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Sarbanes Oxley **Impacts in 2005 and Beyond**

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Presentation Topics

- History of the Sarbanes Oxley Act, 2002
- Important Provisions of the Sarbanes Oxley Act, 2002
- Key Compliance Parameters from 2005
 - Year 2 compliance leadership
 - Strategies employed in Year 2
 - Costs of compliance
 - Potential benefits & wish lists from Year 2 of SOX compliance
 - Lessons learned from Year 2 of SOX compliance

History of Sarbanes Oxley Act

- In response to the Arthur Anderson, Enron and WorldCom debacle, the Sarbanes-Oxley Act seeks to
 - Restore the public confidence in both public accounting and publicly traded securities
 - Assure ethical business practices through heightened levels of executive awareness and accountability

Benefits of Effective Internal Control over Financial Reporting

- Improved effectiveness and efficiency of internal control processes
- Better information for investors
- Enhanced investor confidence
- Improved quality of financial reporting

SOX Timing

- FYE on or after November 15, 2004
 - US accelerated filers
 - Public equity float of \$75 million and up
- FYE on or after July 15, 2006 – all other public entities
(previously 7/15/05 – was extended one year in 3/2005)
- Non-public – could have impact
 - Preparing for IPO
 - Vendor to public entity

SOX – Key Sections

- *Section 302* – Corporate Responsibility for Financial Reports
- *Section 404* - Management Assessment of Internal Controls
- *Section 409* – Real Time Disclosures
- *Section 906* - Corporate Responsibility for Financial Reports
– Penalty Enhancements

Requirements of Section 302

- Certifications required in periodic financial statements
 - Review of reports by signing officers
 - No false or misleading statements or omissions
 - Information presents the financial condition & results in all material respects
 - Responsibility of signing officers for enforcing internal controls
 - List of deficiencies in internal controls
 - Significant changes in internal controls

Requirements of Section 404

- Management's responsibility to establish & maintain a system of internal controls
- Identification of framework for evaluation of internal controls
- Disclosure of material weaknesses in internal control
- Opinion on adequacy of internal controls by external auditors

Requirements of Section 409

- Expanded disclosure requirements under amended SEC form 8-K
- In most cases, Form 8-K to be filed within 4 business days after a triggering event
- New Qualifying triggering events
 - Entry into a material definitive agreement
 - Termination of a material definitive agreement
 - Creation of a direct financial obligation or an obligation under an off balance sheet arrangement

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Requirements of Section 409

- Costs associated with exit or disposal activities
- Material Impairments
- Notice of delisting or failure to satisfy a continued listing rule or standard

Deadlines for Compliance

Accelerated Filing Requirements

Report	2003	2004	2005
10-K	75 days	75 days	60 days
10-Q	40 days	40 days	35 days

Leaders of the Compliance effort in 2005

- Within smaller companies, internal audit directors played a key role
- In larger companies, the director of internal controls gained prevalence
- Financial controllers played a key role in companies of all sizes
- Other key officers included chief governance officers, chief compliance & risk officers etc

Strategies employed for testing in 2005 Vs 2004

- Many companies applied a risk based top down approach for scoping & testing
- Close communication, tracking & coordination of management with external auditor
- Greater reliance on IT based controls

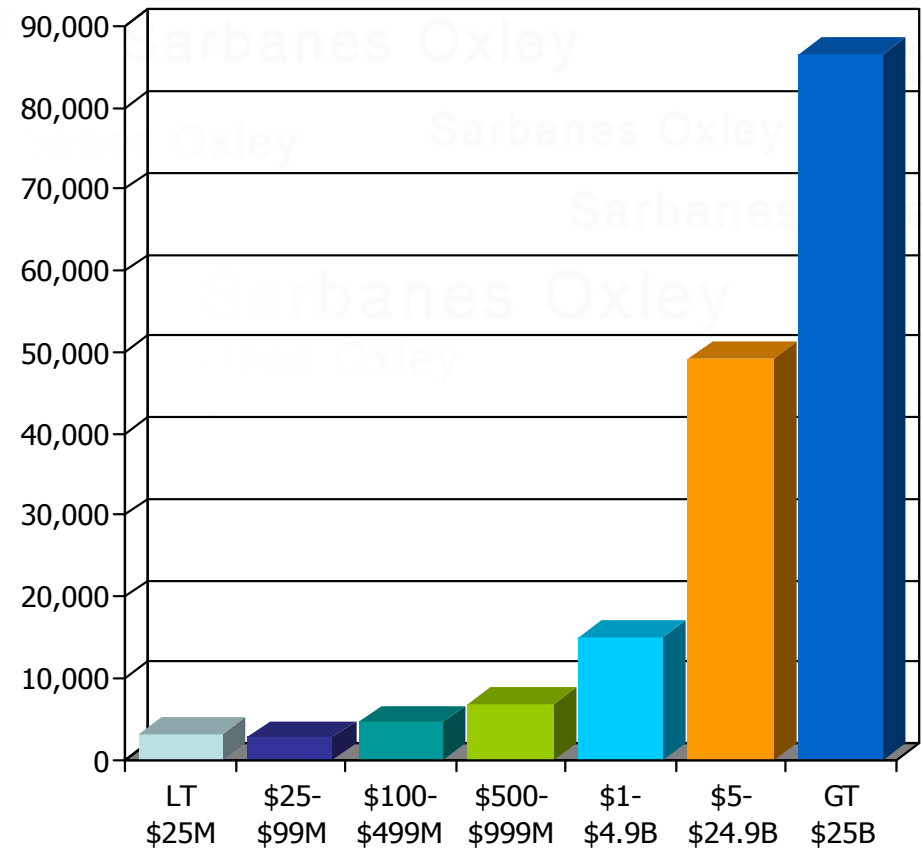
Strategies employed for testing controls within outsourced processes

- Address third party providers as early as possible
- Catalog all third party relationships
- Risk rating outsourced operations
- Analyze the number & size of transactions being processed
- Determine the effect on the internal control system

Costs of Compliance - Internal Employee Hours in 2005

- Companies required an average of 22,786 internal people hours in 2005
- This average was 11.8% less than 2004
- The decline can be attributed to lesser hours for testing previous year's documentation work

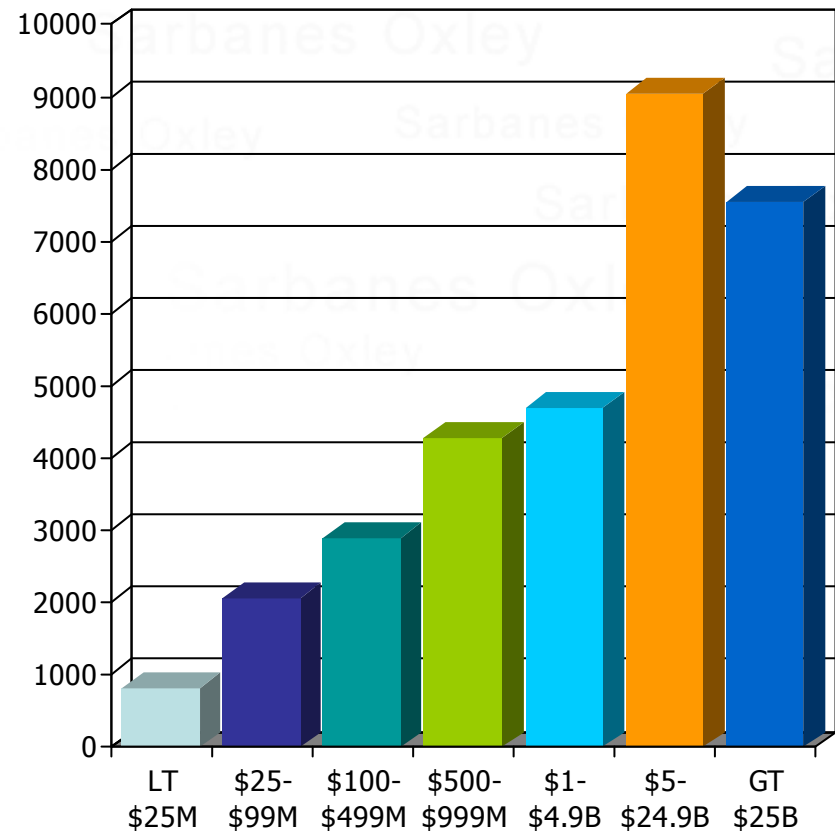
(Source: FEI Survey on SOX-March 2006)



Costs of Compliance - External Employee Hours in 2005

- An average of 4,889 external people hours were required in 2005
- This represented a decline of 19% over 2004
- Due to some of the external work shifting to internal resources in 2005

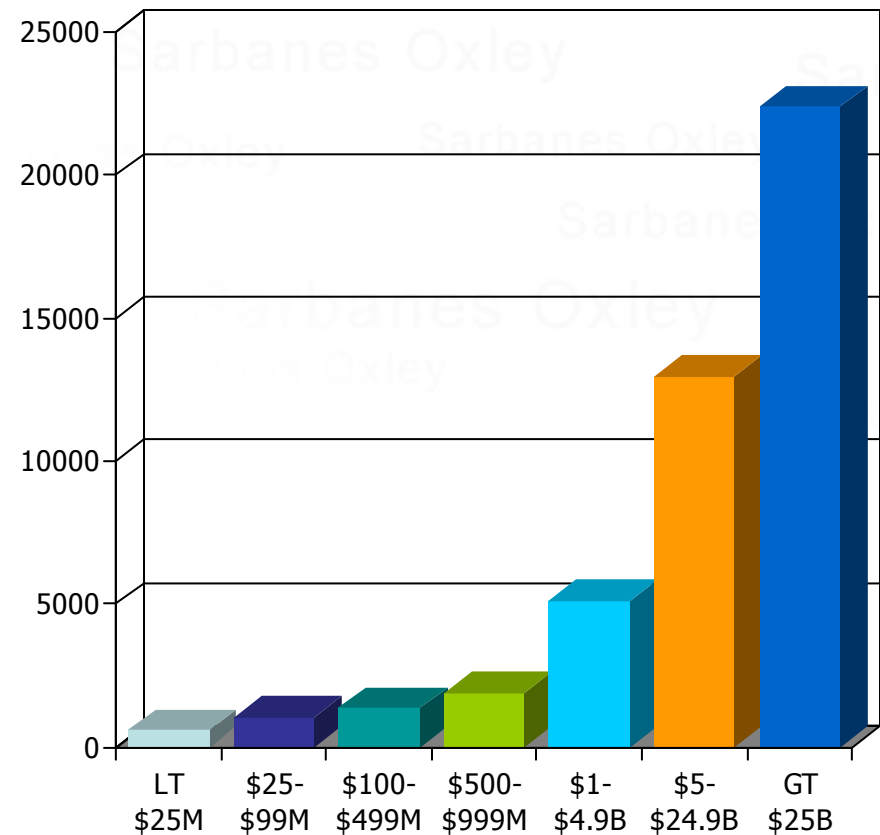
(Source: FEI Survey on SOX-March 2006)



IT Control Hours for SOX Compliance in 2005

- Companies required an average of 6,188 IT control hours in 2005
- The IT control time expended by companies with revenues over \$25 billion averaged almost 22,400 hours in 2005

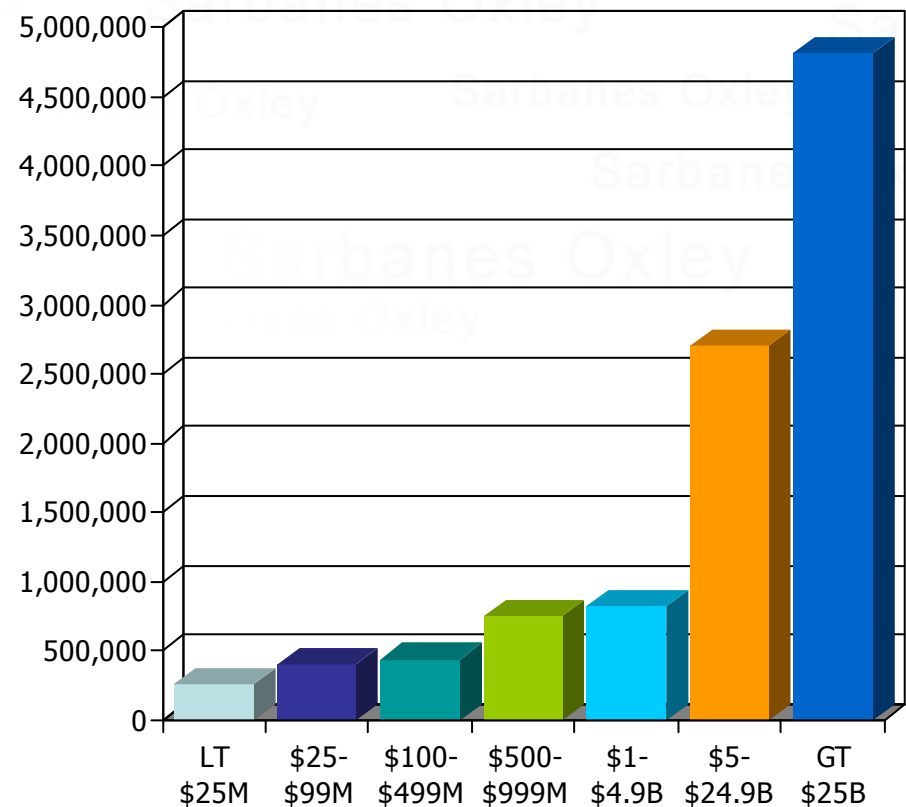
(Source: FEI Survey on SOX-March 2006)



Auditor Attestation Fees in 2005

- Auditor attestation fees paid by accelerated filers averaged \$ 1.3 million in 2005
- These costs were 23% less than 2004
- These fees constituted 45% of their total audit fees

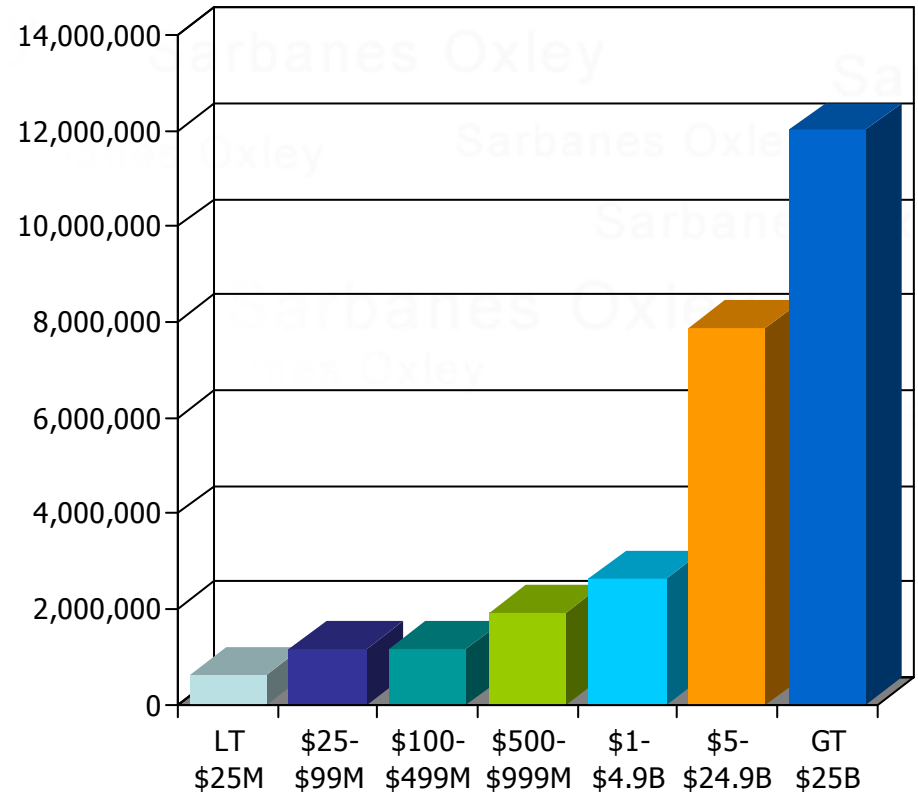
(Source: FEI Survey on SOX-March 2006)



Total Compliance Costs in 2005

- Average Total costs by accelerated filer companies was \$ 3.8 million in 2005
- The total costs of companies with revenues over \$ 25 billion averaged almost \$ 12 million, a 20% drop over 2004.

(Source: FEI Survey on SOX-March 2006)



Potential Benefits after Year 2 SOX Compliance

- Greater investor confidence in financial reports
- Enhanced accountability & ownership of controls
- Enhanced financial processes
- Compliance has helped to prevent or detect fraud

Wish List after Year 2 SOX Compliance

- Reduction in the degree of documentation
- Allow greater reliance on internal audit data and resources
- Allow roll forward procedures
- Allow cumulative reliance on Year one testing and documentation
- Make exceptions for new systems installed in the second half of the fiscal year
- Allow remediation of controls in the 4th quarter

Lessons Learned after Year 2 of SOX Compliance

- Turn Compliance into Competitive Advantage
- Evaluate & improve your compliance methodology & processes
- Address broader risk management issues
- Bring together the right combination of people, process & technology for sustaining compliance

Thank You

