

**STATEMENT OF BILL GRADISON  
ON THE INTERNAL CONTROL STANDARD  
March 9, 2004**

Today's action brings into sharp focus many issues that are central to the question of how best to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws – precisely the principal purpose of the legislation that created the Public Company Accounting Oversight Board. As the Board and the SEC have taken steps required by Congress to implement the Sarbanes-Oxley Act, a key issue concerns the costs of implementing the new requirements – on issuers generally and on smaller enterprises in particular.

The Board has taken this issue seriously in considering the concerns reflected in many of the comment letters we received. The final product, in my view, has been improved greatly as a result of this input. Nonetheless, there will be costs associated with the new standard and it is important to acknowledge the understandable view of corporate managers that Sarbanes-Oxley will increase costs to public companies. What has happened is that the sins of the few (the Enrons and WorldComs, among others) have visited costs on the many; these costs have been internalized and are borne in the first instance by the companies.

To be sure, it is the shareholders who own the companies who will shoulder these costs, but shareholders will also reap the benefits. The premise of Sarbanes-Oxley is that the benefits to the economy as a whole and to investors in particular from more reliable, informative, accurate, and independent audit reports will far outweigh the costs. I believe that our standard on internal control passes the cost-benefit test.

As for smaller enterprises, the internal control debate highlights the question of whether one size fits all. While the Board has sought to take the special concerns of smaller, less complex, issuers into account, we nonetheless have to recognize that the statute makes no such distinction; its explicitly stated goal is to improve the accuracy and reliability of reporting by all public companies, regardless of size. The law does not, as I read it, seek to give greater assurance to investors in large companies than small ones. This year, as PCAOB inspectors begin examining the engagements of smaller audit firms, which tend to audit the books of smaller issuers, the Board will gain valuable insights into the question of whether one set of auditing standards will work for all public companies regardless of size and, if not, how and where to draw the line.

Let me conclude these observations by paying the highest compliments to our standards staff who have tirelessly and patiently over many months worked closely with the Board to perfect this rule. They have told me that this standard is likely to be the most complex standard the Board will tackle. I certainly hope they are right.