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Introduction

The topic that I choose to research is Sarbanes Oxley Act. The reason I chose to research the subject was that many of the speakers in the course mentioned the effects SOX has on their business. I did not fully understand what the law is and what effect it has on businesses for that reason I chose this topic to research. I also wanted to know what software’s are available to help comply with SOX.

The different areas that I will be discussing in the paper to better understand what Sarbanes Oxley is and its effect on businesses is to first discuss the history and the reason the law was created. The second aspect I will cover is to review the Sarbanes Oxley compliance. I will also look at four sections of the law in more detail in order to have a better understanding of what the law requires companies to do. The third aspect of the paper that I will cover is how has SOX affected companies what are the issues, benefits and cost that are related to the enforcement of SOX on corporation. Last I will talk about software that has been created in order to help companies comply with SOX. The reason I chose to research Sarbanes Oxley software is that I feel it will be helpful to know what software is a better fit for companies and what software’s I would recommend companies to have in order to comply with SOX.
History and reason for SOX

Sarbanes Oxley Act is a law that was approved in July 24, 2002. The law was named after sponsors’ senator Paul Sarbanes and Representative Michael G. Oxley. The reason the law was created is to respond to a number of major corporate accounting scandals such as Enron, Tyco International Peregrine Systems, Arthur Anderson and World Com. The poor internal control resulted in the collapse of several huge corporations which resulted in a significant loss to investors and employees. These events led to the inevitable event of creating laws that would govern internal procedures in the company and protect stockholders interest. The law introduced major changes to the regulation of financial practice and corporate governance. In the next section I will talk about what Sarbanes Oxley Act asks companies to do.
Eleven titles of Sarbanes Oxley Act

Sarbanes Oxley Act has eleven titles that companies need to comply with. The first title covers the oversight of public accounting company board which contains nine sections. The second title is in title auditor independence which contains nine sections. The third title contains corporate responsibility which has eight sections. The fourth title covers financial disclosures regulations which have nine sections. The fifth title talks about analyst conflict of interest which has one section. The sixth title talks about commission resources and authority which has four sections. The seventh title talks about studies and reports which has five sections. The eighth title talks about corporate and criminal fraud accountability which has seven sections. The ninth title has white collar crime penalty enhancement which has six sections. The tenth title covers corporate tax returns which has one section. The eleventh title covers corporate fraud and accountability which has seven sections. The titles of the different sections are covered in exhibit a.

I will cover section 404 Management of assessment control in more detail because it is the most talked about within the media and businesses. I will talk about 3 more section in order to have a more depth understanding of the Sarbanes Oxley Act; the three sections are 207, 302, and 1102

Section 207: Study of mandatory rotation of registered public accounting affairs

The first aspect of 207 states the comptroller general of the United States will conduct and review potential effects of requiring the mandatory rotation of registered pubic accounting firm. Part b talks about requiring companies to submit a report to the
committee on banking housing and urban affairs of the senate and the committee on the 
result of the study conducted in section 207a. Part c refers to the time limit that a public 
accounting firm can work on auditing records for a particular company.

Section 302: Corporate Responsibility for financial reports

Part (a) of section 302 requires principle executive officers to sign that they have 
reviewed periodic reports and that the statement within the report are true, and fairly 
represent the financial condition and results of operation of the company. Section (a) of 
302 also describes who would be considered an appropriate signing officer. Section 302 b 
prohibits companies to interpret section 302 in away that allows them to minimize the 
legal force of the statement under section 302. Part c of section 302 affirms the deadline 
to follow the regulation in section 302. Section 302 enforces more responsibilities for 
executive officers which limit executive officers time on strategic issues for the company. 
Section 302 would prohibit future companies from repeating the same incident that Enron 
did where executive officers denied any involvement in the financial fraud within the 
company. With the help of IT executive officers can spend less time focusing on revising 
financial information. For that reason I think it is important to study reliable financial 
software that reduces the time executives spend in checking the accuracy of accounting 
and financial statements.

Section 404 Management Assessment of Internal Controls

The first section requires companies to contain an internal control report that states 
the responsibility of management for establishing and maintaining and adequate internal
control structure and procedures for financial reporting. The internal control report contains an assessment of the companies most recent fiscal year that contains the effectiveness of the internal control structure for financial reporting. An effective way of being able to evaluate the effectiveness of internal control in the financial procedures is to implement IT systems that stores financial information and contains input from different department on financial information. Part b of section 404 is the internal control evaluation and reporting, the person that prepares or issues the audit report needs to assess the internal control evaluation. Section 404 has two primary requirements: (1) it requires public companies to evaluate and disclose the effectiveness of their internal controls as they relate to financial reporting; and (2) it requires that the effectiveness of such internal controls be attested to by an independent outside auditor. Several consulting and accounting companies has profited from the issue of SOX due to the fact that the firms can work as an outside auditor to evaluate the effectiveness of internal procedure.

Section 1102 tampering with a record or otherwiseimpeding an official proceeding

This section affirms that a company would be fined or imprisoned for not more than twenty years if a company tampers with a record or impedes with an official proceeding. With technology today investigators can easily find digital records that have been tampered with. The business of finding digital information is a growing business and investigating companies spend hours looking for information that is deleted or hidden in a computer system.
Issues, Cost and benefit of Sarbanes Oxley Act

Due to the release of the Sarbanes Oxley Act several benefits were gained when it comes to stock holders interest. Several issues and costs arisen because of Sarbanes Oxley Act in terms of a company’s interest and the economy which I will explain in more detail in the following section.

Issues

Another change due to SOX was small companies decide to stay private to avoid costs that are associated with complying with SOX. Not having companies go public is a disadvantage because it reduces the amount of capital a company can have which limits a company from having a strong position in the international market. Another disadvantage of having companies staying private is that it reduces the number of jobs that are gained and profits stockholders can gain from having a strong public company in the market.3

Another problem with SOX is that while it details the reports and statements that are necessary for compliance, it does not detail the methods or techniques that have to be employed to back up these statements. This is an issue because it leaves companies up to interpret what is meant by “SOX compliance software” which means some companies might put a lot of effort to comply with the software while other companies may not. This results in an unfair advantage for companies that are able to comply with regulations in a reduced cost than other companies. Leaving “SOX compliance software,” up to interpretation would create problems within companies especially if a company dedicates a lot of effort to comply with the software but the government does not feel that it meets standards.4
The issue of time and cost arises with SOX compliance. Given that companies have to dedicate employees and take time from executive to comply with SOX. SOX leaves companies at a disadvantage because they have to take time and effort away from important business matters within the company to follow SOX regulation. A lot of time is spent on finding a software vendor that helps companies comply with SOX. Software integration with a company's existing systems is time-consuming and an expensive process. That makes estimating the acquisition cost a task that varies greatly from installation to installation. It also means that even with those vendors that did provide a starting price, figure that most of these solutions are going to be expensive.

Cost

Several critics have criticized SOX because it is expensive for public companies to comply with the regulations. According to a survey conducted by Financial Executives International, a networking and advocacy organization, publicly traded companies spent an average of $4.36 million annually to comply with SOX. Micro cap companies saw an increase of 84 percent in audit fees. Small cap with revenue from 100-700 million saw a 92 percent increase in audit fees. S&P 500 saw an increase of 55 percent in their audit fees. Although SOX was originally created to protect stockholders investment, the increase in costs and fees raises the question whether SOX has benefited investors or has it cut down on their profits. ³
Benefits

Due to SOX companies have increased the number of board members. The board members after SOX have taken their job more seriously and spend more time focusing on companies operations and financial statement which increases the company’s performance.\(^1\) Another advantage of Sarbanes Oxley Act is the investor can feel assured when investing in companies that the financial statements are accurate. Sarbanes Oxley will prohibit companies from repeating the scandals that were committed by previous companies such as Enron and World Com.
Sox Software

Although Sarbanes Oxley was only released in 2002 there are several software’s available to help companies comply with SOX. In this section I will talk about some of the software’s that are available for companies which are Axentis Enterprise for SOX, Movaris OneClose, SAP solution for GRC, and OnePage FCM 4.0.

Axentis Enterprise for SOX

Axentis Enterprise is a compliance management application that supports multiple compliance standards such as COSO, ERM, Cobit, Turnbull, Baserl II, and overall risk-management standards. Axentis Enterprise is one of the most popular and successful compliance solutions. There are more than half a million user of AE in one hundred countries. The software links multilevel organizational to risk frameworks, this is helpful to companies because it reduces maintenance as the company evolves and grows. The software has the capability of configuring with most financial system software which reduces cost and time involved with implementing the software in the company. AE is web-based software which has several benefits such as defined yearly subscription cost and assurance that the software is continuously updated. The software provides document management, period management and enterprise integration, mirroring and aggregating information from one or more ERP/HRIS systems. The application also provides assessment, testing and remediation. Another function of the software are the audit logs that track and record all changes to framework and organizational structure, as well as action plans and tests. AE also provides easy-to-understand executive dashboards and integrated data warehousing.
Movaris OneClose

Movaris OneClose specifically addresses Section 302 “corporate responsibility for financial reports,” Section 404 “management assessment of internal controls,” and section 406 “code of ethics for senior financial officers.” OneClose provides a link between financial reporting, internal control and SOX compliance.

OneClose is a suite comprised of several applications and the reason for this approach is that closing of financial statements relies on e-mail, word documents, spreadsheets and other processes outside the automated financial systems. Using processes outside the automated financial system represents a significant vulnerability that must be addressed to be in compliance with SOX. The way OneClose addresses the vulnerability related to using processes outside the automated system is to provide a system that has the record of all of the manual processes and where it originate from, and analyze them in terms of risk assessment. The result of the risk analysis of manual process is presented in a set of dashboards. If the system identifies significant risk additional tests of internal controls can be performed, and management can take a closer look at any high-risk transactions identified by OneClose.

Part of OneClose system is the Movaris Sarbanes-Oxley Compliance component, which is a renamed version of Movaris's popular SOX compliance tool. Movaris SOX Compliance provides the company with the hard data necessary for Section 302 and 404 of SOX. Movaris OneClose provides the documentation necessary for financial and executive officers that is needed to sign in order to comply with SOX.
GRC stands for Governance, Risk and Compliance Management Business Unit. SAP GRC includes Virsa Compliance Calibrator, Virsa Access Enforcer, and Virsa Role. The SAP GRC not only available for SAP financial systems installations, but also covers ERP and accounting vendors’ products.

SAP's Virsa Compliance Calibrator handles testing and enforcement of segregation of duties, performs analysis of access and duty violations, and provides remediation and mandatory risk analysis. SAP Virsa Role manages and documents who has the responsibility of a particular area of workflow across the enterprise, with a role being responsibility for a particular area of workflow. Ongoing analysis of risk and potential violations is performed with archiving of all documentation, change history and control test results. Virsa Access tracks user accesses throughout the enterprise and scans for potential access violations.
According to president and CEO of OpenPages, the OpenPage FCM 4.0 is developed using best practices developed by two hundred of the worlds leading organization to turn into a flexible solution for Sarbanes Oxley Act. OpenPage focused on both section 302 and 404. In order to meet the requirements of Section 302, OpenPages FCM employs surveys that must be filled out by every manager with responsibility for specific internal control areas. These surveys are custom-designed to the needs of the individual organization, but generally contain questions about any changes in internal controls over the reporting period, as well as any relevant documentation or test information. The software maintains version control over the survey responses, so that issues that have been addressed are then rolled up into the most current survey summary. All of these surveys and responses are captured and held in a secure "repository" for future auditing or other use. OpenPages FCM meets the requirements of section 404 by having a comprehensive document management system. The OpenPages FCM manages e-mails and documentation of projects. The OpenPages FCM manages documentation of projects by allowing members of team projects to document internal controls tests or restructures to capture all relevant information about the project. OpenPages FCM provides a large selection of standard reports such as reports on processes, risks, effective and ineffective controls, and items that are at-risk.
Conclusion

Sox was created in 2002 and has several benefits for investors. SOX also has some disadvantages to investors, companies and the economy mostly because of the high increase in cost when it comes to complying with SOX.

In order for companies to comply with SOX they would need to understand what SOX is and what software is best fit with the current IT systems in the company. Several of the SOX software has other functions built in such as financial and ERP aspect in order to help companies with other aspects of the business and help comply with SOX regulations.

Some of the software’s that are available for companies to comply with SOX are Axentis Enterprise, SAP for GRC, Movaris OneClose, and OpenPages FCM 4.0.
REFERENCE


www.wikipedia.org
APPENDIX

Exhibit a

TITLE I-Public Company Accounting Oversight Board
Sec. 101. Establishment; administrative provisions.
Sec. 102. Registration with the Board.
Sec. 103. Auditing, quality control, and independence standards and rules.
Sec. 104. Inspections of registered public accounting firms.
Sec. 105. Investigations and disciplinary proceedings.
Sec. 106. Foreign public accounting firms.
Sec. 107. Commission oversight of the board.
Sec. 108. Accounting standards.
Sec. 109. Funding.

TITLE II- Auditor Independence
Sec. 201. Service outside the scope of practice of auditor.
Sec. 202. Pre-approval requirement.
Sec. 203. Audit partner rotation.
Sec. 204. Auditor reports to committees.
Sec. 205. Conforming amendments.
Sec. 206. Conflict of interest.
Sec. 207. Study of mandatory rotation of registered public accounting firms.
Sec. 208. Commission authority.
Sec. 209. Consideration by appropriate state regulatory authorities.

TITLE III-Corporate Responsibility
Sec. 301. Public company audit committees.
Sec. 302. Corporate responsibility for financial reports.
Sec. 303. Improper influence on conduct of audits
Sec. 304. Forfeiture of certain bonuses and profits
Sec. 305. Officer and director bars and penalties
Sec. 306. Insider trades during pension fund blackout periods.
Sec. 307. Rules of professional responsibility for attorneys
Sec. 308. Fair funds for investors

TITLE IV- Enhanced Financial Disclosures
Sec. 401. Disclosures in periodic reports.
Sec. 402. Enhanced conflict of interest provisions.
Sec. 403. Disclosures of transactions involving management and principal stock-holders.
Sec. 404. Management assessment of internal controls.
Sec. 405. Exemption.
Sec. 407. Disclosure of audit committee financial expert
Sec. 408. Enhanced review of periodic disclosures by issuers
Sec. 409. Real time issuer disclosures
TITLE V-Analyst Conflicts of Interest
Sec. 501. Treatment of securities analysts by registered securities associations and national securities exchanges.

TITLE VI- Commission Resources and Authority
Sec. 601. Authorization of appropriations.
Sec. 602. Appearance and practice before the Commission
Sec. 603. Federal court authority to impose penny stock bars
Sec. 604. Qualifications of associated persons of brokers and dealers

TITLE VII-Studies and Reports
Sec. 701. GAO study and report regarding consolidation of public accounting firms
Sec. 702. Commission study and report regarding credit rating agencies.
Sec. 703. Study and report on violators and violations
Sec. 704. Study of enforcement actions
Sec. 705. Study of investment banks.

TITLE VII-Corporate and Criminal Fraud Accountability
Sec. 801. Short title
Sec. 802. Criminal penalties for altering documents
Sec. 803. Debts non-dischargeable if incurred in violation of securities fraud laws
Sec. 804. Statue of limitation for Securities fraud
Sec. 805. Review of Federal Sentencing Guidelines for obstruction justice and extensive criminal fraud
Sec. 806. Protection for employees of publicly traded companies who provide evidence of fraud.
Sec. 807. Criminal penalties for defrauding shareholders of publicly traded companies

TITLE IX-White Collar Crime Penalty Enhancements
Sec. 901. Short title
Sec. 902. Attempts and conspiracies to commit criminal fraud offenses
Sec. 903. Criminal penalties for violations of the employee retirement income security act of 1974
Sec. 905. Amendment to sentencing guidelines relating to certain white-collar offenses
Sec. 906. Corporate responsibility for financial reports

TITLE X-Corporate Tax Returns
Sec. 1001. Sense of the senate regarding the signing of corporate tax returns by chief executive officers.

TITLE XI-Corporate Fraud and Accountability
Sec. 1101. Short title
Sec. 1102. Tampering with a record or otherwise impeding an official proceeding
Sec. 1103. Tampering freeze authority for the securities and Exchange commission
Sec. 1104. Amendment to the federal sentencing guidelines
Sec. 1105. Authority of the commission to prohibit persons from serving as officers or directors.
Sec. 1106. Increased criminal penalties under Securities Exchange Act of 194
Sec. 1107 Retaliation against informants
END NOTES