

**Agenda Item 4**

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**Standing Advisory Group Meeting**

**June 21-22, 2004**

**Prior Standard-Setting Activities**

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**Introduction**

Section 103(a) of the Sarbanes-Oxley Act of 2002 (the "Act") provides that the Public Company Accounting Oversight Board ("PCAOB") shall, by rule, establish auditing and related attestation, quality control, and ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports. Section 103(b) authorizes the Board to adopt rules relating to auditor independence.

**Overview**

A summary of the PCAOB's recent standard-setting activities includes—

- PCAOB Auditing Standard No. 1, *References in Auditor's Reports to the Standards of the Public Company Accounting Oversight Board*, PCAOB Release No. 2003-024, December 18, 2003

The standard requires registered public accounting firms to include in their reports on engagements performed pursuant to the Board's auditing and related professional practice standards, including audits and reviews of financial statements, a reference to the standards of the Public Company Accounting Oversight Board (United States). This reference replaces the previous reference to generally accepted auditing standards. This standard is effective beginning May 24, 2004.

This paper was developed by the staff of the Office of the Chief Auditor in order 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.

- PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*, PCAOB Release No. 2004-001, March 9, 2004

Section 404(b) of the Act requires the management of a public company to assess the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year and, according to Section 404 (a) of the Act, to include in the company's annual report to shareholders management's conclusion, as a result of that assessment, about whether the company's internal control is effective. The SEC implemented Section 404(a) in a rule on June 5, 2003.<sup>1/</sup>

Section 404(b) of the Act requires the company's auditor to attest to and report on the assessment made by the company's management. Sections 103(a)(2)(A) and 404(b) of the Act direct the PCAOB to establish professional standards governing the independent auditor's attestation. This standard is the standard on attestation engagements referred to in Section 404(b) as well as in Section 103(a)(2)(A) of the Sarbanes-Oxley Act of 2002. This standard will not take effect unless approved by the Commission.

- PCAOB Auditing Standard No. 3, *Audit Documentation*, and Amendment to Interim Auditing Standards, PCAOB Release No. 2004-006, June 9, 2004

Auditing Standard No. 3 establishes general requirements for documentation the auditor should prepare and retain in connection with engagements conducted pursuant to the standards of the PCAOB. The Act expressly directs the Board to establish auditing standards that require registered public accounting firms to prepare and maintain, for at least seven years, audit documentation "in sufficient detail to support the conclusions reached" in the auditor's report. This standard and related amendment will not take effect unless approved by the Commission.

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<sup>1/</sup> See *Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports*, Securities and Exchange Commission Release No. 33-8238 (June 5, 2003) [68 FR 36636].

- PCAOB Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, PCAOB Release No. 2004-007, June 9, 2004

Rule 3101 defines terminology the Board will use to describe the degrees of responsibility that the auditing and related professional practice standards impose on auditors. The terminology also will apply to the Board's interim standards with which Rules 3200T, 3300T, 3400T, 3500T, and 3600T require compliance. (See agenda item 2 for a discussion of the Board's interim standards.) This rule will not take effect unless approved by the Commission.

- PCAOB Proposed Auditing Standard, *Conforming Amendments to PCAOB Interim Standards Resulting from the Adoption of PCAOB Auditing Standard No. 2*, PCAOB Release No. 2004-002, March 9, 2004

The Board proposed a standard to clarify the amendments to the professional standards adopted by the PCAOB as its interim standards resulting from the adoption of PCAOB Auditing Standard No. 2. The comment period on this proposed standard ended April 23, 2004.

For further information about the PCAOB's standard-setting activities, see the "Rulemaking" section of the Board's web site at [http://www.pcaobus.org/pcaob\\_rulemaking.asp](http://www.pcaobus.org/pcaob_rulemaking.asp).