



National **Retail** Federation
The Voice of Retail Worldwide

February 26, 2007

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 021

Dear Board Members,

The National Retail Federation (NRF) welcomes the opportunity to comment on the PCAOB's proposed audit standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements and Related Other Proposals* (PCAOB Release No. 2006-007; PCAOB Rulemaking Docket Matter No. 021). NRF is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services.

We are pleased to note that the proposed standard addresses the concerns we raised in our May 1, 2006 letter on behalf of our members in that it: endorses a top-down approach to auditing internal controls; stresses the importance of risk assessment; clarifies the definition of a material weakness; allows increased reliance on the work of others; and removes the requirement to evaluate management's process. We believe that the proposed changes will not only preserve the intended benefits of the audit of internal controls, but will improve the quality of the audit by focusing energies on the areas of greatest risk. It will also result in greater efficiency and cost savings in the audit of internal control. NRF encourages the Board to adopt the proposed auditing standard as a final rule.

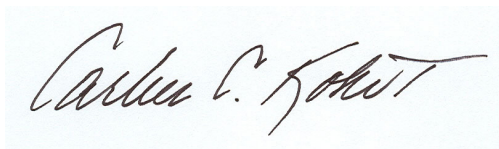
We also encourage the Board to work closely with its inspectors to ensure that they embrace the spirit and intentions of the proposed rulemaking. We raise this issue because we are hearing from our members—who are hearing from their auditors—that earlier changes espoused by the Board have not been consistently put in practice by the inspectors. We believe this inconsistency drives the auditors to “over-audit” due to the fear that the inspector's judgment of what is “risk-based” will differ from the auditor's judgment. This environment results in duplicative and costly testing with little added

value. We suggest the following actions as a way to ensure the proposed guidelines are adopted throughout the audit cycle. Specifically we ask the Board to:

- Encourage the inspection teams to work directly with the audit firms in the coming months to discuss how the changes in the standard will be incorporated into the inspection process.
- Provide further guidance permitting consideration of knowledge obtained during previous audits and using the work of others, especially in the audit of information technology.

The National Retail Federation thanks the Board for its consideration of our suggestions. We welcome any further discussion on this topic. With the collective efforts of the PCAOB, issuers, and auditors, a sustainable solution to the audit of internal control is sure to be found.

Sincerely,

A handwritten signature in black ink, reading "Carleen C. Kohut", is centered on a light blue rectangular background.

Carleen C. Kohut
SVP and Chief Financial Officer
National Retail Federation