

Challenges and Advantages for Users of PeopleSoft World® and PeopleSoft EnterpriseOne® ERP Software in Meeting Sarbanes-Oxley Compliance

By David Ashley, CISA, CISM



Editor's Note: It isn't all that hard to find information about Sarbanes-Oxley. Do a Web search, and stand back! You could be overwhelmed. David Ashley has been there and done that and survived to tell about it. In this article, he does just that – he boils much of the legalese into language we can digest and gives us advice and pointers for beginning our own compliance efforts – all based on his personal experience in “SOX” compliance projects.

Executive Summary

It was recently reported that 10 corporate executives have been sentenced to serve prison sentences in the last two years. It only makes one wonder what the next two years will bring as the deadlines for compliance under Section 404 of the Sarbanes-Oxley Act of 2002 nears for most of the 12,000 plus publicly traded organizations in the United States. It has been estimated that ten (10) to twenty (20) percent of filers will fail compliance under this Act. Considering the possible severe consequences, non-compliance is not an option.

Even though the law is quite complex and is ever evolving, the right project leadership and proper management support can turn compliance into a competitive advantage. PeopleSoft World and PeopleSoft Enterprise One software provide advantages in that they provide

many built in controls and excellent documentation. The clock is ticking and management should commit resources early in order to ensure compliance and gain this competitive advantage.

Who?

Management of publicly traded organizations is faced today with challenges that only a few years ago one could only imagine. Gone are the days of figurehead CEOs and board members. Pleading of ignorance by corporate officers as an escape from responsibility of fraud or false financial reporting is a thing of the past due to recently enacted legislation.

The headlines of corporate scandals and our personal acquaintance with some of those involved have shaken confidence in publicly traded organizations like no other time in history. In order to address this loss of confidence and to ensure the future positive financial impacts that such institutions could have on the economies of the entire world, the U.S Congress passed legislation known as the Sarbanes-Oxley Act of 2002 (SOX).

This law is still in the process of interpretation and is continually growing in scope. Although the law itself directly pertains only to publicly traded companies in the United States, the implications for the types of organizations that could possibly be touched by this legislation are mind boggling. Already, similar regulation is evolving in the European

Union and Canada. The regulatory climate created by the Sarbanes-Oxley Act is already being applied by financial institutions and insurers to their clients. In addition, publicly traded companies are pressing their vendors and suppliers to meet compliance guidelines even though they may not be publicly traded themselves. This current trend will most likely continue and escalate its impact on other types of organizations where stakeholder trust is key. In fact, the law already has applications for non-profits in relation to document destruction and whistleblower protection.

What?

Although this law is admittedly complex and hard to understand, the intent of this article is to simplify this complexity for both managers and those who will actually be doing the work to meet compliance guidelines from the Act. The Act creates and defines the role of the PCAOB (Public Company Accounting Oversight Board), which is empowered to enforce standards for audits of public companies. Under this law, auditors are required to audit and attest to not only the accuracy of financial statements, but also the effectiveness of internal controls over financial reporting. In addition, the law spells out guidelines for auditor independence and audit committee competency. The provisions of the Act range from prohibition of loans to executive officers and board members, which takes affect July 30, 2002 (Section 402), to real time

disclosure by issuers (Section 409), which has no deadline specified by SEC (Securities and Exchange Commission) to issue rules.

On October 7, 2003, the PCAOB issued an auditing standard that has provided clarification on the nature and extent of work required to provide an audit opinion. This has affectionately been dubbed “the standard” inside the community dealing with SOX compliance. There are significant rules and standards yet to be issued. This issuance will be an ongoing process that will continually adapt to the changing business environment and to the results of regulatory examinations.

One unique aspect of “the standard” being presented by the PCAOB is that the personnel that are practicing these controls must understand the purpose and function of these controls to such an extent that they would know if the controls might be failing. As part of the auditors’ due diligence, they must communicate with those actually performing these controls to verify that they understand what it is they are doing.

Some describe Sarbanes-Oxley as the most significant legislation in the last half-century and management cannot afford to underestimate the task ahead. In order to avoid the possible severe consequences of non-compliance, the effort inside the organization must be led by and involve highly knowledgeable and qualified personnel. Sarbanes is unique in that, once established, it is an ongoing project that cannot be placed in a corner and forgotten. Section 404 of the law requires not only that an adequate internal control structure be put into place, but that management and auditors attest to the effectiveness of controls over financial reporting on an annual basis. Organizations must also maintain an environment that can

help to monitor changes that might cause management to have to report situations that may have a material effect on financial reporting. This can be quite a daunting task given that employees of most organizations already have duties that occupy their time without such added responsibilities.

**Sarbanes is
unique in
that, once
established,
it is an
ongoing project
that cannot be
placed in a
corner and
forgotten.**

When?

The first wave of organizations that must comply with Section 404 are known as the “accelerated filers”. The whole key to fitting into this group is whether the public entity had a stock capitalization of greater than \$75 million as of the end of its second quarter. The dead-

line for this group has been extended in light of the fact that guidelines are continually evolving. However, at present it looks as if the deadline of November 15, 2004 for these first filers will stand.

Non-accelerated filers must report beginning with years ending after July 15, 2005. This includes foreign filers. What complicates this issue is that there is already a shortage of qualified individuals to help in the compliance effort. With this new wave of companies joining the compliance bandwagon, it is important that management tie up resources early to help in their organization’s compliance project. There are nearly 12,000 public corporations in the United States; certainly the law of supply and demand pertains to personnel that are qualified to assist in this effort.

Why?

Sarbanes-Oxley is divided into several major sections, but the sections that will be discussed in this article are Sections 302 and more particularly Section 404. Section 302 deals mainly with the CEO and CFO personally certifying the financials on an annual basis and personally attesting to their fiduciary responsibility in relation to disclosure controls. Section 404, however, is where the rubber really meets the road in relation to information technology. This section is where the basis is laid for documentation, evaluation, testing, and auditing of controls.

The purpose of 404 is to help provide reasonable assurance of financial reporting. The directives of 404 require management to provide a report on an annual basis pertaining to its assessment of internal control over financial reporting that appears in the filing with the SEC (Securities and Exchange Commission). This report must contain:

This Article Continues...

Subscribers, log in from our main search page to access the full article:

www.JDEtips.com/MyAccess.html

Not a Subscriber? Gain access to our full library of JDE topics:

www.JDEtips.com/JD-Edwards-Library

Visit www.JDEtips.com for information on the JDEtips University schedule, private training and consulting, and our Knowledge Express Document Library.

License Information: The use of JDE is granted to JDEtips, Inc. by permission from J.D. Edwards World Source Company. The information on this website and in our publications is the copyrighted work of JDEtips, Inc. and is owned by JDEtips, Inc.

NO WARRANTY: This documentation is delivered as is, and JDEtips, Inc. makes no warranty as to its accuracy or use. Any use of this documentation is at the risk of the user. Although we make every good faith effort to ensure accuracy, this document may include technical or other inaccuracies or typographical errors. JDEtips, Inc. reserves the right to make changes without prior notice.

Oracle and J.D. Edwards EnterpriseOne and World are trademarks or registered trademarks of Oracle Corporation. All other trademarks and product names are the property of their respective owners.

Copyright © by JDEtips, Inc.