

Treasury & Risk Management Express

July 26, 2004

Volume 3 Issue 14

With less than five months to go, companies face considerably more work ahead in 404 compliance efforts.

Nearly half of the audit professionals surveyed about their companies' readiness for Sarbanes-Oxley Section 404 described their preparations as about 60% or less complete, according to a recent survey by business monitoring and audit software maker ACL Services and the Center for Continuous Auditing (CCA). The survey, which was based on the answers of 248 senior audit professionals at corporations with more than \$1 billion in revenues, also discovered that more than 67% of these companies claim not to have a recurring budget item to cover 404 compliance, while another 17% were not sure if they had one.

ACL CEO and president Harald Will says that many companies delayed implementation of systems until the Public Company Accounting Oversight Board (PCAOB) passed its final Section 404 guidelines in March and the Securities and Exchange Commission (SEC) gave its approval in June. "It's not overly surprising to see these numbers. It's validating for us because that's what we've been hearing from our internal audit clients," says Will, whose company provides business assurance analytics technology for audit and controls professionals. "Many firms are struggling with initial [Section 404] attestation and haven't begun thinking about post-attestation requirements."

That said, the audit professionals who answered the ACL survey do not seem concerned: Nearly 75% of the respondents professed a high degree of confidence in their company's ability to maintain Section 404 compliance, despite the low number who have budgeted for those processes so far.

To Will, by far, the most revealing and disturbing finding was that companies are dragging their feet when it comes to annual budgeting to cover the management of their documentation and testing in the years ahead. That means companies will have to grapple with the compliance conundrum again at the end of this year, says Will, since short-term compliance approaches—which is what is getting companies through the initial internal and external audit—tend to favor more manual processes of documenting controls. He predicts that once the first 404 deadline has passed, more companies will take a fresh look at adding layers of automation to the process. This will probably involve companies taking their time to wade through the numerous compliance products and technologies on the market before making what could be a costly financial commitment.

Adding to the complexity is how new technology products will interact and fit with a company's existing systems. J. Don Warren Jr., a retired auditor who is now director of the newly launched CCA, agrees that management's first exposure to signing off on this year's controls will likely drive many to reconsider their approaches. "Management will have to have some type of continuous process in place to identify a breakdown in internal controls or a breakdown in financial reporting in a timely fashion, so that information is not provided to the public that is erroneous, causing a restatement," a former partner at Big Four accounting firm PricewaterhouseCoopers.

Except for workers comp, the numbers are getting prettier. Premiums for directors & officers (D&O) liability, property and general liability policies were flat to down slightly for policies renewed during the second quarter of 2004, according to a survey of corporate risk managers by The Risk and Insurance Management Society, Inc. (RIMS). The figures compare to premium increases of 128% for D&O, 32.5% for general liability and 16.8% for property during the same three months of last year. Similar findings were reached in a survey by the Council of Insurance Agents & Brokers, which found that for commercial property and casualty lines one-third of all small company accounts and more than half of medium and large accounts saw significant declines in premiums in the second quarter.

The RIMS survey found that price declines outpaced increases in all major insurance line categories except workers compensation, which was priced higher by 14% on average. But more than 61% of renewals of D&O liability lines came cheaper or at the same rate as the year before and more than

65% of domestic property insurance renewals were priced lower or remained the same. "It tells us there's a good turn in the market after several years of increases in all insurance lines," says Daniel H. Kugler, vice president of membership at RIMS, a not-for-profit risk management group. He said the downward trend in many insurance lines is being driven by increased competition, helped by stronger financial results, among insurance companies and the rise of alternatives, such as captive insurers.

What's best practices IR? Ask Dell. Investor relations has become an increasingly important function at most large companies and those looking to see what practices and processes work best may want to consider Dell Inc., the Texas-based computer maker. Dell recently topped the rankings among investment analysts as having the most effective IR efforts in the technology sector, according to a survey by Greenwich Associates.

Greenwich based its findings on surveys of more than 1,000 buy-side analysts, who were asked to rate corporate communications efforts across nearly two-dozen industries. Proctor & Gamble, 3M and AFLAC each topped the rankings for their own industries, but it was Dell that gathered the most praise, by a considerable margin, based on the rankings for the always-volatile technology sector.

Lynn Tyson, Dell's vice president of investor relations and corporate communications, says the company puts an emphasis on giving IR a seat at the table where senior executive decisions are made. She holds a seat on the company's global executive management committee where such things as corporate strategy, capital allocation and corporate governance decisions are discussed, and she currently reports to both Dell's CFO and CEO. "We are fully integrated within the organization," says Tyson. "We're not getting information third-hand and being told what to say." One revolutionary Tyson policy: Her staff must answer all but the most complex questions raised by investors or analysts by the close of business that same day.