

Introductory Statement of PCAOB Chairman Mark Olson

Today, the Board will consider proposing for public comment a set of proposals that would supersede the Board's existing standard on auditing internal control over financial reporting.

These proposals mark a significant step toward fulfilling the Board's pledge from May of this year to amend the current standard to eliminate unnecessary requirements while preserving the principles of the standard. That pledge followed two years of active monitoring of implementation of the Act's internal control requirements. Monitoring has included, among other things, two public roundtables hosted by the SEC and PCAOB, dedicated sessions of the Board's Standing Advisory Group, detailed study of firms' implementation as part of PCAOB inspections, and the issuance of a Board policy statement, a Board report on its inspections observations, and several rounds of staff guidance.

My four Board colleagues constituted the Board at that time, and I would like to commend them for initiating that effort. Since joining the PCAOB, I have embraced this effort. To ensure that I gained a full appreciation of the wide range of views with regard to Section 404 and the internal control audit, I made it a priority when I joined the PCAOB to understand the perspective of fellow regulators and policy makers, representatives from public companies, investor groups, and leaders of the auditing profession on these important issues. Few disputed the benefits of the internal control

audit, but many expressed concern with the costs, relative to those benefits. I would like to emphasize that a number of the corporate board members and CEOs, and investors with whom I had the opportunity to meet stated that internal control over financial reporting has resulted in improvements, including higher quality reporting and enhanced transparency. This observation is consistent with the mandate that Congress assigned to the PCAOB: to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports. However, we remain troubled by the issue of cost and overall burden. To that end, I believe the proposals that we are considering today will help bring about a better alignment between the costs and benefits of the internal control audit.

Today, we have an important opportunity to propose a standard that will tackle the issue of unnecessary burden head on. In my view, such an accomplishment will help transform Section 404 of the Sarbanes-Oxley Act into a cornerstone accomplishment, rather than the provision that continues to be – justifiably or not -- negatively associated with adverse market trends. Congress and others have entrusted the PCAOB and the SEC to address Section 404 concerns through our rulemaking processes. We take this responsibility very seriously, and it has been, and will continue to be, a priority for the PCAOB.

Two – and almost three -- annual financial reporting cycles have been completed since public company auditors began applying AS No. 2 to audits of large publicly traded corporations - known to us as accelerated filers. During this time, the PCAOB has closely monitored implementation of the standard and the progress auditors have made in complying with its requirements. Staff and the Board have spent a tremendous

amount of time meeting with auditors, issuers, investors, and policy makers to ensure that we obtained a complete understanding of the concerns with the current audit standard and its implementation. The PCAOB inspection process has also yielded important insights about how we can make internal control audits more efficient.

Based on all of this information, I believe it is reasonable to conclude that substantial cost savings can be achieved while preserving the benefits of improved internal control over financial reporting.

We learned many lessons from this monitoring. Armed with this insight, the Board encouraged the staff to re-challenge every provision within the current standard and retain the necessary principles of the audit of internal control. The goal in doing so is to eliminate unnecessary costs associated with internal control reporting, while obtaining the best possible assurance that a company's internal control will lead to financial statements that are accurately stated.

To present the staff's recommendation on this agenda item, I will now turn to our Chief Auditor and Director of Professional Standards, Thomas Ray.
