
BRIEFING PAPER

FINAL RULES ON INSPECTIONS OF REGISTERED PUBLIC ACCOUNTING FIRMS

OCTOBER 7, 2003 PUBLIC MEETING OF THE BOARD

At its public meeting on October 7, 2003, the Public Company Accounting Oversight Board will consider whether to adopt final rules relating to inspections of registered public accounting firms. If adopted by the Board, the rules will not take effect unless approved by the Securities and Exchange Commission pursuant to Section 107(b) of the Sarbanes-Oxley Act.

Section 104(a) of the Act directs the Board to conduct a continuing program of inspections to assess the degree to which each registered public accounting firm and its associated persons are complying with the Act, the Board's and the Commission's rules, and professional standards in connection with audits, audit reports, and related matters involving U.S. public companies. On July 28, 2003, the Board proposed and sought comment on rules establishing a procedural framework for the Board's inspection program. The Board will consider whether to adopt the proposed rules, with modifications in response to certain of the comments.

Consistent with Section 104(a) of the Act, the Board's rules would subject registered public accounting firms to such regular and special inspections as the Board may from time-to-time conduct. The rules would establish a schedule for regular inspections that is consistent with Section 104(b)(1) of the Act, including annual inspections for firms that do the largest volume of audit work and at least triennial inspections for other firms that do some volume of audit work. Special inspections are not subject to a schedule and would be conducted as necessary or appropriate to address issues that come to the Board's attention.

BRIEFING PAPER

The rules would also implement the authority and responsibility that the Act gives the Board to report information indicating possible violations of law or professional standards to the Commission, appropriate state regulatory authorities, and other regulators and law enforcement authorities. Similarly, the rules would implement the Board's authority to commence its own investigation or disciplinary proceeding based on such information.

The rules would set forth a process by which a firm may submit written comments on a draft inspection report before the Board issues a final inspection report. The firm's response to the draft inspection report would be attached to and made part of the final inspection report. In addition, the rules would implement the Act's requirement that portions of a final inspection report that deal with criticisms or potential defects in a firm's quality control systems may be made public only if the firm fails to address those matters to the Board's satisfaction within 12 months after the issuance of the final inspection report.

The rules would provide that the Board may, at any time, publish general reports concerning the procedures, findings, and results of its various inspections. These reports may include discussion of criticisms of, or potential defects in, quality control systems of any firm or firms that were the subject of a Board inspection. These published reports, however, would not identify the firm or firms to which the criticisms relate, or at which the defects were found, unless the information had previously been made public pursuant to the Board's rules or other lawful means.

* * *

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