



Association of Audit Committee Members, Inc.

Dedicated to Strengthening the Audit Committee

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Advisory Committee on Smaller Public Companies
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-3628

Attention: James C. Thyen, Co-Chair
Herbert S. Wander, Co-Chair

Gentlemen:

The Association of Audit Committee Members is a not for profit organization devoted to developing national best practices for audit committees. The Association includes public companies of all sizes, including Fortune 1000 companies, New York Stock Exchange listed companies, NASDAQ listed companies and American Stock Exchange listed companies.

The membership of the Association has reviewed the Preliminary Report of the Internal Controls Subcommittee to the Advisory Committee on Smaller Public Companies (Preliminary as of 12-7-2005). The membership has voted overwhelmingly to support the recommendations of the Subcommittee.

The cost of the external audit requirements of Section 404 of the Sarbanes-Oxley Act of 2002 has dramatically exceeded the estimates of the SEC. These costs will have a material adverse effect on smaller public companies and will create a barrier to smaller companies accessing public capital. These costs are high, in part, because of the perceived legal risks to the auditor of satisfying the external audit requirements of Section 404.

Although the high costs to the external audit requirements of Section 404 are clear, it is not clear that the benefits to smaller public companies exceed these costs. If clever management of a public company is determined to commit financial fraud, it is unlikely that the external audit requirements of Section 404 will prevent such fraud. Indeed, independent auditors of financial statements have shown a relatively consistent inability to uncover management fraud over the history of the federal securities laws. Adding a second opinion by the external auditors under Section 404 to the existing financial statement audit requirements is unlikely to prevent financial fraud or provide further investor protection.

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