



Fixed Asset Manager's Guide to Sarbanes-Oxley Compliance

Utilizing technology for effective fixed asset
management

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Executive Summary

In 2002, Congress passed new regulations designed to improve corporate governance of public corporations and reduce fraudulent corporate financial reporting. The U.S. Public Company Accounting Reform and Investor Protection Act of 2002, commonly referred to as the Sarbanes-Oxley Act, hopes to rebuild investor confidence in public corporations after the wave of high publicity corporate accounting scandals that began with the Enron crisis.

The Sarbanes-Oxley Act places new burdens on corporations, imposes strict penalties for non-compliance, and holds CEOs and CFOs personally responsible for the accuracy of their financial reporting. Section 404 of this act requires a corporation to report on the effectiveness of their internal controls and requires an external auditor to attest to this statement. Consequently, corporations must now document their internal control structure and evaluate its effectiveness to ensure the accuracy of financial data. Compliance with Sarbanes-Oxley includes paying particular attention to IT systems that can impact financial record-keeping and reporting.

Compiling an accurate financial picture of a company requires accurate fixed asset records as well as compliance with applicable tax laws and regulations for acquiring, depreciating and disposing of assets. This paper details how organizations can achieve tighter control over fixed asset management to ensure the accuracy of their fixed asset data and compliance with the Sarbanes-Oxley Act.

Sarbanes-Oxley Act Background

The Sarbanes-Oxley Act of 2002 begins a new era in corporate governance. Strict rules to ensure accurate financial reporting put tremendous pressure on public companies to document all internal procedures for gathering and reporting financial results before the fast-approaching deadlines for compliance. Sarbanes-Oxley seeks to reduce corporate financial fraud and mismanagement while providing reassurance to investors.

Under the new regulations, CEOs and CFOs must personally certify the integrity of financial reports, as well as the procedures and systems used to create them. Public accounting firms must also attest to the validity of the financial reports and assessments. Both executives and their accounting firms can be held criminally liable for accounting inaccuracies, making the stakes higher than ever for everyone involved in financial reporting.

Who is affected by Sarbanes-Oxley?

Public Companies

Sarbanes-Oxley currently applies to public companies that are registered with the Securities and Exchange Commission. Most of these companies are headquartered in the United States, but a number of foreign companies with significant operations in the US will also be affected. Some aspects of Sarbanes-Oxley are already in full effect. The requirements of Section 404 must be met by large public corporations.

Private Companies

Although private companies are not required to comply with Sarbanes-Oxley, there are excellent reasons for them to consider its implications. Any private company that aspires to go public will become subject to the act upon filing a registration statement with the SEC in anticipation of an IPO. Additionally, any company that might be acquired by public companies or that has significant business partnerships with public corporations will need to assess the impact of Sarbanes-Oxley on future and current business relationships. Many private companies are already implementing "best practice" aspects of Sarbanes-Oxley.

Nonprofit Organizations

Like private businesses, many nonprofit organizations are interested in applying the best practices principles of Sarbanes-Oxley to their financial procedures. Though Sarbanes-Oxley has not yet been applied to nonprofits, failure to provide adequate visibility into the financial management of nonprofits could result in a similar regulatory environment being enacted in the future. Some states are already considering this type of measure for nonprofit organizations.

While the Sarbanes-Oxley Act applies only to public companies, it has implications for private companies and nonprofit organizations.

Section 404 and Internal Controls

Section 404 of the Sarbanes-Oxley Act requires executives of public companies to include an assessment report of the effectiveness of internal controls over financial reporting, including IT controls, when submitting their annual reports to the SEC.

By establishing and documenting internal controls, companies can attest to the validity and integrity of financial information from the time such information enters the

SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS.

- (a) RULES REQUIRED. — The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) to contain an internal control report, which shall —
- (1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and
 - (2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.
- (b) INTERNAL CONTROL EVALUATION AND REPORTING. — With respect to the internal control assessment required by subsection
- (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.

company to the completion of the annual report each year. The SEC also requires that each company's external auditors independently review management's assessment of internal controls and document any material weaknesses the audit firm discovers.

Impact of Section 404 on Information Technology

The "assessment of internal controls" report is designed to assure the SEC as well as investors that a company has the necessary procedures and controls in place to adequately ensure the integrity of financial data. When applied to technology, this implies that financial data must be accurately recorded and shared in appropriate ways and that the data must be secured from threats of unauthorized access, inappropriate changes and data corruption.

Additionally, this report places increased impetus on companies to select software providers that can be a partner to them in Sarbanes-Oxley compliance by providing information about software features that provide internal controls over financial data, as well as by ensuring that the development process for creating the software is well-controlled and in line with industry best practices.

Section 404 refers to internal controls as defined by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), although it does not require that a company use the COSO framework in order to create the assessment of internal controls. Some IT organizations are choosing to adopt the Control Objectives for Information and Related Technology (COBIT) framework for guidance about how to approach assessment and testing of IT related internal controls. The Public Company Accounting Oversight Board (PCAOB) (established by the Sarbanes-Oxley Act) released guidelines for auditors that discuss IT internal controls in March 2004.

Whether a company approaches IT internal controls from the COSO or COBIT framework, it will be necessary for organizations to review their financial applications for:

- Data Security and Access Controls
- Integrity and Accuracy of Data
- Reliable Reporting Systems
- Disaster Recovery

In addition, organizations will want to review the development methodologies and change control processes used by their financial software vendors to ensure modifications to the software are made with proper authorization and are appropriately reviewed and tested.

IT internal controls should ensure that financial data is secured from threats of unauthorized access, inappropriate changes and data corruption.

Conclusion

While Sarbanes-Oxley compliance is both challenging and frustrating to many companies, it also represents an opportunity to achieve a new level of best practices and integrity in financial reporting. Ultimately, ensuring the complete accuracy and reliability of the people, data and systems that form financial results will enable companies to be better managed and will provide executives better insight into their organizations. Companies can be greatly aided in their Section 404 compliance efforts when financial applications contain features that support security, data accuracy and integrity, reliable reporting systems and reliable disaster recovery. Sage FAS solutions provide features in each of these key areas.

Sage FAS Asset Inventory can help ensure that organizations begin their fixed asset management processes with accurate physical inventories of assets. Sage FAS Asset Accounting and Sage FAS FirstStep feature both physical and logical security measures and tracks history to provide audit trails in the event that human errors are discovered. A depreciation calculation engine and Rule Base that includes over 300,000 IRS tax and GAAP rules and supports many depreciation methods ensures the accurate depreciation calculations in Sage FAS software. Sage FAS software customers are assured of continuing tax compliance with the annual software update that is designed to address any changing rules or regulations regarding fixed asset depreciation. The Sage FAS reporting system is flexible and comprehensive, allowing users to quickly gain access to relevant data through standard reports, or choose to create a customized report with Sage FAS Report Writer for detailed analysis. Sage FAS solutions feature back-up and restore functions for disaster recovery. Sage Software implements a consistent, quality oriented set of internal controls in our development and testing processes.

Sage Software is dedicated to providing customers with industry leading financial software products and the best customer support services in the industry. Sage Software understands the importance of providing our customers with the information they need to be confident in the internal control features contained in their Sage FAS fixed asset management solutions and strives to provide good partnership with customers in their compliance efforts.

Sage Software: 25 Years and Growing

A final, important consideration in the selection of financial software applications is the longevity and future of the provider company, as well as the quality of technical support. Sage Software recognizes the need from our customers to understand the key features in our financial software applications that will assist them in their Sarbanes-Oxley compliance efforts. Sage Software has been supporting Sage FAS software customers with industry leading fixed asset management solutions for over 25 years. Sage Software continues to grow and remains highly dedicated to supporting over 1.8 million customers in North America.

Additional Resources

Public Company Accounting Oversight Board (PCAOB). At this website you can read the full text of Sarbanes-Oxley as well as additional information and guidance for compliance. www.pcaobus.org.

Committee of Sponsoring Organizations of the Treadway Commission (COSO). This private, voluntary organization seeks to improve the integrity of financial reporting. Their guidelines for internal controls are suggested as a good standard for Section 404 of Sarbanes-Oxley. www.coso.org

Information Systems Audit and Control Associations (ISACA). This organization created the COBIT standards for IT internal control assessment that many companies use in conjunction (or in place of) COSO standards to guide them in achieving internal controls over IT systems and applications. www.isaca.org/cobit.htm.

American Institute of Certified Public Accountants (AICPA). The AICPA web site has excellent information about Sarbanes-Oxley designed primarily for public accountants and auditing firms. The AICPA also offers excellent publications that can be purchased concerning Section 404 and internal controls. www.aicpa.org.

IT Governance Institute. This organization offers an informative publication titled, *IT Control Objectives for Sarbanes-Oxley*. This publication can be accessed at www.itgi.org.



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