



News Release

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AICPA ISSUES EXPOSURE DRAFT ON INTERNAL CONTROL REPORTING **The Tone at the Top Forms the Conscience of the Entire Organization**

NEW YORK (March 18, 2003) – The Auditing Standards Board of the American Institute of Certified Public Accountants today announced its first step to implement a provision of the Sarbanes-Oxley Act, specifically Section 404. Section 404 of the Sarbanes-Oxley Act, “Management Assessment of Internal Controls,” stipulates that a public company must include in its annual report an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. The outside auditor must attest to and report on that assessment.

Last October, in order to implement the law in a timely manner, the SEC issued a proposed rule for Section 404 that would set an effective date of September 15, 2003.

The Auditing Standards Board (ASB) recognizes that the Sarbanes-Oxley Act gives the Public Company Accounting Oversight Board (PCAOB) authority to set auditing standards for public companies and the ASB fully recognizes and respects this authority. Further, the ASB recognizes that the SEC has not yet issued its final rule. However, in order for auditors to be able to implement the SEC’s final rule in a timely manner, the ASB believes that it is critical to get its proposal out to its members and into the public domain.

“In the interest of the public, we need to prepare auditors for the SEC’s final rule,” said James Gerson, Chair of the Auditing Standards Board. “We believe the proposed standards are an appropriate response to the Sarbanes Oxley Act and would raise the bar on public company audits to the ultimate benefit of the investor.”

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Gerson continued, “The Auditing Standards Board sets its standards through an open process that encourages public participation, observation and deliberation. In preparing the exposure draft, we worked closely with representatives of the SEC and met with representatives of the PCAOB and the registrant community.”

Charles Landes, AICPA Director – Audit and Attest Standards, noted, “The Institute has long advocated that a declaration by management on the effectiveness of internal controls be included in the annual report, along with the independent auditor’s assessment of management’s assertion. We first called for it in 1990. We’re very pleased that the Sarbanes-Oxley Act has now made it the law for publicly traded companies. During the exposure period, the ASB will continue to work closely with the SEC and the PCAOB to finalize these new auditing standards.”

The proposed standards would direct an auditor to evaluate a company’s entire system of internal control over financial reporting, including controls such as antifraud programs and controls that address the tone management sets for itself and the organization as a whole.

The proposed auditing standard (*Auditing an Entity’s Internal Control Over Financial Reporting in Conjunction With the Financial Statement Audit*) would apply to audits of public companies that are affected by the Sarbanes-Oxley Act. The standard describes a public company audit as “an integrated activity that consists of an audit of the financial statements and an audit of internal control.”

The proposed amendments to the attestation standard (*Reporting on an Entity’s Internal Control Over Financial Reporting*) offers enhanced guidance for engagements, whether performed for public or private companies, to report on a company’s internal control over financial reporting. Among other matters, the guidance discusses steps in the process by which management should perform its self-assessment of controls; the use of the work of others in determining the nature, timing, and extent of tests of controls; and factors to consider in analyzing locations or business units of multi-location organizations to determine their importance and the level of testing appropriate at each.

An executive summary of the exposure draft may be obtained from the AICPA website at http://www.aicpa.org/members/div/auditstd/ED2003_0318_SSAE_intcontrl.asp. The complete exposure draft may be

obtained from the AICPA website at <http://www.aicpa.org/members/div/auditstd>. The deadline for comments is May 15, 2003. The effective date for these proposed changes would be for periods ending on or after September 15, 2003. This date would be conformed to any change that the SEC might make to its effective date in its final rule.

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The American Institute of Certified Public Accountants is the national, professional organization of CPAs, with more than 340,000 members in business and industry, public practice, government, and education. It sets U.S. auditing and professional ethical standards and, with the Financial Accounting Standards Board, U.S. accounting standards.

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