

JULY 26, 2005 OPEN MEETING

**AUDITING STANDARD No. 4 --
REPORTING ON WHETHER A PREVIOUSLY REPORTED
MATERIAL WEAKNESS CONTINUES TO EXIST**

Statement of Daniel L. Goelzer

I support the adoption of Auditing Standard No. 4 and appreciate the hard work and careful thought the staff has devoted to its formulation. Rather than adding to the discussion of what this standard is, I would like to briefly reiterate three things it is not.

First, as has already been emphasized, it is not mandatory. Retaining the auditor to issue a report concurring in management's view that a weakness has been fixed is completely voluntary. In many cases, investors should be able to accept management's assurance without the added support -- and added cost -- of an auditor's opinion. Moreover, the auditor will, of course, have to consider whether the weakness was eliminated in its next annual audit of internal control over financial reporting. For these reasons, audit committees should carefully weigh the need for an auditor's report on the remediation of a material weakness before they decide to incur the costs.

Second, this standard is not a tool that can be used indiscriminately, whenever a company has previously reported a material weakness. An Auditing Standard No. 4 report will usually be an option when management has corrected a problem that prevented the company from accomplishing a limited number of fairly specific internal control objectives. It will often not work where there are pervasive deficiencies that affect the overall control environment. Similarly, careful consideration of all the circumstances will be necessary when management claims that a weakness has been eliminated because the company has undergone some fundamental change in its size or structure. Frequently, these kinds of situations require a more comprehensive review and must await the next annual internal control audit under Auditing Standard No. 2.

Finally, Auditing Standard No. 4 should not be a source of significant new cost. One of the most challenging issues facing the Board today is making sure that Auditing Standard No. 2 is interpreted and applied in a way that brings the benefits of internal control reporting into line with the costs. Auditing Standard No. 4 has been carefully drawn so that the auditor's work can be narrowly focused and efficient. I am satisfied that making this new option available will not increase the overall costs of Section 404 compliance. On that basis, I support its adoption.