
STANDING ADVISORY GROUP MEETING

PANEL DISCUSSION – CONSIDERATION OF SMALLER-COMPANY/ SMALLER-FIRM ISSUES

OCTOBER 5, 2006

At the October 2006 meeting of the Standing Advisory Group ("SAG"), a panel of representatives of certain regional and local public accounting firms and smaller issuers will discuss the challenges such audit firms face and the attributes of auditing smaller issuers. The panel discussion will specifically focus on the application of auditing and related professional practice standards by smaller public accounting firms.^{1/} The panel will consist of representatives of three registered public accounting firms and two issuers that are non-accelerated filers.^{2/} The panelists will provide brief remarks which

^{1/} While internal controls have a direct impact in a financial reporting environment for smaller issuers, the panel will be devoted to issues other than the auditing requirements relating to internal control over financial reporting, which are the subject of a separate initiative of the Public Company Accounting Oversight Board ("PCAOB" or "Board"). See http://www.pcaobus.org/News/Releases/Pages/05172006_FourPointPlan.aspx.

^{2/} Non-accelerated filers, as defined by Securities Exchange Act Rule 12b-2, currently are not required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. See Securities and Exchange Commission ("SEC") Release 2006-136 that offers further relief from Section 404 compliance for smaller public companies and many foreign private issuers at <http://www.sec.gov/news/press/2006/2006-136.htm>.

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.

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will be followed by an opportunity for questions and additional discussion with the SAG members.

The Public Company Accounting Oversight Board's ("PCAOB" or "Board") auditing and related professional practice standards apply to registered public accounting firms' audits of the financial statements of public companies. Application of those standards varies with each audit, depending on many factors such as the complexity of the company's business; the company's size, including the number of business locations and employees; and the risks of financial statement misstatement that are applicable to the company.

There are 1,693 public accounting firms registered with the PCAOB,^{3/} the vast majority of which range in size from large regional firms to small local (or one-city) firms to sole proprietorships. These firms tend to audit the financial statements of small- and medium-sized companies. Both the firms and their clients face unique challenges in audits, depending on a number of factors, and the PCAOB has invited the panel members to discuss these challenges. For example, some accounting firms may not have the resources to develop and maintain their own auditing materials and may purchase the materials from publishers or other firms. Some may also contract with other accounting firms to assist them with certain engagement-related services, such as engagement quality reviews, audit procedures in distant locations, or specialist services. Smaller companies may need to rely on external resources to assist with analyzing new accounting standards and determining how those standards might apply to their companies. The SAG will discuss the implications of these and other challenges.

Discussion Topics –

Presentations and discussion may address the following topics –

Smaller-Accounting Firm Issues –

- Distinguishing characteristics of regional and local accounting firms, including firms with only a handful of partners and staff, that affect the way they perform audits

^{3/} As of September 9, 2006.

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- How regional and local accounting firms monitor and implement new auditing or professional practice requirements
- Education and training resources that are available to help smaller accounting firms understand and implement new standards and requirements
- The extent to which regional and local accounting firms use the products and services of other audit firms in their audits and how that affects the way the audits are performed
- Whether supplemental guidance should be issued to assist smaller accounting firms in the application of auditing and other professional practice standards – if so, the type of guidance that is needed

Smaller-Company Issues –

- Distinguishing characteristics of smaller issuers that are relevant to their accounting and financial reporting processes
- The extent to which smaller issuers outsource functions that are relevant to their accounting and financial reporting processes
- How smaller issuers identify and initially apply new accounting and regulatory reporting requirements
- How the characteristics of smaller issuers affect the audits of those companies
- Whether supplemental guidance should be issued addressing the application of auditing standards to audits of smaller issuers – if so, the type of guidance that is needed

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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

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interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.