

PCAOB Issues Staff Guidance on Auditing Internal Control in Smaller Public Companies

By PCAOB
October 17, 2007

The Public Company Accounting Oversight Board today published for public comment staff guidance on auditing internal control over financial reporting in smaller public companies.

The guidance explains how auditors can apply the Board's internal control auditing standard, Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, to audits of smaller, less complex public companies.

When it adopted Auditing Standard No. 5 in May, the Board committed to provide additional guidance on applying the standard to audits of smaller public companies. Auditing Standard No. 5 provides direction to auditors on scaling the audit based on the company's size and complexity.

"This staff guidance is a key component of the PCAOB's overall effort to support the successful implementation of AS No. 5. The guidance will assist auditors of smaller, less complex public companies in implementing AS No. 5. Importantly, it works in tandem with other efforts underway at the PCAOB to engage auditors as they move to implement the new standard," said Mark W. Olson, PCAOB Chairman.

This guidance demonstrates how auditors can apply the principles described in the standard and provides examples of approaches to particular auditing issues that might arise in audits of smaller, less complex companies.

Topics discussed in the staff guidance include: entity-level controls, risk of management override, segregation of duties and alternative controls, information technology controls, financial reporting competencies, and testing controls with less formal documentation.

This guidance was developed by the staff of the Board's Office of the Chief Auditor. To develop the information in this guidance, the Office of the Chief Auditor organized a working group composed of auditors who have experience with audits of internal control over financial reporting in smaller, less complex companies. These auditors identified issues that pose particular challenges in auditing internal control in smaller, less complex companies. The auditors provided insights and examples based on their experiences in addressing these issues.

Today's release, Preliminary Staff Views - An Audit of Internal Control That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies, is available for public comment until Dec. 17, 2007.

Interested parties are encouraged to provide comments, including on additional auditing strategies that could be incorporated into the guidance. Although auditors are expected to be able to benefit from this guidance immediately, the comment period may provide the opportunity to improve the document before it is made final.