

## What is Sabanes-Oxley?

The Sarbanes-Oxley Act of 2002 was passed in response to the various corporate financial reporting scandals of the late 1990's. The Act includes various far-reaching provisions that will have a significant impact on corporate governance and management of SEC reporting companies, those that wish to be SEC reporting (anticipating an IPO) and those that might wish to sell to an SEC reporting company. In other words, the Act must be understood and its impact considered by virtually any company with revenue of \$10 million or greater.

## How Sabanes-Oxley will impact your business?

There are six significant components to the Sarbanes-Oxley Act. As an executive or business owner, you should be aware of the following Sarbanes-Oxley provisions:

### ❖ Reporting

The Sarbanes-Oxley Act has significantly raised the level of management accountability. Management must now certify that financial statements are presented fairly and have NO untrue statements or omissions of material facts. Moreover, management must now take clear responsibility for having adequate systems of internal controls to protect the integrity of the numbers.

The responsibility means Management MUST pay greater attention the Company's internal control systems. In particular, Section 404 of the act requires management to report annually on the effectiveness of internal control over financial reporting. The company's outside auditors must now attest to and report on management's assertion of internal control effectiveness in addition to reporting on the fairness of the financial statements.

### ❖ The Audit Committee

The Sarbanes-Oxley Act strengthens the role of the audit committee in overseeing the financial management of the business. The audit committee is now directly and solely responsible for appointing and compensating the company's auditors. It must also pre-approve all other services performed by the auditors on behalf of the company. The committee is to be the principal point of contact for auditors. All critical accounting policies and practices, accounting irregularities and control deficiencies are to be reported by the auditors directly to the committee.

The Audit committee must now be comprised solely of independent directors. One member of the audit committee should be a financial expert. The company must report whether it has a financial expert on its audit committee.

❖ Conduct –

The Sarbanes-Oxley Act seeks to expand insider accountability, encouraging companies to adopt their own code of ethics for senior financial management and providing protection of corporate whistleblowers.

❖ Enforcement –

The Sarbanes-Oxley Act creates a Public Company Accounting Oversight Board (PCAOB) to oversee the audits of public companies. Part of the PCAOB oversight will include inspections (or audits) of the auditors to ensure the compliance of accounting firms with professional standards. The PCAOB is created in addition to the Financial Accounting Standards Board (FASB) and American Institute of CPAs (AICPA) that have traditionally set accounting and professional standards, respectively. In addition, attorney's are now compelled to act as whistleblowers to the CEO or the Audit Committee in instances where their clients or employers are in material violation of security laws or there is a breach of fiduciary duty.

❖ Penalties –

In stepping up the accountability of officers in connection with financial statement presentation, Sarbanes-Oxley also has stepped up penalties for non-compliance. It is now a criminal offense to issue a fraudulent management certification or to corrupt, alter or destroy documents or audit records.

Hereinafter, should financial statements ever be re-stated after issue, CEO's and CFO's will have to, by law, surrender monetary bonuses that were paid based upon the statements that are restated.

❖ Independence -

The Sarbanes-Oxley Act reinforces the notion that the company's independent auditors are to be independent. Under the Act, auditors are prohibited from offering the range and depth of services to a business they audit. If they are engaged to attest, they can no longer keep the books, design the systems, perform internal audits or perform legal services for the same client. Partners of audit firms must now be rotated off the account every five years, and audit personnel are prohibited from accepting employment with the company until they are at least one year removed from the engagement.

## The Axiomate Solution for Sarbanes-Oxley Compliance

Axiomate's core competency is due diligence, specifically infrastructure assessment. We are skilled at identifying, reviewing, documenting and assessing the efficiency and adequacy of systems and processes within a business. Compliance under Section 404 of the Sabanes-Oxley Act calls upon these Axiomate skills.

[Our team](#) of accountants, financial officers, business process engineers, ERP system experts [importantly we have experience in both design and implementation] and IT professionals will deliver a functional / value-adding blue-print of your internal control systems. This blueprint provides the foundation for Sarbanes-Oxley assessment and compliance.

The Axiomate team will identify all of the routine and non-routine transactions within your business, mapping them to point of impact on your financial reporting. Each transaction type will be evaluated as a source of errors of importance, fraud, defalcation, material misstatement, or financial engineering. This assessment will define your risks of adversely impacting the integrity of your financial reporting and your company.

For each transaction type, we will identify all control points and control efficiencies [what's this?] that govern the transaction. All human and automated processes impacting each control are also documented. We then chart the support each control provides for management's representations on the financial statement. Relevant controls contribute one or more of the following objectives:

- ❖ An asset or liability *exists* at a point in time;
- ❖ The transaction *occurred* within the period reported;
- ❖ The asset, liability, expense or revenue item is *measured or valued* appropriately;
- ❖ The financial statements are *complete* without undisclosed items or omissions;
- ❖ The company has the *rights* to all assets and the *obligations* of all liabilities; and
- ❖ All amounts are *presented and classified* appropriately

## The Axiomate Approach

Our Sarbanes-Oxley work is performed in two distinct, sequential phases:

## **Phase 1: Internal Control Environment Survey (“ICES”)**

The Axiomate team will complete a preliminary review of your transaction and control environment. In this phase we identify all routine and the most important non-routine transactions as well as the basic controls. We then assess the likelihood of these transaction types exposing the company to errors of importance or financial misstatement.

This initial stage positions management and Axiomate to best understand the nature, extent and cost associated with further internal control evaluation and remediation work. Upon completion, the company will have a comprehensive blueprint of its internal control environment (the Internal Control Environment Survey or “ICES”) and a firm quote for the second phase.

## **Phase 2: Internal Control Environment Database (“ICED”)**

Expanding upon the results of Phase 1, our team develops a more comprehensive assessment of internal control processes, policies, procedures, methods and effectiveness (collectively, the control environment.) In this stage, we will identify, document and review all transactions, control points, personnel and system interactions. We produce a comprehensive road map of all transaction flows within a company cross-referenced to people, systems and impact on financial presentation.

A company’s control environment includes not only the stated controls governing a transaction, but also the overall attitudes, actions and awareness of its staff, from line employees to senior management, to the importance of controls. We evaluate and document this more subtle, but most important, component of the control environment.

Testing is an essential aspect of control assessment. With the transactions and control maps and documentation, we develop a thorough test plan. After review with senior management our skilled, multidisciplinary team executes the test plan to prove both strengths and weakness of the control environment. This process also provides extremely valuable input for remediation work that may be required.

At conclusion, Axiomate delivers a comprehensive report of our findings, including suggestions for improvement, along with a thoroughly documented internal control map. This map will be in database form that provides an excellent starting point for future S-O compliance work. The ICED materials also assist the company in considering the impact of future organization and system changes on the internal control environment