

MAY 24, 2007, OPEN MEETING

RETENTION OF RULE 4003(d) RELATING TO INSPECTION FREQUENCY

Statement of Daniel L. Goelzer

At the risk of repeating what I said when we adopted Rule 4003(d) on a temporary basis last December, I would like to underscore very briefly the purpose and effect of this recommendation. The important thing about Rule 4003(d) is how little it does, not how much.

Rule 4003(d) will permit the Board to adjust the scheduling of the initial and second inspections of the hundreds of smaller firms that registered in the first two years of Board operations. Without the flexibility to make those adjustments, the Board would face, for the rest of its existence, triennial peaks and valleys in its inspection workload purely as a result of the spike in the number of firms that registered in 2003 and 2004 and the initial ramp-up of the Board's inspections program in the subsequent years.

That's what this rule does. Here's what it does not do: Firms with over 100 SEC-registered audit clients are not affected by Rule 4003(d) at all. They will still be inspected annually. For firms that "regularly issue" audit reports on 100 or fewer public companies, the Sarbanes-Oxley Act requires an inspection at least once every three years. Rule 4003(d) will not make any permanent adjustment to that statutory three-year inspection cycle.

The goal of Rule 4003(d) is simply to even out inspections levels so that roughly equal numbers and types of firms need to be inspected each year. The very small number of comments we received on the question of whether to make the rule permanent -- and the fact that those who bothered to comment were uniformly supportive -- confirms that Rule 4003(d) is a sensible approach to what is, in effect, a timing issue resulting from the Board's start-up.