

What's Sarbanes-Oxley? [SOX]

Introduction

On July 30th 2002, President George W. Bush signed the "Sarbanes-Oxley Act of 2002" which amends securities and other laws in significant ways.

Sarbanes-Oxley, or SOX, presents a legislative response to the accounting scandal caused by the recent fall of some publicly held companies and the perceived excesses of the management of some other companies. Sarbanes-Oxley requires compliance with a comprehensive reform of accounting procedures for publicly held corporations to promote and improve the quality and transparency of financial reporting by both internal and external independent auditors. The Public Company Accounting Oversight Board, or PCAOB, has charge through the Securities and Exchange Commission.

What is the SOX Act or Sarbanes-Oxley Act ?

- **Sarbanes-Oxley** is a US law passed in 2002 to strengthen Corporate governance and restore investor confidence. Act was sponsored by US Senator Paul Sarbanes and US Representative Michael Oxley.
- **Sarbanes-Oxley** law passed in response to a number of major corporate and accounting scandals involving prominent companies in the United States. These scandals resulted in a loss of public trust in accounting and reporting practices.
- **Legislation** is wide ranging and establishes new or enhanced standards for all US public company Boards, Management, and public accounting firms. Affects UK Companies where their parent company is US based.
- **Sarbanes-Oxley** law contains **11 titles**, or sections, ranging from

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additional Corporate Board responsibilities to criminal penalties. Requires Security and Exchange Commission (SEC) to implement rulings on requirements to comply with the new law.

- Title I Public Company Accounting Oversight Board
- Title II Auditor Independence
- Title III Corporate Responsibility
- Title IV Enhanced Financial Disclosures
- Title V Analyst Conflicts of Interest
- Title VI Commission Resources and Authority
- Title VII Studies and Reports
- Title VIII Corporate and Criminal Fraud Accountability
- Title IX White Collar Crime Penalty Enhancements
- Title X Corporate Tax Returns
- Title XI Corporate Fraud and Accountability

••Particularly relevant regarding Security and Change Control (ITIL)

What does Sarbanes Oxley Address?

- Establishes new standards for Corporate Boards and Audit Committees
- Establishes new accountability standards and criminal penalties for Corporate Management
- Establishes new independence standards for External Auditors
- Establishes a Public Company Accounting Oversight Board (PCAOB) under the Security and Exchange Commission (SEC) to oversee public accounting firms and issue accounting standards

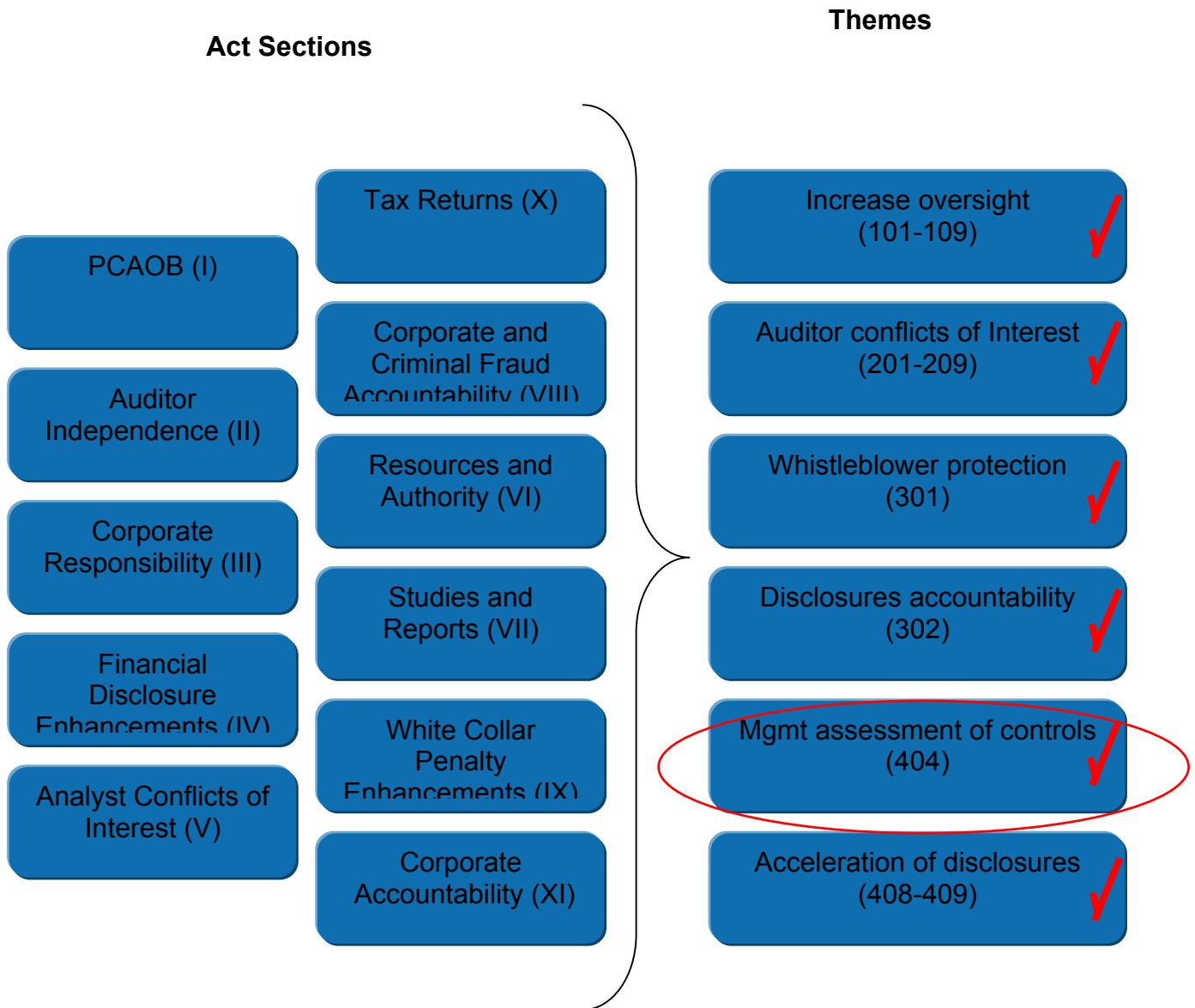
Specifically Relating to IT

Section 404 – Requires the company auditors to attest to and report on management assessment of the effectiveness of the company's internal controls.

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These internal controls include the processes across the entire organization. That is why it is so important to develop an end to end change management process that monitors and controls all aspects across all areas of service delivery and service support.

Section 302 – Requires the company to certifications by both the principal executive officer and the principal financial officer in each (i.e., annual or quarterly) reports. These certifications much be signed by principal officers.



IT Opportunity or Challenge

COSO : The Only Recognized Internal Control Framework

•While Internal Control was not defined in the Act, the COSO definition has been accepted by the US government and its agencies, incorporated in US auditing standards (AU 319), and is a generally accepted integrated framework for control infrastructure. Under regulations for Section 404, the SEC will use AU319 as the reference.

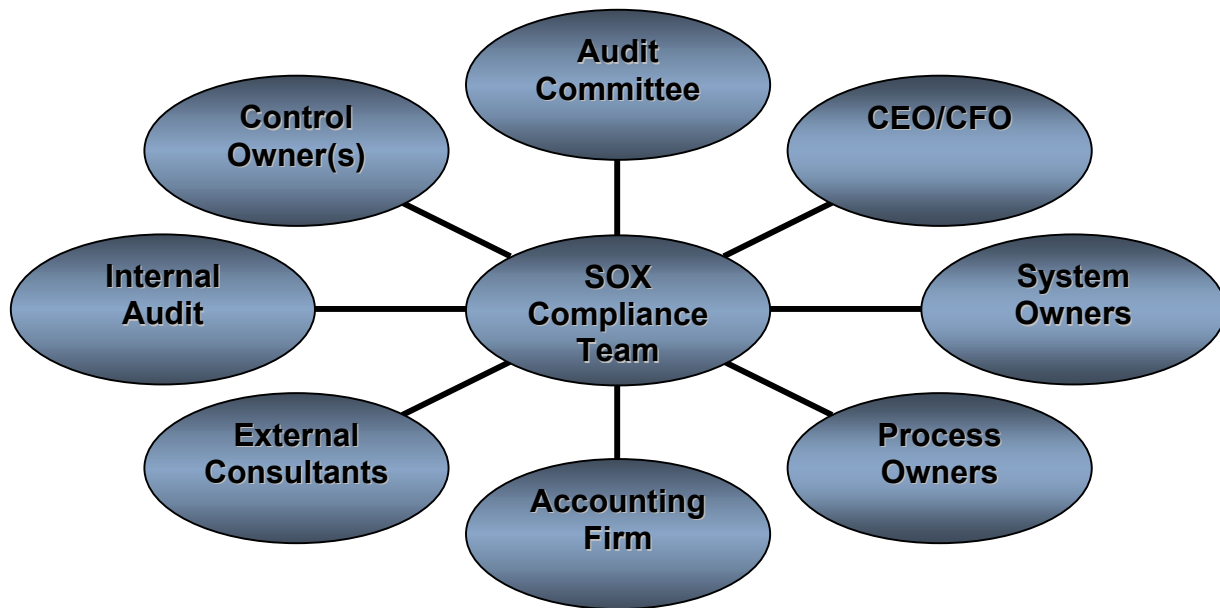
•Internal Control is defined as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

•COSO identifies five components of control that need to be in place and integrated to ensure the achievement of each of the objectives.

Committee Office Sponsoring Organizations (COSO) is an integrated framework for internal control which, when implemented, can provide a baseline to establish a control structure that meets Section 302 requirements and supports 404 attestation.

A Typical Sarbanes-Oxley Work Group:



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