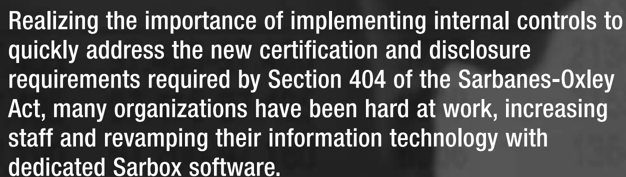
KELLY
FINANCIAL
RESOURCES

issues&trends

A KELLY FINANCIAL RESOURCES® REPORT



OUTSIDE RESOURCES

Playing a Key Role in Sarbox Implementation

Since becoming law on July 30, 2002, the Public Company Accounting Reform and Investor Protection Act of 2002 has created a measurable impact on large and small public companies throughout the nation. Better known by its nickname, after its co-sponsors, Sen. Paul Sarbanes and Rep. Michael Oxley, who chair the House-Senate conference committee on corporate accounting reform, the Sarbanes-Oxley Act, or Sarbox, has essentially rewritten the rules for corporate governance, disclosure, and reporting. As a result, it is not surprising that in a survey conducted by CFO magazine, 43 percent of respondents revealed “increased regulation” and “accounting concerns” remain the primary issues facing today’s top financial executives.

Realizing the importance of implementing internal controls to quickly address the new certification and disclosure requirements required by Section 404 of the Sarbanes-Oxley Act, many organizations have been hard at work, increasing staff and revamping their information technology with dedicated Sarbox software. A January 2004 survey conducted by Financial Executives International (FEI) found that 25 percent of responding companies have already

> **“To ensure not only compliance, but also continued corporate success, it’s imperative that organizations implement quick, accurate, and reliable financial and accounting practices,” said Robert Lyons, vice president of Kelly Financial Resources. “As companies review and reorganize their processes and skills portfolios, turning to highly qualified outside resource professionals can help them meet both their short- and long-term Sarbox compliance goals.”**

deployed a permanent tool solution for Section 404 compliance; 52 percent plan to deploy a solution sometime in 2004; and 10 percent plan to deploy after 2004. However, at the time of the survey almost 14 percent of the responding companies had no specific plans to implement a solution.

Additionally, the one-year reprieve from the Sarbanes-Oxley implementation deadline, which currently applies to organizations with fiscal years ending on or after June 15, 2004, gives companies more time to put in place the right processes and controls. “It is vital that CFOs and their management teams use this extended deadline to closely review how they must change their portfolio of skills and the people in their shop to become compliant,” said Robert Lyons, vice president of Kelly Financial Resources, a business unit of Kelly Services. “The best way to accomplish their mission is for company management to work in partnership with both their HR department and outside providers.”

Sarbanes-Oxley: A Brief Overview

When President George W. Bush ushered in the Sarbanes-Oxley Act of 2002, he created what has been categorized as the most sweeping revision of federal securities laws since the New Deal era nearly 70 years ago. Essentially, the Act requires that company management maintain awareness of all information that is filed with the Securities and Exchange Commission (SEC) and released to investors. It further requires that management be held accountable for the fairness, thoroughness, and accuracy of this information.

Without a doubt, the most demanding parts of the Act are Sections 302, 404a, and 404b. Section 302 requires CEOs and CFOs to certify their responsibility for disclosure controls and procedures. Each quarterly filing with the SEC must include documentation that the CEO and CFO have personally evaluated the design and effectiveness of these financial controls. Additionally, the certification must indicate that the company heads have disclosed any significant control deficiencies, material weaknesses, or evidence of fraud to their Audit Committee and independent auditor.

Section 404 requires corporate managers to set up internal controls over financial reporting and to evaluate and report on the effectiveness of those controls. Managers must identify any “material weaknesses” they find in the controls. Further, the Act requires a public company’s outside auditors to provide an attestation report on management’s evaluation of the controls.

The stakes are sky-high for today’s CEOs and CFOs. Along with crushing compliance deadlines, failure to meet the terms of these strict regulations could expose CEOs and CFOs to millions of dollars in potential fines—with the looming specter of shareholder lawsuits and prison terms threatening at all times.

Compliance Adds to an Already Full Plate

Given the broad mandates of Sarbox, most companies have discovered that ensuring compliance is a major undertaking. A survey conducted by a major Big Four accounting firm indicates 54 percent of HR respondents find their greatest challenge associated with Sarbox compliance to be the availability of staff to dedicate time to the task, as well as the lack of other resources. And those companies that have procrastinated in implementing Sarbox compliance measures may not fully realize the extreme impact of their late start until they begin adding up the extra staff hours spent on Sarbox.

Moreover, in a survey conducted by Financial Executives International (FEI) in January 2004, respondent companies expect to spend an average of 12,265 people hours internally to comply with Section 404 (the number of hours is directly proportional to the size of the company). In the same FEI survey, respondent companies expect to pay for an average of 3,059 external people hours to comply with Section 404.

“Given the large amounts of time, money and human capital required by Sarbox, companies will be moving from a ‘project-focused’ mentality in 2004 to a more ‘process-focused’ mentality in 2005,” said Lyons. “And as a result, the objectives are changing. The ultimate goal for companies is to create business process improvements that foster sustainability of the control structure while ensuring a continuing positive impact on the business.”

A January 2004 survey conducted by Financial Executives International (FEI) found that 25 percent of responding companies have already deployed a permanent tool solution for Section 404 compliance; 52 percent plan to deploy a solution sometime in 2004; and 10 percent plan to deploy after 2004. However, at the time of the survey almost 14 percent of the responding companies had no specific plans to implement a solution.

How Executives Can Help Meet Compliance

Lyons points out that a unique opportunity now exists for CFOs and other key financial professionals to assist human resources managers, who are making the transition from the initial compliance year to implementing a long-term Sarbox plan. There are several important steps to take to ensure new staff members have the appropriate skill sets and backgrounds required to execute the necessary control activities:

- Mirror the framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, which arose from the savings-and-loan scandals of the 1980s. This framework breaks the concept of effective internal control into five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring.
- Analyze the organization's current state regarding these five components. Large companies may need to dedicate full-time staff to an internal controls program management team. Once the company identifies its strengths and weaknesses, the shortcomings should be corrected.
- External auditors can also use this framework to verify company management's claim of the effectiveness of its internal controls and financial reporting procedures.

Although the Sarbox guidelines may seem daunting at first, Sarbox compliance need not cause major business upheavals if executives invest time wisely in a little foresight and planning. To meet stringent Sarbox mandates, Lyons recommends organizations take the following steps to realize greater performance within their accounting and finance functions:

- Review your company's accounting and financial control processes, and benchmark them to best practices.
- Develop an organization-wide plan to service the needs of your external customers.
- Similarly, develop a plan to identify and service the needs of your organization's internal customers.
- Identify and implement key performance factors throughout the enterprise and utilize the results to improve accounting and financial operations.
- Prioritize improvements by first implementing those that will produce immediate results; then concentrate on those programs that will create long-term changes.

Turning to Outside Resources

While the passage of Sarbanes-Oxley has presented numerous challenges, it has also created just as many opportunities, such as addressing issues that have previously been put on the back burner. Lyons offers some good advice for managers to help them address these issues. "To be sure all areas are covered, managers can—and often do—reassign their permanent staff to devote time to the more serious work of Sarbox compliance. They can then use the services of outside firms to help supplement the more traditional accounting and finance roles that have had to be temporarily vacated by the permanent staff."

Specifically, companies that are understaffed or lack an audit department may opt for an outsourcing arrangement with a third-party service provider other than the external auditor, as permitted by the Sarbox regulations. Companies must look to their internal risk profiles to drive staffing decisions. Businesses facing a significant number of risks, particularly complex risks, will require a range of specialists and expertise.

Lyons points out that most internal audit departments are headed by a chief audit executive and include layers of staff such as managers, senior auditors and auditors. Yet, as many companies have found—not only in securing Sarbox compliance, but also in handling individual projects—tapping into the specialized skill sets of outside resources for assistance is a quick, cost-effective solution that offers additional benefits as well. "These professionals often provide a higher level of experience, independence, and objectivity than current permanent staff," said Lyons.

“To ensure not only compliance, but also continued corporate success, it is imperative that organizations implement quick, accurate, and reliable financial and accounting practices,” said Lyons.

Reaping the Benefits of Corporate Governance

The good news for companies implementing Sarbox processes is that early adopters of strong corporate governance measures stand to reap significant benefits. A study conducted by McKinsey & Co. reveals:

- Among institutional investors, 57 percent said good corporate governance determined whether they increased or decreased their holdings in a company.
- Up to 41 percent of investors (depending on country of origin) are willing to pay a premium for good governance.
- By moving from worst to best in corporate governance, companies can expect a 10 percent to 12 percent gain in their market valuation.
- While this gain may not seem significant on a per-share basis, it translates to an increase of over $1 billion for a company with a $10 billion market capitalization.

Ensuring Continued Sarbox Success

The complexity of doing business is now even more intricate, thanks to Sarbox. “To ensure not only compliance, but also continued corporate success, it is imperative that organizations implement quick, accurate, and reliable financial and accounting practices,” said Lyons. “As companies review and reorganize their processes and skills portfolios, turning to highly qualified outside resource professionals can help them meet both their short- and long-term Sarbox compliance goals.”

Kelly Financial Resources has experienced and knowledgeable recruiters who find talent in a number of disciplines in the accounting and finance fields, including public accounting, general accounting, payroll/billing, internal audit, tax, budgeting and cost accounting, financial analysis, treasury, cash management, investor relations, mergers and acquisitions and credit management. For more information about Kelly Financial Resources visit ***www.kellyfinance.com****.*

To receive **FREE** white papers on the latest issues and trends facing the finance industry, register at **www.kellyfinance.com/kfrwhitepapers**.

For media inquiries, or to receive this article electronically, please contact the Public Relations department at **248-244-4305** or e-mail **publicrelations@kellyservices.com**.

RESOURCES:

CFO Magazine

“FEI” Survey on Sarbanes-Oxley Section 404 Implementation,” Financial Executives International, January 2004

“Getting Ready for Sarbanes-Oxley,” Deloitte & Touche, June 2003

McKinsey & Co.

An Equal Opportunity Employer
Kelly Financial Resources, A Business Unit of Kelly Services
© 2004 Kelly Services, Inc. M0819 6/04

KELLY SERVICES