

Regulators Agree Some SOX Changes Needed

Washington (May 11, 2006) - Responding to continuing complaints from corporate America about the excessive cost of complying with Sarbanes-Oxley Act internal control audit reporting requirements, top officials from the Securities and Exchange Commission and the Public Company Accounting Oversight Board told accountants and private sector financial execs that relief is on the way.

During a roundtable discussion with corporate leaders, investor groups and Big Four Advertisement accounting firms, SEC Chairman Cox acknowledged that while the cost of complying with SOX Section 404 internal control rules is dropping as auditors gain experience with the requirements, more needs to be done to reduce the cost burden on companies.

"We have every intention ... of getting 404 right -- sooner rather than later," Cox told the gathering.

PCAOB Acting Chairman Bill Gradison said that "mid-course corrections" made by the board a year ago in response to concerns about SOX compliance costs have been at least partially successful in reducing the burden on public companies during the second year of the internal control audit rules. He admitted that, "It would appear that some further changes may be in order."

One recent change directed PCAOB inspectors to place more emphasis on audit efficiency and have inspectors consolidate checks for internal control audits with audits of financial statements.

Representatives of the business community made it clear that the cost of complying with the SOX 404 internal control rules -- both internally and in terms of fees paid to outside audit firms -- continues to outweigh the benefits to investors. A recent study by Financial Executives International found that 85 percent of surveyed chief financial officers convinced that the benefits of SOX internal control rules do not justify their cost.

"Some progress has been made as both issuers and auditors gain experience with the relevant requirements," said U.S. Chamber of Commerce vice president David Chavern. But, he later added, "[The] bottom line is that SOX 404 is still being implemented in a way that places unnecessary burdens on companies wishing to make their securities available in the United States."

General Electric comptroller Philip Ameen told the group that the overall cost of complying with the SOX internal control requirements at his company reached \$33 million during the 2004 fiscal year, and that unlike some companies, those costs did not decline for GE the following year. For smaller companies without the resources of GE, SOX compliance costs have forced significant business disruptions.

"Some companies have, in fact, de-listed their securities, delayed offerings, or turned to capital markets outside of the United States," Computer Science Corporation spokesman Lee Level told the regulators.

Others representatives expressed concerns that the cost of compliance won't decline much more even if accountants and companies gain experience with the SOX rules. Accounting firms, particularly the industry's Big Four, came under fire as critics from a variety of camps blamed overly cautious auditors for driving up the cost of SOX compliance.

In December, an SEC advisory committee published an [exposure draft](#) of its final report, outlining changes to the Sarbanes-Oxley Act for micro-cap and small-cap public companies -- effectively, a proposal to free an estimated 80 percent of public companies, with market values less than \$125 million, from at least part of the act's internal controls provisions.

— Ken Rankin

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