



SARBANES-OXLEY SECTION 404: A Risk Based Approach

Reams of paper have been consumed issuing Sarbanes-Oxley guidance; Thousands of accelerated filers have completed several trips through the internal control assessment process; Numerous lessons have been learned- Nothing is as important and critical to your Sarbanes-Oxley compliance process than a top-down, risk based approach.

Since the enactment of the Sarbanes-Oxley Act in 2002, accelerated filers have completed five years of compliance. In these five years the Public Company Accounting Oversight Board (PCAOB) has issued as many Auditing Standards, including two main standards [AS 2 and AS 5, its revised version] on the integrated audit of financial statements and internal controls over financial reporting (ICFR). In 2007, the SEC also weighed in with its “Interpretative Guidance” to companies on management’s process for assessment of ICFR. Among the key points in this guidance were the following:

- ✓ Focus your effort on areas of highest risk of material misstatement to the financial statements.
- ✓ Tailor your evaluation process according to the size, nature and complexity of your organization.

Our approach captures the essence of the SEC’s guidance and is tailored to your needs and specific circumstances.

Our engagement approach may consist of all, or some of the following phases, depending on the scope:

Project Management Assistance

Veris provides project management assistance on an ongoing basis throughout the SOX compliance project. During the initial stages of the SOX project, our senior team members lend their collective expertise to help launch the project and work closely with your project team to define the Company’s overall project approach, timeline, resources, reporting requirements as well as feedback and monitoring mechanism.

Plan and Scope the Project

This is the most critical phase of the SOX project, as a well planned project ensures an efficient and effective compliance process. Our professionals and subject matter experts use a risk based approach to scope the project, i.e. determine risks that are relevant and can have a material impact on financial statements. Key decisions are then addressed in this phase, such as financial reporting elements, materiality and significance of errors, locations, processes, extent of documentation, IT systems and applications, expectations of external auditors. etc.

Identify and document key controls

With risks clearly identified, this phase involves identifying, documenting and evaluating the design of those controls that address those risks. Given the widespread criticism by early filers of the cost and effort of their SOX process and the SEC's own observations that documentation of controls for most filers ranged from excessive to inadequate, our approach gets you to the preferred middle ground. We focus our efforts on documenting pervasive entity level controls to bring economy and efficiency in your assessment process. However as a practical matter some risks would require us to document lower level controls, including automated controls.

Evaluate operating efficiency

This evaluation process is also risk-based with higher risk controls being

tested more thoroughly. Our testing approach considers the nature and timing of the controls and extent of evidence required.

Identify and remediate deficiencies

Deficiencies include Design and Operating weaknesses that need to be remediated. The remediation process requires prioritization based on impact, monitoring of progress and re-evaluation of remediated controls.

Conclude and report

The end-goal for us is to provide you with valuable feedback on your internal control framework and a reasonable basis to support your Management's Report on ICFR, including relevant evidence and adequate documentation.

What does this mean for non-accelerated or new filers?

- Be proactive and jump-start the Sarbanes-Oxley compliance process.
- Adopt best-practices and avoid the mistakes and pitfalls of the initial filers.
- Establish controls that count – Leverage entity-level and automated controls.

Veris' value-added assistance

- Provide experienced and knowledgeable resources with a sound understanding of the regulation and a practical ability to prioritize and scope the engagement quickly.
- Be your Sarbanes-Oxley subject matter experts, assisting with:
 - ✓ Developing a top-down risk based approach for your organization.
 - ✓ Documenting key controls over financial reporting.
 - ✓ Performing a gap analysis to the COSO Framework and verifying operating effectiveness of key controls.
 - ✓ Evaluating deficiencies and implementing remediation plans.

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