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Accounting Board to Propose Revised Internal-Control Standard

Dec. 18, 2006 (Associated Press) — U.S. audit overseers are scheduled to meet on Tuesday to propose a new standard for auditors to use in assessing internal controls over financial reporting.

The Public Company Accounting Oversight Board is reacting to criticism that its current approach has led to audits that are too costly. Public companies have complained that under the current standard, auditors have tested even those processes that contribute little to the accuracy of financial reports.

The PCAOB chairman, Mark Olson, has said that the proposal will be designed to "focus auditors on areas that pose higher risk of fraud or material error." That would match up with guidance from the Securities and Exchange Commission, which last week proposed that public-company management evaluate those controls most likely to affect financial statements.

Under the 2002 Sarbanes-Oxley Act, public-company executives have been required to evaluate internal controls over financial reporting, with a separate review by outside auditors. The law was enacted to diminish the chances that a repeat of the Enron Corp. and WorldCom Inc. accounting scandals would occur.

The PCAOB is aiming to approve its standard so that it can be used during fiscal 2007 audits. The PCAOB standard faces a public comment period, and must be approved by both the board and the SEC.

The SEC last week proposed that auditors issue just one opinion on internal controls. In that report, auditors would evaluate both the controls and management's assessment of those controls. At present, auditors have been issuing two separate opinions, which companies say drives up costs.

-- SIOBHAN HUGHES (Dow Jones Newswires)

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