Long Island Business NEWS
Where Business Gets Down To Business

Some 'material' relief arrives for public companies

By Claude Solnik
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Five years after the Sarbanes-Oxley Act of 2002 created an avalanche of work for the accounting industry, public companies finally got some relief from the regulations. In May, the Public Company Accounting Oversight Board adopted what's known as Auditing Standard No. 5 to clarify and give better guidance on internal control financial reporting. The board described the new approach as based on principles rather than procedures.

"It is designed to increase the likelihood that material weaknesses in internal control will be found before they result in a material misstatement of a company's financial statements, and, at the same time, eliminate procedures that are unnecessary," the board wrote. The idea was for accountants to focus on the biggest risks, plugging the biggest gaps in financial controls and at least partially answering public companies' prayers for relief. "Accountants have been focusing on every potential risk," said Fred Skolnik, a partner at Certilman Balin Adler & Hyman in East Meadow. "That was causing a tremendous run-up in costs for consultant fees. The standard was relaxed somewhat."

Richard Catalano, audit partner at KPMG in Melville, likes the way the new standards urge accountants to look at the big picture. "We think it's an improvement," Catalano said. "One of the things emphasized [with that standard and SEC guidance] was the importance of focusing on the most material risks of financial statements." Rather than providing a long list of prescribed rules, the standards give auditors and management more judgment, which Ellen Auster, tax principal and Long Island office location leader for Deloitte in Jericho, likes. "It's a risk-based approach. It's a more efficient process to conduct an audit," Auster said.

The PCAOB described its new approach as "top-down," identifying and testing the most important controls without giving a checklist for compliance. The PCAOB also discussed "scaling the audit" so a company's size and complexity are taken into account. "In general, there's an expectation that this approach will yield a more cost-effective method," Catalano said. "It varies by companies. Some companies already streamlined attestation processes." Skolnik said a client who hired a consultant to help comply with internal audit controls was quoted fees 30 percent lower than a few years ago. But this doesn't mean 2007 will be remembered solely as the year that Sarbanes-Oxley was scaled back.

Michael T. Hanley, managing partner at Merl & Hanley in Smithtown, said as of Dec. 15, smaller firms with market capitalizations under $75 million must comply with many Sarbanes-Oxley requirements. "Many smaller companies brought themselves into compliance as early as three years ago," Hanley said. "Those companies that have not yet addressed this side of Sarbanes-Oxley will have to do so by retaining the consulting services of accounting firms."

And just when you thought it was safe to put away your wallet, private companies are feeling their own Sarbanes-Oxley-like pinch. The American Institute of Certified Public Accountants recently issued risk-assessment standards, expanding audit requirements for private firms, according to Friedman LLP. Auditors must show an in-depth understanding of a client and its internal controls, which Friedman in a written statement said, "will require additional time and effort."

Nonprofits also are facing beefed-up regulations regarding financial disclosure and executive compensation. "Not-for-profits are in essence public [entities]," Catalano said. "They're owned by the general public, in a sense." Auster said, "Sarbanes Oxley is not going to go away." But some people think regulations are reaching a happier medium, providing security at a lower cost. "The pendulum is starting to swing back to a more pragmatic approach to testing internal controls," Catalano said.