In large corporations with decentralized operations and expenses adding up to millions of dollars a day, the issue of unrecorded liabilities can be significant. If these invoices don't get routed to accounts payable in 30 days, a company generating 25,000–50,000 or more invoices a month could be hit with millions of dollars of unexpected liabilities each quarter and the possibility of needing to restate earnings.

Directors should ask management what steps are being taken to ensure policies are being effectively translated from paper to implementation. What technology and systems are in place to enforce internal controls? Do you have real-time access to all the information across your system — whether it's located in your office or halfway around the world? Do you have an audit trail and a way to track and record your financials?

Maintaining the real-time visibility and transparency needed for compliance is even more critical and complex for U.S. companies doing business overseas. Dealing with information based in different enterprise resource planning (ERP) systems in various countries, and handling the myriad currencies, languages, and tax laws, complicate a company's ability to maintain the level of real-time visibility, transparency, and internal controls that SOX requires. A global company needs to be sure that overseas subsidiaries are following the same internal policies and controls. How is your company handling different currencies? Does the technology you are using in Europe synch up with Asia and the U.S.? How are you handling the different rules and regulations in each country? In addition to being compliant with SOX, global companies must be aware of and in compliance with numerous other regulations that apply to the different countries in which they do business.


Sakari Perttunen

Directors should ask how their global businesses are centralizing finances and capturing best practices. In addition to using technology that can handle international finances, some companies are responding by consolidating all their financial operations through a shared service center (SSC). The SSC provides a centralized and efficient way to reduce cost, comply with regulations, increase visibility into financials, and implement best practices across an organization.

In the end, having the proper systems in place will give your company the visibility and real-time information you need to be in compliance around the world and in the U.S., and will free you up to focus on your core business.

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There are problems, but that doesn't mean we're against it

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ONE OF THE MOST important things to remember about the Sarbanes-Oxley Act (SOX) is that much of it has worked well. There have been many positive changes — boards are more independent, they meet more often, and they've improved communications with shareholders — while the areas of complaint, given the breadth and scope of the act, have been relatively narrow. But those areas of complaint have serious negative implications for U.S. enterprises and must be addressed immediately:

• The costs/benefit balance of SOX 404 is extremely negative and a real burden on U.S. business and the economy as a whole. SOX 404 is only 168 words, but the primary implementing regulation (Auditing Standard #2) is more than 300 pages. No one — including, most notably, the SEC — anticipated the billions in extra costs Section 404 would require. It is time to correct this overreaction by fixing Auditing Standard #2.

• SOX requires companies to think a lot more about process and, necessarily, less about results. While the long-term effect on U.S. risk-taking and competitiveness is yet to be realized, we must ask ourselves if the costly mandates of 404 are putting U.S. companies at a competitive disadvantage. When opportunities arise, who will be able to react more quickly — U.S. companies focused on 404, or Indian and Chinese companies looking to grab new opportunities?

• We must consider the new incentives for companies to stay private as opposed to going public. The cost of SOX requirements is one of the reasons some companies have decided to list outside of New York, or to delist from American exchanges. We must ensure that legislation intended to improve the financial information available to investors doesn't drive companies out of the public markets.

• Some relief under SOX 404 must be provided to smaller public companies, for whom the new requirements are most burdensome. This relief, however, should not come at the expense of reform for larger companies.

The bottom line is that saying there are problems with SOX doesn't mean you are against SOX. We think that in certain areas — notably Section 404 — experience has already shown what type of fine-tuning is required.

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