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## **OPEN MEETING OCTOBER 16, 2007**

### **AMENDMENTS TO PERIODIC INSPECTION FREQUENCY REQUIREMENTS**

#### **Statement of Chairman, Mark W. Olson**

##### **Amendments to Rule 4003, the Board's rule on the frequency of inspection for smaller firms.**

A motion has been made and seconded, so the question before the Board is whether it will approve the motion and adopt the rule amendments and submit them to the Securities and Exchange Commission for approval.

This amendment is the result of a good deal of thought and discussion about how best to deploy the Board's inspection resources. The Board's rules currently have a self-imposed mandate to conduct regular inspections of firms that play a substantial role in audits but do not have principal responsibility for an audit. The Board adopted that requirement just as our inspection program was getting started, and we are now properly reconsidering that requirement in light of what we know today about the risks presented by substantial role firms based on our experience in conducting inspections.

Although we did not receive many comments on the proposed amendment, those we did receive support the amendment. I also support the amendment because, in my view, the current requirement does not result in the best use of the inspection resources. I believe it is better to direct our scarce inspection

resources to the approximately 800 firms that currently and regularly act as the principal auditor for an issuer. This rule change is consistent with the risk-based focus of the Board's inspection program and is in the best interests of investors.

But, I want to reiterate a point I made when we proposed this amendment: no one should misinterpret this amendment as in any sense lightening up on what is required of a substantial role firm in the audit of an issuer. They must comply with PCAOB standards and cooperate in any Board inspection or investigation. The Board retains the authority and discretion to inspect any registered firm at any time. And it is entirely possible that through our inspections of principal auditors or through other means, we will identify a need to inspect firms that have played substantial roles in one or more audits.

Are there comments or questions from other Board members?