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To: Comments
Subject: PCAOB Rulemaking Docket Matter No. 021

February 26, 2007

Office of the Secretary, PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Subject: PCAOB Rulemaking Docket Matter No. 021

Dear Secretary, PCAOB:

American Electric Power Company, Inc. (AEP) appreciates the opportunity to comment on the Board's Proposed Auditing Standard – An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements. AEP, a Columbus, Ohio based energy company, is one of the largest investor-owned utilities operating in the United States, with revenues of over \$12 billion and more than 20,000 employees. We provide energy to approximately 5 million customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia.

Our primary concern is that the SEC's proposed interpretation, Management's Report on Internal Control over Financial Reporting (ICFR) and the proposed PCAOB guidance do not send a consistent message to management and the external auditors. The PCAOB guidance and related inspection program do not send a consistent and equally strong message to external auditors to focus their work on risks of material misstatements which would allow them to reduce work in lower risk areas. If the message to management and external auditors is not consistent, then improvements in the efficiency and effectiveness of assessments of ICFR will not be optimized. The PCAOB and the SEC should coordinate their efforts to ensure that the guidance that is issued for both external auditors and public companies is properly aligned.

Realization of efficiencies and cost effectiveness

We believe that the SEC issued their interpretive guidance to provide management with the opportunity to perform more cost effective and efficient assessments of ICFR.

Management will have the opportunity to exercise judgment and utilize the specialized knowledge of their business in the completion of their evaluation. The proposed changes to the PCAOB guidance require public accounting firms to continue to follow a more prescriptive approach versus the principles based approach provided by the SEC. This

discrepancy may result in one of the following scenarios:

- Public companies will comply with the SEC interpretive guidance, which will make management's assessment of ICFR more cost effective and efficient, while external auditors will follow the more prescriptive guidance provided by the PCAOB. In this situation, management may experience reduced internal costs by relying on things such as self-assessments and on-going monitoring, but external auditor costs may rise since they will be required to perform a more detailed audit than management because of the guidance provided by the PCAOB.
- Public companies will not follow the interpretive guidance provided by the SEC since they will be compelled by their external auditor to follow the PCAOB guidance. This may result in lower external audit fees, but internal costs will not decrease because of the additional work that will need to be performed by management so that the external auditor can rely on management's work. The use of evaluation tools such as self-assessments and on-going monitoring may not be used since the external auditor cannot rely on them as sufficient testing evidence. In addition, the external auditor may identify key controls not identified by management. These controls will subsequently be documented and tested by management, which will reduce the internal cost benefit. The efficiencies outlined in the SEC interpretive guidance related to self-assessment, on-going monitoring and use of the knowledge of day-to-day operation of the business are not clearly defined in the PCAOB guidance.

We encourage the PCAOB to approve changes to the PCAOB guidance that will mirror the SEC guidance to more closely align evaluation procedures and allow management to take advantage of internal efficiencies.

Basis for scoping assessments of Internal Control over Financial Reporting

We appreciate the SEC recognizing that evaluations among companies will vary based on the circumstances of the company, including the size, complexity, and organizational structure of the company and its processes. The SEC guidance emphasizes that management's judgment of high risk areas that could produce a material misstatement should be a primary factor used to scope the audit, while the PCAOB guidance seems to be based more on quantitative factors.

Sufficiency of testing evidence in lower risk areas

The SEC guidance states that on-going monitoring activities, such as self-assessments, are acceptable testing methods in lower risk areas, while the PCAOB guidance requires direct testing of controls. The PCAOB guidance allows the external auditors to rely on the work of management, which will require the auditor and management to coordinate their efforts. We are concerned that management will not be able to exercise professional judgment and rely on their knowledge of the company to focus and perform the audit but will instead be required to follow the more structured PCAOB guidance so that the auditors can rely on management's testing. Currently, in the absence of public company

specific guidance from the SEC, for transactional areas that are lower risk (e.g. payroll), the Company is performing extensive testing so that the external auditor can rely on the testing and reduce their fees. With the issuance of the SEC interpretive guidance, management would like to rely on self-assessments and on-going monitoring for these lower risk areas. In addition, we believe that the external auditor should be able to rely on the self-assessments and on-going monitoring performed by management, instead of completing their own detailed testing of the lower risk areas.

Potential disconnect between the spirit of SEC and PCAOB proposed guidance and the PCAOB inspection program

There is an old saying “You can expect what you inspect.” The external auditors historically have been very cautious in interpreting PCAOB guidance. We believe this is due in part to issues and feedback given to the external auditors as a result of the PCAOB inspection program. Generally, it seems the PCAOB inspections may drive the external auditors to do more work rather than reducing work in lower risk areas. We would encourage the PCAOB to revise their inspection program to ensure it reflects the spirit of the new proposed standards. If the inspection program reflects the intent of the new guidance, we believe the external auditors will interpret the guidance as it is meant to be and will then be more in alignment with the SEC guidance.

Thank you for the opportunity to comment on this proposed auditing standard and for considering our recommendations. We believe there is significant opportunity to create a more efficient process for compliance with Section 404 requirements, without reducing the effectiveness of the process. The recommendations we have provided should assist in this effort.

Sincerely,



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