
STANDING ADVISORY GROUP MEETING

CHALLENGES OF SECTION 404

NOVEMBER 17-18, 2004

Introduction

The Standing Advisory Group (“SAG”) will discuss its current observations concerning the initial implementation of PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. In particular, the PCAOB is seeking insights into those areas of implementation issuers and auditors are finding most challenging.

Background

The PCAOB developed and issued, on October 7, 2003, a proposed auditing standard titled, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. The PCAOB received 193 comment letters on a broad array of topics from a variety of commenters. Those comments led to changes in the standard, which was finalized on March 9, 2004 as PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. Before drafting the standard, the PCAOB sought a range of input on its possible content by convening a public roundtable on July 29, 2003 to discuss issues and hear views related to reporting on internal control over financial reporting.

Although the rulemaking process related to PCAOB Auditing Standard No. 2 is complete, the appropriate implementation of this standard remains one of the PCAOB's

<p>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.</p>

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priorities. The PCAOB receives questions and feedback related to the implementation of PCAOB Auditing Standard No. 2 on an ongoing basis from a wide variety of sources. As a result of this dialog, the staff has issued two sets of Staff Questions and Answers on Auditing Internal Control Over Financial Reporting.^{1/} The staff expects to continue to issue such staff guidance as necessary.

Because the implementation of PCAOB Auditing Standard No. 2 remains a priority and because the PCAOB is interested in hearing implementation observations from a variety of sources, the SAG will be asked to provide its observations regarding the implementation of PCAOB Auditing Standard No. 2. A separate briefing paper discusses one specific implementation issue associated with PCAOB Auditing Standard No. 2: possible auditor reporting on the correction of a material weakness. In this session on implementation issues, the SAG will be asked to offer its observations regarding other aspects of implementing of Auditing Standard No. 2 that are of current interest.

Discussion Question –

1. What aspects of implementing Auditing Standard No. 2 seem to be working well? What aspects of implementing Auditing Standard No. 2 seem to be most challenging?
2. To what additional implementation issues should the staff pay particular attention?

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^{1/} Staff Questions and Answers, June 23, 2004 (Questions 1 through 26) and Staff Questions and Answers, October 6, 2004 (Questions 27 through 29) are both available at <http://www.pcaobus.org/Standards/Pages/Guidance.aspx>.