

**Statement by
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**Statement on Proposed Auditing Standard
An Audit of Internal Control Over Financial Reporting
October 7, 2003**

I would like to join in commending the Chief Auditor and his staff for all of the hard work that has been done on this proposal. The pile of drafts and briefing memos the staff has churned out on this standard in the past month is many inches -- if not feet -- tall. The hours that Doug Carmichael, Tom Ray, and Laura Phillips have devoted to the task mean that they have done about a year's worth of work in the past two months. Not only is the subject complex and controversial, but the job has been made still more challenging by the variety of views within the Board itself on many of the difficult issues with which this proposed standard deals. This is the Board's first substantive standard-setting effort. But it is somewhat like forming a new team and starting its schedule by playing in the Super Bowl. Thanks for a job well done.

From the perspective of investor protection and promoting accurate financial reporting, this is one of the most important standards this Board will ever consider. Reliable financial reporting would be impossible for a complex modern business corporation without effective internal control. Auditors have long made a practice of reviewing the internal controls of public company audit clients in order to determine the extent to which the auditor can rely on those controls in planning the audit. However, the Sarbanes-Oxley Act requirement of a management report and an auditor attestation on internal controls revolutionizes the nature of both management's and the auditor's focus on internal control.