

File No. PCAOB-2007-04  
Consists of 44 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

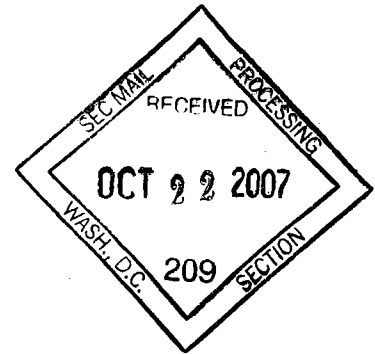
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Form 19b-4

Proposed Rule Change

By

Public Company Accounting Oversight Board



In accordance with Rule 19b-4 under the  
Securities Exchange Act of 1934

1. Text of the Proposed Rule

(a) Pursuant to the provisions of Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Act"), the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") is filing with the Securities and Exchange Commission ("SEC" or "Commission") proposed rules consisting of amendments to the Board's Rules on Inspections. The proposed rules are attached as Exhibit A.

(b) The proposed rules will have a direct effect on one existing rule by amending it: PCAOB Rule 4003, Frequency of Inspections.

(c) The rule identified in (b) above was addressed in PCAOB-2003-08, filed in accordance with Rule 19b-4 under the Securities Exchange Act of 1934 on October 7, 2003; PCAOB-2006-03, filed in accordance with Rule 19b-4 on December 20, 2006; and PCAOB-2006-03 Amendment No. 1, filed in accordance with Rule 19b-4 on May 31, 2007.

2. Procedures of the Board

(a) The Board approved Rule 4003(e) and amendments to Rules 4003(b) and 4003(d) at a meeting on October 16, 2007. No other action by the Board is necessary for the filing of the proposed rule change.

(b) Questions regarding this rule filing may be directed to Michael Stevenson, Deputy General Counsel (202-207-9054; [stevensonm@pcaobus.org](mailto:stevensonm@pcaobus.org)).

3. Board's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rules

(a) Purpose

Section 104 of the Act requires the Board to conduct a continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with the Act, the rules of the Board, the rules of the Commission, or professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers. The Board has adopted an amendment to its Rule 4003 to eliminate the Board's self-imposed requirements (1) that it regularly inspect each registered public accounting firm that plays a substantial role in the preparation or furnishing of an audit report but does not issue an audit report, and (2) that it conduct an inspection of any firm that has issued an audit report, even if the firm does not regularly issue audit reports. The amendments do not affect the Board's inspection cycles for firms that regularly issue audit reports, nor do the amendments limit the Board's discretion to inspect any registered firm at any time.

(b) Statutory Basis

The statutory basis for the proposed rule change is Title I of the Act.

4. Board's Statement on Burden on Competition

The Board does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. With respect to the firms subject to an inspection requirement, the proposed rules impose no burden beyond the burdens clearly imposed and contemplated by the Act, and the proposed rules do not change the obligations of those firms as already set out in the Act and in existing Board rules.

5. Board's Statement on Comments on the Proposed Rule Received from Members, Participants or Others

The Board solicited public comment before adopting the proposed rules. The Board received three comment letters, all of which were supportive of the amendments and the Board's determination that the focus of its inspections program should be on firms that regularly provide audit reports for issuers.

6. Extension of Time Period for Commission Action

The Board does not consent to an extension of the time period specified in Section 19(b)(2) of the Securities Exchange Act of 1934.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) of the Securities Exchange Act

Not applicable.

8. Proposed Rules Based on Rules of Another Board or of the Commission

Not applicable.

9. Exhibits

Exhibit A – Text of Proposed Rules

Exhibit 1 – Form of Notice of Proposed Rule for Publication in the Federal Register.

Exhibit 2(a)-1 – PCAOB Release No. 2007-007 (May 24, 2007)

Exhibit 2(a)-2 – Alphabetical List of Comments

Exhibit 2(a)-3 – Comment Letters

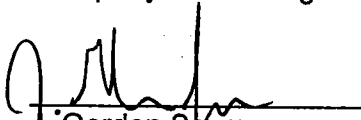
Exhibit 2(c) – PCAOB Release No. 2007-009 (October 16, 2007)

10. Signatures

Pursuant to the requirements of the Act and the Securities Exchange Act of 1934, as amended, the Board has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Public Company Accounting Oversight Board

By:



J. Gordon Seymour  
General Counsel  
and Secretary

## Exhibit A – Text of Proposed Rules

The Board has amended Section 4 of its rules by amending Rule 4003. The relevant portions of the Rules, as amended, are set out below. Language added by these amendments is underlined. Deleted language is in brackets. Other text in Section 4, including notes to the Rules, remains unchanged and is indicated by " \* \* \* " in the text below. The amendments include amendments to a provision (Rule 4003(d)) that was adopted by the Board in December 2006 and has been submitted to, but not yet been approved by, the Commission.

### RULES OF THE BOARD

\* \* \*

#### SECTION 4. INSPECTIONS

\* \* \*

##### **Rule 4003. Frequency of Inspections**

\* \* \*

(b) [At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report] Any registered public accounting firm that, in any calendar year, issues an audit report, other than by consenting to an issuer's use of a previously issued audit report, with respect to at least one issuer, but no more than 100 issuers, [or that played a substantial role in the preparation or furnishing of an audit report with respect to at least one issuer,] shall be subject to at least one [a] regular inspection in the three-year period following such calendar year.

\* \* \*

(d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –

(1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report other than by consenting to an issuer's use of a previously issued audit report [or played a substantial role in the preparation or furnishing of an audit report]; and

(2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the

firm, while registered, issued an audit report other than by consenting to an issuer's use of a previously issued audit report [or played a substantial role in the preparation or furnishing of an audit report].

(e) Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit reports other than by consenting to an issuer's use of a previously issued audit report, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had issued prior to such calendar years.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. PCAOB-2007-04)

[Date]

Public Company Accounting Oversight Board; Notice of Filing of Proposed  
Amendments to Board Rules Relating to Inspections

Pursuant to Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Act"), notice is hereby given that on October 22, 2007, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "SEC" or "Commission") the proposed rule changes described in Items I, II, and III below, which items have been prepared by the Board. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

I. Board's Statement of the Terms of Substance of the Proposed Rule

On October 16, 2007, the Board adopted amendments to its rules related to inspections. The proposed amendments include a new paragraph (e) added to existing Rule 4003 and amendments to paragraphs (b) and (d) of Rule 4003. The text of the proposed amendments are set out below. Language added by these amendments is underlined. Deleted paragraph references are in brackets. Other text in Section 4 of the Board's Rules, including notes to the Rules, remains unchanged and is indicated by " \* \* \* " in the text below. The amendments include amendments to a provision (Rule 4003(d)) that was adopted by the Board in December 2006 and has been submitted to, but not yet been approved by, the Commission.



## SECTION 4. INSPECTIONS

\* \* \*

### Rule 4003. Frequency of Inspections

\* \* \*

(b) [At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report] Any registered public accounting firm that, in any calendar year, issues an audit report, other than by consenting to an issuer's use of a previously issued audit report, with respect to at least one issuer, but no more than 100 issuers, [or that played a substantial role in the preparation or furnishing of an audit report with respect to at least one issuer,] shall be subject to at least one [a] regular inspection in the three-year period following such calendar year.

\* \* \*

(d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –

(1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report other than by consenting to an issuer's use of a previously issued audit report [or played a substantial role in the preparation or furnishing of an audit report]; and

(2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report other than by consenting to an issuer's use of a previously issued audit report [or played a substantial role in the preparation or furnishing of an audit report].

(e) Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit reports other than by consenting to an issuer's use of a previously issued audit report, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had issued prior to such calendar years.

II. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule

In its filing with the Commission, the Board included statements concerning the purpose of, and basis for, the proposed rule. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Board's Statement of the Purpose Of, and Statutory Basis for, the Proposed Rule

(a) Purpose

Under the Act and PCAOB Rules, it is unlawful for any public accounting firm to issue, or to play a substantial role in the preparation or furnishing of, an audit report with respect to any issuer unless the firm is registered with the Board.<sup>1/</sup> The Act also requires the Board to conduct a continuing program of inspections of certain registered firms. The inspection requirement, however, extends to a smaller scope of firms than does the registration requirement. Although the Act authorizes the Board to inspect any registered firm at any time, the Act requires inspection only of a registered firm that "regularly provides audit reports" for issuers.

Section 104(b)(1) of the Act specifies minimum frequencies with which the Board must conduct inspections of such firms. Section 104(b)(1)(B) of the Act provides that

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<sup>1/</sup> See Section 102(a) of the Act and PCAOB Rule 2100. As used in the Act, the Board's rules, "audit report," "issuer," and "play a substantial role" are defined terms. See Sections 2(a)(4) and 2(a)(7) of the Act and PCAOB Rules 1001(a)(vi), 1001(i)(iii), and 1001(p)(ii).

with respect to each registered firm that "regularly provides audit reports for 100 or fewer issuers," the Board shall conduct an inspection at least once every three years.<sup>2/</sup>

In 2003, the Board adopted PCAOB Rule 4003, "Frequency of Inspections." Consistent with Section 104(b)(1)(B) of the Act, Rule 4003(b) provides that certain registered firms will be inspected at least once every three years. In two distinct respects, however, Rule 4003(b)'s scope goes beyond the Act's requirement to inspect firms that "regularly provide" audit reports for issuers. First, Rule 4003(b) provides that the Board will inspect any registered firm that, while registered, issues an audit report with respect to an issuer, regardless of whether the firm "regularly" does so. Second, Rule 4003(b) provides for regular inspections of any registered firm that plays a substantial role in the preparation or furnishing of an audit report, even if the firm never issues an audit report with respect to an issuer.

The Board's experience in the first years of the inspection program has affected the Board's view on the appropriateness of a self-imposed requirement to devote Board resources to regular inspections of such firms. Registered public accounting firms currently number 1,807. Of those firms, there are 679 that have issued audit reports with respect to issuers in both of the two most recent calendar years, and 123 others that have issued such audit reports in one of the two most recent calendar years. The Board has determined that the focus of its regular inspection program should be squarely on such firms and that the Board's rules should not require regular diversion of resources to inspect firms that do not issue audit reports or firms that have not done so

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<sup>2/</sup> Section 104(b)(1)(A) of the Act and PCAOB Rule 4003(a) provide for annual inspections of registered firms that issue audit reports for more than 100 issuers. The requirements concerning inspections of such firms would be unaffected by the amendments that the Board is adopting.

more recently than three years ago. This is consistent with the risk-based focus that the Board generally brings to bear in considering the most prudent allocation of its inspection resources.

Accordingly, the Board proposed amendments to Rule 4003(b) to eliminate these two respects in which the Rule goes beyond the Act.<sup>3/</sup> The Board received three comment letters to its proposal to amend Rule 4003, all of which were supportive of the amendments and the Board's determination that the focus of its inspections program should be on firms that regularly provide audit reports for issuers.<sup>4/</sup> The Board has adopted the amendments substantially as proposed, and as discussed below. The amendments do not diminish the Board's authority to inspect any registered firm at any time. Rather, the amendments more precisely align the rule and the Act regarding the universe of registered firms that the Board must inspect, while leaving to the Board's discretion whether and when to inspect other firms.

As noted above, Rule 4003(b) has provided that the Board will conduct at least triennial inspections of registered firms that play a substantial role in the preparation or furnishing of an audit report, even if those firms do not issue audit reports with respect to issuers. Of firms registered as of June 30, 2007, 222 had indicated on their registration applications that they either expected to play a substantial role in the year in which they filed their application, or that they had played a substantial role that year or

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<sup>3/</sup> See Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms that Regularly Issue Audit Reports, PCAOB Release No. 2007-007 (May 24, 2007), available at [www.pcaobus.org/Rules/Docket\\_024](http://www.pcaobus.org/Rules/Docket_024).

<sup>4/</sup> See Letter from Deloitte Touche Tohmatsu (July 20, 2007), Letter from PricewaterhouseCoopers LLP (July 23, 2007), and Letter from the New York State Society of Certified Public Accountants (July 24, 2007), available at [www.pcaobus.org/Rules/Docket\\_024](http://www.pcaobus.org/Rules/Docket_024).

the previous year, without having issued, or expecting to issue, an audit report in that same period.<sup>5/</sup> As of June 30, 2007, 35 of those 222 firms had issued audit reports after becoming registered, but 187 of those firms (including 162 non-U.S. firms and 25 U.S. firms) remained in the category of "substantial role only" firms.<sup>6/</sup>

At this time, the Board believes that requiring itself regularly to inspect each such firm is not the best use of the Board's resources.<sup>7/</sup> The Board believes that, at present, it is better to direct those resources toward addressing the policies, practices, and procedures of the firms that are ultimately responsible for the audit report on the issuer's financial statements.

The Board is therefore revising Rule 4003(b) to eliminate the provision for fixed periodic inspections of "substantial role only" firms. The Board will continue to monitor whether Board resources should, in some instances, be directed toward inspections of

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<sup>5/</sup> The Board has not systematically collected or compiled data to determine the extent, if any, to which the category of registered firms that play a substantial role without issuing audit reports now includes additional firms that first played a substantial role after the time period covered by the registration application.

<sup>6/</sup> The Board uses the phrase "substantial role only" to identify the relevant category of firms and to emphasize the distinction between this category of firms (which play a substantial role but do not issue audit reports with respect to issuers) and the separate category of firms that play a substantial role in some audits, but separately perform other audits in which they issue the audit report for the issuer (for example, a non-U.S. firm that plays a substantial role in the audit of a U.S. issuer by auditing a foreign subsidiary, but that separately has a foreign private issuer audit client for which it regularly provides audit reports). Even as amended, Rule 4003 will continue to provide for regular periodic inspection of firms in the latter category by virtue of their regularly issuing audit reports. In any such inspection, the Board could review, among other things, the firm's work and its system of quality control in relation to audits in which the firm played a substantial role.

<sup>7/</sup> The Board has not yet inspected a "substantial role only" firm. The Board has deferred inspections of such firms in order to focus on inspecting firms that have issued audit reports.

"substantial role only" firms. For example, Board inspections of firms that have issued audit reports sometimes involve reviewing aspects of the audit that involve the work of a "substantial role only" firm. Information that comes to the Board in that way, as well as information that may come from other sources, could lead the Board to exercise its discretion to inspect a particular "substantial role only" firm. In addition, the Board will continue to monitor whether other developments suggest, at some future date, that all "substantial role only" firms should be subject to Board inspection with some specified minimum frequency.

Rule 4003(b) has also included an inspection requirement that is triggered if "during any of the three prior calendar years," a registered firm "issued an audit report with respect to at least one . . . issuer." This requirement goes beyond the Act's requirements as well, in that it encompasses firms beyond those that "regularly provide" audit reports for issuers.

The Board believes that requiring itself regularly to inspect each such firm is not the best use of the Board's resources. Accordingly, the Board is adopting two additions to Rule 4003 that will more precisely align the Rule with the Act by giving meaning to the Act's "regularly provides" language. First, paragraph (e) will allow the Board to forego an otherwise required inspection of a firm if, in two consecutive years of the inspection cycle, and before the Board conducts an inspection in that cycle, the firm does not issue any audit reports. With this provision, the rule will operate as follows with respect to registered firms that issue audit reports for 100 or fewer issuers. If a firm issues an audit report in calendar year 1, the firm would, by operation of Rule 4003(b), be subject to regular inspection before the end of calendar year 4. If the firm issues no

audit reports in calendar year 2 and issues no audit reports in calendar year 3, the requirement that the Board inspect the firm before the end of calendar year 4 would fall away by operation of Rule 4003(e).<sup>8/</sup> In terms of the Act's requirement, such a firm would be considered not to be regularly providing audit reports for issuers. The rule would not require the Board to inspect the firm unless and until the firm triggered the operation of Rule 4003(b) anew by issuing another audit report.

Second, the Board has added a provision to existing paragraph (b), and has included a provision in proposed paragraph (e), specifying that no inspection requirement is triggered solely on the basis of the firm consenting to an issuer's use of a previously issued audit report.<sup>9/</sup> The provision has been included in paragraph (b), so that no such consent would trigger a requirement that the firm be inspected. The provision also has been included in paragraph (e), so that no such consent would preclude the operation of paragraph (e) in circumstances where paragraph (e) would otherwise apply. Again, in terms of the Act's requirement, any firm whose conduct in the relevant time frame is limited to consenting to the use of previously issued audit reports will be considered not to be regularly providing audit reports.

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<sup>8/</sup> The example in the text is in terms of Rule 4003(b)'s requirement for at least one inspection by the end of the third succeeding calendar year. In December 2006, the Board adopted Rule 4003(d), which, pursuant to authority provided in Section 104(b)(2) of the Act, allows a longer period for the first and second inspections of some registered firms. See PCAOB Release No. 2006-008, Amendments to Board Rules Relating to Inspections (December 19, 2006). (The Board has submitted Rule 4003(d) for Commission approval and that submission is pending.) Paragraph (e) has been written so that it would apply whenever a firm, for two consecutive years in any inspection cycle of three or more years, does not issue an audit report.

<sup>9/</sup> A registered firm's act of consenting to an issuer's inclusion of a previously issued audit report in a new Commission filing previously has been treated as issuance of an audit report sufficient to trigger the existing Rule 4003(b) requirement that the Board conduct an inspection.

The Board has also adopted amendments to conform Rule 4003(d) to the amendments described above. Rule 4003(d) extends the time period within which the Board must conduct the first and second inspections of firms that Rule 4003(b) requires the Board to inspect, and, as previously adopted, included specific reference to "substantial role only" firms. The Board is amending Rule 4003(d) to eliminate that reference and to incorporate the limitation described above concerning a firm's consent to use a previously issued audit report.

(b) Statutory Basis

The statutory basis for the proposed rule is Title I of the Act.

B. Board's Statement on Burden on Competition

The Board does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. With respect to the firms subject to an inspection requirement, the proposed rules impose no burden beyond the burdens clearly imposed and contemplated by the Act, and the proposed rules do not change the obligations of those firms as already set out in the Act and in existing Board rules.

C. Board's Statement on Comments on the Proposed Rule Received from Members, Participants or Others

The Board solicited public comment before adopting the proposed rules. The Board received three comment letters, identified in Section A above, all of which were supportive of the amendments and the Board's determination that the focus of its inspections program should be on firms that regularly provide audit reports for issuers.



III. Date of Effectiveness of the Proposed Rule and Timing for Commission Action

Within 35 days of the date of publication of this notice in the *Federal Register* or within such longer period as (i) the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule is consistent with the requirements of Title I of the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule that are filed with the Commission, and all written communications relating to the proposed rule between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the PCAOB. All submissions should refer to File No. PCAOB-2007-04 and should be submitted within [ ] days.

By the Commission.

Secretary



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 Washington, DC 20006  
 Telephone: (202) 207-9100  
 Facsimile: (202) 862-8430  
[www.pcaobus.org](http://www.pcaobus.org)

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PROPOSED AMENDMENTS TO )  
 LIMIT BOARD RULE 4003's FIXED )  
 PERIODIC INSPECTION )  
 REQUIREMENT TO FIRMS THAT )  
 REGULARLY ISSUE )  
 AUDIT REPORTS )

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PCAOB Release No. 2007-007  
 May 24, 2007

PCAOB Rulemaking  
 Docket Matter No. 24

**Summary:** The Public Company Accounting Oversight Board ("Board" or "PCAOB") is proposing amendments to Rule 4003(b) to eliminate the Board's self-imposed requirement that it regularly inspect each registered public accounting firm that plays a substantial role in the preparation or furnishing of an audit report but does not issue an audit report. The Board is also proposing to amend Rule 4003 to eliminate the Board's self-imposed requirement to conduct an inspection of any firm that has issued an audit report, even if the firm does not regularly issue audit reports. The proposed amendments do not affect the Board's inspection cycles for larger firms or for firms that regularly issue audit reports, nor do the proposed amendments limit the Board's discretion to inspect any registered firm at any time.

#### Public

**Comments:** Interested persons may submit written comments by sending them to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, DC 20006. Comments also may be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 24 in the subject or reference line and should be received by the Board no later than 5:00 p.m. (EDT) on July 23, 2007.

#### Board

**Contacts:** Michael Stevenson, Deputy General Counsel (202-207-9054; [stevensonm@pcaobus.org](mailto:stevensonm@pcaobus.org)), and, for questions relating to non-U.S. firms, Rhonda Schnare, Director of International Affairs (202-207-9167; [schnarer@pcaobus.org](mailto:schnarer@pcaobus.org)).

## RELEASE

### I. Amendments To Rule 4003

Under the Sarbanes-Oxley Act of 2002 ("the Act") and PCAOB Rules, it is unlawful for any public accounting firm to issue, or to play a substantial role in the preparation or furnishing of, an audit report with respect to any issuer unless the firm is registered with the Board.<sup>1/</sup> The Act also requires the Board to conduct a continuing program of inspections of certain registered firms. The inspection requirement, however, extends to a smaller scope of firms than does the registration requirement. Although the Act authorizes the Board to inspect any registered firm at any time, the Act requires inspection only of a registered firm that "regularly provides audit reports" for issuers.

Section 104(b)(1) of the Act specifies minimum frequencies with which the Board must conduct inspections of such firms. Section 104(b)(1)(B) of the Act provides that with respect to each registered firm that "regularly provides audit reports for 100 or fewer issuers," the Board shall conduct an inspection at least once every three years.<sup>2/</sup>

In 2003, the Board adopted PCAOB Rule 4003, "Frequency of Inspections." Consistent with Section 104(b)(1)(B) of the Act, Rule 4003(b) provides that certain registered firms will be inspected at least once every three years. In two distinct respects, however, Rule 4003(b)'s scope goes beyond the Act's requirement to inspect firms that "regularly provide" audit reports for issuers. First, under Rule 4003(b), the Board must inspect a registered firm that, while registered, issues any audit report with respect to an issuer, regardless of whether the firm "regularly" does so. Second, Rule 4003(b) provides for regular inspections of any registered firm that plays a substantial role in the preparation or furnishing of an audit report, even if the firm never issues an audit report with respect to an issuer.

The Board's experience in the first years of the inspection program have affected the Board's view on the appropriateness of a self-imposed requirement to devote Board resources to regular inspections of such firms. Registered

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<sup>1/</sup> See Section 102(a) of the Act and PCAOB Rule 2100. As used in the Act, the Board's rules, and this release, "audit report," "issuer," and "play a substantial role" are defined terms. See Sections 2(a)(4) and 2(a)(7) of the Act and PCAOB Rules 1001(a)(vi), 1001(i)(iii), and 1001(p)(ii).

<sup>2/</sup> Section 104(b)(1)(A) of the Act and PCAOB Rule 4003(a) provide for annual inspections of registered firms that issue audit reports for more than 100 issuers. The requirements concerning inspections of such firms would be unaffected by the amendments that the Board is proposing.

## RELEASE

public accounting firms currently number 1,775. Of those firms, there are 694 that have issued audit reports with respect to issuers in both of the two most recent calendar years, and 135 others that have issued such audit reports in one of the two most recent calendar years. The Board has determined that the focus of its regular inspection program should be squarely on such firms, and that the Board's rules should not require regular diversion of resources to inspect firms that do not issue audit reports or firms that have not done so more recently than three years ago. This is consistent with the risk-based focus that the Board generally brings to bear in considering the most prudent allocation of its inspection resources.

Accordingly, the Board proposes to amend Rule 4003(b) to eliminate these two respects in which the Rule goes beyond the Act. The proposed amendments would not diminish the Board's authority to inspect any registered firm at any time. Rather, the amendments would more precisely align the rule and the Act regarding the universe of registered firms that the Board must inspect, while leaving to the Board's discretion whether and when to inspect other firms.

A. Leaving to the Board's Discretion When to Inspect Firms That Play a Substantial Role But Do Not Provide Audit Reports

As noted above, Rule 4003(b) currently requires the Board to conduct at least triennial inspections of registered firms that play a substantial role in the preparation or furnishing of an audit report, even if those firms do not issue audit reports with respect to issuers. Of currently registered firms, 221 indicated on their registration applications that they either expected to play a substantial role in the year in which they filed their application, or that they had played a substantial role that year or the previous year, without having issued, or expecting to issue, an audit report in that same period.<sup>3/</sup> As of March 31, 2007, 28 of those 221 firms had issued audit reports after becoming registered, but 193 of those firms (including 164 non-U.S. firms and 29 U.S. firms) remained in the category of "substantial role only" firms.<sup>4/</sup>

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<sup>3/</sup> The Board has not systematically collected or compiled data to determine the extent, if any, to which the category of registered firms that play a substantial role without issuing audit reports now includes additional firms that first played a substantial role after the time period covered by the registration application.

<sup>4/</sup> This Release uses the phrase "substantial role only" to identify the relevant category of firms and to emphasize the distinction between this category of firms (which play a substantial role but do not issue audit reports with respect

## RELEASE

At this time, the Board believes that requiring itself regularly to inspect each such firm is not the best use of the Board's resources.<sup>5/</sup> The Board believes that, at present, it is better to direct those resources toward addressing the policies, practices, and procedures of the firms that are ultimately responsible for the audit report on the issuer's financial statements.

If the proposed amendments are adopted by the Board and approved by the Commission, the Board would continue to monitor whether Board resources should in some instances be directed toward inspections of "substantial role only" firms. For example, Board inspections of firms that have issued audit reports sometimes involve reviewing aspects of the audit that involve the work of a "substantial role only" firm. Information that comes to the Board in that way, as well as information that may come from other sources, could lead the Board to exercise its discretion to inspect a particular "substantial role only" firm. In addition, if the proposed amendments are adopted and approved, the Board would continue to monitor whether other developments suggest, at some future date, that all "substantial role only" firms should be subject to Board inspection with some specified minimum frequency.

### B. Leaving to the Board's Discretion When to Inspect Firms that Provide Audit Reports Only Irregularly

In its present form, Rule 4003(b) includes an inspection requirement that is triggered if "during any of the three prior calendar years," a registered firm "issued an audit report with respect to at least one . . . issuer." This requirement goes beyond the Act's requirements as well, in that it encompasses firms beyond those that "regularly provide" audit reports for issuers.

---

to issuers) and the separate category of firms that play a substantial role in some audits, but separately perform other audits in which they issue the audit report for the issuer (for example, a non-U.S. firm that plays a substantial role in the audit of a U.S. issuer by auditing a foreign subsidiary, but that separately has a foreign private issuer audit client for which it provides audit reports). Even with the proposed amendments, Rule 4003 would continue to provide for regular periodic inspection of firms in the latter category by virtue of their issuing audit reports. In any such inspection, the Board could review, among other things, the firm's work and its system of quality control in relation to audits in which the firm played a substantial role.

<sup>5/</sup> The Board has not yet inspected a "substantial role only" firm. The Board has deferred inspections of such firms in order to focus on inspecting firms that have issued audit reports.

## RELEASE

The Board believes that requiring itself regularly to inspect each such firm is not the best use of the Board's resources. Accordingly, the Board is proposing two additions to Rule 4003 that would more precisely align the Rule with the Act by giving meaning to the Act's "regularly provides" language. First, proposed paragraph (e) would allow the Board to forego an otherwise required inspection of a firm if, in two consecutive years of the inspection cycle, and before the Board conducts an inspection, the firm does not issue any audit reports. With this provision, the rule would operate as follows with respect to registered firms that issue audit reports for 100 or fewer issuers. Every such firm that issues an audit report in Year 1 would, by operation of Rule 4003(b), be subject to regular inspection in Year 2, Year 3, or Year 4, and the Board would be required to inspect in Year 4 any of those firms that it did not inspect in Year 2 or Year 3. Under proposed paragraph (e), however, the Board would have the discretion to forego that Year 4 inspection with respect to any firm that, in both Year 2 and Year 3, did not issue an audit report.<sup>6/</sup> In terms of the Act's requirement, such a firm would be considered not to be regularly providing audit reports for issuers.

Second, the Board would add a provision to existing paragraph (b), and include a provision in proposed paragraph (e), specifying that no inspection requirement is triggered solely on the basis of the firm consenting to an issuer's use of a previously issued audit report.<sup>7/</sup> The provision would be included in paragraph (b), so that no such consent would trigger a requirement that the firm be inspected in the ensuing three years. The provision would also be included in paragraph (e), so that no such consent would preclude the operation of paragraph (e) in circumstances where paragraph (e) would otherwise apply. Again, in terms of the Act's requirement, any firm whose conduct in the relevant

---

<sup>6/</sup> The example in the text is in terms of Rule 4003(b)'s requirement for at least one inspection in each three-year period. In December 2006, the Board adopted Rule 4003(d), which, pursuant to authority provided in Section 104(b)(2) of the Act, allows a longer period for the first and second inspections of some registered firms. See PCAOB Release No. 2006-008, Amendments to Board Rules Relating to Inspections (December 19, 2006). (The Board has submitted Rule 4003(d) for Commission approval and that submission is pending.) Proposed paragraph (e) is written so that it would apply whenever a firm, for two consecutive years in any inspection cycle of three or more years, does not issue an audit report.

<sup>7/</sup> A registered firm's act of consenting to an issuer's inclusion of a previously issued audit report in a new Commission filing is treated as issuance of an audit report sufficient to trigger the existing Rule 4003(b) requirement that the Board conduct an inspection.



## RELEASE

time frame is limited to consenting to the use of previously issued audit reports would be considered not to be regularly providing audit reports.

### C. Conforming Amendments

The Board also proposes to amend Rule 4003(d) to conform to the amendments proposed above. Rule 4003(d) extends the time period within which the Board must conduct the first and second inspections of firms that Rule 4003(b) requires the Board to inspect, including "substantial role only" firms. If the Board adopts the amendments proposed above, the Board would also amend Rule 4003(d) to conform to those amendments, as set out in Appendix A.

### II. Opportunity for Public Comment

Interested persons may submit written comments on the proposed amendments to Rule 4003 by sending them to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, DC 20006. Comments also may be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 24 in the subject or reference line and should be received by the Board no later than 5:00 p.m. (EDT) on July 23, 2007.

\* \* \*

On the 24th day of May, in the year 2007, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour  
Secretary

May 24, 2007

APPENDIX –

Amendments to PCAOB Rules 4003





## RELEASE

### Appendix – Amendments to Rule 4003

The Board proposes to amend Section 4 of its rules by amending Rule 4003. The relevant portion of the rules, as amended, is set out below. Language added by the proposed amendments is shown in bold italics. Language deleted by the proposed amendments is struck through. Other text in Section 4, including notes to the Rules, would remain unchanged and is indicated by " \* \* \* " in the text below. Rule 4003(d), included below, was adopted by the Board in December 2006 and has been submitted to, but not yet been approved by, the Commission.

## RULES OF THE BOARD

\* \* \*

### SECTION 4. INSPECTIONS

\* \* \*

#### Rule 4003. Frequency of Inspections

\* \* \*

(b) ~~At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report~~ ***Any registered public accounting firm that, in any calendar year, issues an audit report, other than by consenting to an issuer's use of a previously issued audit report,*** with respect to at least one ***issuer***, but no more than 100 issuers, or that played a substantial role in the preparation or furnishing of an audit report ~~with respect to at least one issuer,~~ shall be subject to ***at least one*** a regular inspection ***in the three succeeding calendar years.***

\* \* \*

(d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –

(1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report ***other than by consenting to an***

## RELEASE

~~*issuer's use of a previously issued audit report* played a substantial role in the preparation or furnishing of an audit report; and~~

(2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report ***other than by consenting to an issuer's use of a previously issued audit report*** ~~played a substantial role in the preparation or furnishing of an audit report.~~

***(e) Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit reports other than by consenting to an issuer's use of a previously issued audit report, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had previously issued.***



**Exhibit 2(a)(2)**

**Alphabetical List of Comments**

Deloitte Touche Tohmatsu

New York State Society of Certified Public Accountants

PricewaterhouseCoopers LLP



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USA

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July 20, 2007

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street N.W.  
Washington, D.C. 20006

**Re: PCAOB Rulemaking Docket Matter No. 024; PCAOB Release No. 2007-007:  
Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection  
Requirement to Firms that Regularly Issue Audit Reports**

Deloitte Touche Tohmatsu ("DTT"), on behalf of its member firms, is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") regarding Release No. 2007-007, *Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms that Regularly Issue Audit Reports*, PCAOB Rulemaking Docket Matter No. 024 (the "Release").

We support the PCAOB's Release and agree that placing the Board's attention on registered firms which regularly provide audit reports for issuers is an appropriate approach to be taken by the PCAOB. We support the efforts of the Board to continue to analyze carefully the ways in which it can best fulfill its statutory mandate, taking into consideration the Board's experience to date. Notwithstanding the discretion afforded to the Board to inspect any registered firm at any time, we believe that the proposed amendments to Rule 4003 will facilitate the appropriate allocation of inspection resources, prioritize the Board's risk-based focus with respect to inspections, and more closely align the requirements for inspection with the congressional intent embodied in the express language of the Sarbanes-Oxley Act of 2002 (the "Act").

Focusing the Board's resources on registered firms that have the ultimate responsibility for issuing audit reports on issuer financial statements (as opposed to, for example, spending resources on a registered firm that plays only a limited role on a component of an issuer's financial statements or a registered firm that only issues a consent for an audit report issued at a prior period of time), would enable the PCAOB to review most efficiently the firms and their associated persons that are of the most relative significance to the Board's mission. Further, we believe this inspection structure will meet the expectations and needs of the investing public and other interested stakeholders.

In our earlier comment letter to the PCAOB dated February 16, 2007 in response to PCAOB Rulemaking Docket Matter No. 022; PCAOB Release No. 2006-008: *Amendments to Board Rules Relating to Inspections* ("Deloitte Comment Letter"), we recommended that substantial role firms not be

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subject to the Board's periodic inspection requirement. This proposed rulemaking would do precisely that, and we therefore support it. We also reiterate our suggestion from the Deloitte Comment Letter that the Board require firms that have changed or will change their classification (e.g., from issuing audit reports to playing a substantial role only), to update the Board accordingly, so that the Board will have current information to determine the inspection schedule for registered firms under this amended Rule. Upon issuance of the PCAOB's rules to require periodic reporting by registered firms, it is anticipated the PCAOB will provide a mechanism to update such information.

Finally, and as we have stated previously, we believe that the Board's inspection process can further benefit by appropriate and effective cooperation with the regulatory agencies of other countries, using the Board's authority under PCAOB Rules 4011 and 4012. By relying on the inspections of foreign-registered accounting firms made by non-U.S. regulatory authorities, the Board can further concentrate its resources in the areas that will have the greatest positive effect for investors.

\*\*\*\*

We appreciate this opportunity to comment, and would be pleased to discuss our letter with you further. If you have any questions or would like to discuss these issues further, please contact Alain Pons, Global Managing Partner, Audit, at +33 1 40 88 28 24.

Very truly yours,

/s/ Deloitte Touche Tohmatsu

cc: Mark W. Olson, Chairman of the PCAOB  
Kayla J. Gillan, Member  
Daniel L. Goelzer, Member  
Bill Gradison, Member  
Charles D. Niemeier, Member



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July 24, 2007

Public Company Accounting Oversight Board  
Office of the Secretary  
1666 K Street, N.W.  
Washington, DC 20006-2803

By e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

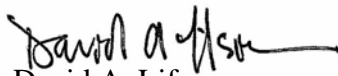
**Re: Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms That Regularly Issue Audit Reports (Release No. 2007-007; Docket Matter No. 24)**

Dear PCAOB Board Members:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned release. NYSSCPA thanks the PCAOB for the opportunity to comment.

The NYSSCPA's SEC Practice Committee deliberated the release and drafted the attached comments. If you would like additional discussion with us, please contact Rita M. Piazza, the Chair of the SEC Practice Committee, at (914) 684-2700, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



David A. Lifson  
President

Attachment



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**COMMENTS ON PCAOB RELEASE NO. 2007-007;  
DOCKET MATTER NO. 24**

**PROPOSED AMENDMENTS TO LIMIT BOARD RULE 4003'S FIXED  
PERIODIC INSPECTION REQUIREMENT TO FIRMS THAT REGULARLY  
ISSUE AUDIT REPORTS**

**July 24, 2007**

**Principal Drafter**

**Robert E. Sohr**

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**NYSSCPA Staff**

Ernest J. Markezin



## **New York State Society of Certified Public Accountants**

### **Comment on Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms That Regularly Issue Audit Reports**

The New York State Society of CPAs agrees with the Public Company Accounting Oversight Board's (PCAOB) proposed amendments to Rule 4003 (b) as set forth in PCAOB Release No. 2007-007. We consider it reasonable to allow the PCAOB to use discretion for inspections of firms that provide audit reports only irregularly or that play a substantial role in the preparation or furnishing of an audit report but do not issue audit reports.



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July 23, 2007

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006

VIA EMAIL: [comments@pcaobus.org](mailto:comments@pcaobus.org)

**Re: PCAOB Rulemaking Docket Matter No. 24: Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms that Regularly Issue Audit Reports**

Dear Sir:

PricewaterhouseCoopers is pleased to comment on the above referenced Rulemaking Docket Matter. We are responding on behalf of the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the willingness of the Public Company Accounting Oversight Board ("PCAOB") to apply its experiences during the first several years of performing inspections and propose appropriate changes to Board Rule 4003. We believe the proposed changes properly consider the risk-based focus the PCAOB brings to bear in allocating its inspection resources. We support, as consistent with this risk-based approach, the PCAOB's proposal to 1) eliminate its requirement that it regularly inspect each registered public accounting firm that plays a substantial role in the preparation of furnishing an audit report but does not issue a report, and 2) eliminate its requirement to conduct an inspection of any firm that has issued an audit report, even if the firm does not regularly issue audit reports.

The proposed rule change would support and facilitate the PCAOB's efforts in relation to non-U.S. inspections. Appropriate and effective cooperation with the regulatory agencies of other countries can result in further benefits to the PCAOB's inspection process, accounting firms, and investors. We believe this proposal will allow the PCAOB to concentrate its inspections where they will do the most good for the investing public. We note that the rule as proposed would in no way alter the authority of the PCAOB to inspect any registered firm, including "substantial role only" firms. Accordingly, we support the changes to Rule 4003 as proposed.



We would be pleased to discuss our comments and answer any questions that the PCAOB staff or Board may have. Please contact Richard R. Kilgust at (646) 471-6110 if you have any questions about our submission.

Sincerely,

PricewaterhouseCoopers



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 Facsimile: (202) 862-8430  
 www.pcaobus.org

AMENDMENTS TO LIMIT	)	PCAOB Release No. 2007-009
BOARD RULE 4003's FIXED	)	October 16, 2007
PERIODIC INSPECTION	)	
REQUIREMENT TO FIRMS THAT	)	PCAOB Rulemaking
REGULARLY ISSUE	)	Docket Matter No. 24
AUDIT REPORTS	)	

**Summary:** After public comment, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is adopting amendments to Rule 4003(b) to eliminate the Board's self-imposed requirement that it regularly inspect each registered public accounting firm that plays a substantial role in the preparation or furnishing of an audit report but does not issue an audit report. The Board also is amending Rule 4003 to eliminate the Board's self-imposed requirement to conduct an inspection of any firm that has issued an audit report, even if the firm does not regularly issue audit reports. The amendments do not affect the Board's inspection cycles for larger firms or for firms that regularly issue audit reports, nor do the amendments limit the Board's discretion to inspect any registered firm at any time. The amendments will take effect upon approval by the Securities and Exchange Commission ("Commission").

#### Board

**Contacts:** Michael Stevenson, Deputy General Counsel (202-207-9054; [stevensonm@pcaobus.org](mailto:stevensonm@pcaobus.org)), and, for questions relating to non-U.S. firms, Rhonda Schnare, Director of International Affairs (202-207-9167; [schnarer@pcaobus.org](mailto:schnarer@pcaobus.org)).

Under the Sarbanes-Oxley Act of 2002 ("the Act") and PCAOB Rules, it is unlawful for any public accounting firm to issue, or to play a substantial role in the preparation or furnishing of, an audit report with respect to any issuer unless the firm is registered with the Board.<sup>1/</sup> The Act also requires the Board to conduct a continuing program of inspections of certain registered firms. The inspection

<sup>1/</sup> See Section 102(a) of the Act and PCAOB Rule 2100. As used in the Act, the Board's rules, and this release, "audit report," "issuer," and "play a substantial role" are defined terms. See Sections 2(a)(4) and 2(a)(7) of the Act and PCAOB Rules 1001(a)(vi), 1001(i)(iii), and 1001(p)(ii).

## RELEASE

requirement, however, extends to a smaller scope of firms than does the registration requirement. Although the Act authorizes the Board to inspect any registered firm at any time, the Act requires inspection only of a registered firm that "regularly provides audit reports" for issuers.

Section 104(b)(1) of the Act specifies minimum frequencies with which the Board must conduct inspections of such firms. Section 104(b)(1)(B) of the Act provides that with respect to each registered firm that "regularly provides audit reports for 100 or fewer issuers," the Board shall conduct an inspection at least once every three years.<sup>2/</sup>

In 2003, the Board adopted PCAOB Rule 4003, "Frequency of Inspections." Consistent with Section 104(b)(1)(B) of the Act, Rule 4003(b) provides that certain registered firms will be inspected at least once every three years. In two distinct respects, however, Rule 4003(b)'s scope goes beyond the Act's requirement to inspect firms that "regularly provide" audit reports for issuers. First, Rule 4003(b) provides that the Board will inspect any registered firm that, while registered, issues an audit report with respect to an issuer, regardless of whether the firm "regularly" does so. Second, Rule 4003(b) provides for regular inspections of any registered firm that plays a substantial role in the preparation or furnishing of an audit report, even if the firm never issues an audit report with respect to an issuer.

The Board's experience in the first years of the inspection program has affected the Board's view on the appropriateness of a self-imposed requirement to devote Board resources to regular inspections of such firms. Registered public accounting firms currently number 1,807. Of those firms, there are 679 that have issued audit reports with respect to issuers in both of the two most recent calendar years, and 123 others that have issued such audit reports in one of the two most recent calendar years. The Board has determined that the focus of its regular inspection program should be squarely on such firms and that the Board's rules should not require regular diversion of resources to inspect firms that do not issue audit reports or firms that have not done so more recently than three years ago. This is consistent with the risk-based focus that the Board generally brings to bear in considering the most prudent allocation of its inspection resources.

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<sup>2/</sup> Section 104(b)(1)(A) of the Act and PCAOB Rule 4003(a) provide for annual inspections of registered firms that issue audit reports for more than 100 issuers. The requirements concerning inspections of such firms would be unaffected by the amendments that the Board is adopting.

## RELEASE

Accordingly, the Board proposed amendments to Rule 4003(b) to eliminate these two respects in which the Rule goes beyond the Act.<sup>3/</sup> The Board received three comment letters to its proposal to amend Rule 4003, all of which were supportive of the amendments and the Board's determination that the focus of its inspections program should be on firms that regularly provide audit reports for issuers.<sup>4/</sup> The Board is now adopting the amendments substantially as proposed, and as discussed below. The amendments do not diminish the Board's authority to inspect any registered firm at any time. Rather, the amendments more precisely align the rule and the Act regarding the universe of registered firms that the Board must inspect, while leaving to the Board's discretion whether and when to inspect other firms.

A. Leaving to the Board's Discretion When to Inspect Firms That Play a Substantial Role But Do Not Provide Audit Reports

As noted above, Rule 4003(b) has provided that the Board will conduct at least triennial inspections of registered firms that play a substantial role in the preparation or furnishing of an audit report, even if those firms do not issue audit reports with respect to issuers. Of firms registered as of June 30, 2007, 222 had indicated on their registration applications that they either expected to play a substantial role in the year in which they filed their application, or that they had played a substantial role that year or the previous year, without having issued, or expecting to issue, an audit report in that same period.<sup>5/</sup> As of June 30, 2007, 35 of those 222 firms had issued audit reports after becoming registered, but 187 of

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<sup>3/</sup> See Proposed Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms that Regularly Issue Audit Reports, PCAOB Release No. 2007-007 (May 24, 2007), available at [www.pcaobus.org/Rules/Docket\\_024](http://www.pcaobus.org/Rules/Docket_024).

<sup>4/</sup> See Letter from Deloitte Touche Tohmatsu (July 20, 2007), Letter from PricewaterhouseCoopers LLP (July 23, 2007), and Letter from the New York State Society of Certified Public Accountants (July 24, 2007), available at [www.pcaobus.org/Rules/Docket\\_024](http://www.pcaobus.org/Rules/Docket_024).

<sup>5/</sup> The Board has not systematically collected or compiled data to determine the extent, if any, to which the category of registered firms that play a substantial role without issuing audit reports now includes additional firms that first played a substantial role after the time period covered by the registration application.

## RELEASE

those firms (including 162 non-U.S. firms and 25 U.S. firms) remained in the category of "substantial role only" firms.<sup>6/</sup>

At this time, the Board believes that requiring itself regularly to inspect each such firm is not the best use of the Board's resources.<sup>7/</sup> The Board believes that, at present, it is better to direct those resources toward addressing the policies, practices, and procedures of the firms that are ultimately responsible for the audit report on the issuer's financial statements.

The Board is therefore revising Rule 4003(b) to eliminate the provision for fixed periodic inspections of "substantial role only" firms. The Board will continue to monitor whether Board resources should, in some instances, be directed toward inspections of "substantial role only" firms. For example, Board inspections of firms that have issued audit reports sometimes involve reviewing aspects of the audit that involve the work of a "substantial role only" firm. Information that comes to the Board in that way, as well as information that may come from other sources, could lead the Board to exercise its discretion to inspect a particular "substantial role only" firm. In addition, the Board will continue to monitor whether other developments suggest, at some future date, that all "substantial role only" firms should be subject to Board inspection with some specified minimum frequency.

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<sup>6/</sup> This Release uses the phrase "substantial role only" to identify the relevant category of firms and to emphasize the distinction between this category of firms (which play a substantial role but do not issue audit reports with respect to issuers) and the separate category of firms that play a substantial role in some audits, but separately perform other audits in which they issue the audit report for the issuer (for example, a non-U.S. firm that plays a substantial role in the audit of a U.S. issuer by auditing a foreign subsidiary, but that separately has a foreign private issuer audit client for which it regularly provides audit reports). Even as amended, Rule 4003 will continue to provide for regular periodic inspection of firms in the latter category by virtue of their regularly issuing audit reports. In any such inspection, the Board could review, among other things, the firm's work and its system of quality control in relation to audits in which the firm played a substantial role.

<sup>7/</sup> The Board has not yet inspected a "substantial role only" firm. The Board has deferred inspections of such firms in order to focus on inspecting firms that have issued audit reports.

## RELEASE

### B. Leaving to the Board's Discretion When to Inspect Firms that Provide Audit Reports Only Irregularly

Rule 4003(b) has included an inspection requirement that is triggered if "during any of the three prior calendar years," a registered firm "issued an audit report with respect to at least one . . . issuer." This requirement goes beyond the Act's requirements as well, in that it encompasses firms beyond those that "regularly provide" audit reports for issuers.

The Board believes that requiring itself regularly to inspect each such firm is not the best use of the Board's resources. Accordingly, the Board is adopting two additions to Rule 4003 that will more precisely align the Rule with the Act by giving meaning to the Act's "regularly provides" language. First, paragraph (e) will allow the Board to forego an otherwise required inspection of a firm if, in two consecutive years of the inspection cycle, and before the Board conducts an inspection in that cycle, the firm does not issue any audit reports. With this provision, the rule will operate as follows with respect to registered firms that issue audit reports for 100 or fewer issuers. If a firm issues an audit report in calendar year 1, the firm would, by operation of Rule 4003(b), be subject to regular inspection before the end of calendar year 4. If the firm issues no audit reports in calendar year 2 and issues no audit reports in calendar year 3, the requirement that the Board inspect the firm before the end of calendar year 4 would fall away by operation of Rule 4003(e).<sup>8/</sup> In terms of the Act's requirement, such a firm would be considered not to be regularly providing audit reports for issuers. The rule would not require the Board to inspect the firm unless and until the firm triggered the operation of Rule 4003(b) anew by issuing another audit report.

Second, the Board has added a provision to existing paragraph (b), and has included a provision in proposed paragraph (e), specifying that no inspection requirement is triggered solely on the basis of the firm consenting to an issuer's

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<sup>8/</sup> The example in the text is in terms of Rule 4003(b)'s requirement for at least one inspection by the end of the third succeeding calendar year. In December 2006, the Board adopted Rule 4003(d), which, pursuant to authority provided in Section 104(b)(2) of the Act, allows a longer period for the first and second inspections of some registered firms. See PCAOB Release No. 2006-008, Amendments to Board Rules Relating to Inspections (December 19, 2006). (The Board has submitted Rule 4003(d) for Commission approval and that submission is pending.) Paragraph (e) has been written so that it would apply whenever a firm, for two consecutive years in any inspection cycle of three or more years, does not issue an audit report.



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use of a previously issued audit report.<sup>9/</sup> The provision has been included in paragraph (b), so that no such consent would trigger a requirement that the firm be inspected. The provision also has been included in paragraph (e), so that no such consent would preclude the operation of paragraph (e) in circumstances where paragraph (e) would otherwise apply. Again, in terms of the Act's requirement, any firm whose conduct in the relevant time frame is limited to consenting to the use of previously issued audit reports will be considered not to be regularly providing audit reports.

In adopting the amendments, the Board is making two slight changes from the wording of the amendments as proposed. These are minor clarifying changes and do not reflect any substantive change. First, where the proposed amendment to Rule 4003(b) said that a firm that issued an audit report in any calendar year would be subject to at least one inspection "in the three succeeding calendar years," the amendment as adopted says "in the three-year period following such calendar year." Second, where the proposed new Rule 4003(e) referred to "any audit report that the firm had previously issued," the amendment as adopted clarifies what was intended by "previously" by saying instead "any audit report that the firm had issued prior to such calendar years."

### C. Conforming Amendments

The Board also proposed amendments to conform Rule 4003(d) to the amendments described above, and the Board is now adopting those amendments to Rule 4003(d). Rule 4003(d) extends the time period within which the Board must conduct the first and second inspections of firms that Rule 4003(b) requires the Board to inspect, and, as previously adopted, included specific reference to "substantial role only" firms. The Board is amending Rule 4003(d) to eliminate that reference and to incorporate the limitation described above concerning a firm's consent to use a previously issued audit report.

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<sup>9/</sup> A registered firm's act of consenting to an issuer's inclusion of a previously issued audit report in a new Commission filing previously has been treated as issuance of an audit report sufficient to trigger the existing Rule 4003(b) requirement that the Board conduct an inspection.



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On the 16th day of October, in the year 2007, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

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J. Gordon Seymour  
Secretary

October 16, 2007

APPENDIX –

Amendments to PCAOB Rules 4003



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### Appendix – Amendments to Rule 4003

The Board is amending Section 4 of its rules by amending Rule 4003. The relevant portion of the rules, as amended, is set out below. Language added by the amendments is shown in bold italics. Language deleted by the amendments is struck through. Other text in Section 4, including notes to the Rules, remains unchanged and is indicated by " \* \* \* " in the text below. Rule 4003(d), included below, was adopted by the Board in December 2006 and has been submitted to, but not yet been approved by, the Commission.

#### RULES OF THE BOARD

\* \* \*

#### SECTION 4. INSPECTIONS

\* \* \*

##### Rule 4003. Frequency of Inspections

\* \* \*

(b) ~~At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report~~ ***Any registered public accounting firm that, in any calendar year, issues an audit report, other than by consenting to an issuer's use of a previously issued audit report,*** with respect to at least one ***issuer***, but no more than 100 issuers, or that played a substantial role in the preparation or furnishing of an audit report with respect to at least one issuer, shall be subject to ***at least one*** a regular inspection ***in the three-year period following such calendar year.***

\* \* \*

(d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –

(1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report ***other than by consenting to an issuer's use of a previously issued audit report*** or played a substantial role in the preparation or furnishing of an audit report; and



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(2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report ***other than by consenting to an issuer's use of a previously issued audit report*** ~~or played a substantial role in the preparation or furnishing of an audit report.~~

***(e) Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit reports other than by consenting to an issuer's use of a previously issued audit report, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had issued prior to such calendar years.***