



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors, & the Markets

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Statement by Cindy Fornelli, Executive Director of the Center for Audit Quality, on Today's Action by the Securities and Exchange Commission

Washington, D.C. -- "The Center for Audit Quality commends the Securities and Exchange Commission's efforts to address concerns related to the implementation of AS 2 and the hard work and serious thought that went into the Commission's management guidance. We believe that the changes will make implementation more efficient while including important investor safeguards.

"In particular, the Center supports the single-standard approach, the annual testing of operating effectiveness of controls, and the requirement that management and auditors apply a risk-based approach to testing controls. These changes will protect investors, maintain the reliability of financial statements, preserve the integrity of the audit and support the Commission's goal of making the audits of companies' internal control systems both effective and efficient.

"A recent FEI survey found that even before the adoption of AS 5, companies and auditors had begun better integrating their financial statement and internal control processes, resulting in more efficiency and lower costs from one year to the next. This includes using a more risk-based audit approach, exercising more professional judgment and using more of the work of other participants in the financial reporting process. The new Commission guidance should continue and enhance these efforts, resulting in even more reliable reporting and greater investor confidence in our markets.

"We are pleased to see that the SEC has affirmed the role of management and auditor reports on internal controls in supporting the integrity and reliability of a company's external financial reporting process. It is vitally important for investors and our markets that the implementation of Section 404 remain a meaningful and important process.

"Tomorrow, the Public Company Accounting Oversight Board (PCAOB) will vote on a new standard on auditing internal control over financial reporting, as well as a related independence rule. The CAQ, which represents nearly 800 public company auditing firms and was created to foster confidence in the audit process, anticipates that the PCAOB's actions, together with the SEC's guidance, will lead to an even more effective and efficient audit process that ultimately benefits all who participate in our capital markets, including investors."

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