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**SEC ROUNDTABLE ON IMPLEMENTATION OF SARBANES-OXLEY
INTERNAL CONTROL PROVISIONS – APRIL 13, 2005**

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Chairman of the Public Oversight Board, Former Comptroller
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To begin, I strongly believe that the Sarbanes-Oxley Act of 2002 is an excellent piece of legislation, especially in regard to audit and accounting issues. This legislation was long overdue. As one Business Week headline stated, the reforms of the 1930's were not adequate for the 1990's. While some critics are seeking modifications that would weaken the Act, a fair examination on progress to date offers clear evidence that the Act is accomplishing what it set out to do and that there is no need to change or weaken it. Any problems that exist can be handled by regulatory authority, by professional judgment, or by modernization of accounting systems.

I do not believe that the Sarbanes-Oxley Act was passed in haste by Congress as some have alleged. The audit and accounting sections of the legislation were based mainly on prior legislation and on past private sector commissions such as the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999), the Treadway Commission Report (1987), the COSO integrated framework on internal controls (1992), the Internal Control Sections of the Federal Deposit Insurance Act (1991) and the Foreign Corrupt Practices Act of (1977).

Section 404 of the Act requires the SEC to promulgate rules requiring each issuer to include in its annual report a report on internal controls for financial reporting and an assessment on those controls. In addition, the Company's outside auditor must attest to and report on the assessment made by the management of the issues on the internal controls. Only when Section 404 has been successfully complied with will senior management (CEO and CFO) and the Board of Directors truly know the real status of the internal controls and accounting systems of their public corporation.

As of March 31, 2005, the vast majority (90 percent) of public corporations have successfully complied with Section 404. The costs to document and successfully avoid any "material weaknesses" on their first report has been more than many expected. However, the documentation and testing costs for the first year are sunk costs and an investment that the public companies have behind them.

Now we must get the cost of the annual management and external audit assessments to be done in an efficient and effective manner that reduces the annual cost to a reasonable amount. Some of the areas that need to be reviewed are:

- Excessive duplicative reviews by an independent and qualified internal auditor and the external auditors. This is especially true if the internal audit function has been outsourced to a qualified and independent firm.
- Risk-based audit approaches by the external and internal audit reviews that put emphasis on the high-risk areas that could lead to "material weaknesses".

- Modernization of the accounting systems and financial reporting process that could reduce the review costs. This is an area that audit committees should pursue with management and the auditors.

- Improved communications and relationships between management and external auditors without reducing the desired level of audit independence.

In conclusion, all of this can be accomplished by a proper re-examination of internal control assessments and professional judgments. This should be done in the next few months under the leadership of the SEC, PCAOB, the accounting professions and some qualified representatives of public companies including audit committee representation. There is no need to modify the basic legislation.