

# The 2004 Oversight Systems Financial Executive Report on Sarbanes-Oxley



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## About the Survey

Through a combination of an invitation-only online survey and survey intercepts, 222 corporate financial leaders from across the U.S. participated in this study. Titles of those surveyed included CFO, controller, treasurer, vice president and director. Of the sample, 25 percent were in companies with more than \$5 billion in annual revenues, 23 percent with revenues from \$1 billion to \$5 billion, 22 percent between \$251 million and \$999 million, and 30 percent with revenues of \$250 million or less.

## **“Powerful Validation” of Sarbanes-Oxley: 79% of Financial Execs Report Stronger Internal Controls**

Despite the high costs of compliance, most financial executives (57 percent) describe their company's Sarbanes-Oxley compliance as a good investment for stockholders, and 79 percent say they have stronger internal controls after complying with the Enron-inspired law, according to the *2004 Oversight Systems Financial Executive Report On Sarbanes-Oxley Compliance*.

“Financial executives can justifiably complain about the costs and difficulty of complying with Sarbanes-Oxley, but even this group tells you they have stronger internal controls because of the law,” said Dr. Dana Hermanson, a professor of accounting and co-founder of the Corporate Governance Center at Kennesaw State University. Hermanson is also an advisor to Oversight Systems. “The medicine was tough to take, but we see direct benefits to the company and shareholders. This is powerful validation of the legislation.”

Nearly three quarters (74 percent) say their companies realized a benefit from SOX compliance. When asked to identify the benefits from SOX, the Oversight Systems' survey reports that:

- 46 percent say SOX compliance ensures the accountability of individuals involved in financial reports and operations
- 33 percent say SOX compliance decreases the risk of financial fraud
- 31 percent say they have reduced errors in their financial operations
- 27 percent say SOX improvements in the accuracy of financial reports
- 25 percent say SOX compliance empowers the board audit committee by providing it with deeper information, and
- 20 percent say SOX strengthens investors' view of the company.

As for the costs and work required in complying with Sarbanes-Oxley, 54 percent of financial executives say they spent more than originally projected, and 63 percent describe their SOX compliance as “difficult” or “very difficult.”

### **Tangible Costs & Perceived Benefits**

Many, 37 percent, of those surveyed say SOX increased shareholder value because investors know they operate as an ethical business, and 25 percent report that SOX boosts shareholder value by building overall confidence in the market. However, 33 percent say SOX compliance created a cost burden that suppresses stock prices, and 14 percent feel that SOX decreased their ability to pay out dividends because compliance expenses are a significant drain on earnings (respondents could select all that applied).

“We've seen a negative reaction to Sarbanes-Oxley because it's easy to quantify the cost and extremely difficult to quantify the benefits,” said Dr. Todd DeZoort, Accounting Advisory Board Fellow at The University of Alabama and an advisor to Oversight Systems. “It's great to see perceived benefits like improved accuracy in financial reports, but how do you place a dollar value on that? The reality is that the costs of financial reporting fraud or restating earnings can be in the billions.”

As part of the survey, respondents were also asked to define their feelings toward SOX legislation. Of the group, 52 percent say Congress had good intentions when it passed SOX, but the costs of compliance were not fully considered. Thirty-eight percent say SOX was Congress's over-reaction to the unethical behavior of a few executives, and 28 percent say the market requires regulations like SOX to boost investor confidence in the market's integrity. Only 13 percent say the benefits of SOX outweigh the costs of complying while 25 percent say the costs of complying with SOX outweigh the benefits (respondents could select all that applied).

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### Ongoing Compliance Costs & Controls Testing

Financial executives are more divided on their costs of SOX compliance for 2005 and their approach to ongoing complying with Section 404 of the law that requires testing and reporting on the effectiveness of internal controls. The survey reports that:

- 26 percent say year-two compliance costs will total between 50 percent and 74 percent of first-year costs
- 25 percent say year-two compliance costs will total between 25 percent and 49 percent of first-year costs
- 17 percent say year-two compliance costs will total less than 25 percent of first-year costs
- 16 percent say year-two compliance costs will total about the same as first-year costs
- 12 percent say year-two compliance costs will total between 75 percent and 99 percent of first-year costs, and
- 3 percent say year-two compliance costs will be more than first-year costs.

The survey showed wide variation in the frequency of testing and monitoring internal controls where 38 percent say once a quarter, 23 percent say continuously as transaction are processed, 22 percent say monthly, 10 percent say weekly and 7 percent say daily.

“Everyone is really struggling to figure out how they’re going to address this going forward,” Hermanson said. “The mindset has been on getting compliant this year. This survey shows a lack of consensus on what it means to monitor and maintain controls.”

For executives concerned about ongoing SOX compliance costs, Hermanson recommends that companies evaluate technology solutions that automate some of the manual work of internal auditors or SOX consultants. “Continuous monitoring can reduce ongoing SOX compliance costs in two ways. First, it only makes sense to leverage technology for a job that would otherwise require exhaustive time from employees or consultants. Second, you’re able to identify and correct control deficiencies as they happen when only four or five transactions may be affected. The same problem might cause 400 to 500 exceptions if you only test your controls at the end of the quarter.”

Nearly a quarter of those surveyed (24 percent) say they plan to implement a technology solution to continuously monitor key controls and transactions to maintain SOX 404 compliance.

### Active Audit Committees

While financial executives are divided on ongoing costs and controls testing, most are experiencing increased involvement from their board audit committees. Forty-five percent describe their board audit committee’s involvement with SOX compliance as “active”, and 19 percent say “highly active and interested in the details of our efforts.”

“Audit committee members who have not been as active are scrambling to come up to speed with some pretty technical issues,” DeZoort said. “As a result, they may be focused on compliance as opposed to the best practices of corporate governance. There’s definitely a fear of accountability, but fear as a motivator is not always a bad thing.”

Other interesting data points show that 45 percent of financial executives say that as individual investors they do not feel SOX disclosures and compliance requirements allow them to make better investment decisions or feel more confident in investments. Forty-four percent say that SOX has increased allow them to make better investment decisions, and 11 percent of financial executives said as individual investors they do not purchase stock in public companies. Thirty-one percent say that more than 50 percent of their financial department professionals hold financial certifications (such as CMA, CFM, CIA, CPA, etc.) from an organization with enforceable ethical codes. When asked how many full-time employees are dedicated to SOX compliance, 18 percent said more than 15, and 37 percent report that they spend more time with their CEO as a result of SOX compliance.

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### **About the 2004 Oversight Systems Financial Executive Report On Sarbanes-Oxley Compliance**

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### **About Oversight Systems, Inc.**

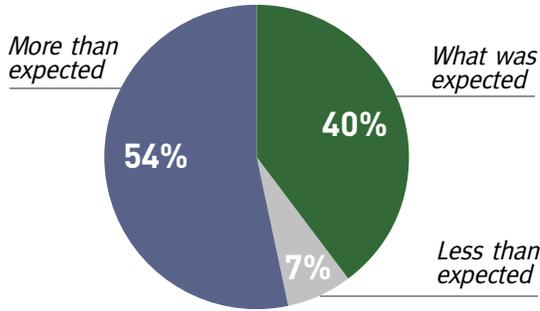
Oversight Systems reduces the cost of ongoing Sarbanes-Oxley compliance by continuously monitoring key controls required for Section 404 certification. With its real-time *Transaction Integrity Monitoring* solutions, Oversight addresses the tangible costs of controls testing and remediation along with the opportunity costs associated with the internal distractions of compliance. Oversight catches errors, fraud and internal control issues early in the transaction process so that corrections can be made before time is wasted duplicating and reversing work, before money is lost and before controls are deemed deficient. By identifying the root-cause of control violations and errors in real time, Oversight allows companies to improve the quality of their earnings, ensure accountability, enhance business processes and remediate any weaknesses for regulatory compliance. For more information about Oversight visit [www.oversightsystems.com](http://www.oversightsystems.com).

# Numbers to Know

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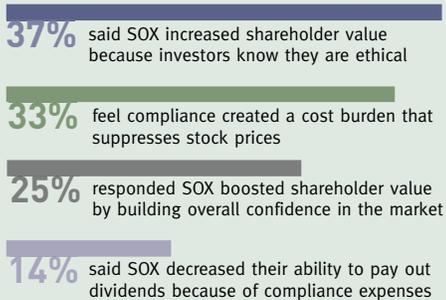
### The Spend Trend

When asked about their spending levels for first-year SOX compliance, the group said they spent ...



### The High Cost of Compliance

Although 57% of financial executives say Sarbanes-Oxley (SOX) compliance was a good stockholder investment, the bottom-line benefits of SOX seem fuzzier when the group was asked what impact SOX compliance had on shareholder value.



### Bountiful Benefits

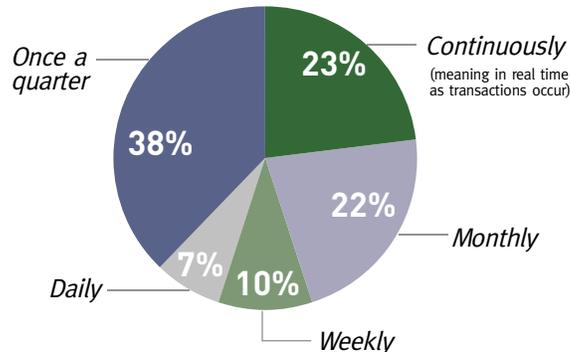


Of those surveyed, 79% report having "significantly stronger" or "somewhat stronger" internal controls as a result of SOX, and 74% say they realized a benefit from SOX compliance.

When asked to identify the benefits, they say SOX ...

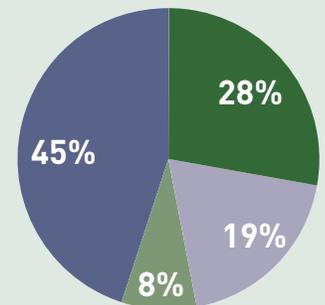
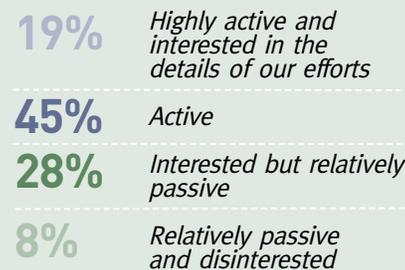
### Controls Testing Discord

75% of those surveyed say they would vote to keep SOX Section 404, which requires the documentation, monitoring, reporting and attestation of internal controls, if they were members of Congress. But when asked how often they plan to monitor and test their own internal controls for SOX 404 compliance many appear to be in no rush ...



### Active Audit Committees

When asked to describe their audit committee's level of involvement, financial executives said:



### About the Survey

A nation-wide sample of 222 financial executives participated in this combination invitation-only online survey and survey intercepts. Those surveyed included CFOs, controllers, treasurers, vice presidents and directors. Of the sample, 25% were in companies with more than \$5 billion in annual revenues, 23% had revenues from \$1 billion to \$5 billion, 22% between \$251 million and \$999 million, and 30% reported revenues of \$250 million or less.



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**1.) How large is your company in terms of annual revenue? (Select one)**

- 30 percent – less than \$250 million
- 11 percent – \$251 million to \$500 million
- 11 percent – \$501 million to \$999 million
- 23 percent – \$1 billion to \$5 billion
- 25 percent – Greater than \$5 billion

**2.) On a scale of 1 to 4 (1 being very easy and 4 being very difficult), has SOX compliance been easier or more difficult than expected? (Select one)**

- 3 percent – 1 (very easy)
- 34 percent – 2 (easy)
- 50 percent – 3 (difficult)
- 13 percent – 4 (very difficult)

**3.) In your first year of SOX compliance, did you spend ... (Select one)**

- 54 percent – More than expected
- 40 percent – What was expected
- 7 percent – Less than expected

**4.) As a percentage of first-year compliance costs, how much do you expect to spend for second-year SOX compliance? (Select one)**

- 17 percent – Less than 25%
- 25 percent – Between 25 and 49%
- 26 percent – Between 50 and 74%
- 12 percent – Between 75 and 99%
- 16 percent – The same as first-year costs
- 3 percent – More than first-year costs

**5.) How many full-time employees are dedicated to SOX compliance? (Select one)**

- 61 percent – 5 or less
- 16 percent – 6 to 10
- 4 percent – 11 to 15
- 18 percent – more than 15

**6.) Do you think your company's SOX compliance costs were a good investment for stockholders? (Select one)**

- 57 percent – Yes
- 43 percent – No

**7.) What impact has SOX compliance had on shareholder value of your company? (Check all that apply)**

- 37 percent – SOX increased shareholder value because investors know we operate as an ethical business.
- 14 percent – SOX decreased our ability to pay out dividends because compliance expenses are a significant drain on earnings.
- 33 percent – SOX created a cost burden that suppresses our stock price.
- 25 percent – SOX boosted shareholder value by building overall confidence in the market.

**8.) As an individual investor, do SOX disclosures and compliance requirements allow you to make better investment decisions or feel more confident in investments in public organizations? (Select one)**

- 44 percent – Yes
- 45 percent – No
- 11 percent – As an individual investor, I do not purchase stock in public companies

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- 9.) **Are your internal controls stronger today than before complying with SOX? (Select one)**
- 12 percent – Significantly stronger
  - 67 percent – Somewhat stronger
  - 2 percent – Somewhat weaker
  - 0 percent – Significantly weaker
  - 38 percent – No change
- 10.) **How have your internal controls changed after complying with SOX? (Select one)**
- 16 percent – No change; our internal controls were already documented and sufficient for SOX compliance
  - 24 percent – No change to the actual controls, but now they are all documented
  - 18 percent – Implemented more manual controls
  - 8 percent – Implemented more systems-based controls
  - 33 percent – Implemented more manual and systems-based controls
- 11.) **What benefits from SOX compliance has your company realized? (Check all that apply)**
- 27 percent – Improved accuracy of financial reports
  - 31 percent – Reduced errors in financial operations
  - 33 percent – Decreased risk of financial fraud
  - 25 percent – Empowered the board audit committee by providing it with deeper information
  - 46 percent – Ensured the accountability of individuals involved in financial reports and operations
  - 20 percent – Strengthened our investors' view of our company
  - 26 percent – We've realized no benefits from SOX compliance
- 12.) **How do you plan to monitor and test your internal controls for ongoing SOX 404 compliance? (Check all that apply)**
- 51 percent – Manual tests by independent observers such as an internal auditor or compliance consultant.
  - 48 percent – Rely on a control self-assessment program.
  - 35 percent – Utilize reports and monitoring features within financial applications such as SAP, Oracle, etc.
  - 34 percent – Internal auditors test historical transactions for control violations with audit software.
  - 24 percent – Implement a technology solution to continuously monitor key controls and transactions.
- 13.) **How often do you plan to monitor and test your internal controls for ongoing SOX 404 compliance? (Select one)**
- 23 percent – Continuously (meaning in real time as transactions occur)
  - 7 percent – Daily
  - 10 percent – Weekly
  - 22 percent – Monthly
  - 38 percent – Once a quarter
- 14.) **What resources have you added or intend to acquire to assist in the testing and monitoring of internal controls? (Check all that apply)**
- 38 percent – Hire additional internal auditors or compliance officers
  - 39 percent – Engage a consulting company or an external internal audit group
  - 26 percent – Rely on automated testing and reporting from your financial system or application
  - 25 percent – Implement a technology solution to continuously monitor key controls and transactions.
  - 19 percent – None
- 15.) **Which of the following statements best describes your audit committee's involvement in SOX compliance? (Select one)**
- 8 percent – Relatively passive and disinterested
  - 28 percent – Interested but relatively passive
  - 45 percent – Active
  - 19 percent – Highly active and interested in the details of our efforts

## 2004 Oversight Systems Financial Executive Report on Sarbanes-Oxley

**16.) What statements define your feelings toward SOX? (Check all that apply)**

- 38 percent – SOX was Congress’s over-reaction to the unethical behavior of a few executives.
- 28 percent – The market requires regulations like SOX to boost investor confidence in the market’s integrity.
- 52 percent – Congress had good intentions when it passed SOX, but the costs of compliance were not fully considered.
- 13 percent – The benefits outweigh the costs of complying.
- 25 percent – The costs of complying outweigh the benefits.

**17.) Do you think Congress needs to revisit SOX legislation?**

- 81 percent – Yes
- 19 percent – No

**18.) If you were a member of Congress and were voting on the individual sections of SOX, how would you have voted on the Section 302 that requires CFOs and CEOs to sign off on financial reports and effectiveness of controls? (Select one)**

- 87 percent – Yes, include this section in the law.
- 13 percent – No, do not include this section in the law.

**19.) If you were a member of Congress and were voting on the individual sections of SOX, how would you have vote on Section 404 that requires the documentation, monitoring, reporting and attestation of internal controls? (Select one)**

- 75 percent – Yes, include this section in the law.
- 25 percent – No, do not include this section in the law.

**20.) If you were a member of Congress and were voting on the individual sections of SOX, how would you have voted on Section 409 that requires the timely disclosure of material changes that affect financial conditions or operations? (Select one)**

- 85 percent – Yes, include this section in the law.
- 15 percent – No, do not include this section in the law.

**21.) What effect will the Republican hold of presidential and congressional power have on market regulations such as SOX? (Select one)**

- 38 percent – Some aspects of SOX will be reviewed for possible repeal.
- 20 percent – The SEC and PCAOB will MORE vigorously enforce existing regulations such as SOX.
- 21 percent – The SEC and PCAOB will LESS vigorously enforce existing regulations such as SOX.
- 20 percent – The Congress and the President will expand market regulations and/or strengthen regulations such as SOX.

**22.) On a weekly basis, how much time do you currently spend dealing with issues relating to SOX compliance? (Select one)**

- 33 percent – Less than an hour
- 32 percent – 1 to 3 hours
- 14 percent – 3 to 5 hours
- 22 percent – More than 5 hours

**23.) On a weekly basis, how much time do you currently spend meeting with your CEO? (Select one)**

- 58 percent – Less than an hour
- 26 percent – 1 to 3 hours
- 9 percent – 3 to 5 hours
- 7 percent – More than 5 hours

**24.) Over the past year, has your interaction with your CEO increased as a result of SOX compliance? (Select one)**

- 37 percent – Yes
- 63 percent – No

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**25.) Of your financial department professionals, what percentage holds financial certifications (such as CMA, CFM, CIA, CPA, etc.) from an organization with enforceable ethical codes? (Select one)**

- 7 percent – None
- 38 percent – Less than 25 percent
- 24 percent – 25 to 50 percent
- 22 percent – 51 to 75 percent
- 7 percent – 76 to 99 percent
- 2 percent – 100 percent

**26.) What statement(s) defines your experience with external auditors in regard to first-year SOX compliance? Our external auditor...(Check all that apply)**

- 33 percent – Provided unbiased validation of our internal controls for SOX compliance.
- 13 percent – Played a crucial role in boosting shareholder confidence.
- 37 percent – Served as a trusted advisor that assisted my company throughout the first year of SOX compliance.
- 22 percent – Lacked the resources and experienced auditors to provide the level of service my company expects.
- 23 percent – Drastically increased its fees without creating a measurable benefit to my company.