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July 18, 2007

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

Dear Ms. Morris:

**RE: File Number S7-24-06 Request for Additional Comment on the
*Definition of a Significant Deficiency***

The Center for Audit Quality (CAQ) was created by the public company auditing profession and the American Institute of Certified Public Accountants to help foster confidence in the audit process and aid investors and the capital markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. The CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies. We welcome the opportunity to share our views on the Securities and Exchange Commission (SEC or the Commission), File Number S7-24-06, Release Nos. 33-8811; 34-55930, Request for Additional Comment on the *Definition of a Significant Deficiency* (the SEC Proposal).

We agree that Securities Exchange Act Rule 12b-2 and Rule 1-02 of Regulation S-X should be amended to define the term significant deficiency, as proposed by the Commission. Including the definitions of both a significant deficiency and material weakness in Commission rules will provide a useful complement to the Commission's recently issued *Interpretive Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*.

As the profession previously stated in its comment letter, dated September 18, 2006, to the Commission with respect to the Concept Release on interpretive guidance for management's assessment of internal control over financial



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U.S. Securities and Exchange Commission
Nancy M. Morris, Secretary
July 18, 2007
Page 2

reporting, we believe that the definitions of significant deficiency and material weakness should be codified. Because the term significant deficiency is used in the Commission's rules implementing Section 302 and Section 404 of the Sarbanes-Oxley Act of 2002, we believe that a definition of this term should also be in the Commission's rules, in addition to being in the auditing standards. This codification will enable management to refer to Commission rules and guidance for information on the meaning of this term rather than referring to the auditing standards.

In addition, we strongly support the alignment of the term in Commission rules with the term used in the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*. A consistent definition of "significant deficiency" between the Commission's rules and the PCAOB's auditing standards will help prevent miscommunication and misunderstandings that will further our collective goal in enhancing the effectiveness of both management's evaluation and the independent audit. We also believe that the proposed definition will allow management to use sufficient and appropriate judgment to identify those deficiencies that should be communicated to the auditor and the audit committee.

We also agree that the definition of significant deficiency (in both the SEC and PCAOB guidance) is intended to focus on the "communication requirement" and clarifies that management and auditors are not required to scope the evaluation of internal control over financial reporting to search for deficiencies that are less severe than a material weakness.

We appreciate the opportunity to comment on the SEC Proposal and would welcome the opportunity to meet with you to clarify any of our comments.

Sincerely,

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

U.S. Securities and Exchange Commission
Nancy M. Morris, Secretary
July 18, 2007
Page 3

cc: SEC
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