

The 2005 Oversight Systems Financial Executive Report On Sarbanes-Oxley

Employee Morale Threatens Sarbanes-Oxley Compliance as Companies Drive to Automate Manual Processes

While the SEC reviews Section 404 of Sarbanes-Oxley, financial executives report that SOX compliance reduces the risk of fraud, decreases errors and improves financial operations.

Nearly half of financial executives feel the biggest issue related to SOX compliance is the need to maintain the morale of the employees responsible for compliance, according to the 2005 Oversight Systems Financial Executive Report on Sarbanes-Oxley. The survey of more than 200 financial executives also reports that reducing internal and external costs ranked as the second most frequently cited challenge to ongoing compliance (see: Morale and Monetary Pressures graph).

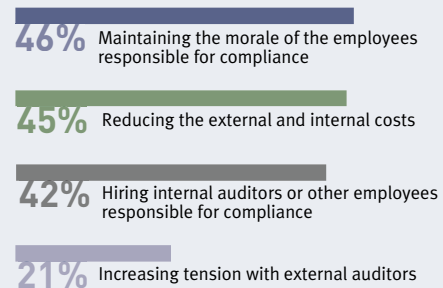
The survey also reveals that most financial executives say that after implementing SOX requirements to remediate control deficiencies, most companies have seen bottom-line business benefits. Nearly half, 49 percent, say SOX compliance resulted in reduced risk of fraud and errors; 48 percent say they now have more efficient financial operations; and 31 percent say error rates have declined. Of the group, only 14 percent said that remediating control deficiencies has had no real effect on financial operations; and a handful, 12 percent, report less efficient financial operations after complying with SOX (see: Financial Operations Benefit graph).

“Obviously, complying with Section 404 of Sarbanes-Oxley has been extremely expensive,” said Joseph V. Carcello, co-founder & director of research for the University of Tennessee’s Corporate Governance Center. “However, stronger controls lead to real benefits in the form of eliminating waste, eliminating abuse and better information for improved decision making.” Carcello is also an advisor to Oversight Systems.

The survey also found that the burden in terms of human and monetary capital could compromise future compliance efforts.

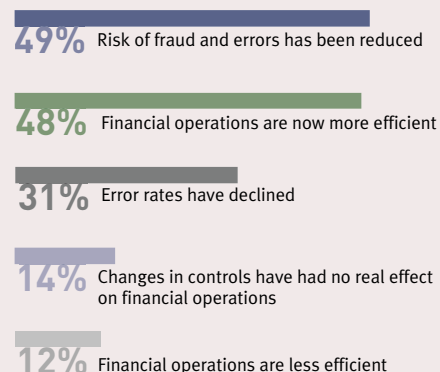
Morale and Monetary Pressures – Roadblocks?

Burdens in terms of human and monetary capital could compromise future SOX compliance efforts, according to financial executives. When asked to identify the biggest challenges to sustaining SOX compliance, the respondents said...



Financial Operations Benefit from Correcting Control Deficiencies

Most financial executives said that after remediating control deficiencies, their companies saw bottom-line business benefits. The results of SOX on financial operations are:



“From the perspective of reducing the risk of fraud, Sarbanes-Oxley is definitely achieving its goal of improved corporate accountability,” said Patrick Taylor, CEO of Oversight Systems. “Our previous SOX study found that financial executives think SOX compliance was a good investment for stockholders, and this report confirms that leading companies derive tangible benefits from SOX. However, the compliance process could be derailed by the burdens placed on the people responsible for day-to-day compliance. As the SEC solicits feedback regarding Section 404, the message is clear: companies can’t rely on personnel alone to maintain long-term compliance.”

Reducing Compliance Costs

To reduce the burden on employees and the many costs of complying with Sarbanes-Oxley, 60 percent of financial executives say they are implementing technology solutions that automate manual processes required for compliance (see: Automation = Lower Sox Costs graph).

“The 404 process has been a tremendous burden on employees”

Joseph V. Carcello, University of Tennessee

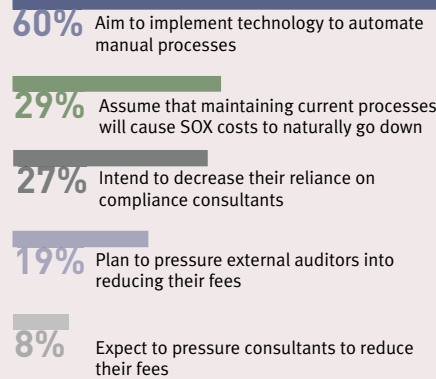
“The 404 process has been a tremendous burden on employees who have worked extremely hard to meet tight deadlines documenting internal controls. The solution is to automate the manual compliance tasks with technology, such as continuous monitoring,” Carcello said.

Other approaches to cost control include:

- Simply maintaining current processes, which will cause SOX costs to naturally go down (29 percent)
- Decreasing their reliance on compliance consultants to lower costs (27 percent)
- Pressuring external auditors into reducing their fees (19 percent)
- Pressuring consultants to reduce their fees (8 percent).

Automation = Lower SOX Costs

Financial executives were all eager to find ways to cut SOX costs; however, nearly a quarter (23 percent) say they don’t expect SOX compliance costs to fall during 2005. Ways companies plan to reduce SOX costs during 2005 include:



However, nearly a quarter of respondents (23 percent) say they don’t expect SOX compliance costs to fall during 2005. Non-audit financial executives (CFOs, vice presidents of finance and controllers) were more than twice as likely as internal audit executives (chief auditors and vice presidents of internal audit) to say they don’t expect SOX compliance costs to fall this year.

Internal Controls and the Role of Continuous Monitoring

To comply with Section 404 of Sarbanes-Oxley, most companies have structured their internal controls as outlined by the COSO (Committee of Sponsoring Organizations) internal controls framework. However, much of the laborious work could be avoided if companies placed a bigger emphasis on the framework’s monitoring component.

“Companies are underutilizing the monitoring component of the internal control framework,” said Mark S. Beasley, professor & director of the Enterprise Risk Management Initiative at North Carolina State University. “Some are too focused on the detailed control activities, and they are missing the opportunity to monitor transactions for control compliance.” Beasley is also an advisor to Oversight Systems.

The report found other possible roadblocks that challenge ongoing SOX compliance, such as hiring internal auditors or other employees responsible for compliance (42 percent). Some respondents reported they faced problems resulting from friction with external auditors (21 percent).

Audit Committees and the 10-k

Sixty percent of financial executives report that board audit committees increased their involvement in the fiscal year-end closing process or 10-k filings, according to the Oversight Systems survey. Almost half (47 percent) report more involvement from the CEO. Less than a quarter of financial executives (23 percent) say that SOX delayed their fiscal year-end closing process or 10-k filings. However, only 27 percent said SOX had no impact on their closing or filing processes (see: Executives Keeping a Keen Eye on the Numbers graph).

Executives Keeping a Keen Eye on the Numbers

Executive attention to fiscal year-end closing processes and 10-k filings is greater in the post-SOX era. When financial executives were asked how SOX affected the year-end closing and 10-k filing processes, they said it...

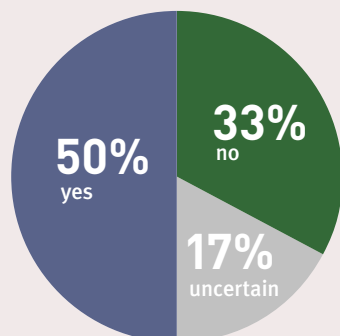


SOX Compliance and Enterprise Risk Management

The Oversight survey reveals that half of financial executives say they integrate their SOX compliance as part of a broader enterprise risk management strategy. Thirty-three percent say their SOX compliance is not part of an ERM strategy, and 17 percent say they are uncertain. Surprisingly, when evaluated separately, non-audit financial executives were more than 50 percent more likely to say they don't know if their SOX-compliance effort was part of a broader enterprise risk management strategy than were internal audit executives (see: Linking SOX to Enterprise Risk Management graph).

Linking SOX to Enterprise Risk Management

When financial executives were asked if their company integrates SOX compliance as part of a broader Enterprise Risk Management strategy, the answer was split.



“Sarbanes-Oxley is all about risk assessment and assessing control effectiveness for financial reporting,” Beasley said. “After spending millions to comply with SOX, companies should look to create value by leveraging their SOX work into a broader enterprise-wide approach to risk management.”

“After spending millions to comply with SOX, companies should look to create value”

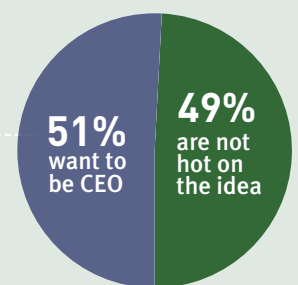
Mark S. Beasley, North Carolina State University

Aiming for the Corner Office

The survey asked audit-related financial executives if they were interested in being a CFO. Only 31 percent said yes. Non-audit financial executives were asked if they were interested in being a CEO, and 51 percent said yes (see: Covet a Corner Office? graph)

Covet a Corner Office?

Financial executives were split down the middle when asked if they wanted to be a CEO.



Internal audit executives were less interested in being CFO.

About the 2005 Oversight Systems Financial Executive Report on Sarbanes-Oxley

The report is released in advance of the April 13 Securities and Exchange Commission (SEC) public roundtable on Sarbanes-Oxley (SOX) implementation. A total of 212 financial professionals from across the U.S. participated in this study, which was conducted at two major industry events held in March 2005 – CFO Rising and the Institute for Internal Auditors' General Audit Management Conference. Titles of those surveyed included chief financial officer, chief audit executive, controller, vice president of finance, and director of internal audit.

This study follows the December release of the 2004 Oversight Systems Financial Executive Report on Sarbanes-Oxley, a nationwide survey of 222 financial executives. The 2004 report showed most financial executives were torn on the cost vs. benefits of Sarbanes-Oxley compliance. The report can be downloaded at www.oversightsystems.com/survey.html.

Other Oversight Systems Reports

The 2004 Oversight Systems Financial Executive Report on Sarbanes-Oxley, released in December 2004, showed that most financial executives were torn on the cost vs. benefits of Sarbanes-Oxley compliance, and it has been cited in the Public Company Accounting Oversight Board (PCAOB) Release No. 2005-009, a policy statement regarding implementation of auditing standards.

All Oversight Systems reports can be downloaded for free at www.oversightsystems.com/survey.

About Oversight Systems

Oversight Systems is the leading provider of independent, continuous monitoring solutions for real-time transaction inspection. By combining the expertise and experience of security, fraud, audit and enterprise software development professionals, Oversight Systems is redefining how enterprises satisfy Sarbanes-Oxley compliance requirements, and enabling corporations to gain substantial returns from their compliance investments. For more information, visit www.oversightsystems.com.

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