



**Dekker, Ltd.**

Project Portfolio Management Solutions



# Sarbanes-Oxley Act Three Years Later

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# Sarbanes-Oxley Act of 2002



The Sarbanes-Oxley Act of 2002 (the Act) was passed in August 2002 as a reaction to corporate financial and accounting scandals.

The Act established regulations to improve corporate accountability for financial reporting, as well as, rules for accountants' relationships with their public audit clients.

# Sarbanes-Oxley Act of 2002 (Continued)



Furthermore, the Act established the Public Companies Accountants Oversight Board (PCAOB) to monitor the performance of audits of public companies by accountants.

# Areas Affected by Sarbanes-Oxley

- ◆ **Reporting** – Act requires upgraded disclosures
- ◆ **Roles** – Act strengthens corporate governance
- ◆ **Conduct** – Act expands insider accountability
- ◆ **Enforcement** – Act increases oversight by outside parties
- ◆ **Penalties** – Act broadens penalties for violations in all areas
- ◆ **Relationships** – Act heightens auditor independence

# Reporting

## *Section 302 – Management Certification*

Management is required to certify the following:

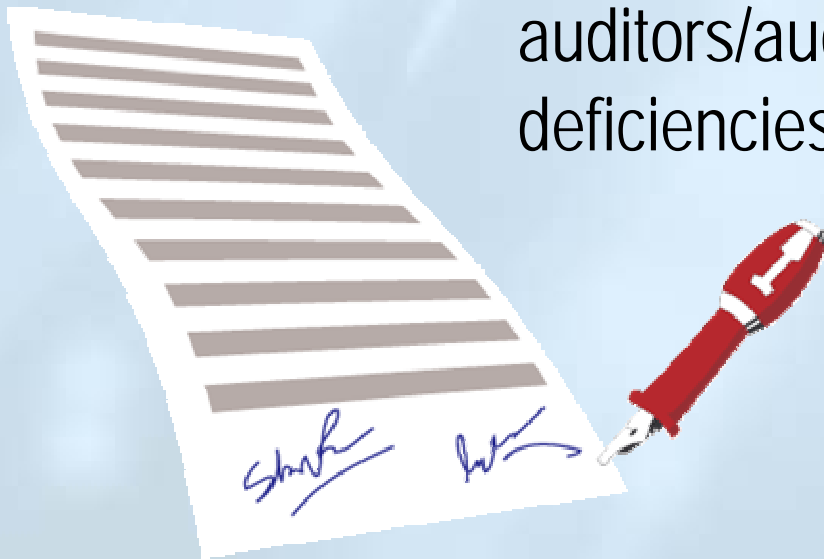
- ◆ Review of quarterly and annual reports
- ◆ The financial statements are “fairly” presented and the reports contain no untrue statements or omission of material facts.
- ◆ Evaluation of disclosure controls and procedures as of period end and disclosure of any material changes in internal control during the period.



# Reporting (Continued)

## *Section 302 – Management Certification (continued)*

- ◆ Management is also required to certify that they have disclosed to the auditors/audit committee if control deficiencies and/or fraud exist.



# Reporting (Continued)

## *Section 401 – Off Balance Sheet and Pro-forma Disclosures*

Requires enhanced disclosures related to:

- ◆ Off Balance Sheet Transactions
- ◆ Pro-forma/Non-GAAP information

## *Section 409 – “Real Time” Issuer Disclosures*

- ◆ Requires “rapid and current” disclosure of material changes in financial condition or operations



# Section 404 – Evaluation of Internal Controls

# Section 404 Basics

- ◆ Requires the company's independent auditor to attest to and report on management's assertions with respect to internal control
- ◆ Report required in the Company's 10-KSB filing for the year ended December 31, 2005 for all NYSE listed companies
- ◆ Now – for years ending AFTER July 31, 2006 – for all other publicly traded companies
- ◆ Coming soon to governmental agencies and divisions – federal and state

# Internal Control Basics

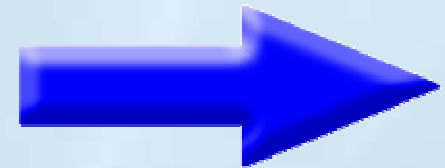
- ◆ Internal controls help an organization to:
  - ◆ Meet profitability goals
  - ◆ Achieve the corporate mission
  - ◆ Minimize surprises along the way as to the above



# Definition of Internal Control

Internal control is broadly defined as:

- ◆ A process, effected by an entity's board of directors, management and other personnel
- ◆ Designed to provide reasonable assurance regarding the achievement of objectives in the three control categories



# Internal Control Categories

- ◆ Controls related to effectiveness and efficiency of operations (Operational Controls)
- ◆ Controls related to the reliability of financial reporting (Reporting Controls)
- ◆ Controls related to compliance with applicable laws and regulations (Compliance Controls)

# IC Effectiveness Achieved When

- ◆ The BOD / Mgt understands extent to which the entity's operations objectives are being achieved.
- ◆ Published financial statements are being prepared reliably.
- ◆ Applicable laws and regulations are being complied with.

# Components of Internal Control

The components of the internal control system are as follows:



1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

# Control Environment

The following are examples of items included in the company's control environment:

- ◆ Codes of Ethics
- ◆ Job Descriptions
- ◆ Management Philosophy and Style
- ◆ Management's Attitude Toward Financial Reporting
- ◆ Board of Directors/Audit Committee

# Risk Assessment

Risk assessment involves the following elements:

- ◆ Objective setting – Defining the objectives of internal controls
- ◆ Risk Analysis – Defining and analyzing external and internal risks related to the internal control system
- ◆ Managing Change – Assessing the capability of the Company's internal control system to manage change

# Control Activities

Control activities involve the following:

- ◆ Design of policies and procedures
- ◆ Appropriate action on exceptions or information requiring follow up
- ◆ Supervisory review of functioning controls

# Information and Communication

Examples of information and communication activities include the following:

- ◆ Obtaining and providing information on performance relative to control objectives
- ◆ Providing detailed info to the appropriate level of management on a timely basis
- ◆ Support of the internal control system by providing appropriate resources
- ◆ Timely, appropriate management follow up on communications from external parties

# Monitoring

Examples of monitoring activities include the following:

- ◆ Gathering evidence as to whether or not internal control systems continue to function
- ◆ Systematic testing of controls through the use of sampling and documenting the results of such tests
- ◆ Conducting meetings with personnel and providing additional training where appropriate

# Section 404 Basics

- ◆ Requires management of a public company to report annually on the effectiveness of the Company's internal controls over financial reporting
- ◆ For "small business" issuers, management is required to submit such reports with its annual filing for years ending after July 31, 2006

# Section 404 Requirements Related to Internal Control

- ◆ Section 404 requires the Company to document and test the internal controls relating to financial reporting
- ◆ The documentation and testing includes the 5 components of the internal control system which relate directly or indirectly to financial reporting

# Section 404 Requirements Related to Internal Control

(Continued)

- ◆ Once documented and tested by the Company, the external auditor examines, tests and issues an opinion regarding management's assertions regarding the internal control system.
- ◆ Once documented
- ◆ And tested
- ◆ Maintenance

## Once Documented...

- ◆ System framework

## And tested...

- ◆ System framework

## Maintenance...

- ◆ System framework

# System Framework

## ◆ TRAKKER

- System documentation
- Testing documentation
- Fixing responsibilities for maintenance
- Scheduling
- Documentation of maintenance
- Status of maintenance

# Financial Reporting

- ◆ Accuracy of Financial Data
  - Long term contracts – revenue
  - Long term contracts - cost
  - Research and development projects spanning operating cycles
  - Very complex revenue streams
  - Growth / Business cycles
  - Business plans and forecasting

# Financial Reporting

- ◆ Accuracy of financial data

Dekker product line capabilities solve all previously stated needs

## Accuracy of Financial

### Data Area

## Dekker Products

### TRAKKER

### iPursuit

Long Term Contracts –  
Revenue

✓

✓

Long Term Contracts – Cost

✓

✓

Research & Development

✓

✓

Complex Revenue Streams

✓

✓

Growth/Business Cycles

✓

✓

Planning & Forecasting

✓

✓

# Typical Application

- ◆ 20 Separate operating locations
- ◆ 200 Personnel in financial operations
- ◆ Global
- ◆ R&D Functions take 1-5 years
- ◆ Certain client / customer installations take 1-3 years
- ◆ Purchasing / completion of tooling/raw materials  
1 month – 2 years
- ◆ Advertising / marketing for new product intros  
6 months – 2 years
- ◆ Complex revenue stream  
timber & related products

# Dekker Solutions

<u>Issue</u>	<u>Area</u>	<u>Solution</u>
20 locations	SARBOX	TRAKKER
	Financial Data	TRAKKER and iPursuit
200 Financial Personnel	SARBOX	TRAKKER
Global operations	SARBOX	TRAKKER
	Financial	TRAKKER and iPursuit
R&D Functions	Financial	√
Purchasing Tooling and raw materials	√	√
Marketing Campaigns	√	√
Growing / Harvesting of timber	√	√