be pleased to discuss our comments further. Please contact Kurtis Wolff at (404) 250-4148.

Reznick Group, P.C.

Bethesda, Maryland
February 26, 2007