Practical Guide to Sarbanes-Oxley Compliance
Agenda

- What’s driving the change in corporations throughout the world?
- The Sarbanes-Oxley Act
- What are the critical success factors in achieving and maintaining compliance?
- Conclusion
Corporations around the world lack credibility

Customers and investors don’t want to be doing business with the next Enron

- Economic turmoil turns Bull to Bear market
- Internet bubble bursts followed by collapse of telecommunication industry
- Scandals, fraud and record bankruptcies
- Keepers of corporate integrity fail
The Sarbanes-Oxley Act is a set of complex regulations designed to restore confidence in corporate America by:

- Granting the SEC increased regulatory power and control over corporations and their advisors
- Increasing the requirements of being a public company
- Increasing criminal and monetary penalties for executives at companies that fail to comply with SEC regulations
The new regulations have a ripple effect on corporate global markets

- There is zero tolerance for corporate misconduct
- The cost of being a public company has increased due to higher compliance, audit, legal and registration fees, and D&O insurance rates
- Fewer companies will go public due to increased regulations and financial reporting requirements
- Tougher penalties equate to higher risks and potential shortage in qualified executives and board members
- More companies will face expensive investigation and litigation

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Sarbanes-Oxley impacts key elements of corporate governance

- Legal and regulatory requirements – Interpretation of the laws
- Accounting Standards – Interpretation of accounting rules and guidelines
- Internal operations and management – Assessment of compliance and management programs related to financial reporting and SEC regulations

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Sarbanes-Oxley Impacts many aspects of corporate governance

- **Boards** - composition and expertise, audit control
- **Compensation** – limits on loans and enhanced insider trading regulations
- **Fraud detection and prevention** – Whistleblower, audit attestations, enhanced document retention, fair disclosure
- **Auditors** - limits on non-audit work, enhanced disclosure, PCAOB
- **Financial reporting** – accelerated timelines, enhanced disclosures,
- **Executive oversight** – ethics policies, certifications, increased penalties, longer statutes of limitations

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Sarbanes-Oxley Simplified

- Corporate accountability and responsibility
- Internal procedures and controls
- Audit and accounting
- Enhanced disclosure and reporting requirements
Corporate accountability and responsibility

- Increased penalties, longer statutes of limitations
- New regulations on board composition
- Audit committee gains control over audits
- Enhanced insider trading regulations and limits on executive loans
- Enhanced Whistle blower regulations
Corporate accountability and responsibility

- SEC will adopt new rules to address securities analysts conflict of interest
- Enhanced document retention rules
- Code of ethics required for key executives
- SEC recommends that CEO sign tax returns
Evaluation and testing of internal procedures and controls

- CEOs and CFOs must evaluate the effectiveness and adequacy of internal procedures and controls
  - Quarterly reviews are mandated for controls related to financial disclosure under Section 302
  - Annual reviews, testing and documentation is required for controls related to financial reporting under Section 404

- External auditors must attest to the effectiveness of these controls as part of their annual audit process
Audit and Accounting

- Auditors must register with the SEC
- Auditors must be independent, with new limitations imposed on non-audit work
- All non-audit services must be pre-approved by the audit committee
- Audit partners must limit their time with accounts and rotate new partners
Changes in Public Accounting

- Public Company Accounting Oversight Board (PCAOB) has been created and will be managed by the SEC
  - Funded through fees charged to accounting firms that audit public companies
  - Set and/or adopt standards for audit firms
  - Investigative and disciplinary authority
  - International authority

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Enhanced disclosure and reporting requirements

- Filing requirements are accelerated
- Enhanced disclosure required on internal procedures and controls
- Any non-GAAP financials must be disclosed in an 8K
- All material off-balance sheet items must be disclosed

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What are the Critical Success Factors?

A successful compliance program is dependent on people, process, controls, and technology

- The Executive team must set the tone at the top
- Compliance strategy and planning must be focused on increasing shareholder value
- Internal procedures and controls should be utilized to maximize performance and reduce risk
- Technology should be leveraged to increase operational effectiveness
Who Owns Compliance

Compliance does not have a single owner and should be managed by the management team:

- Board of Directors
- CEO
- CFO
- CIO
- General Counsel
- Disclosure Committee
The CFO usually leads tactical compliance efforts

The role of Finance Executives is changing based on the challenges created by Sarbanes-Oxley compliance requirements

- Enhanced leadership skills with the ability to handle increased responsibility
- Effective and efficient project management skills
- Enhanced diligence skills
- Enhanced communication skills
- Ability to manage without authority
  - Annual audits, audit committee, auditors
Critical Success Factors

- Leverage internal procedures and controls to increase operational efficiency and measure the results.
- Leverage technology to increase operational efficiency and increase data accuracy and availability.
- Implement a compliance program that adds shareholder value. It is not just a matter of complying -- but also understanding how much is enough for your company.
Every action or lack of action has an impact on the bottom line. Good corporate governance translates to successful business.
About The Blue Sage Group

- **Diane Wolff, President and Founder of The Blue Sage Group,** is an expert on corporate governance management for both public and private companies. Her article on “Leveraging Compliance to Grow your Company” was featured in this months Boston Business Journal’s Fastest Growing Companies Feature section. Diane is a former CFO with over 18 years of financial and operations experience. She has a proven track record of leveraging infrastructure such as internal procedures and controls to accelerate growth and profitability.

- The Blue Sage Group is a business consultancy that provides corporate governance, performance management and financial services geared at improving operational efficiency and profits, based in Canton, MA.

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