PCAOB
Public Company Accounting Oversight Board

1666 K Street, NW
Washington, D.C. 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

STANDING ADVISORY GROUP MEETING

PANEL DISCUSSION – IMPLICATIONS OF ICFR REPORTING FOR AUDITING

JUNE 12-13, 2006

As required by Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act"), over the past two years, the largest U.S. public companies filed their assessments of the effectiveness of their internal control over financial reporting ("ICFR") and the related reports from their independent auditors.

During the initial year of reporting under the internal control reporting requirements (November 16, 2004 through November 15, 2005), approximately 3,900 companies reported on the effectiveness of their internal control over financial reporting. Almost 16% of those companies concluded that their internal control over financial reporting was not effective. A total of approximately 1,500 material weaknesses were reported, on a variety of control-related topics.[1/]

During the second year of reporting, through April 25, 2006, approximately 3,000 companies have reported. Almost 7% of those companies concluded that their internal control over financial reporting was not effective. A total of approximately 400 material weaknesses have been reported, again on a variety of control-related topics.[2/]

Some organizations, including the PCAOB, have been analyzing this large volume of reported information about internal control deficiencies. The SAG will hear a

[1/] Source – Audit Analytics

[2/] Ibid.

This paper was developed by the staff of the Office of the Chief Auditor to foster discussion among the members of the SAG. It is not a statement of the Board; nor does it necessarily reflect the views of the Board or PCAOB staff.

STANDING ADVISORY GROUP MEETING

discussion from a panel of individuals that have been involved in evaluating the implications of this information. The panel members will provide the SAG with information such as:

- The nature of identified material weaknesses, including areas of frequent occurrence and accounting implications

- How disclosures related to ICFR differ by the size of companies' revenue and market capitalization

- How audits of internal control over financial reporting have affected the auditor’s ability to detect material misstatements, caused by either error or fraud, in the financial statements.

Then the SAG will have the opportunity to ask questions of the panelists and will be asked to consider what implications, if any, the results of ICFR reporting to date have for auditing practice, auditing and related professional practice standards, and other aspects of PCAOB oversight of the auditing profession.

*   *   *

The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.