

## Board Issues Statement Regarding 2006 Inspections

**Washington, DC, May 1, 2006** -- The Public Company Accounting Oversight Board will begin its 2006 inspections of registered public accounting firms in May. In connection with the inspections, the Board today released a **statement** regarding its approach to inspections of the firms' audits of internal control over financial reporting.

"A key emphasis of the 2006 inspections will be the efficiency of the firms' performance of audits of internal control over financial reporting," said PCAOB Acting Chairman Bill Gradison. "As part of PCAOB's efforts to improve the cost-effectiveness of these audits, our inspectors, as they go into the field, will be making a focused effort to ascertain that auditors have achieved the objectives described in the Board's internal control auditing standard with the least expenditure of effort and resources."

Portions of the 2006 inspections will examine how well the firms implemented the Board's guidance of May 16, 2005, which was supplemented by the Board's November 30, 2005, report on the initial implementation of PCAOB Auditing Standard No. 2. Specifically, inspectors will evaluate:

- the degree to which the audit of internal control over financial reporting and the audit of financial statements were performed as a single, integrated and mutually reinforcing process;
- whether auditors use a top-down approach in which company-level controls were identified as the first step in planning the audit;
- whether auditors properly assessed risk and used a risk-based approach to determine the nature, timing, and extent of internal control testing; and
- whether auditors took full advantage of the opportunities available to use the work of others, such as the company's internal audit staff.

The 2006 inspections will include the annual inspections of the nine firms – eight U.S. and one Canadian – that audit more than 100 public companies. In addition, the PCAOB will continue its three-year cycle of inspections of smaller firms that audit at least one public company, including non-U.S. firms.

In 2005, the PCAOB inspected 281 firms, including 16 non-U.S. firms. Public portions of the **inspection reports** are posted to the Board's Web site. To date, the Board has issued 276 reports on inspections conducted in 2004 and 2005.

The **statement** is available at [www.pcaobus.org](http://www.pcaobus.org).

*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.*

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