

# ADP

## Aspects of Compliance



### Taking the Sarbanes-Oxley sting out of Europe

Call it coincidence, but accountants' annual results showed strong growth in revenues on 25 January 2005 as companies across the US and Europe scramble to seek help adapting to the Sarbanes-Oxley Act of 2002 and the new International Financial Reporting Standards (IFRS) in Europe. Despite the accountant's cheerful results, nearly 600 listed US companies are already facing lawsuits and higher borrowing costs after admitting 'material weaknesses or significant deficiencies' in accounting procedures. Imagine the numbers affected when you take into account these companies' clients.

No one in business will forget the events that brought the Act about - the discovery of internal discounting discrepancies found at WorldCom and Enron that led to the downfall of those once high-flying corporate giants and the loss of billions in investors' money. In early 2001 Enron was valued by Wall Street at \$80 billion and by December that year it was a penny stock with its workers' savings wiped out. Such scandals resulted in a loss of public trust in accounting and reporting practices and the resulting Act, sponsored by US Senator Paul Sarbanes and US Representative Michael Oxley, was passed as a US law in 2002.

SOX, as it is widely known, establishes new accountability standards for Corporate Management and contains 11 sections. These range from additional Corporate Board responsibilities to criminal penalties and require the SEC (Security and Exchange Commission) to implement rulings on compliance with the new law. Severe criminal penalties of up to 20 years imprisonment and fines of up to \$5 million have been established for violation of some of its sections. These new US rules came into effect in the United States from December 2004 and will be effective in Europe for SEC-listed companies from the middle of this year. On top of this the European Union is making other accounting changes by adopting new IFRS rules from 1 January 2005 to harmonise reporting across the 25-nation bloc.

In the past, a company hired an external accounting firm to audit some transactions and check the final financial records. Under SOX, management has to come up with a plan to track money, audit its tracking process and make improvements. Then the auditors come in to review management's plan, test those tracking processes and then review the financial statements. So instead of one report, management now creates two reports and the auditors create three additional reports.

Some critics are now saying that SOX goes too far. In particular they charge that requiring certification of internal controls (section 404 of SOX) is too expensive and unnecessary. Industry sources are saying: "It's a major manpower issue. For every hour the auditor works, the managers are working ten." Section 404 has even led some foreign issuers to declare that they may wish to leave America's capital markets altogether rather than have their internal controls certified.

# ADP Aspects of Compliance

continued

SEC chairman, William Donaldson, speaking at the LSE in January 2005 puts his view: "These measures are helping to raise standards throughout the world, but I still believe there are distinct benefits to listing on a US exchange and registering with the Commission. I'd like to explain why by drawing a parallel to the U.S. Marine Corps. Of all the U.S. armed services, the Marine Corps has the longest and most intensive basic training for both its officers and enlisted personnel. The Corps is upfront about its gruelling physical and mental drill. But it has no problem meeting its recruitment goals. The reason is simple: the Marines are an elite – the best of the best. That is what we want the U.S. market to represent as well. We want listing and registration in the United States, with its extensive requirements, to signal that the issuer is committed to the highest standards."

One organisation that has already taken this step is a service supplier who has chosen to comply across all its regions ahead of schedule, making it one of the first organisations in the UK to do so. ADP takes compliance seriously enough to have invested almost 5 man-years of work and £100,000 in the UK alone, to ensure that the correct Internal Control and Worldwide Service Operations measures are in place on an on-going basis to satisfy the requirements of Sarbanes-Oxley. This is significant, considering the strong position ADP was already in. It has always enjoyed a pedigree dedicated to Corporate Governance, its conscientiousness made evident by its Triple A rating, so despite the investment in achieving compliance to SOX, it hasn't been the great leap that it may pose for other organisations.

ADP takes responsibility for a client's whole payroll process, including its results, and nothing is outsourced, so compliance is clearly a critical issue for this organisation. Roger Fullilove, Head of Product Management says, "With our Type II accreditation already in place, ADP has gone far beyond other standards on meeting compliance needs. We've been providing service-based solutions for over 50 years and we have a long history with BSI and ISO 9000 standard scoring 'Excellent' in all five categories of BACS approved Bureau status, so our amalgamation of standards puts us at the leading edge in mitigating process risks."

For those involved in a company's internal controls and processes the fundamental issue in the wake of SOX must be to maintain high standards – legal, regulatory and ethical – in order to breed trust and confidence. ADP's investment in meeting compliance needs across all standards must appeal greatly to those in payroll who, to borrow William Donaldson's analogy, aspire to the standards of the U.S. Marine Corps but dread the gruelling drill experience. Why go through that pain when someone's doing it for you?

When you think about it, ADP's investment probably saves their clients from adding thousands of pounds in audit fees to the swelling coffers of the accountancy firms. Now that's a comforting thought.

ADP serves over 500,000 clients in 26 different countries throughout the world and pays approximately 30 million people around the world each and every payday. With an annual turnover in excess of £4.3 billion and having enjoyed 166 quarters of annualised double-digit growth in revenue and earnings, it has twice been named "America's Most Admired Company" by Fortune Magazine. ADP is the world's leading supplier of employment services and has been providing service based solutions for over 50 years. The organisation maintains its global leadership by investing in its employees, services and tools, putting more into R&D than any other service provider, it focuses on World Class Service and World Class Technology to deliver on its promises.

Making a world of difference

ADP  
Syward Place  
Pyncroft Road  
Chertsey, Surrey  
KT16 9SS

T 0845 230 0237  
F 0845 230 2371  
[www.europe.adp.com](http://www.europe.adp.com)

© ADP 2005.  
ADP endeavours to ensure that all the information contained in this document is correct at the time of going to print. However ADP does not accept liability for any errors or omissions.