NEENAH PAPER INC

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I want to thank you for the opportunity to comment on the PCAOB proposed changes to the auditing standard associated with the internal controls over financial reporting and the proposed standard on using the work of others. I have included responses below for all the suggested questions (see “NP Response:” following each question) as well as some general comments.

The Board has done a good job in addressing many of the concerns voiced by companies in the proposed audit standard and to focus the audit on matters most important and eliminate unnecessary procedures. The attempt to reduce the details and specificity although substantial still falls short in some cases as noted in many of my responses to published questions. I also believe the attempt to provide guidance to scale the audit for smaller companies should rather address scale of audits for all companies based on many factors with a company being classified as a smaller company only being one factor.

As it relates to sections A (1) “Directing the Auditor’s Attention Towards the Most Important Controls” and A (2) “Emphasizing the Importance or Risk Assessment” these I believe were first addressed back in May 2005 in the guidance for using a Top Down and Risk Base approach. This guidance although beneficial for my company’s 2006 compliance efforts was late in its communication and thus not adopted early by external auditors and management timely enough to have the greatest efficiency and cost savings impact. Now that it will be incorporated officially in the audit standard it will be utilized more fully by the entire SOX compliance community.

As it relates to section B (1) “Removing the Requirement to Evaluate Management’s Process” this should be included in the final auditing standard version as it will provide management of companies of all sizes more flexibility in the structure of the SOX compliance process. With SEC guidance provided to management from the SEC and the removal of this requirement companies will be able to move from a relationship with their auditor’s as a governor of management’s process to instead one of being an economic influencer to allow more judgment on how to balance the level of work needed to support management’s assessment along with final guidance on the auditor’s being able to use more of the work of others.

As it relates to section B (4) “Removing Barriers to Using the Work of Others” the second part of # 8 references the report on management’s assessment which is to be removed as noted in section B (1) and the reference here should be removed. As the head of small internal audit department my limited resources, and has been the case with most internal audit departments, has been too involved with the project management, documentation and testing for the SOX compliance process. As a service to management and the Board of Directors, Internal Audit acts as an independent appraisal function by examining and evaluating the adequacy and effectiveness of the company’s system of internal control and quality of performance. This service has been limited in recent years to mostly or only those internal controls over financial reporting due to the resource requirement for SOX compliance. This proposed standard on allowing the auditor to rely on the work of others which are deemed competent and objective is a key component to rebalance the value Internal Audit can provide and the final standard should not be too restrictive.

Below are responses to each of the published questions.

A. Focusing the Audit on the Matters Most Important to Internal Control

1. Directing the Auditor's Attention Towards the Most Important Controls

1. Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?

NP Response: No, there is one statement which reads in paragraph 16 “finally, the auditor selects for testing controls that sufficiently address the assessed risk of misstatement to each relevant assertion” which should have the word “material” before the word “misstatement” to more clearly maintain focus on only material misstatements.

2. Does the proposed standard place appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud?

NP Response: No, there is one statement in identifying significant accounts which reads in paragraph 26 “susceptibility of misstatement due to errors or fraud” should rather read “susceptibility to fraud or errors considered a material misstatement.

3. Will the top-down approach better focus the auditor's attention on the most important controls?

NP Response: No not by itself but in conjunction with the use of a focus on only areas considered high risk for a potential material misstatement it should. The top-down approach rather focuses an audit on more efficient methods.

4. Does the proposed standard adequately articulate the appropriate consideration of company-level controls and their effect on the auditor's work, including adequate description of when the testing of other controls can be reduced or eliminated?

NP Response: No, in paragraph 17 the statement “The auditor's evaluation of company-level controls can result in increasing or decreasing the testing that the auditor otherwise would have performed on controls at the process, transaction, or application levels” states testing can be reduced but does not mention elimination of any testing. This should be added to provide guidance in considering areas of testing which could be eliminated as well as reduced.

2. Emphasizing the Importance of Risk Assessment

5. Does the proposed standard appropriately incorporate risk assessment, including in the description of the relationship between the level of risk and the necessary evidence?

NP Response: No, in paragraph 8 the statement “A direct relationship exists between the degree of risk that a material weakness could exist in a particular area of the company's internal control over financial reporting and the amount of audit attention the auditor should devote to that area” does appear adequate in addressing the level of work the auditor should perform but does not address “evidence” as listed in the question but this should be inferred in the statement as listed and no changes are recommended.

6. Would the performance of a walkthrough be sufficient to test the design and operating effectiveness of some lower risk controls?

NP Response: Yes, and in some instances performance of a walkthrough along with auditor documented observation should be sufficient to test the design and operating effectiveness of some medium risk controls as well to allow greater use of resources on the high risk controls.

3. Revising the Definitions of Significant Deficiency and Material Weakness

7. Is the proposed definition of "significant" sufficiently descriptive to be applied in practice? Does it appropriately describe the kinds of potential misstatements that should lead the auditor to conclude that a control deficiency is a significant deficiency?

NP Response: No, the listing of specific items in paragraph 78 and the wording “ordinarily result in at least significant deficiencies” is too narrow and limits the use of judgment when deficiencies even though they may fall within these listed areas may be of a quantitatively small or one-time occurrence nature and one a prudent official would conclude as not being a significant deficiency.

8. Are auditors appropriately identifying material weaknesses in the absence of an actual material misstatement, whether identified by management or the auditor? How could the proposed standard on auditing internal control further encourage auditors to appropriately identify material weaknesses when an actual material misstatement has not occurred?

NP Response: I would think this would be addressed in the evaluation of identified deficiencies, specifically those which involved actual misstatements and the evaluation process of the deficiency by itself or in conjunction with other deficiencies looks at the “potential” misstatement amount that could have been reasonably possibly to occur.

9. Will the proposed changes to the definitions reduce the amount of effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of material misstatement to the financial statements?

NP Response: No as I would still expect that deficiencies of any level identified would be communicated to management and the same level of documentation and tracking effort expended as in previous years unless the standard provided specific guidance on exclusion of communication and tracking of deficiencies of insignificant amounts or remote possibilities of potential misstatements.

4. Revising the Strong Indicators of a Material Weakness

10. Should the standard allow an auditor to conclude that no deficiency exists when one of the strong indicators is present? Will this change improve practice by allowing the use of greater judgment? Will this change lead to inconsistency in the evaluation of deficiencies?

NP Response: Yes the standard should allow an auditor to conclude that no deficiency exists when one of the strong indicators listed in paragraph 79 is present as the items listed themselves involve judgment in determining if they are truly deficient.

6. Clarifying the Role of Interim Materiality in the Audit

11. Are further clarifications to the scope of the audit of internal control needed to avoid unnecessary testing?

NP Response: No as the top-down risk base approach and other included topics when finalized along with auditor judgment should provide adequate guidance for auditors to determine an adequate scope for the audit of internal control.

12. Should the reference to interim financial statements be removed from the definitions of significant deficiency and material weakness? If so, what would be the effect on the scope of the audit?

NP Response: Yes the reference to interim financial statements should be removed from the definitions of significant deficiency and material weakness and be replaced with reference to external reporting of financial statements instead. Once an annual materiality has been determined it should be used for the financial statement audit and audit of internal control throughout the year regardless of the period covered. This should have little impact on the scope of the audit as judgment should be used in determining the level of work required and when based on the particular circumstances involved.

B. Eliminating Unnecessary Procedures

1. Removing the Requirement to Evaluate Management's Process

13. Will removing the requirement for an evaluation of management's process eliminate unnecessary audit work?

NP Response: Yes, removing the Requirement to Evaluate Management’s Process should be included in the final auditing standard version as it will provide management of companies of all sizes more flexibility in the structure of the SOX compliance process. Along with the SEC guidance provided to management from the SEC companies will be able move from a relationship with their external auditor’s as a governor over management’s process to instead one of being an economic influencer only and allow management more flexible judgment on how to balance the level of work needed to support management’s assessment.

14. Can the auditor perform an effective audit of internal control without performing an evaluation of the quality of management's process?

NP Response: Yes, because the risk base guidance that drives the level of work performed by the auditor independent of the level of work performed by management to support their own assessment of the internal controls which I believe the investor places more reliance.

15. Will an opinion only on the effectiveness of internal control, and not on management's assessment, more clearly communicate the scope and results of the auditor's work?

NP Response: Yes, as any reference to the level of work performed by management has no reflection on the auditor’s own effort or results and if retained only confuses the average investor as to the meaning or importance of that separate opinion.

2. Permitting Consideration of Knowledge Obtained During Previous Audits

16. Does the proposed standard appropriately incorporate the value of cumulative knowledge?

NP Response: Yes.

17. What are the circumstances in which it would be appropriate for the auditor to rely upon the walkthrough procedures as sufficient evidence of operating effectiveness?

NP Response: For areas of low and possibly some medium risk areas or processes the auditor’s observation and collaborative inquiry in conjunction with the walkthrough procedures should be sufficient evidence of operating effectiveness.

3. Refocusing the Multi-location Testing Requirements on Risk Rather than Coverage

18. Will the proposed standard's approach for determining the scope of testing in a multi-location engagement result in more efficient multi-location audits?

NP Response: No, there is a conflict in the appendix paragraph B16 which states “Special Situations. The scope of the audit should include entities that are acquired on or before the date of management's assessment. . .” which is in conflict with the SEC June 2004 statement that they would not object to management electing to exclude entities from the scope of their assessment in the year of acquisition which has also meant being excluded by the auditors. The location scope focus should be based on risk as the main consideration. There may be instances that while a location may impact one or more of the identified significant accounts on a qualitative basis it may be determined through experience that the risk of a material misstatement attributed to a particular location is low.

4. Removing Barriers to Using the Work of Others

19. Is the proposed standard's single framework for using the work of others appropriate for both an integrated audit and an audit of only financial statements? If different frameworks are necessary, how should the Board minimize the barriers to integration that might result?

NP Response: No, There are multiple references which restrict the auditor relying on the work of others or is in conflict with other parts of the audit standard. As it relates to section B (4) “Removing Barriers to Using the Work of Others” the second part of # 8 references the report on management’s assessment which is proposed in the revised audit standard to be removed as noted in section B (1) and the reference should be removed. Also in paragraph 15 (b) as it relates to consideration as to whether the board of directors or the audit committee oversees employment decisions related to the responsible persons and whether the responsible persons have direct access and report regularly to the board of directors or the audit committee is too restrictive and should be removed. For many public companies the only one which may report directly to the board of directors is the CEO and the only ones which may report directly to the audit committee usually is the internal auditors. This then would greatly reduce the selection of any others within an organization which could be objective and independent of a process from being considered for reliance on their work by the external auditors.

20. Does the proposed definition of relevant activities adequately capture the correct scope of activities, including activities that are part of the monitoring component of internal control frameworks?

NP Response: No, not as it relates to scope because the second sentence in paragraph 4 of the Considering and Using the Work of Others in an Audit standard should incorporate a reference to risk to ensure focus is maintained on only the higher risk areas. “Tests performed by others that provide such evidence typically are similar in nature, timing, and extent to the procedures that the auditor would have performed himself or herself *according to the level of risk* as part of obtaining sufficient competent evidence to support the auditor's opinion.”

21. Will requiring the auditor to understand whether relevant activities performed by others identified control deficiencies, fraud, or financial statement misstatements improve audit quality?

NP Response: Yes, it drives the level of work of others the auditor may rely on and should have an impact on the audit quality and the efficiency of the audit.

22. Is the principal evidence provision that was in AS No. 2 necessary to adequately address the auditor's responsibilities to obtain sufficient evidence?

NP Response: No, the level of audit evidence should be based on auditor judgment according to the control type, frequency, risk and other factors and not included in the current standard.

23. Does the proposed standard provide an appropriate framework for evaluating the competence and objectivity of the persons performing the testing? Will this framework be sufficient to protect against inappropriate use of the work of others? Will it be too restrictive?

NP Response: No, There are multiple references which restrict the auditor relying on the work of others such as in paragraph 15 (b) as it relates to consideration as to whether the board of directors or the audit committee oversees employment decisions related to the responsible persons and whether the responsible persons have direct access and report regularly to the board of directors or the audit committee is too restrictive and should be removed. For many public companies the only one which may report directly to the board of directors is the CEO and the only ones which may report directly to the audit committee usually is the internal auditors. This then would greatly reduce the selection of any others within an organization which could be objective and independent of a process from being considered for reliance on their work by the external auditors. The wording should be simplified to take into consideration the competency and objectivity of the person(s) performing the relevant activities and the auditor judgment then as to what level of reliance and re-performance by be required or if they can rely on their work at all.

24. Has the Board identified the right factors for assessing competence and objectivity? Are there other factors the auditor should consider?

NP Response: No, as mentioned previously those listed in the first bullet of paragraph 15 (b) are too restrictive and should be removed. Also in paragraph 15 (a) it references policies in place which prohibit individuals from testing areas in which they are assigned or relatives are employed but official policies may not be drafted that address testing as many companies will just be implementing these testing procedures once the final audit standard is published and the level of work of others is determined that the auditor can rely upon. Instead of referring to policies this section should refer to company policies or practices so not to exclude practices in place but which are not formally documented as policies.

25. What will be the practical effect of including, as a factor of objectivity, a company's policies addressing compensation arrangements for individuals performing the testing?

NP Response: I am afraid the practical effect will be that any compensation arrangement for individuals performing the testing will be viewed by auditors as eliminating them from consideration of reliance on any testing they perform. Even with a compensation arrangement in place the determination that a strong control environment is in place could compensate to a level and allow at least some reliance on the testing performed by these individuals.

5. Recalibrating the Walkthrough Requirements

26. Will requiring a walkthrough only for all significant processes reduce the number and detail of the walkthroughs performed without impairing audit quality?

NP Response: Yes.

27. Is it appropriate for the auditor to use others as direct assistance in performing walkthroughs? Should the proposed standard allow the auditor to more broadly use the work of others in performing walkthroughs?

NP Response: Yes the proposed standard should allow the auditor to more broadly use the work of others in performing walkthroughs as long as it is verified by auditor observation or evidential matter obtained.

C. Scaling the Audit for Smaller Companies

28. Does the proposed standard on auditing internal control appropriately describe how auditors should scale the audit for the size and complexity of the company?

NP Response: No, in paragraph 9 the note makes reference to a smaller company being one with a market cap of approximately $7 00M or less and revenues of approximately $250M or less. The heading should rather reference scaling the audit as appropriate for company size and not reference smaller companies only. This note is good information but a statement should be added that it is not absolute and many of the references for scaling the audit could also be appropriate for companies with amounts which exceed those listed in this note. As an example the first bullet in paragraph 12 describing how testing via inquiry combined with observation or other procedures can in many cases provide sufficient evidence about whether the control is effective could be appropriate in some cases for companies of all sizes.

29. Are there other attributes of smaller, less-complex companies that the auditor should consider when planning or performing the audit?

NP Response: Yes, some other attributes of smaller, less-complex companies that the auditor should consider when planning or performing the audit could be reliance on controls performed by outside parties, competency of the financial expert identified on the audit committee, and reporting structure for those with financial reporting responsibilities.

30. Are there other differences related to internal control at smaller, less complex companies that the Board should include in the discussion of scaling the audit?

NP Response: No other than those mentioned in response to question 29 and the fact noted in the response to question 28 that differences associated with any size company should be taken into consideration when determining the scale of the audit.

31. Does the discussion of complexity within the section on scalability inappropriately limit the application of the scalability provisions in the proposed standard?

NP Response: No because it is only one of many factors that should be taken into consideration but again this scaling of the audit should be for all size companies and not just directed to those meeting the requirements to be classified as a smaller company.

32. Are the market capitalization and revenue thresholds described in the proposed standard meaningful measures of the size of a company for purposes of planning and performing an audit of internal control?

NP Response: No, as mentioned above in response to question 28 the heading should rather reference scaling the audit as appropriate for company size and not reference smaller companies only. This thresholds note is good information but a statement should be added that it is not absolute and many of the references for scaling the audit could also be appropriate for companies with amounts other than those listed in the note. As an example the first bullet in paragraph 12 describing how testing via inquiry combined with observation or other procedures can in many cases provide sufficient evidence about whether the control is effective could be appropriate in some cases for companies of all sizes.

D. Simplifying the Requirements

III. Proposed Rule 3525 – Audit Committee Pre-approval of Services Related to Internal control

33. Is there other information the auditor should provide the audit committee that would be useful in its pre-approval process for internal control-related services?

NP Response: No.

VI. Effective Date

34. How can the Board structure the effective date so as to best minimize disruption to on-going audits, but make the greater flexibility in the proposed standards available as early as possible? What factors should the Board consider in making this decision?

NP Response: The board should structure the effective date to be as early as possible during the current calendar year but provide a statement that for inspection purposes the current year's audit procedures completed prior to the effective date would be considered as being judged as performed under the preceding audit standard and other guidance published up to the effective date. The reason the effective date should be as early as possible is many companies and their auditors are already having planning discussions especially the impact of the removal of the opinion by the auditor on management's assessment.