

SEC FLASH REPORT

SEC and PCAOB Announce Meetings to Finalize Guidance to Management and Revised Standard for Auditors

May 16, 2007

Last month, the Securities and Exchange Commission (SEC) held an open meeting to discuss the SEC staff's approach to the Public Company Accounting Oversight Board's (PCAOB) proposed auditing standards for (1) complying with Section 404(b) of the Sarbanes-Oxley Act and (2) considering and using the work of others in an audit. At that time, SEC Chairman Christopher Cox stated that the SEC's target for completing its guidance for management was the end of May. During that same meeting, the Chairman of the PCAOB, Mark Olson, stated that the PCAOB planned to replace Auditing Standard No. 2 (AS2), *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*, as soon as possible so the new standard(s) can be adopted for 2007 audits. Chairman Olson agreed with comments from the SEC staff that the goal is to have the new guidance implemented this year. Since the April open meeting, Chairman Cox has consistently stressed in speeches and in the press the importance of "staying on schedule and on track."

Today, both the SEC and PCAOB announced plans for open meetings next week to conclude the new pronouncements. The SEC will hold an open meeting on Wednesday, May 23, 2007 to consider whether to adopt interpretive guidance for management regarding its evaluation and assessment of internal control over financial reporting (ICFR). The Commission will also consider whether to adopt amendments to Exchange Act Rules 13a-15(c) and 15d-15(c) that would make it clear that an evaluation that complies with the Commission's interpretive guidance would satisfy the annual management evaluation required by those rules. In addition, the Commission will consider whether to adopt amendments to Rules 1-02(a)(2) and 2-02(f) of Regulation S-X to require the expression of a single opinion directly on the effectiveness of ICFR by the auditor in the attestation report. Finally, the Commission will consider whether to adopt amendments to Exchange Act Rule 12b-2 and Rule 1-02 of Regulation S-X to define certain terms.

The PCAOB announced it will conduct an open meeting on Thursday, May 24, 2007, to vote on a final standard on auditing ICFR, as well as a related independence rule and conforming amendments to the Board's auditing standards. If adopted, the new standard would supersede the Board's existing auditing standard, AS2.

Both the SEC and PCAOB will consider other matters on their respective agendas. However, the matters discussed above are particularly significant in that they would culminate the activities of the two agencies over the past ten months to reform the Section 404 compliance process.

Protiviti will cover both of these meetings and issue Flash Reports covering the results of the actions taken by the SEC and PCAOB.