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**Overview of Auditing Standard No. 4—
*Reporting on Whether a Previously Reported Material
Weakness Continues to Exist***

The following overview of Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist* ("AS No. 4") is provided for informational purposes. Compliance with AS No. 4 will continue to be determined by reference to the standard. Accordingly, auditors should refer to and apply the provisions of AS No. 4 and related PCAOB standards when performing an engagement to report on whether a previously reported material weakness continues to exist.

General

Section 404 of the Sarbanes-Oxley Act of 2002 ("the Act") and related Securities and Exchange Commission rules require public companies to annually report on the effectiveness of the company's internal control over financial reporting ("ICFR") as of the end of the company's most recent fiscal year. Under Section 404 of the Act, this assessment must be attested to, and reported on, by the company's independent auditor. When a company reports a material weakness in its ICFR, management may decide to seek auditor agreement that the material weakness no longer exists prior to the next annual audit.

AS No. 4 describes the steps to be used by auditors when a company voluntarily engages them to report on whether a material weakness, previously identified in the annual Section 404 report, no longer exists. At its option, at any time during the year, management may seek to engage the auditor to report on one or more previously reported material weaknesses.

The auditor's objective in performing work under AS No. 4 is to obtain reasonable assurance as to whether the previously reported material weakness still exists. The auditor's work is, therefore, focused on whether the controls specified by management as addressing the material weakness were designed and operating effectively, as of the date chosen by management. The auditor's opinion is not an opinion on the effectiveness of ICFR overall, nor is it an update to a previous ICFR opinion.

Provisions of AS No. 4

AS No. 4 establishes the following steps for auditors engaged to report on whether a previously reported material weakness still exists:

1. **Evaluate whether conditions for engagement performance have been met**

An auditor may perform this engagement only if management –

- accepts responsibility for the effectiveness of internal control;
- has evaluated the controls management believes address the material weakness;
- asserts that the controls are effective in correcting the material weakness;
- has obtained sufficient evidence, including documentation, supporting its assessment; and
- presents a written report to accompany the auditor's report.

2. **Plan the engagement**

The auditor must evaluate how certain matters will affect the auditor's procedures both generally and specifically. The auditor must also have an overall understanding of the company's ICFR. The auditor who completed the company's most recent ICFR audit is expected to already have this understanding. An auditor who has not recently performed an audit of the company's financial statements, such as a successor auditor, may perform an AS No. 4 engagement as long as he or she performs certain auditing procedures to obtain a sufficient understanding of the company's internal control.

3. **Evaluate whether to use the work of others**

The auditor should evaluate whether to use the work of others to alter the nature, timing, and extent of the audit work performed to support his or her opinion. The amount by which the auditor may reduce his or her testing by using the work of others depends, in part, on the auditor's assessment of the objectivity and competence of those performing the work. The greater the objectivity and competence, the more the auditor will be able to use the work of others.

The auditor also will need to evaluate the degree to which he or she can use the work of others and still obtain the principal evidence supporting his or her opinion.

4. Obtain evidence about the effectiveness of controls

The auditor should obtain sufficient evidence about the effectiveness of the controls identified by management as addressing the material weakness. This evidence should support a conclusion that the controls were both designed to satisfy the control objectives and operate effectively to do so.

5. Obtain written representations from management and evaluate management's report

The auditor should obtain certain written representations from management. These representations relate primarily to management's responsibilities; details about management's assertion that the material weakness no longer exists; and updated information on general topics and relevant events occurring after the date of management's decision that the material weakness no longer exists.

The auditor also should evaluate the report prepared by management that will accompany the auditor's report. This evaluation should include ensuring that the information contained in the report is complete and not materially misstated.

6. Form a conclusion and report

The auditor should evaluate the evidence obtained and form a conclusion. In keeping with the voluntary nature of the engagement, the auditor is not required to issue a report at the conclusion of the engagement. For example, if the auditor determines that the material weakness continues to exist, then the auditor has the option of either not issuing a report or issuing a report stating that the material weakness still exists.

7. Communicate with the audit committee

Depending on the circumstances, the auditor also may be required to communicate, in writing, with the audit committee during an engagement to report on whether a material weakness continues to exist. Written

communication with the audit committee is required, for example, when the auditor concludes that a material weakness continues to exist and does not issue a report, or when the auditor identifies a material weakness during this engagement that has not been previously communicated to the audit committee.

More information on AS No. 4, as well as other PCAOB standards, is available on the PCAOB Web site at <http://www.pcaobus.org/Standards/index.aspx>.