Chairman Mark Olson’s Remarks on the Proposed New Standard Concerning the Audit of Internal Control

A motion has been made and seconded, so the question before the Board is whether to release for public comment the proposed standard concerning internal control over financial reporting and related proposals.

Before I ask my fellow Board members for their comments, I want to express my deep gratitude to Tom Ray, Laura Phillips, Sharon Virag, Jacob Lesser and all other staff involved in this important initiative for their hard work on the proposed standard and its related proposals over the past year. They have demonstrated tremendous and unflagging commitment to developing a balanced proposal that has the potential of driving significant changes in the audit of internal control.

I would be remiss if I did not also recognize the commitment of my fellow Board members. The Board has been engaged on every important issue involved in the standard. While Members’ views varied at times, the Board’s dialogue has, in my opinion, strengthened the proposals before us today. I would like to thank each of them for their contributions.

As Chairman Cox recognized at the SEC’s open meeting last week, there is an important partnership between the PCAOB and the SEC with regard to the requirements under Section 404 of the Sarbanes-Oxley Act. Due to this nexus and the important fact that the SEC is our oversight body, there has been frequent – if not daily
dialogue with the SEC at all levels of both organizations. I would like to acknowledge the important and the open dialogue we have had with Chairman Cox and other SEC Commissioners, and the value the SEC staff has added to this initiative.

The amendments that the Board will consider proposing today would reinforce the Board’s expectation that the integrated audit be conducted in the most efficient manner, while achieving the objectives of the standard. In my view, the proposals meet the key concepts contained in the guidance issued by the PCAOB on May 17, 2005.

As we heard from many public companies and auditors, the requirements of the current standard are tough and entail extra work and cost. However, the goal of the requirements is important, so we have been careful to retain the principles of the current standard. I would like to highlight three aspects of the proposals that, in my opinion, will drive change and result in “right-sized” audits of internal control:

- the elimination of provisions of the current standard that drive unneeded work, including the separate evaluation of management’s assessment process and the restrictive provisions of AS No. 2,
- the inclusion in the standard of the efficiency principles outlined in the May 16, 2005 guidance, that the audit should be top-down and risk-based, and
- the direction on scaling the audit for smaller companies.

I am personally pleased by the efforts undertaken to make the standard easier to understand. As an advocate of the “plain English” movement, I believe these changes, importantly, will enable non-auditors to understand the expectations placed on their auditors. Such transparency is good for everyone.
Transparency has long been a hallmark of the U.S. capital markets, as has investor protection. The proposals put before the Board today support this important legacy. The audit of internal control has driven improvements in the financial reporting of U.S. public companies, which is key to confidence in the U.S. capital markets. Our effort today should be recognized as a positive step forward for all stakeholders.

By issuing these proposals for public comment, the Board is encouraging auditors, investors, issuers and all others that rely on corporate financial statements to inform us on whether we have clarified our expectations, reduced unnecessary work, yet retained the important benefits of an audit of internal control. While I am very aware of the dialogue and labor that has gone into the proposals that the staff has presented us for consideration today, I want to stress the importance of the public comment process, particularly for a standard of this significance. I have reminded the staff that we are at the starting line today, not the finish line. To that end, we look forward to being further informed by the comments we expect to receive.

That said, we are well-aware that getting to a balanced standard is only part of the overall initiative. We must encourage sound implementation once we adopt a final standard.

I will now turn to my fellow Board Members for any discussion.