

# L·B·B Briefs For Small Filers

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Pertaining to SOX 404 compliance . . . As you know, corporate officers will be required to certify as to the effectiveness of the issuers' internal control over financial reporting ("ICOFR") for all fiscal years ending on or after December 15, 2007. A key point to know . . . you are required by law to certify as to the effectiveness of ICOFR, but the law does NOT require that the issuers ICOFR be effective, so don't let ineffective controls stop you in your tracks. Just address it in the normal course of the coming year. If controls are not effective, you need to have a remediation plan so as to move it toward effectiveness, and this plan will need to be identified in your report.

Keep key controls in focus . . . if a control does not impact financial reporting, it does not need to be of concern to you as it relates to your 404 compliance . . . a consultant may or may not be required as it relates to your internal assessment. Your assessment process is not a "one-off" process, but rather it needs to become part of your corporate DNA.

We hear of many instances of substandard financial reporting expertise among small filers, and this IS a 404 deficiency. You cannot rely on your auditors to resolve accounting issues on your behalf . . . that is a problem for you and that is a problem for your auditors. However, you can and should consult with your auditors regarding accounting treatment of matters you have already researched and concluded upon. If you cannot effectively address the accounting and financial reporting matters that arise within your entity, you have inadequate financial expertise. Utilization of outside consultants other than the auditors in this capacity is acceptable. Your audit committee should have relevant financial reporting expertise as well.

Also, if you are a recent IPO, you are granted a grace period before you are expected to come into compliance with 404. If you are "newly public" as a result of a reverse merger, you do not have a grace period. It is possible the SEC grants you an exception.

New accounting standards . . . There are several significant new accounting standards likely to impact your financial reporting in the coming years, including fair value reporting and business combinations. You need to be up to speed on these and others. FIN 48 is another technical release that dramatically impacts the manner in which you account for taxes in coming years.

*LBB & Associates Ltd., LLP is a public accounting firm specializing in audits of small business filers. Feel free to direct any inquiries to [Briefs@lbbcpa.com](mailto:Briefs@lbbcpa.com), or contact any of the LBB partners at 713-877-9944.*