



## SEC Chief Accountant Defends 404

**Admits SEC's cost estimates were "way off," but says companies are likely testing too many controls. He also says the concept of different rules for smaller companies is "difficult."**

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The Securities and Exchange Commission's acting chief accountant, Scott Taub, defended the SEC's implementation of Sarbanes-Oxley 404 today, suggesting soaring costs were due to overly detailed controls testing. Taub also threw more cold water on industry hopes that 404 might be modified for smaller companies.

"If you think 404 does nothing for fraud, you're doing it wrong," Taub told an audience Thursday morning at the Fifth Annual Financial Reporting Conference at the Zicklin School of business at Baruch College. In fact, he said, companies may indeed be missing implementing 404 incorrectly by failing to focus on those controls that pose "substantial risk."

Taub admitted that the SEC had been surprised by the cost of 404. "Our estimates were way off," he told the audience. But based on questions and complaints the SEC has received about 404, he said, it's likely that companies continue to be overly focused on testing too many controls. "There's no [SEC] testing requirement in terms of the percentage of controls" companies must examine, he said, adding that companies "perhaps are not seeing the forest for the trees."

Taub's comments seem to echo an announcement by the Public Company Accounting Oversight Board on May 1 that it would be examining whether auditors also focused on those controls that pose the greatest risk to the company's financial statements. "For example," said Taub, "can the CFO go into the system and make entries?"

Taub also reiterated that the SEC and PCAOB would not be focusing on small companies at next week's 404 roundtable — a point first made clear when the SEC and PCAOB released the agenda earlier this week. "This is not to say the SEC won't take into account the recommendations," he said, referring to the recently submitted report from the SEC's Advisory Committee on Smaller Public Companies. That report had suggested easing requirements for some companies and exempting very small public companies altogether.

But Taub noted that "I find some of the discussion here difficult to have." He added that he was uncomfortable with the idea of smaller companies offering less protection to investors than larger companies, noting "this is not a mindset we've ever been able to get around." He also gave no indication as to when the SEC might rule on the advisory committee's recommendations for small companies.

Taub's comments seem to echo those of SEC Chairman Christopher Cox, who, testifying before Congress on April 25 said that section 404 of the Sarbanes-Oxley Act should be made to work for smaller companies without exempting them.