

Sarbanes-Oxley

Sarbanes-Oxley Act of 2002

Section 404 – Management's Report on Internal
Control Over Financial Reporting



Agenda

- S-OX Timeline
- Overview of S-OX
- S-OX Compliance
- S-OX Project Approach



S-OX Timeline

- Securities Exchange Act
 - 1934
- S-OX Signed into Law
 - July 30, 2002
- Section 404 Final Rule
 - June 18, 2003
- Section 404 Effective Date
 - June 15, 2004 (Accelerated Filer)
 - April 15, 2005 (Non-accelerated Filer)



Overview of S-OX

- Goals of S-OX
 - Increase public confidence in capital markets
 - Improve corporate governance
 - Provide greater accountability by making board members and executives personally responsible for financial statements
 - Improve audit quality
 - Place greater emphasis and structure around efforts to prevent, detect, investigate and remediate fraud and misconduct



Overview of S-OX

- Intent of Section 404
 - Include a report of management on the company's internal control over financial reporting in annual reports
 - “An effective system of internal control over financial reporting is necessary to produce reliable financial statements and other financial information used by investors.”



Overview of S-OX

- Benefits of Section 404
 - Effective system of internal control is necessary to produce reliable financial statements
 - Annual evaluation
 - Encourage companies to devote adequate resources and attention to the maintenance of internal controls
 - Help identify potential weaknesses and deficiencies in advance of a system breakdown
 - Help companies detect fraudulent financial reporting earlier.



Overview of S-OX

- Internal control report must include:
 - Statement of management’s responsibility for establishing and maintaining adequate internal control over financial reporting
 - Management’s assessment of the effectiveness of the company’s internal control
 - Statement identifying the framework used by management to evaluate the effectiveness of the internal controls
 - Statement that the CPA firm that audited the company’s financial statements has issued an attestation on internal controls



S-OX Compliance

- Environment
 - Demonstrate (document) that strong IT controls over financial reporting are in place
- Applications
 - Identify and test instances where manual controls have been replaced by automated processes



S-OX Compliance

- Recommends COSO *Internal Control – Integrated Framework* as the control framework for IT general controls
- Does not specify what must be included
- Management and independent auditors must decide what to address



S-OX Compliance

- *COSO Internal Control – Integrated Framework*
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring

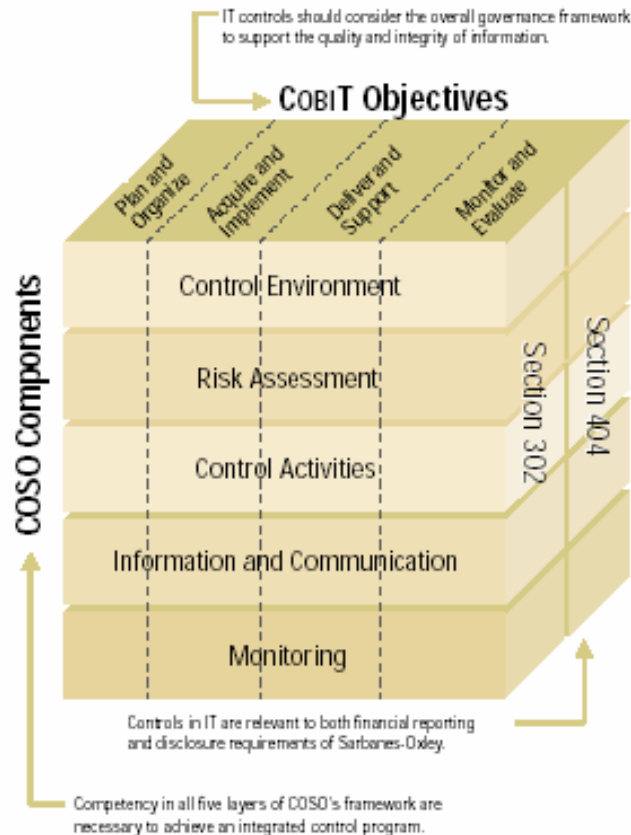


S-OX Compliance

- COBIT
 - Plan and Organize
 - Acquire and Implement
 - Deliver and Support
 - Monitor and Evaluate



S-OX Compliance



*Source: IT Governance Institute – IT Control Objectives for Sarbanes-Oxley



S-OX Compliance

- IT Governance Institute
 - Reviewed COBIT Control Objectives
 - Reconciled the objectives to COSO
 - Determined if objectives related to financial reporting
 - Result:
 - 27 IT Processes
 - 136 Detailed Control Objectives



S-OX Project Approach

- Assess readiness of IT Department
 - Determine IT Department integration with 404 implementation
 - Determine extent of documentation
 - Determine existing controls
 - Determine senior management's understanding of the impact of IT controls on 404



S-OX Project Approach

- I – Plan and Scope
 - Identify the key systems and subsystems that are involved in the initiation, recording, processing, and reporting of financial information



S-OX Project Approach

- II – Risk Assessment
 - Assess the impact and risk to
 - Information Quality
 - Programming change controls
 - Access to systems
 - Availability of information
 - Confidentiality
 - Recoverability



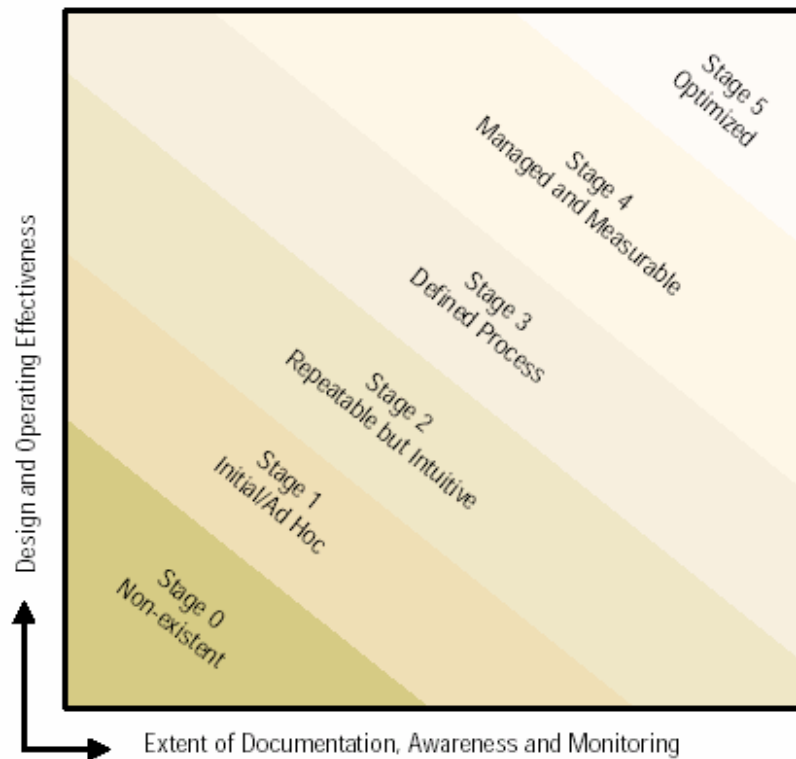
S-OX Project Approach

- III – Identify Key Controls
 - General Controls
 - Application Controls
- IV – Document Control Design



S-OX Project Approach

- V – Evaluate Control Design



*Source: IT Governance Institute – IT Control Objectives for Sarbanes-Oxley



S-OX Project Approach

- VI – Evaluate Operational Effectiveness
 - More significant controls correlates to more testing
- VII – Determine Control Weaknesses
- VIII – Document Results
- IX – Develop Action Plan and Maintenance Plan



Resources

- Securities and Exchange Commission (SEC)

www.sec.gov

- American Institute of Certified Public Accountants (AICPA)

www.aicpa.org

- IT Governance Institute

www.itgi.org

- Public Company Accounting Oversight Board

www.pcaobus.org



Resources

- Committee of Sponsoring Organizations of the Treadway Commission (COSO)

www.coso.org

- Information Systems Audit and Control Association (ISACA)

www.isaca.org



Questions?

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