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Sarbanes-Oxley: Gain or pain?

Sarbanes-Oxley has been estimated to have cost U.S. businesses more than 30 billion dollars. The law was created to require publicly held corporations to be more accurate, reliable and accountable to shareholders in the presentation of their financial statements and disclosures. The Act itself was born out of public demand stemming from the financial scandals that shook the corporate world with some of the higher profile cases involving Enron and WorldCom. The Sarbanes-Oxley Act (SOX) sets up regulations over a range of financial matters that focus on auditor independence and corporate responsibility for financial reporting. The provisions are clear and the penalties are significant in terms of corporations adhering to the financial guidelines set forth by the Act. Chief executive officers and chief financial officers' sign-off of financial statements are required; the officers must state that all financial information has been presented fairly with U.S. Generally Accepted Accounting Principles. Compliance is required and it should be a company's gain without inflicting pain.

Section 404 also requires that the internal controls of a corporation that dictate the compliance of the Act itself must be reported. The Section further requires that each corporation/management not only assess all internal control processes, but identify material weakness in any of the controls in which a deficiency resides. The entire process must be documented and attested to by senior management.

The adherence to Sarbanes-Oxley is dependent on internal controls, actions of employees, processes implemented and documentation of all of the aforementioned. It is critical that all of these segments



be completed within the guidelines of the Act. Due to the importance placed upon the Act by the Securities and Exchange Commission, the compliance for the Act has become part of the corporate culture, requiring significant investment in time and money.

A corporation must learn how to be compliant with Sarbanes-Oxley, and must learn to do it in an efficient manner. Efficiency is the key for two primary reasons, the first being that with efficiency, the corporation provides an environment where the reliability of the financial statements and disclosures is certain. As a corporation is efficient in setting up internal controls, conducting internal audits, and providing systems of review, the corporation becomes stronger in presenting fair and accurate statements on the

financial well-being of the company itself. CEOs who are creative will see this as a way to improve processes and systems.

The second reason to drive efficiency in being compliant with the Act is that the resources in terms of manpower and costs could become overwhelming if not done correctly. If these resources are not used efficiently for correcting issues or solving problems that arise because of weak internal controls or compliance with those controls,

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An advertisement for PalmTree, Inc. The background features a large, stylized green palm tree. In the top left corner is the PalmTree, Inc. logo, which consists of a green palm tree icon and the text "PalmTree, Inc.". Below the logo, the text reads "Leaders in Continuous Improvement" in a serif font, followed by "Lean Implementation Services" in a blue sans-serif font. At the bottom, it says "Discover how quickly you too can be resting under the shade of PalmTree, Inc." in a smaller font. The website "www.palmtreeinc.com" and phone number "t.312.521.7200" are listed at the bottom.

SARBANES

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then the corporation faces financial exposure on a much grander scale if those inconsistencies filter through to the reporting of the financial statements. According to *Business Week*, only 12 percent of the companies had automated controls in place when they started the process, and 30 percent plan automation implementation this year. This leaves over 50 percent of the companies with a challenge as they face the future.

Corporations must have strong internal audit employees who not only plan, develop and implement internal controls and corporate policies, but the individuals must drive the adherence to the standards they have set up. Senior management must rely on the internal audit team as their eyes in the scope of corporate compliance to Sarbanes-Oxley. The internal auditor must be the gatekeeper to a corporation's responsible actions and financial disclosures. Outside auditors also play a crucial role in policing that financial statements fairly represent the corporation, but it is the internal audit department that defines the culture of the compliance and thus drives the efficiency. CEOs and CFOs have the responsibility of fair and accurate statements and disclosures, and must sign off as such, but the vice president of internal audit bears the responsibility of developing, implementing and maintaining a SOX program that is not only compliant, but efficient.

The future of Sarbanes-Oxley poses many questions for internal auditors as they work off of the guidelines set up by the Act. However, the most significant issue is the cost of being compliant. The *Business Week* survey found 44 percent of the CFOs thought SOX was a net gain, and of the 44 percent, 42 percent thought it was a way to improve the business controls and processes. The documentation required and the presentation of the documentation is in itself

overwhelming. The structure of internal controls, the testing of the controls, process maintenance, documentation of test results and subsequent actions required ... the list goes on as to what is needed to be completed and documented.

Corporations now must develop or invest in Sarbanes-Oxley software to help in managing the processes and documentation. Integrated information technology (IT) systems are now the tool that allows compliance to be more efficient and thus saving time, money and resources. Having a centralized location for all planning, implementation, maintenance and continued documentation is a key tool that is being adopted by corporations who want to eliminate not only financial exposure on reporting of financial statements but also eliminate non-value added actions resulting from breakdown of internal controls or inefficiency in the adoption of said controls. Automation and outsourcing the compliance testing process will assist CEOs and boards.

Another issue facing corporations in terms of SOX is the role of the outside auditor. It is extremely important for senior management to understand what other consulting or projects can be done by outside auditors that are separate from the internal audit being done. Another aspect to the role of the outside auditor is the increased investment needed for auditors in completing audits that operate under SOX. Also, outside auditors are called upon to consult and to help corporations ramp up to the requirements of SOX-compliant issues. It is important that senior management is cognizant of all contracted work by the company's outside relationships. The stronger the processes, testing,

reporting and documentation done by the internal auditors of a corporation, the less work done by outside hours; thus cost savings are earned.

Sarbanes-Oxley was passed into law to ensure the reliable and accurate financial statements and disclosures by corporations. The internal auditor of a corporation is a key player in keeping companies compliant. The auditors are also employees, who through their efficiency can add cost savings to companies' profit lines because of their efficient compliance. The future of SOX is requiring companies to put IT programs in place which significantly upgrade the efficiency in planning, testing, reporting and documenting. Sarbanes-Oxley is now part of the corporate culture that requires significant investment by companies for both internal and external auditing. Sarbanes-Oxley is a necessary law that must be the standard to uphold companies for reporting purposes. It is a tremendous opportunity for a company to drive process improvements which will make the company more profitable, as well as, assuring reliability of financial statements. Boards and senior management must embrace the compliance process as an opportunity, and they will surely find that it will be a significant gain with minimal pain. ■

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