

---

Sarbannes Oxley Act

**CFO-Experiences with the  
implementation and adoption of internal  
controls in a European Corporate**

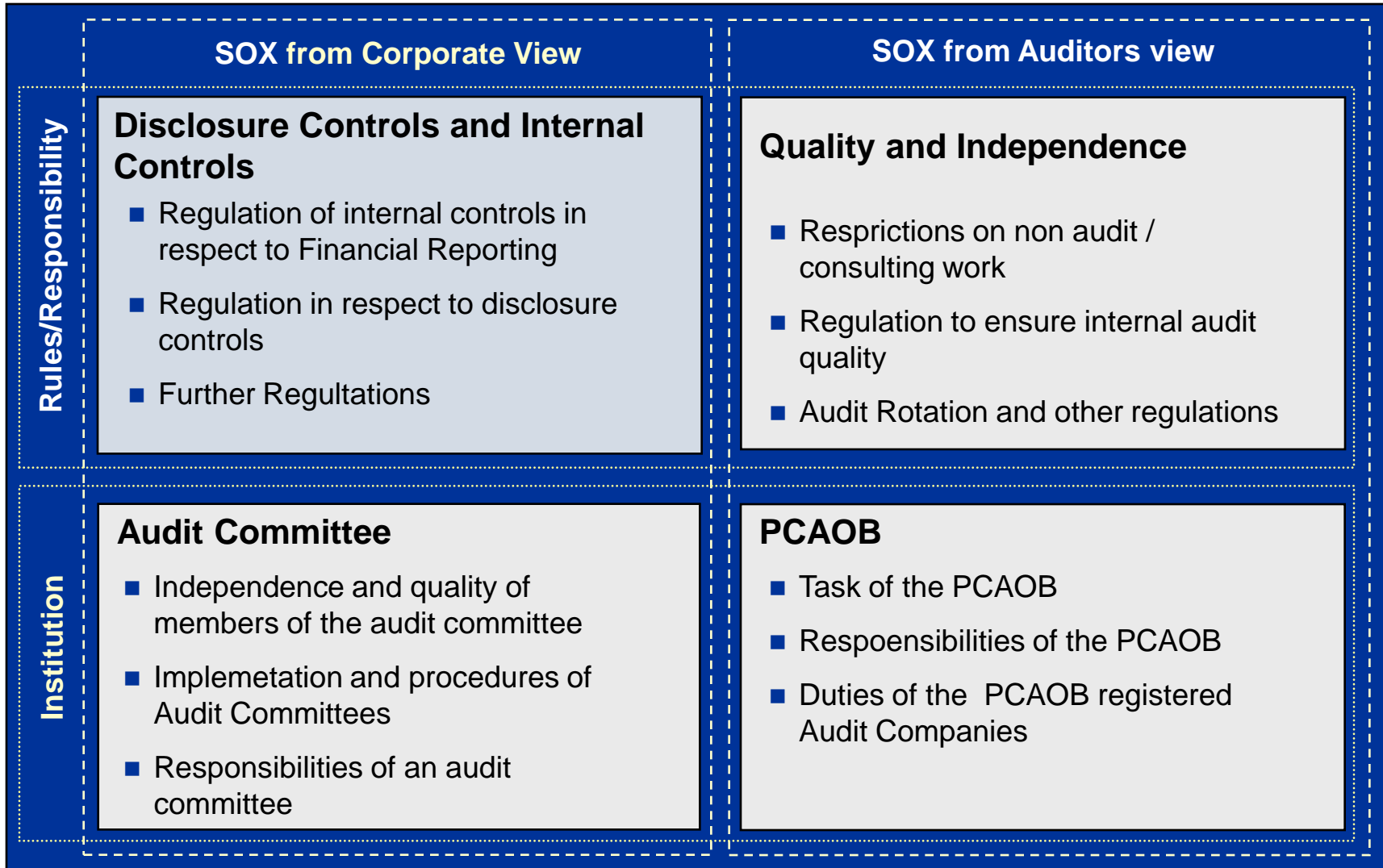
**Key Findings & Lessons learned**

# Chronology of Sarbanes-Oxley Act (SOX)

---

July 20th, 2002	<b>Präsident Bush signs SOX</b>
August 29th 2002	<b>SEC introduces the SOX 302</b>
Oct. 2002 – Jan. 2003	<b>SEC gives guidance how to implement various SOX Regulations</b>
Jan - July 2003	<b>SEC veröffentlicht Anwendungsbestimmungen zur Umsetzung der zentralen Bestimmungen des SOX</b>
April 26th 2003	<b>Foundation of the Public Company Accounting Oversight Board (PCAOB)</b>
Oktober 22nd 2003	<b>Registrierungszeitpunkt für alle US-WP-Gesellschaften beim PCAOB</b>
April 19th 2004	<b>Registrierungszeitpunkt für ausländische WP-Gesellschaften beim PCAOB</b>
November 15th 2004	<b>First time adoption of SOX 404 in US-Corporates</b>
July 15th 2005	<b>First Time adoption of SOX 404 in foreign Institutions</b>

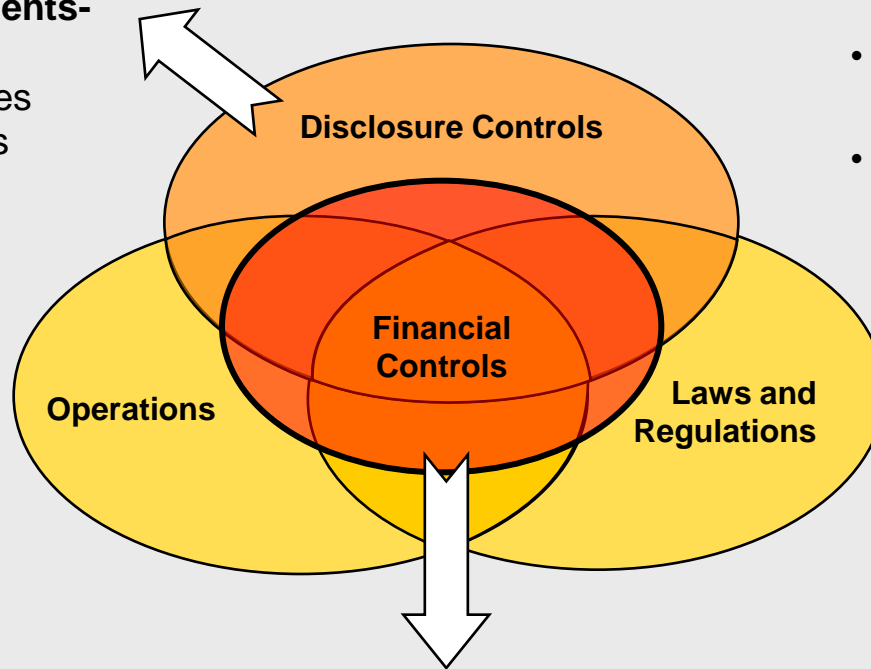
# The four cornerstones of SOX



# Co-Operation of SOX 302 and SOX 404

## Requirements of SOX 302

Controls, which ensure the **Reporting-Content in line with SEC-Requirements**-drafted and reported ensuring a real pictures about the Companies situation



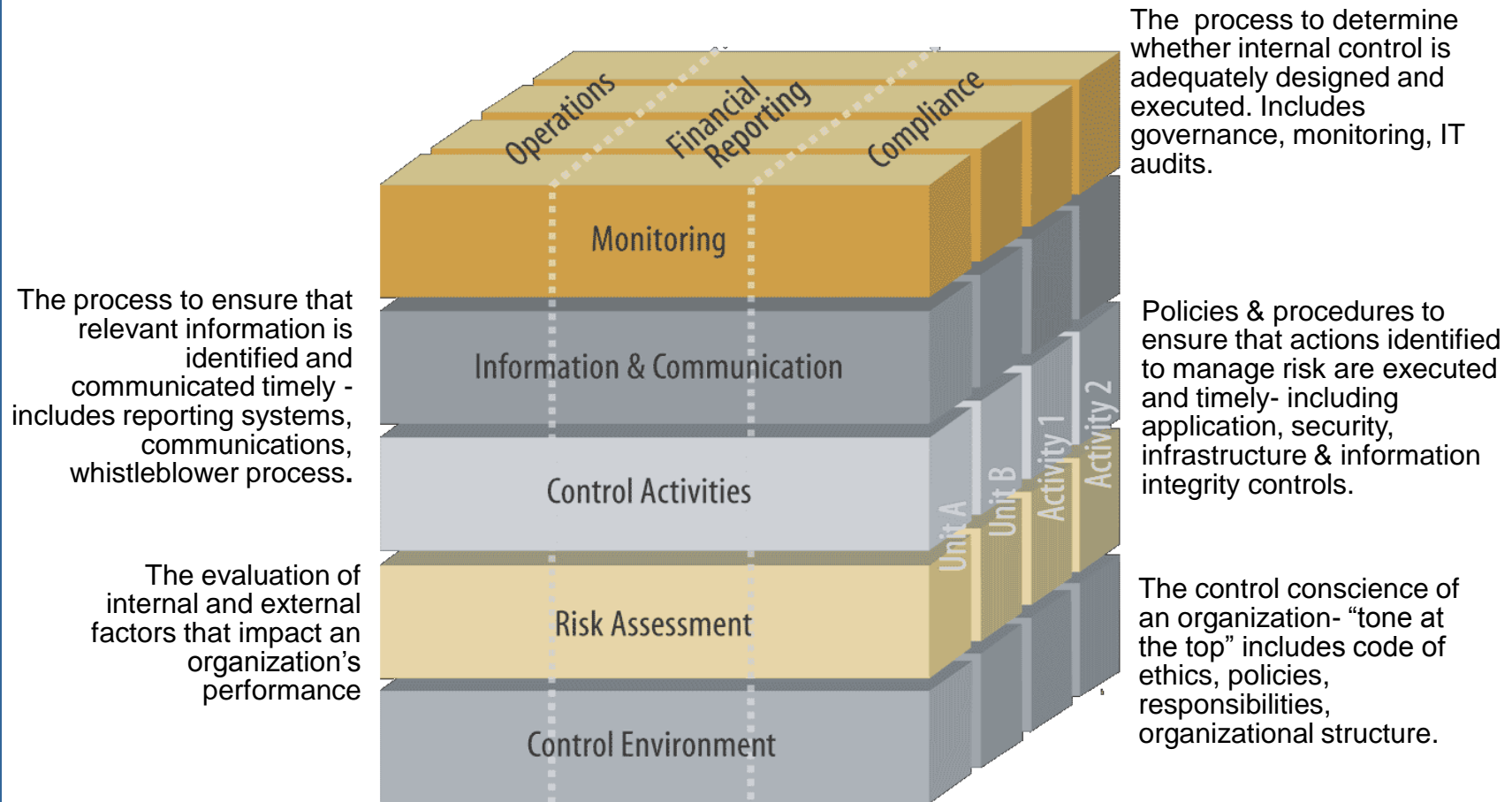
## COSO Framework

Internal Controls to ensure:

- Reliability of Financial Reporting
- Effectiveness & efficiency of all internal processes
- Compliance with laws and regulations

**REQUIREMENTS out of SOX 404:** All Controls, which are in the context of producing the **Financial Reporting** have to add value, delivering a true and fair view of the financial situation of the company compliant with US-GAAP

# Framework for Internal Controls: COSO



# Experiences from the field

---

## **Wishful Thinking in most corporates:**

- Existing Risk Management fullfills SOX requirements.

## **Lessons Learned**

- Existing Risk Management Systems do not fullfill SOX-requirements

### Mostly Missing:

- A definition of „Significant Controls“
- Definition and Implementation of accepted Standards (z.B. COSO)
- Plan / Possibility to check all significant Controls on a yearly basis
- Complete Documentation of aims of control and control activities of the relevant processess.

# Sarbanes Oxley readiness project:

Dr. Stefan Gros

CFO Rising, London, September 27th 2005

- Definition of internal Control framework/ Control Concept
- Selection of relevant Company entitites
- Definition of important processes
- Definition of referenceprocesses and -controls
- Determination of a self-assesment-process

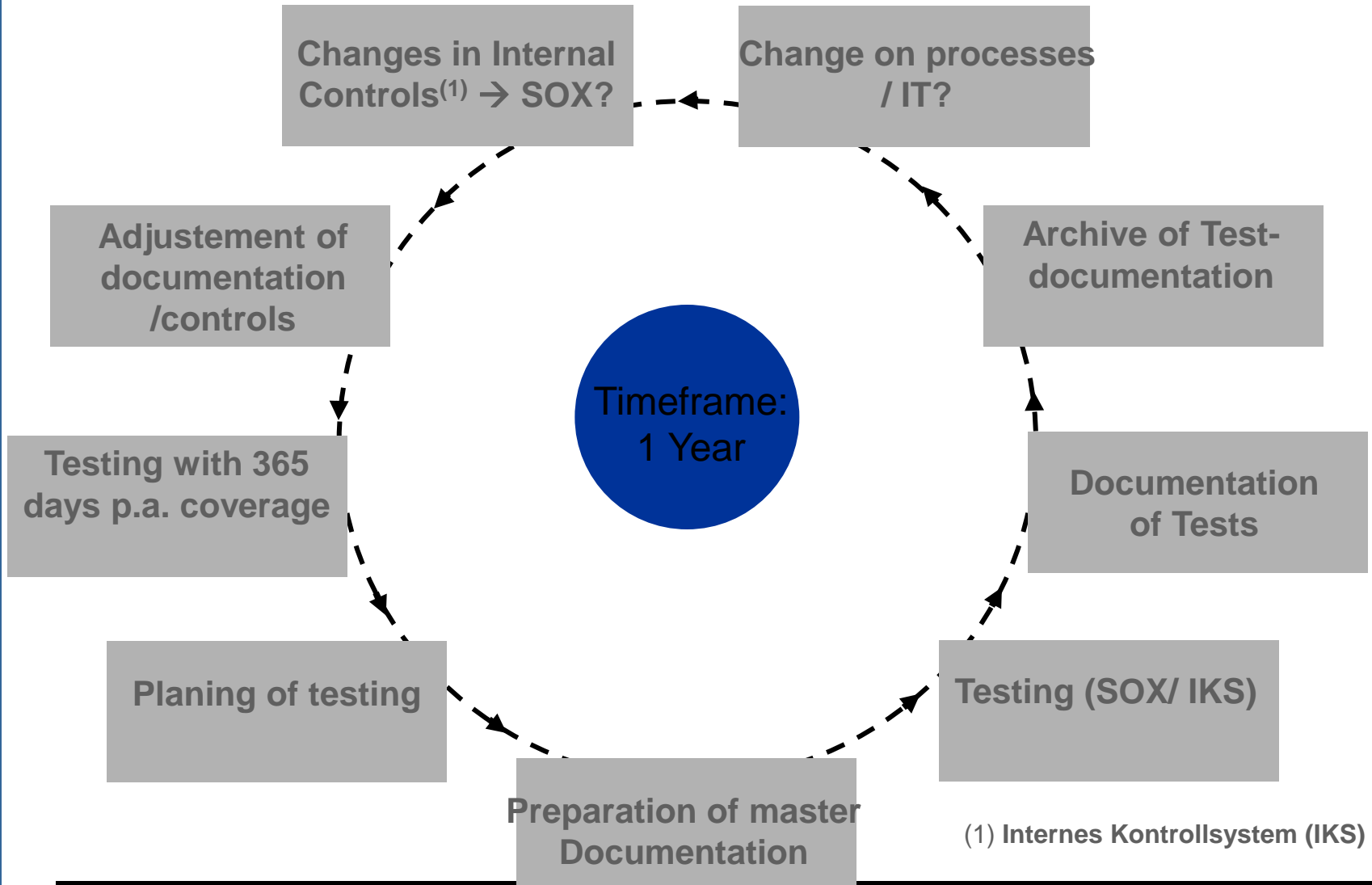
**Standard Setting: Top down**



- Combining the results of self- assesment and regular reporting
- Doing a self – assessment
- Implementing the „Top-down- Approach“ and adjustments to specific situations if necessary

# Sarbanes Oxley – regular work to be performed

## There is no life after SOX, just a Life with SOX





# Business Potentials of SOX-projects (1/2)

- Long Term Planning of Project and Implementation



- Central vs. De-Central responsibility for controlling of controls



- Centrale vs. De-Centrale responsibility of the overall management of SOX



- Including Auditors and Internalö Audit in the project



# Business Potentials of SOX-projects (1/2)

Dr. Stefan Gros

CFO Rising, London, September 27th 2005

- Formal vs. Informal Communicationstructures



- Formal vs. Informal reporting lines



- Integration of existing risk-, control- and reporting systems



- Missing Software Support



# Summary of operational aspects & hints

---

- SOX 404 can not be underestimated !
- The role of the CFO in an organisation increases and changes
- The CFO has to be the guardian of change in organisation by utilising the SOX Project Findings to go beyond SOX 404
- Going beyond SOX 404 means:
  - SOX 404 is not just a FINANCE issue, it is a Company issue
  - Improving processes beyond audit needs
  - Changing processes beyond audit needs
  - Solve weaknesses in transparency, quality of processes and key staff to improve bottom line results
  - Communicating SOX 404 to Investors

DOWNSIDE: Being the MASTER of documentation the Companies decline!

# Can SOX 404 be a driver of growth?

---

- Over the last 12 months the spotlight of SOX 404 turned into a harsh glance. This is not surprising after the operational impact I just demonstrated – the impact on public listed companies is enormous
- However despite all obstacles: I do support SOX 404 because its goal is to restore investor confidence in our capital market system. SOX 404 is in my personal opinion the glue that holds the Sarbanes Oxley Act together.
- The Question Can SOX 404 be a driver for growth? Can be answered from 4 angles: ***Change; Benefit; Cost and Expectation***
- **Change:** Lets look at it from regulation side. Over the last year views have been expressed that the pendulum has swung too far and has required too much change. Two congressmen said in April 2005 : SOX should be repealed, the other compliance should be voluntary.
  - From my perspective both ideas are ill-conceived. Could 404 be improved? YES
  - Can we expect SOX 404 to be a driver of growth? Absolutely

CEOs & CFOs however need to ensure that there's a balance between regulation, strong internal controls AND smart risk-taking

# Can SOX 404 be a driver of growth?

---

- Companies ability to provide more accurate and transparent financial reporting on which investors can base better decision: A Win/Win for the Company and investors
- Three years into SOX „business as usual“ has taken on a new meaning, and we cannot underestimate the magnitude of change that have been and still have to be absorbed. Certification becomes due to the accountability of the CEO and CFO a major focus through out the organisations.

As I said huge changes, and, the way I see it, all are positive!

- **Cost & Benefit:** This aspect has grabbed most headline space this year.
- **Benefits:**
  - Internal control deficiencies have been identified
  - Business Processes were enhanced ; Managements, employees appreciation, understanding and accountability for internal controls has been SHARPENED
  - SOX helped Companies to reduce their risk
  - fewer Incidents in accounting fraud

However Benefits are harder to quantify and many are longer term!

# Can SOX 404 be a driver of growth?

---

- Cost: - Deferred maintenance
  - Strong foundation, which does not need repetition
  - Internal staffing can reduce upfront costs
  
- Fourth Aspect of the question: Expectations
  - Investors and analysts still need time to incorporate the new reporting model into their decision making
  - 404 is not a silver bullet. While internal controls over financial reporting can help prevent fraud, there's no 100% guarantee that 404 will prevent a major financial scandal. However there should be fewer internal control deficiencies and surprises in the next years.
  - Our Year one experience in Europe are not the litmus test of the success or failure of 404. Rather, truly and fairly assessing the value that 404 can deliver requires a longer term perspective

**Summary: Only if in the next two years fewer accounting surprises take place we know that SOX 404 has accomplished its task.**

---

THANKS FOR YOUR ATTENTION!

**Dr. Stefan E. Gros**  
**[stefan.gros@dr-gros.de](mailto:stefan.gros@dr-gros.de)**