

ACHIEVING ACCOUNTABILITY

PCAOB Chairman Mark Olson met with CFOs at the NYSE to discuss changing standards and regulations.

INTERVIEW BY SHARON KAHN

LAST YEAR, WHEN MARK OLSON joined the three-year-old Public Company Accounting Oversight Board (PCAOB), a private-sector, nonprofit corporation created by the Sarbanes-Oxley Act to oversee the auditors of public companies, he knew the organization was “in the spotlight,” he says. After a roundtable discussion at the NYSE with CFOs — one of a series of meetings he’s held with investors, corporate executives and Wall Street leaders — Olson, 64, formerly a member of the Board of Governors of the Federal Reserve System, said: “What we have heard from some is that the accounting burdens of Sarbanes-Oxley outweigh the benefits. PCAOB wants to bring that into balance.”

He added: “While we want to continue to make the auditor standards more efficient, I am encouraged that the PCAOB is contributing to a reduction in the risk of financial-reporting failures and to a renewed confidence in financial reports of publicly traded companies and, ultimately, the U.S. securities markets.”

What changes are you proposing to achieve this cost-benefit tradeoff?

Essentially we’re proposing to replace by this summer Audit Standard No. 2, which deals with Section 404 of SOX. The standard was very thorough and thoughtfully written but was interpreted to require a lot more intrusive work by the accounting profession than was intended. So we decided to retain the principles that we thought were important and to eliminate procedures that were unnecessary in order to achieve the intended benefits. The new standard does away with prescriptive belt-and-suspenders-type provisions from the original standard, and takes a more risk-based approach to detecting fraud and material failures. It allows auditors to

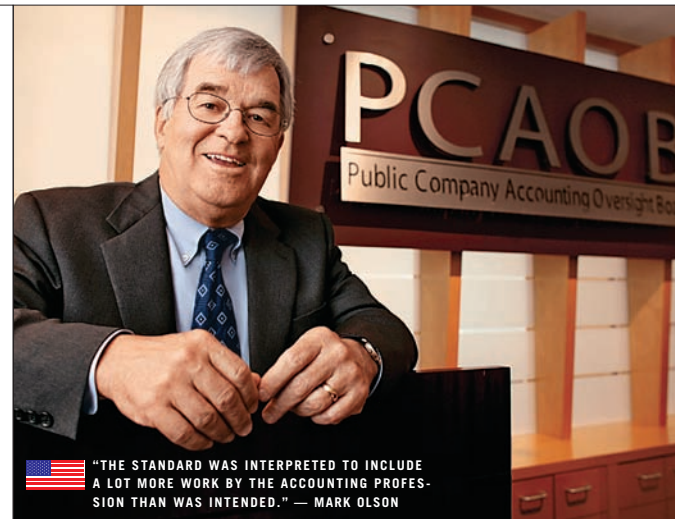
use the institutional knowledge they have from past audits instead of starting from scratch and encourages them to use the work of others to eliminate duplicating high-quality, relevant work performed by competent, objective individuals. Quality, not quantity, is what matters.

“THE RIGHT BALANCE OF OVERSIGHT AND REGULATION WILL CONTINUE TO ATTRACT ISSUERS AND INVESTORS.”

What will these changes mean to the CFOs you talked with this morning?

Most notably, by changing the standard and better communicating our inspection process, we hope to cut out some of the unnecessary cost burden.

The proposed standard provides direction on how to scale the audit to fit the size and complexity of the company. Auditors are directed to evaluate whether the company has certain attributes of a smaller and less com-



“THE STANDARD WAS INTERPRETED TO INCLUDE A LOT MORE WORK BY THE ACCOUNTING PROFESSION THAN WAS INTENDED.” — MARK OLSON

plex company and are given direction on how to tailor the audit accordingly.

How will PCAOB’s inspection role change?

We’re conducting more risk-focused oversight designed to identify auditing problems at an early stage and to focus firms on correcting them. You can carefully monitor a refrigerator containing a half-dozen colas to see if anybody steals. But to monitor a computer where somebody could forge trades, you’d focus on real risks and not on those that aren’t worth tracking. We’re focusing on areas where a breakdown in the control process could lead to material weaknesses. This approach is designed to provide a constructive exchange between firms and the PCAOB, and we have observed that concerns identified during inspections are often promptly addressed by the firm being inspected. I believe that having the right balance of oversight and regulation protects the reliability, stability and depth of U.S. capital markets, and that is what will continue to attract investors and issuers worldwide to our markets in the long run. ▢