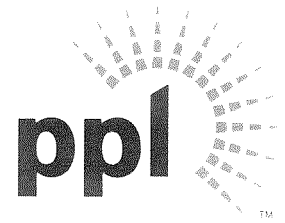


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February 26, 2007

Via e-mail to 'comments@pcaobus.org'

Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006

RE: PCAOB Rulemaking Docket matter No. 021

Dear Sir/Madam:

The PPL Corporation (PPL) respectfully submits the attached comments, in question and answer format, in response to the request for comment as outlined within the *Proposed Auditing Standard – an Audit of Internal Control over Financial Reporting That is Integrated with an Audit of Financial Statements*.

PPL Corporation is an international energy and utility holding company, headquartered in Allentown, PA. Through its subsidiaries, PPL generates electricity from power plants in the northeastern and western U.S.; markets wholesale or retail energy primarily in the northeastern and western portions of the U.S.; delivers electricity to approximately 5.1 million customers in Pennsylvania, the U.K. and Latin America; and provides energy services for businesses in the mid-Atlantic and northeastern U.S. PPL is a \$6.9 billion corporation that ranked 350 on the Fortune 500® for 2006. PPL's four principal business subsidiaries are PPL Generation, PPL EnergyPlus, PPL Global and PPL Electric Utilities. PPL employs about 12,600 people on three continents.

We appreciate and support your efforts to provide the accounting community with a more efficient approach to meet the compliance requirements of Section 404 of the Sarbanes-Oxley Act. We also appreciate the opportunity to provide feedback on the proposed audit standard.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Dustin Wertheimer', with a long horizontal flourish extending to the right.

Dustin W. Wertheimer
Controller-PPL Global

Attachment

PPL Corporation

Response to PCAOB's Proposed Auditing Standard No. 5

Below are PPL's responses to the questions listed in the PCAOB Rulemaking Docket Matter No. 021. Also provided are specific comments on other areas of the proposed standards.

Questions & Responses

- 1. Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?** The top-down approach description in the standard clarifies that the auditors should be scoping the audit to detect the possibility of a material misstatement. However, it is unclear how the assessment of company level controls can be used to develop or limit the scope of the audit. Illustrative examples would be helpful in clarifying this area (paragraphs 16, 17).
- 2. Does the proposed standard place appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud?** Yes. The new standard clarifies that the audit of internal control over financial reporting (ICFR) should ensure that controls are adequate to prevent or detect in a timely manner fraud that could cause a material misstatement (paragraphs 34 and 45). The standard also appropriately addresses the need to assess programs and controls that address risks related to fraud, and specifically those controls that address the risk of management override of controls. Additionally, the standard addresses the impact on the scope of the audit should controls related to fraud be found to be deficient.
- 3. Will the top-down approach better focus the auditor's attention on the most important controls?** Yes, PPL believes that it should. However, some additional language emphasizing a focus on material controls should be included in paragraph 44, which discusses the process for selecting which controls to test. Alternatively, the definition of a relevant assertion could be reiterated in paragraph 44.
- 4. Does the proposed standard adequately articulate the appropriate consideration of company-level controls and their effect on the auditors work, including adequate description of when the testing of other controls can be reduced or eliminated?** No, not completely. Although the guidance does provide detail with regard to defining company-level controls and the control environment, it does not provide details about how the assessment of company-level controls specifically impacts the decisions as to which transactions and controls should be included in the scope of the audit. Please consider specifically addressing how the company-level controls will impact the selection of controls in paragraph 41-46.
- 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?** Yes, the proposed guidance does provide the auditor with a risk-based approach to determining the adequacy of the evidence related to the effective operation of controls in paragraph 52. However, the note at the bottom of that paragraph states that less evidence is necessary to determine that a control is deficient than to determine that it is effective. Our concern is that auditors may interpret this note to mean less evidence means less effective. This is not congruent with the SEC's proposed guidance to management which emphasizes

management's flexibility in assessing controls and maintaining evidence. PPL is concerned that this note may drive auditors to a more conservative approach with regard to the evidence required to be created, and maintained by management. For example, PPL believes that an auditor would gain sufficient evidence about the effectiveness of a control activity involving a supervisor's review of a report by interviewing the individual who performs that review and looking at review notes on the report. PPL is concerned that an auditor may conclude that the evidence is not sufficient, and therefore the control is not effective, if the report is not signed and dated. Again, our opinion is that less evidence does not necessarily mean that a control is less effective.

6. **Would the performance of a walkthrough be sufficient to test the design and operating effectiveness of some lower risk controls?** (paragraph 26, 47-50) Yes. The proposed standard should emphasize that for controls that have sufficient risk to require testing, but are on the lower end of the risk scale, a walkthrough could provide sufficient evidence at greater efficiency.
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?** The definition has improved, but additional clarity, such as examples, need to be provided surrounding what is important enough to merit attention by those responsible for oversight of the company's financial reporting. In practice, most firms have established a threshold for what they believe is significant. The new definition should not change those thresholds.
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?** It appears that most material internal control weaknesses have been related to material misstatements. However, from that observation you cannot conclude whether auditors are appropriately identifying weaknesses in the absence of actual material misstatements. The revised standard, with its focus on using a top-down approach and scoping at the level to identify material weaknesses, will allow auditors to do a more thorough review of key controls as less effort will be expended on reviewing lower risk controls. This should increase the likelihood of the auditor detecting material weaknesses before a misstatement occurs.
9. **Will the proposed changes to the definitions reduce the amount of effort devoted to identifying and analyzing deficiencies that do not represent a reasonable possibility of material misstatement to the financial statements?** The change to the definitions does not raise the auditor's threshold for classifying deficiencies. However, the concept of scoping to detect deficiencies that could result in a material misstatement should reduce the amount of effort dedicated to identifying and analyzing deficiencies. In addition, the concept should be reiterated in paragraph 43, which provides guidance related to selecting which controls to test.

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?** No, if one of the strong indicators exists, there is at least a deficiency. However, judgment will need to be utilized to evaluate whether a deficiency is classified as a significant deficiency or material weakness. For example, one strong indicator of a significant deficiency provided in the standard is the situation where the deficient control is related to period end financial reporting. In this situation there could be varying degrees of a deficiency which range from a lower risk error, such as a missing explanation on a work paper, to a higher risk error occurring in the analysis of the financial results. Each of these deficiencies should not be equally classified. The use of professional judgment will naturally produce some inconsistencies, but that is more acceptable than the inefficiency caused by utilizing a checklist evaluation approach that focuses on immaterial issues and does not incorporate the auditor's judgment.
11. **Are further clarifications to the scope of the audit of internal control needed to avoid unnecessary testing?** Yes. The definition of relevant assertions should be reiterated in the guidelines numerous times. In addition, the message in paragraph 70, related to the level at which an auditor plans and performs an audit, should be reiterated in paragraph 6. Additional guidelines should be provided related to the tie in of company-level controls to the scope of the audit of transactions.
12. **Should the reference to interim financial statements be removed from the definitions of significant deficiency and material weakness? If so, what should be the effect on the scope of the audit?** Yes, the reference to interim financial statements should be removed. Because the audit of internal controls provides an opinion on the effectiveness of those controls as of the fiscal year end, the assessment of the impact of control deficiencies should be limited to the annual financial reports.
13. **Will removing the requirement for an evaluation of management's process eliminate unnecessary audit work?** Yes. Currently the audit of management's assessment process is inefficient and redundant. Since the ultimate objective of SOX 404 compliance is for registrants to have effective controls, the audit should focus on that objective.
14. **Can the auditor perform an effective audit of internal control without performing an evaluation of the quality of management's process?** Yes. If management has an ideal assessment process, but the controls are not effective, then the audit of management's assessment process is not beneficial to the users of the financial reports. The elimination of the audit of management's assessment process will not make the audit less effective. Again, since the ultimate purpose of the audit is to determine that management maintains effective ICFR, an audit of management's assessment process is unnecessary.
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?** Yes. Eliminating the requirement for an opinion on management's assessment of ICFR

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provides for a clearer and more focused scope and therefore the results related to that focused scope will be more easily interpreted by the user of the company's financial reports.

16. **Does the proposed standard appropriately incorporate the value of cumulative knowledge?** Yes. The auditors will be able to consider their cumulative audit knowledge and experience in determining the level of risk associated with a control. For lower risk controls the auditor should be able to reduce the level of evidence needed to determine that the control is operating effectively.
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?** Consistent with paragraphs 52 and 66, a walkthrough should produce sufficient evidence of operating effectiveness in areas where the controls were effective in prior periods, the controls are low risk based upon the factors listed in paragraph 52, and where there have been no significant changes to ICFR.
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?** Yes. Instead of obtaining a prescribed level of coverage, auditors can use their judgment in assessing the risk at each location.
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?** A single standard will meet both the needs of the financial audit as well as the audit of ICFR. The proposed guidance is a substantial improvement over the limits that are established under the current guidance. This improvement should lead to significant cost reductions for many registrants.
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?** The definition of relevant activities is adequate.
21. **Will requiring the auditor to understand whether relevant activities performed by others identified control deficiencies, fraud, or financial statement misstatements improve audit quality?** Yes. The auditor should have a full understanding of the relevant activities in order to efficiently plan and perform 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?** No, that provision limited the auditor's use of professional judgment when determining the level of reliance that could be placed on the work of others. There should be no difference between using the work of others in a financial statement audit or an audit of ICFR.
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? The proposed standard does provide very good guidelines for evaluating competence and objectivity in paragraphs 14 and 15 in Appendix 2. However, the guidance in paragraph 15, section b, may cause the auditors to avoid using the work of others that are not part of a formal internal audit function.

24. **Has the Board identified the right factors for assessing competence and objectivity? Are there other factors the auditor should consider?** See answer to question 23 above.
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?** Factors related to compensation of individuals who are performing testing should be addressed as part of the assessment of the individuals' objectivity. This will help ensure that the individuals are truly unbiased in their assessment of controls.
26. **Will requiring a walkthrough only for all significant processes reduce the number and detail of the walkthroughs performed without impairing audit quality?** Yes. The language in the new standard provides the auditor with the opportunity to use their professional judgment to limit the walkthroughs to only those processes that are material to the audit. This will eliminate unnecessary efforts.
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?** Yes, the auditors should be able to rely on walkthroughs performed by other competent objective professionals if the auditor applies the guidance in paragraph 21.
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?** Yes
29. **Are there other attributes of smaller, less-complex companies that the auditor should consider when planning or performing the audit?** None noted.
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?** None noted.
31. **Does the discussion of complexity within the section on scalability inappropriately limit the application of the scalability provisions in the proposed standard?** No.
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?** Yes.
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?** No

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?**
The Board should structure the date to be effective for audits of companies with a fiscal year ending after December 15, 2007.

General Observation

There appears to be increased elaboration for the application of the standard in audit areas impacting “smaller and less complex company(ies).” In some instances, the same elaboration would not be appropriate for larger companies.

Other Comments Related to Specific Portions of the Standard

paragraph 12: For smaller less complex companies, the proposed standard states that “the absence of documented evidence of a control is not determinative that the control is not operating effectively.” PPL believes that this statement is relevant for the audit of larger companies as well. The auditor should have the flexibility to be able to use professional judgment to determine through discussions and alternative evidence as to whether a control is operating effectively. In our experience, a signature and date on a document is not always the best evidence that a control has operated effectively.

paragraph B26: Related to service auditors’ reports, the proposed standard states “Additional procedures are necessary if a significant period of time has elapsed between the service provider auditor’s report and the registrant’s fiscal year end.” The standard should more specifically define a significant period of time.