

Subject: File No. S7-24-06

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Dear Secretary,

The culture and nature of these businesses, Arthur Anderson, Enron and the like, was socially irresponsible and unethical; it was in the best interest of the public to have legislation passed so that the accounting industry would once again become accountable. Corporations have now found themselves in an ethical dilemma; the quandary people find themselves in when they have to decide if they should act in a way that might help others even though doing so goes against their own self-interest. This has led me to ask, when a law doesn't specify how a corporation should behave, when it only prescribes to guidance, do the people and stakeholders, who are vested in the corporation, maintain their trust in management's character?

Management's intentions and risk assessments are vital for the organization and their shareholders. Utilizing adequate and effective internal control measures over financial reporting is imperative for management and the public. Having management adhere to guidance for the sake of the public's interest is reasonable but not substantial. When a law is enacted, there must be a substantial reasoning to the importance of the government's objective.

The proposal on management's report on internal control over financial reporting lacks substance because its language is ambiguous. This brings forth a predicament; protecting the public without compromising the efficiency of corporate America. The SEC cannot write a template to abide by, nor can they forgo giving guidance.

I do not argue against the proposal, in fact I agree with the concept. I argue the implications associated with not conforming to the proposed guidance. I propose that the multiple layers of auditing the profession has gone to are redundant and cumbersome. I

argue that industry should abide by the guidance, with an oversight committee (PCAOB), all the while remembering that the industry has always taken care of itself.

By considering these two different concepts, the government can accomplish these important objectives with what I believe is substantial reasoning. In an article written by Richard L. Baker and William E. Bealing Jr. called “An institutional perspective of the Sarbanes-Oxley Act” they state “...one would expect that, in the near future, the AICPA will attempt to negotiate an armistice with the SEC and the PCAOB. To protect its legitimacy, the AICPA needs to get the SEC and the PCAOB to allow it to be a contributor to their decision-making process and to recognize that its members have a major stake in the future rulings that will be handed down by the board. Although not strictly analogous, ...one might expect the leader(s) of the AICPA to engage in ingratiating behavior toward the Congress, the SEC and the PCAOB, and engage in behavior intended to persuade these institutions that the objectives of the AICPA are the same as their objectives.”

This holds true and consideration by the SEC and PCAOB would further the profession. If the accounting industry prides itself on self-governance, then why is there animosity amongst the players of governance? The government should allow a collection of intellects to comment and assist in the direction of the industry. Establishing this should be a “...approach we discuss [as] a top-down, risk-based approach which we believe is typically most efficient and effective.” (Pg 20, commenting on the evaluation process of management)

If guidance is instilled, there should be some repercussions for not obeying the guidance and the guidance should clearly state what the repercussions are or at least reference where to find them. Enforcement of the guidance, as I suggest, should be conducted by PCAOB but in a matter that allows management the liberty to prove their ethical and responsible behavior.

Allowing PCAOB to randomize their auditing authority, in theory, will keep management in check and should increase the confidence of the public all the while keeping the professions tradition of self-monitoring. For example, management ensures their internal controls are effective and they reduce the liability of risk and fraud. The organization, as usual, has an external agency conduct an audit and collectively the two organizations agree the company in question is within compliance of the guidance. This occurs for the next couple of years, and then PCAOB randomly selects the corporation to be audited, not by the normal auditing company but by one selected by PCAOB. If management's behavior, policies, and procedures are substantially reasonable and produce effective internal controls, it should be reported as so. If they don't, the organization's current and previous behavior, policies and procedures should be scrutinized, reported and the company penalized accordingly.

In conclusion, this proposal came forth because there was an unethical culture in America. It came forth, because the actions of a few affected the majority and now the majority's reliability is in question. Collaboration amongst the peoples of government and industry is an argument whose settlement is long over do. Moreover, the element of surprise is more valuable than having layers of auditors looking over each other's shoulders and that laws that have substantial reasoning and adhere to important governmental objectives will always carry precedence.

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