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## IMA Says SOX Guidance for Management is Long Overdue

*The following is commentary from Paul A. Sharman, ACMA, president and CEO, Institute of Management Accountants (IMA®), in response to the SEC's December 13, 2006 announcement regarding Sarbanes-Oxley (SOX) implementation guidance.*

The Dec. 13 announcement by the SEC in providing Sarbanes-Oxley Section 404 implementation guidance clearly acknowledges that existing compliance methods have not been working. IMA broadly agrees with many of the principles the SEC put forth, changing the audit-centric control environment that has existed to date. We are pleased by how this is consistent with IMA's research findings and public statements during the past 18 months. As the world's leading organization representing management accountants, IMA looks forward to carefully reviewing the SEC's exposure draft (as well as the PCAOB's new guidance on Dec. 19) and will be able to provide specific feedback once reviewed.

IMA agrees with many of the points the SEC communicated through the Dec. 13 announcement:

- PCAOB's Auditing Standard 2 (AS2), initially intended to guide auditors, has unfortunately become the de facto standard for management guidance, as no other guidance for management exists.
- More accountability and reliance should be placed upon management to do their jobs of internal control.
- Greater reliance should be placed on entity-level controls.
- Management attestation of the effectiveness of internal controls over financial reporting needs to be in accordance with the SEC's guidance to management, i.e., control framework-neutral.
- There needs to be a change in grading criteria and clarification of "material weakness."

There are areas in the approach the SEC described that IMA believes are either not in the best interests of investors or require more detail for assessment in the exposure draft:

- Of the three-part auditor opinion on effectiveness of internal controls over financial reporting, IMA believes the auditor's "Pass/Fail" assessment should be eliminated and not the evaluation of management's risk-based process. Retaining the "Pass/Fail" assessment would perpetuate inefficiency and high auditing costs.
- Clarification of the term, "top-down, risk-based" in management guidance is needed. Risk-based approaches draw from a global body of knowledge requiring practical management experience and input.

Most importantly, PCAOB's new AS5 guidance (to be announced on Dec. 19) must be in alignment with the SEC's management assessment guidance, with the same grading and rating criteria, and methodology. If not, auditing standards (the new AS5) will continue to be the de facto standard for management.

As with the SEC, IMA looks forward to achieving the objective of improving the reliability of financial statements in order to best serve the interests of shareholders and the American economy.

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