

---

---

## **BRIEFING PAPER**

### **BOARD CONSIDERS TEMPORARY TRANSITIONAL RULE RELATING TO PCAOB AUDITING STANDARD NO. 2, AN AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN CONJUNCTION WITH AN AUDIT OF FINANCIAL STATEMENTS**

**NOVEMBER 30 2004, PUBLIC MEETING OF THE BOARD**

---

---

At its meeting today, the Public Company Accounting Oversight Board will consider adopting a temporary transitional rule for PCAOB Auditing Standard No. 2, "An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements."

Section 404 of the Sarbanes-Oxley Act of 2002 and the related implementing rules of the Securities and Exchange Commission require certain companies to include in their annual reports filed with the Commission a report on management's assessment of the effectiveness of those companies' internal control over financial reporting. In addition, Section 404 requires these companies' auditors to attest to and report on the internal control assessments made by management. PCAOB Auditing Standard No. 2, which refers to the auditor's attestation as an audit of internal control over financial reporting, is the standard the auditor must use to satisfy his or her obligation under Section 404.

The Commission, by order, has delayed the filing deadline for the first of these internal control reports for certain companies. Under the Commission's order, accelerated filers with a market capitalization of less than \$700 million and a fiscal year ending between and including November 15, 2004, and February 28, 2005, are provided an additional 45 days to file management's first report on internal control over financial reporting and the related reports of their auditors, as long as those companies meet certain conditions.

## **BRIEFING PAPER**

To facilitate the objectives of the Commission's order, the Board will consider adopting a temporary transitional rule that would relieve auditors from two provisions of Auditing Standard No. 2 in connection with audits of companies that rely on the Commission's order. First, PCAOB Auditing Standard No. 2 provides that the auditor's report on the financial statements and his or her report on internal control over financial reporting should be dated the same. The temporary rule would permit the auditor to date his or her report on management's assessment of the effectiveness of internal control over financial reporting later than the date of his or her report on the company's financial statements. Second, Auditing Standard No. 2 also provides that the auditor's separate report on the financial statements should include a paragraph that refers to a separate report on internal control over financial reporting. The temporary rule would waive this provision.

The temporary rule, if adopted, would expire on July 15, 2005. If adopted, the transitional rule will be submitted to the Securities and Exchange Commission for approval, as required by the Sarbanes-Oxley Act.

\* \* \*

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.