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## MARKETS

# Accounting Board Releases Guidance for Sarbanes-Oxley

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DOW JONES NEWSWIRES  
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WASHINGTON -- The Public Company Accounting Oversight Board on Monday offered guidelines on how companies can cut down on costs and streamline their annual internal reviews of financial reporting, in response to criticism over the costs and workload in implementing Sarbanes-Oxley.

The Securities and Exchange Commission said it appears some of the costs "may have been unnecessary, due to excessive, duplicative or misfocused efforts" in the course of the reviews.


Board Chairman William McDonough said the guidance is intended to help public companies and their auditors comply with internal-controls requirements mandated under the Sarbanes-Oxley law. The staff guidance, in question-and-answer form, was accompanied by a 14-page policy statement from the five-member oversight board that some suggest may have more of an impact.

Congress tightened internal-controls rules in 2002 as part of a sweeping package of corporate-accounting reforms, requiring public companies to conduct an annual assessment, subject to a review by the company's outside auditor. Big weaknesses that don't get fixed must be reported to investors and the SEC. Larger U.S. companies came under the rule for the first time last year. Smaller U.S. companies and foreign firms whose securities are sold in the U.S. face a later deadline, starting in mid-2006. Companies that went through the review process last year complained it was time-consuming and costly, and that auditors took an overly conservative one-size-fits-all approach.

In a prepared statement Monday, Mr. McDonough said the internal-control reviews and audits have the potential to significantly improve corporate-financial reports. "At the same time, it is equally clear to us that the first round of internal control audits cost too much," he said.

The oversight board recommended auditors tailor their work to individual corporate clients, rather than using one-size-fits-all checklists. The board also urged auditors to use a risk-based approach, to take advantage of the work of others, including internal auditors, and to feel free to speak directly with corporate-audit clients about the internal-control reviews.

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- [Policy Board's guidelines](#)<sup>2</sup> (.pdf)
- [Board staff's questions and answers](#)<sup>3</sup>
- [SEC press release on guidelines](#)<sup>4</sup>
- [SEC's guidelines](#)<sup>5</sup> (.pdf)

Guidance from the SEC staff covers about a half-dozen issues and stresses the need for corporate managers to take a reasonable, risk-based approach and not allow the process to overshadow the purpose of the task -- assessing the adequacy of controls a company has in place to ensure financial reports are accurate. Controls may be as simple as requiring multiple signatures on checks for large sums to complex automated systems to track inventory.

SEC commissioners said problems seem to be due to how the new internal-control review requirements are being applied, not with the requirements themselves. "A one-size fits all, bottom-up, check-the-box approach that treats all controls equally is less likely to improve internal controls and financial reporting than reasoned good-faith exercise of professional judgment," the SEC said. Its staff said independent auditors should recognize that different companies will use different methods to assess internal controls.

High-risk areas should get the greatest attention, according to the SEC. Every step or aspect of a control may not need to undergo testing, or need testing every year, the SEC said. The guidance also reiterated that testing may be done over a period of time before the end of the company's fiscal year.

Information technology is another area addressed by the SEC staff guidance, which rejected a request to exclude new computer systems and upgrades from the internal-control reviews. Some companies say they are delaying computer upgrades or the installation of new technology out of concern that any hitches could be deemed internal-control flaws. The staff "does not believe it is appropriate" for managers to exclude new systems, the SEC responded. Instead, it suggested managers design testing around any system changes or upgrades.

Restating financial results may not be a sign of internal-control weaknesses, the SEC guidance also said. It called for companies and their auditors to determine if financial results were misstated because of a problem with internal controls, saying this is one more area where companies need to use judgment.

For small and overseas companies, the guidance offered little new information but said the SEC staff is continuing to assess the effects the rules will have on such companies. "We want to make clear that these actions are not the end of the process," the SEC commissioners said.

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