



Hot Stuff > Newsletters



- > Events
- > Press Box
- > Newsletters
- > White Papers
- > Books We Recommend

Advantage E-Newsletter

Winter 2005

What You Need To Know About 'SOX' Job #1 for 2005: Educate employees at all levels so they can comply with tough, new Sarbanes-Oxley internal control legislation (SOX)

If you don't already know about SOX, this e-newsletter will give you some important insights-and fair warning. If you haven't trained your people so they and their internal customers can comply with SOX, now's the time.

The 2004 Sarbanes-Oxley Act (SOX) requires that most publicly traded companies put effective internal controls in place throughout the organization-and make sure employees comply. If putting tighter internal controls in place and training everyone about SOX aren't already on your company's front burner, our advice is to light that fire today.

- Glenn Jackson and John Hoskins

The Sarbanes-Oxley Act is legislation intended to create reform and restore investor trust in public companies. In a dramatic shift from the pre-Enron era, SOX makes senior managers directly accountable for the effectiveness of internal controls and the accuracy of financial reporting. Because financial controls are only as effective as the people accountable for the process, these rules have created new demands for employees up and down the line-and a dramatic need for training that will help them meet those demands.

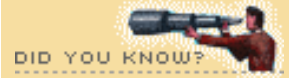
Below: **Stan Ross**, President of Advantage Performance alliance partner Sirco Consultants (SIRCO); and **John Baldo**, CPA and SIRCO subject matter expert; discuss the impact of the new legislation:

Q: How important is SOX?

Ross: SOX is the hottest topic facing business today. CEOs tell us, "This stuff is scary," and they're right to be concerned.

Q: What does SOX require?

Ross: A far more comprehensive, intense level of financial reporting and disclosure than companies are used to, with dramatic potential effects on company stock value and penalties for individuals who fail to meet the requirements. SOX requires organization-wide financial controls, employees up and down the ladder who understand those controls, and documentation that proves compliance. Financial disclosure regulations no



> **Back issues** of our newsletter are available in PDF format. To subscribe to the newsletter, **contact us**.

Newsletter Archives

You'll find many newsletter article topics in our case studies focusing on the **Sales & Service, Leadership & Management, and Team & Individual** areas.

> Fall 2004

Use Impact Maps to Make Executive Field Visits Matter (PDF) (HTML)

> Summer 2003

(PDF) (HTML)

> Vol 5 No 1

(PDF) (HTML)

> Vol 4 No 1

(PDF)

> Vol 4 No 2

(PDF)

> Vol 3 No 1

(PDF)

> Vol 2 No 3

(PDF)

> Vol 2 No 4

(PDF)



Note: PDF files require the free Acrobat plugin.

longer affect just financial people, but also clerks, operators-people from every aspect of your business.

Q: How does SOX impact the job of an average employee?

Baldo: Companies have to create tighter controls, and employees must change the way they work as a result. Take a manufacturing situation. Since SOX, although a manufacturer's inventory may be correct on the balance sheet, now management and the external auditor are also required to go a step deeper and review the design and operating effectiveness of the inventory controls. An example of one inventory control might be, "widgets in inventory can only be issued from stock upon verification of appropriate documentation." In the past, storeroom personnel might not have strictly enforced that rule. Now, the company needs to tell all storeroom personnel, "A casual approach to this rule may have been okay in the past, but now it's not okay. To stay compliant with SOX, the new rule is: no paperwork, no widgets, no exceptions." Proper education is crucial. If employees don't understand the importance of internal controls, there will often be control deficiencies. Even worse, if management is not aware of significant control deficiencies, it's possible the auditor will issue an "adverse" opinion on the company's internal controls.

Q: How bad is an "adverse" opinion?

Ross: Companies are scared to death of adverse opinions because of their effect on shareholder confidence and the company's stock value. The personal effect on top executives can also be severe. In some cases penalties, ranging from a slap on the hand to jail time, may apply if a company leader or even employees were negligent or directly responsible for fraud. The claim "I didn't know about it" will no longer work.

Q: What have companies done to protect themselves?

Baldo: In 2004, companies worked feverishly on the documentation required by SOX. In the rush, many companies had to put SOX education on the back burner. But we always come back to the basic point: your controls are only as good as your people. Companies need to educate their people because, in many cases, employees just don't understand what's required. If an employee doesn't understand the tighter control environment and therefore doesn't comply with the control, you have a problem.

Q: What has been the impact on employees so far?

Baldo: All of this has been very stressful to employees who haven't been adequately trained. Many companies are initiating "certification" processes that essentially increase financial responsibility to employees at all levels. For example, CEOs and CFOs who are required to sign off on their companies' controls will ask their reports to also attest in writing that "all the controls in my area are operating effectively and I'm not aware of any negligence," or, "everything is operating effectively with the following exceptions." This is happening all down the line.

Q: How does that sign-off make people feel?

Ross: Very nervous. Everybody is putting their neck on the line by relying on others to attest to the accuracy and validity of the controls. It's scary when you have to personally sign off that you're comfortable with what other people are doing. Without adequate training, employees may not have enough knowledge

to understand what's really expected. And it's simply unfair to ask people to certify something they don't understand.

Q: What should companies do right now?

Baldo: Educate, educate, educate. Help people at all levels understand their companies' new, tighter internal controls, and how SOX relates to their day-to-day jobs. Institute training now, before fiscal year 2005 begins, and emphasize its importance now and on an ongoing basis. In 2004, some companies understood the ramifications of this complex law and invested heavily, while others didn't give it proper emphasis, didn't train enough, and are really struggling as a result. It's crucial to take action now to avoid problems later.

Becoming SOX-Compliant: What To Do Now

- Make SOX compliance your #1 operating goal for 2005 and continue to emphasize its importance
- Educate executives and managers about the need to help internal customers comply, not just sign off on a certification
- Train employees at all levels about how the law relates to them and specific ways in which their day-to-day job has changed
- Reinforce the message with training refreshers, internal control meetings, and CEO communications during the year

[Click here](#) for info about an important, one-day SOX learning solution designed for executives and employees at all levels of your organization: **Sarbanes-Oxley: Compliance and Internal Controls**

› For more information, [contact us](#).

[Any word](#) [All words](#) [Exact phrase](#)

c. 2008 Advantage Performance Group - 700 Larkspur Landing Circle, Ste. 125, Larkspur, CA 94939. (800) 494-6646