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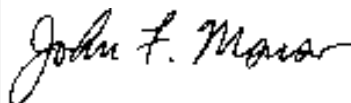
DEAR MEMBERS

The big news for this issue is the guidance that was issued by the SEC and PCAOB regarding SOX Section 404. After thousands of accelerated filer companies went through a very difficult first year, the SEC and PCAOB held roundtables which we reported in previous issues and have taken some steps to help relieve and clarify some points of concern. Good steps in the right direction Ñ read the story below.

In an effort to focus in on the technology needs of our members, we are conducting a very brief survey to understand more about what is being used currently and what plans companies have for utilizing technology to document, test and improve internal controls. If you have been involved in an internal control initiative in your organization, we invite you to share your views.

This survey should not take more than one minute to complete. It is only five questions and all on one page. To participate please click on this link: [Tech Survey](#).

Best regards,



John F. Morrow, CPA
AICPA Vice President
The New Finance

TOP STORIES

[PCAOB Issues Additional AS2 Guidance](#)

In our last edition we reported on the SEC roundtable discussion debriefing the first year experience with SOX 404 compliance. In an effort to address some of the issues raised at the [roundtable](#) discussion, the PCAOB has issued additional guidance addressing the scope of an internal control audit and the amount of testing that is required in order to conduct a cost-efficient integrated audit under PCAOB AS 2.

The PCAOB additional guidance consists of two parts. The first part is a [Board Policy Statement Regarding Implementation of Auditing Standard No. 2](#) which focuses on how the PCAOB intends to administer Auditing Standard No. 2 in their oversight role over registered public accounting firms and which also offers the following PCAOB staff views:

- **Integrate audits of internal control over financial reporting with audits of financial statements** so that evidence gathered and tests performed in the context of either audit contribute to completion of both audits;
- **Exercise judgment to tailor audit plans to the risks facing specific individual audit clients** as opposed to using a standardized checklist

[N 2nd Quarter:](#)

[Form 5500 with DOL-~~E~~'s & A's N June 7](#)

[Not-For-Profit Organizations Strategic Briefing N June 14](#)

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[National Not-for-Profit Industry Conference N Wash. DC D June 22-24](#)

[Controller~~E~~ Workshop N Las Vegas D July 21 & 22](#)

UPCOMING CONFERENCES

Mark Your Calendars and Plan to Attend! Visit the AICPA Web site for more information on any other programs. Bear in mind that we have a variety of industry-specific conferences that you may be interested in; you can find out about these when you [visit the CPA2Biz Web site](#)

[Baruch College: Private Companies Forum](#)

New York, NY
6/3/2005 D 6/3/2005

[Bank Financial Executives Conference N Accounting, Reporting and Regulatory Update](#)

New Orleans, LA
6/6/2005 D 6/7/2005

[AICPA National Conference on Executive](#)

approach that may not reflect an allocation of audit work weighted toward high risk areas and vice versa;

- **Use a top-down approach that begins with company-level controls** to identify for further testing only those accounts and processes that are, in fact, relevant to internal control over financial reporting, and use the risk assessment required by the standard to eliminate from further consideration those accounts that have only a remote likelihood of containing a material misstatement;
- **Use the work of others** and take advantage of the flexibility that the standard allows in this area;
- **Engage in direct and timely communication with audit clients** when those clients seek auditor~~E~~ views on accounting or internal control issues before those clients make their own decisions on such issues, implement internal control processes under consideration, or finalize financial reports.

The second part of the additional guidance consists of [PCAOB frequently asked questions and answers](#) (FAQs) numbers 38 through 55, which provide the technical guidance to auditors on the underlying principles of AS 2. The FAQs further explain and clarify provisions of AS 2 and also address the misconception that certain provisions of AS 2 need to be applied in a rigid manner that constrains professional judgment and prevents the conduct of an audit in a manner that is both effective and cost-efficient.

The complete PCAOB announcement of the issuance of additional guidance on AS 2 can be accessed by clicking on the following link:

http://www.pcaobus.org/News_and_Events/News/2005/05-16.asp.

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SEC Issues Staff Statement on Management's Report SOX 404

The SEC has issued a [Staff Statement on Management~~E~~ Report on Internal Control Over Financial Reporting](#) which was issued in order to complement the additional guidance issued by the PCAOB as outlined above. The SEC Staff statement outlines two themes that were a result of the April 13th SEC roundtable discussion, as well as a result of various materials that were submitted in response to the SEC~~E~~ request for written feedback regarding the implementation process of the internal control provisions. The first theme was that the Section 404 process has benefits, including that there is now a focus on internal controls at the top levels of public companies, and the second theme was that the first year of implementation has also resulted in significant costs.

In order to address the concerns regarding the significant costs, the SEC Staff statement was issued in order to provide additional guidance and clarification of certain issues by the SEC. The complete SEC release can be accessed by clicking on the following link: <http://www.sec.gov/news/press/2005-74.htm>.

Important Recommendation for Audit Committees

I was speaking at our Spring Business & Industry Conference last week with Olivia Kirtley, a past AICPA Chair and currently a governance/strategy consultant and chair of the audit committee of four public companies. A very important message that Olivia shared with our attendees is to make sure that the audit committee has identified a law firm and held them on retainer to conduct an investigation if one is ever needed. Olivia draws from her own experience: when an allegation was made about one of her companies and they spent three weeks identifying a law firm that did not have a conflict with the

[Compensation](#)

Orlando, FL

6/9/2005 Ð 6/10/2005

Pre- and/or Post-
Conference Optional
Workshops

[AICPA National Not-For-Profit Industry Conference](#)

Washington, DC

6/22/2005 Ð 6/24/2005

[TECH 2005: The AICPA Information Technology Conference Ñ Celebrating 25 Years](#)

Las Vegas, NV

6/27/2005 Ð 6/29/2005

[AICPA Controllers Workshop](#)

Las Vegas, NV

7/21/2005 Ð 7/22/2005

Pre- and/or Post-
Conference Optional
Workshops

[AICPA Fall Business & Industry Financial Executive Forum](#)

October 27 Ð 28, 2005

Pre conference optional
workshops: October 25
and 26, 2005

Post conference optional
workshops: October 29,
2005

Marriott Marquis
New York, NY

[AICPA National Conference on Employee Benefit Plans](#)

Las Vegas, NV

5/16/2005 Ð 5/18/2005

[AICPA National Not-For-Profit Industry Conference](#)

Washington, DC

6/22/2005 Ð 6/24/2005

[TECH 2005: The AICPA Information Technology Conference Ñ Celebrating 25 Years](#)

Las Vegas, NV

6/27/2005 Ð 6/29/2005

company to conduct an investigation. These three weeks were very stressful because as much as they wanted to start the investigation they were not able to. Fortunately, everything worked out for the company, but it could easily have turned the other way. Be prepared Ñ get an independent law firm on retainer now Ñ and hopefully you will never need them!

PwC Research Study Targets Global Implications of 404

In our last issue of *BusIndNews* we presented some contrasting views about the implications of SOX on global capital markets. The findings of a recent [PwC Research Study](#) offer some valuable insights into the complex world of investor and analyst perception of effective corporate governance.

Possibly most important is the lack of detailed understanding about Section 404 outside of the US, which contributed to other findings of the study. On the one hand, respondents indicated that while they considered 404 to be a best practice, they felt as though local controls were adequate, suggesting that as global understanding increases, the pressure for non-SEC registered companies to comply would lessen. On the other hand, respondents placed a tremendous amount of responsibility on non-executive corporate directors and audit committees, and also indicated that their reaction to a negative assessment, especially in a post-acquisition situation, would be strongly adverse. È

In their summary of the study, which can be accessed via the link above, PwC concludes that these findings underscore the importance of efforts to increase the global understanding of Section 404, especially the role of non-executive directors and audit committees.ÈÈ

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Spring B&I Financial Exec Forum Features Policy Panel

The Spring Business and Industry Financial Executives Forum held in Dallas last week received terrific reviews. In addition to an inspiring keynote address by Roger Staubach and a wide selection of outstanding pre-, post- and concurrent sessions. John Sharbaugh, Executive Director of the Texas Society, gave the Thursday lunchtime address focusing primarily on the 360 Degrees of Financial Literacy Campaign and the Texas Society and AICPA activities with respect to Social Security and Medicare Reform. Bob Bunting, current AICPA Chair, gave the Friday lunchtime address, touching on a number of other topics of relevance to AICPA members in business and industry, emphasizing the new tagline "America Counts on CPAs" and underscoring the important role we all have in educating and being a resource to others not as financially knowledgeable.

A highlight of the conference was the Forum at the Forum panel discussion which focused on federal policy issues and trends impacting organizations. The discussion moderated by Jim O'Malley, Senior Vice President for Public Affairs, featured the following executives and their perspectives on various topics. A capsule of their remarks kicking off the discussion follows:

Bernard Weinstein, Director of the Center for Economic Development Research at North Texas State University opened with a comment that while the economy seems to be in pretty good shape, he is concerned about what he characterized as the "soft underbelly" The components of this "soft underbelly" that most concern Weinstein include 1) the budget deficit, especially the dramatic swing in the past 4 years and the impact of future Social Security and Medicare obligations; 2) the trade deficit, although this is of less concern to him than the budget deficit; 3) pension liabilities, and the impact on the Pension Benefit Guaranty Corporation of major employers' inability to meet them; and 4) the low

[National Conference on Credit Unions](#)

Las Vegas, NV
10/26/2005 Ð 10/28/2005

[AICPA National Real Estate Conference](#)

Las Vegas, NV
11/3/2005 Ð 11/4/2005

[AICPA Not-For-Profit Financial Executive Forum](#)

San Francisco, CA
11/16/2005 Ð 11/18/2005
Pre- and/or Post-Conference Optional Workshops

[AICPA Conference on Healthcare](#)

Las Vegas, NV
11/17/2005 Ð 11/18/2005

[The AICPA National Conference on the Securities Industry](#)

New York, NY
11/29/2005 Ð 11/30/2005

[National Conference on Current SEC and PCAOB Developments](#)

Washington, DC
12/5/2005 Ð 12/7/2005

[National Conference on Current SEC and PCAOB Developments Ñ Video Simulcast NY](#)

New York, NY
12/5/2005 Ð 12/7/2005

[National Conference on Current SEC and PCAOB Developments Ð Video Simulcast CA](#)

San Francisco, CA
12/5/2005 Ð 12/7/2005

level of personal savings and declining household net worth as people increasingly rely on home equity to finance current spending.

Bob Bunting, AICPA Chairman and CEO of Moss, Adams LLP followed, identifying a number of "Great Divides" created by national policy decisions. On the positive side, Bunting highlighted one of the unintended consequences of the independence requirements of SOX and PCAOB AS 2 is an increase to more than 30 firms now auditing 50 or more public registrants as compared to the concentration in the days immediately post-Arthur Andersen of only 7 firms auditing more than 50 registrants.

Bunting also spoke to the private/public divide resulting from the shift in responsibility of auditing standards to the PCAOB, and to the divide between accelerated and non-accelerated filers with the ongoing challenge of finding cost effective SOX compliance solutions for smaller public companies. He also touched on the efforts towards international convergence of accounting and auditing standards as a possible "coming together" with the caveat that these efforts seem to also be subject to the risk of government intervention into the standards process.

Brian Lamkin, Chief of the Financial Crimes Section at the FBI gave an overview of FBI efforts to deter financial crimes by focusing on criminal enterprises. Emerging areas where the FBI is seeing increasing involvement by criminal enterprises include mortgage fraud via false appraisals to support mortgages subsequently sold into secondary markets, and clinics doing unnecessary medical procedures on individuals enlisted using a variety of recruitment schemes.

Clarence Schmitz, Chairman and CEO, Outsource Partners International, noting that the pre-election clamor for proposals barring or restricting off-shoring had somewhat quieted down, targeted his remarks on the current focus of concern on the security of digital information. Schmitz cited three recent examples of security breaches contributing to the likelihood of additional legislation as a result of increasing concerns about identity theft, and outlined the key components of legislative proposals currently under consideration.

William Blaylock, VP and Tax Director, Texas Instruments provided commentary on recent testimony regarding President Bush's proposal for "Fundamental Tax Reform" Citing the charges that proposals 1) include revenue neutral options, 2) be appropriately progressive, and 3) recognize home ownership and charities, Blaylock addressed the complexity and difficulty in accomplishing tax reform and offered no predictions other than the likelihood of some incentive for savings.

Our thanks to conference planner Alicia Ross and the volunteer conference planning committee for their outstanding efforts. For those who missed the spring conference, mark your calendars now for the **Fall Business and Industry Financial Executives Forum in New York at the Marriott Marquis, October 27 & 28, 2005.**

AICPA Testimony Focuses on Tax Complexity

Ronald B. Hegt, CPA, a member of the AICPA Tax Executive Committee, recently provided testimony to the House Small Business Committee citing the magnitude and complexity of the Internal Revenue Code as creating serious compliance issues for small businesses. The AICPA has long supported efforts to move toward a simpler tax system and called for the elimination of the Alternative Minimum Tax; a more objective test to determine whether workers

are employees or independent contractors; the simplification of capital gains rules, and the rationalization of estimated tax safe harbors

To view a copy of the press release that includes a link to access a copy of the testimony click on [AICPA Tax Testimony](#).

European Union and U.S. Agree on Accounting Standards Roadmap

Top SEC and EU Commission officials reached an agreement on a "roadmap" toward equivalence between International Financial Reporting Standards (IFRS) and US GAAP. The roadmap outlines steps for the SEC to eliminate the need for companies using IFRS to reconcile to US GAAP standards as soon as 2007, and no later than 2009. The group also discussed compatible approaches to furthering investor protection. To read the press release, visit <http://www.sec.gov/news/press/2005-62.htm>.

For an excellent summary on IFRS published by Ernst & Young's Assurance and Advisory Business Services Group, click on the following link to [E&Y IFRS Primer](#).

AICPA Launches Online Accounting Education Center

The AICPA has just launched a new online Accounting Education Center, with extensive resources and information about accounting education, curriculum development and student recruitment. The Center also has resources on Minority Initiatives and Work/Life and Women's Initiatives. This new center which has an array of resources can be accessed at www.aicpa.org/aec. If you know an accounting student, work with an accounting academic, or even consider work-life balance issues in your organization, consider passing this link on to people that could use it.

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AICPA CAREER RESOURCES

To make sure you have the competencies needed to take charge of your career and keep you on the learning curve, assess your own proficiencies using the [Competency Self-Assessment Tool](#). Remember, this is FREE to AICPA members. Also consider using this tool with non-CPAs in your organization for only \$49 per user per year.

Looking to make a career move? Need to find someone with CPA skills for your staff? Or, just want to learn more about career issues? Visit the [CPA Career Center](#).

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LEARNING LINKS

Featured Self-Study CPE

[Internal Controls: Design and Documentation](#) Ñ This course explains the COSO Framework in-depth; how internal controls can be effective and yet cost efficient; and how to create useful (and affordable) documentation using leading methods including matrix analysis, BSA and CSA.

For a complete listing of internal control resources available from the AICPA, click on the following link: <https://www.cpa2biz.com/stores/ic>.

Free CPE: The AICPA's Financial Literacy Program

This free program lays the groundwork for success as a community financial

literacy volunteer. Access it on the CPA Financial Literacy Resource Center at www.aicpa.org/financialliteracy.

Financial Training Decision-Makers: For information on in-house training and tools to manage professional development, go to [AICPA Learning](#) or call 1-800-634-6780, Option 1.

For more self study courses, please visit www.cpa2biz.com or call 888-777-7077.

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UPCOMING WEBCASTS

SEC Quarterly Update Series 2005 2nd Quarter

The next SEC Quarterly Update is scheduled for June 22 1-3pm.

The first quarter update with John Compton and John Murray was held on March 16. In addition to the normal discussion of SEC Hot Topics, this edition included an informative discussion of the FASB's new accounting standard on fair value accounting for stock options, Statement 123(R) Share Based Payments. The discussion focused on the significant elements of this new standard and its implications on executive compensation strategies. If you missed the broadcast and are interested in viewing it, [click here](#).

CFO Roundtable Series 2005 2nd Quarter

Transforming 404 Compliance Efforts into Business Value, the 2nd Quarter CFO Roundtable Series webcast is available on CD-ROM archive at [CFO Roundtable Q2](#).

You may want to mark your calendars for the following webcasts:

- Form 5500 with DOL-Q&A 2005 June 7
- Not-For-Profit Organizations Strategic Briefing 2005 June 14

All webcast information can be accessed at [AICPA Learning](#).

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CONFERENCE SPOTLIGHT

AICPA/Baruch College Private Company Forum 2005 June 3

The AICPA and The Robert Zicklin Center for Corporate Integrity at Baruch College of the City University of New York are offering a one-day private company reporting forum on June 3, 2005. The program features panels of leading practitioners from small and medium sized companies targeted to the needs of private companies and the users of their financial statements. For more information or to register, click on the following [Private Company Forum](#) link.

New Bank Financial Executives Conference 2005 New Orleans June 6 & 7

This new accounting, reporting and regulatory update is sponsored by the AICPA in collaboration with the BAI. This conference is a must for financial executives in the banking industry with a need to stay on top of current issues and add value with new ideas and advanced profitability concepts, techniques and strategies. Click on the following link to register for this new [Bank Financial Executives Conference](#).

Executive Compensation Conference 2005 Orlando, Fla. June 9-10

With major changes from both a tax and accounting perspective, there is no better time to attend this conference on the design, funding and administration of non-qualified deferred compensation plans, equity based compensation, private company incentives, insurance-based compensation strategies and more! Click on the following link to review the brochure for this upcoming [Executive Compensation Conference](#).

National Not-for-Profit Industry Conference Ñ Wash. DC ð June 22-24

This year's national NPO conference begins on Wednesday evening, June 22, with a special keynote by Diane Aviv, President of the Independent Sector. For additional information about the [Not-for-Profit Conference](#) click on the preceding link which also contains a link to the AICPA Not-for-Profit Financial Executives Forum to be held in San Francisco November 16-18.

Controller's Workshop Ñ Las Vegas ð July 21 & 22

Time is short for registering for the ever popular Controller's Workshop. Designed with longer, interactive sessions that offer practical in-depth guidance, this conference has sold out the past several years. Click on the following link to register for the [2005 Controller's Workshop](#) at the Bellagio in Las Vegas.

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