

**OPENING STATEMENT OF  
CONGRESSMAN PAUL E. KANJORSKI  
COMMITTEE ON FINANCIAL SERVICES  
HEARING ON ACCOUNTING UNDER THE SARBANES-OXLEY ACT:  
ARE FINANCIAL STATEMENTS MORE RELIABLE?  
WEDNESDAY, SEPTEMBER 17, 2003**

---

Last year after a spate of corporate and accounting scandals, we adopted the Sarbanes-Oxley Act. As you know, Mr. Chairman, I was intimately involved in every stage of this law's development, from the first congressional hearing on the collapse of Enron through the final meeting of our bicameral conference committee. A key section of this historic statute replaced self-regulation by the accounting industry with an independent, full-time entity known as the Public Company Accounting Oversight Board to monitor the firms that audit public companies.

In the last year, the Board and the Securities and Exchange Commission have pursued an ambitious agenda as they have worked to implement the reforms that Congress mandated in the Sarbanes-Oxley Act. Today's hearing will help us to better appreciate their hard work in turning a functional statutory outline into an active regulatory system. It will also help us to understand the progress that the Board and Commission have made in bolstering investor confidence, restoring the integrity of financial statements, and rebuilding trust in our securities markets.

Mr. Chairman, I am especially interested in learning from our distinguished witnesses about the effect of the Sarbanes-Oxley Act on smaller auditors. Prior to enactment of this law, approximately 850 firms conducted audits of public companies. According to information posted on the Board's website, however, just over 450 auditors had applied for registration -- including at least four firms based in Northeastern Pennsylvania -- as of Monday, September 15. Moreover, at least one management consultant has predicted that the number of accounting firms reviewing the books of public companies will drop to less than 100 over the next few years.

A recent story in the *Washington Post* further highlights my concerns as it describes how several small auditors have grappled to adjust to the new auditing oversight regime. This article specifically notes that several small accounting firms have "severely curtailed or abandoned the business of auditing public companies." Without question, the exodus of smaller firms willing to perform public company audits raises important concerns about competition in the accounting industry that the Board, the Commission, and our panel should explore today.

Beyond examining issues related to small auditors, it is also my hope that our witnesses will detail how small business has responded to the Sarbanes-Oxley Act. I have heard anecdotes about companies privatizing or choosing to remain private rather than to comply with the new law. I am therefore interested in learning of the opinion of our panelists on these matters.

In closing, Mr. Chairman, we cannot and should not remove the risks associated with investing. Our capital markets work well because of that risk. We should, however, ensure that every corporation plays by the rules, that all investors have access to the reliable information needed to make prudent decisions, and that each party who violates our securities laws is held accountable. As the Securities and Exchange Commission and the Public Company Accounting Oversight Board work to achieve these objectives, it is appropriate for us to review their progress.

---