

**May 24, 2007 Open Meeting**

***Adoption of Auditing Standard for Internal Control  
Over Financial Reporting***

**STATEMENT OF KAYLA J. GILLAN**

Thank you, Mr. Chair, Mr. Ray, Ms. Phillips and Ms. Virag.

Since this Board first adopted Auditing Standard No. 2 in March of 2004, much energy, ink and angst has been spent debating how auditors should go about the internal control audit, how invasive it should be, and how much it should cost. In my mind, this debate has often focused on the trees (should the auditor provide one or two opinions? should the auditor look at major classes of transactions *and* significant processes? should auditors and company managers test the same controls, in the same way and with the same frequency?), losing sight of the forest.

I support the auditing standard before us today. I support it because it requires auditors to perform a full and meaningful audit of a company's internal controls over financial reporting, and to report the results of that work to the company's owners and prospective owners. The standard lays out clear objectives that auditors must meet and for which they will be held accountable. Most importantly, I believe that these objectives rationally relate to the purpose of the internal control audit – that is, to provide investors with the independent auditor's reasoned and reasonable judgment as to whether a company's controls are structured so that financial reporting is likely to be materially

accurate. Secondly but certainly not incidentally, auditors should be able to meet the objectives of this standard in a way that does not require the expenditure of unnecessary resources. This, gentle listeners, is the forest. Might an auditing standard be written that creates a similar forest, but with a different set of trees than the one before us today? Most certainly. But, in my humble opinion, AS5 represents this Board's best collective balancing of the competing interests that have been voiced during what all who have participated in it must certainly agree has been a full and open opportunity for comment. With our action today, I look forward to joining with my colleagues on the Board and staff to move on to address other critical issues in the area of standards-setting.

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