



National Association of State Boards of Accountancy

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February 18, 2010

The Honorable Christopher J. Dodd
Chairman, Senate Committee on Banking,
Housing and Urban Affairs
532 Dirksen State Office Building
Washington, DC 20215

The Honorable Richard C. Shelby
Ranking Member, Senate Committee on
Banking, Housing and Urban Affairs
532 Dirksen State Office Building
Washington, DC 20215

Dear Chairman Dodd and Ranking Member Shelby:

The National Association of State Boards of Accountancy (NASBA) is writing to voice its support of the provisions of Section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX) and to strongly urge that you forego any further extension of the compliance deadlines from the provisions of Section 404(b) for those public companies with a market capitalization of less than \$75 million (Smaller Public Companies). Recently, the House approved H.R. 4173, Wall Street Reform and Consumer Protection Act. A section of H.R. 4173 would permanently exempt Smaller Public Companies from requiring their independent registered public accounting firm to perform an audit of internal control over financial reporting during the financial statement audit.

Internal control is a key element of financial reporting regardless of the size of the organization. Implementing, maintaining and monitoring of internal controls for areas of key financial risk are fundamental in providing meaningful financial reporting to maintain public trust, irrespective of financial size. Thus, requiring a periodic audit of internal controls provides protection for current and potential shareholders and other users of financial statements.

NASBA believes that if a permanent exemption for Smaller Public Companies were to be passed by Congress, then countless numbers of shareholders, both small and large, lenders and others would be denied the protective benefits of an internal control audit; benefits that are now enjoyed by shareholders and other users of financial statements of companies with capitalizations of \$75 million or more (Larger Public Companies).

SOX Section 404(b) required audits of internal controls of Larger Public Companies have mitigated the risk of restatements and revisions of financial statements and have increased public confidence in financial statements. Smaller Public Companies have had a significantly higher level of restatements and revisions of their financial statements resulting, in part, from lax internal control implementation and operation. A permanent exemption from SOX Section 404(b) audits for these companies will likely result in a continued higher level of restatements due to error or fraud.

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Cost has been the chief argument for those who take the position that SOX Section 404(b) audits of internal control systems are not necessary for Small Public Companies. Costs are a consideration, but there is an expectation of effective internal controls for publicly held companies of all sizes. This confidence is the benefit of SOX Section 404(b) audits of internal control. The Public Company Accounting Oversight Board (PCAOB), with the approval of the Securities and Exchange Commission (SEC), has taken significant steps to reduce the cost of audits of internal control systems. These steps resulted in the issuance of PCAOB Auditing Standard No. 5 (AS 5), which has lowered the costs of SOX Section 404(b) audits.

NASBA does believe that the benefit of an audit of internal control should be obtained at the lowest possible cost. The 2006 report of the Advisory Committee on Smaller Public Companies to the U.S. Securities and Exchange Commission provided several recommendations for reducing the cost of Section 404(b) audits for Smaller Public Companies. These recommendations were made prior to the issuance of PCAOB AS 5. We believe that the PCAOB, under the oversight of the SEC, should reconsider those recommendations and continue to seek ways to reduce the cost of internal control audits.

NASBA believes that the public interest is best served by requiring Smaller Public Companies to have their internal control systems audited under the provisions of SOX Section 404(b). We strongly urge that you eliminate the H.R. 4173 proposed exemption and continue the requirement of the provisions of SOX Section 404(b) for Smaller Public Companies.

Sincerely,



Billy M. Atkinson, CPA
NASBA Chair



David A. Costello, CPA
NASBA President & CEO

APPENDIX

Overview of State Regulation of Public Accountancy in the U.S.

Role of the National Association of State Boards of Accountancy

I. OVERVIEW OF STATE REGULATION OF PUBLIC ACCOUNTANCY

- In accord with Amendment X of the United States Constitution, professional licensing is reserved to the states. State boards of accountancy have the sole authority to establish licensing requirements for becoming a certified public accountant in each of the 50 states and 5 territories of the United States as well as the authority to suspend or revoke such a license.
- State boards set accounting, auditing, ethical and continuing practice standards for their licensees and their firms. The boards have the option of adopting the standards of other organizations, as they historically have done with the Financial Accounting Standards Board and the Auditing Standards Board. They have also instituted some specific requirements to meet their publics' needs through modification of or addition to the standards.
- Under the authority of state laws, state boards of accountancy are involved in the regulation of all CPAs serving issuers and non-issuers, including privately held companies, not-for-profit organizations, government entities, and others. NASBA and state boards work with other regulatory boards and agencies, at the national and state levels, to complement and enhance the regulation of accountancy.
- State boards have the authority to discipline CPAs and their firms for violations of the SEC, PCAOB, GAO, DOL and other federal and state agencies' standards as well as their own separate and distinct standards. Their disciplinary actions range from reprimands, sanctions, mandated continuing education, monetary fines, pre and post issuance report monitoring and practice restrictions all the way to license suspension or revocation and suspension of the firm's practice privileges.
- State boards set the requirements for moral character, higher education, experience and examination for licensure as a CPA. They also set standards for license renewal for individuals and firms, including mandatory continuing professional education and quality reviews (or "peer reviews") for firms.
- The membership of state boards is drawn from a broad and diverse spectrum of CPAs and public members coming from all levels and types of CPA practice, industry, government, not-for-profits and academia. Most are appointed by the state governor and receive legal support from the staff of the state attorneys general.

II. NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY

- All 55 state boards are members of the National Association of State Boards of Accountancy (NASBA).
- NASBA's primary role is to serve as a coordinator and a forum for the boards, allowing for their exchange of views and providing research and overall regulatory guidance for the boards. As the United States has evolved from a local economic focus, to a national and, now, an international focus, the need for regulatory consistency among the states has heightened. Federal and international regulators and other organizations concerned with public accountancy are looking more to NASBA to bring together the state boards' views. The establishment of the PCAOB and its subsequent activities has placed a special emphasis on NASBA's role in representing state boards.
- NASBA was founded in 1908 to aid states in developing uniformity of procedures by the licensing boards. Since that time NASBA has evolved into a broad-based organization that deals with all aspects of state regulation of CPAs and serves as the voice of state boards in relationships with national and state regulators, international regulators, federal agencies, U.S. Congress, professional organizations and the news media.
- A full-time President/CEO, supported by 170 professional and administrative staff and a volunteer Chair, elected by the member boards, lead the organization. The board of directors is composed of 20 state board representatives.
- NASBA has organized its member boards into eight geographical regions. The regional directors of the eight regions work closely with the states in each region ensuring that the needs, views and concerns of all the boards are appropriately considered and the information from NASBA is adequately communicated to all 55 state boards.
- NASBA has more than 25 committees that address specific regulatory issues and concerns of state boards. The membership on these committees is drawn from the State Board membership with relevant expertise and is supported by the association's staff and outside consultants as necessary.
- With the passage of the Sarbanes-Oxley Act and the formation of the PCAOB, the activities of NASBA with the PCAOB/SEC and the U.S. Congress on behalf of the 55 state boards have increased significantly. Many of NASBA's activities are directed toward cooperative coordination of federal and state regulatory systems, professional practice standards, practice monitoring and discipline.