



No one in business will forget the events that brought about the Sarbanes-Oxley Act of 2002, when the discovery of internal discounting discrepancies found at WorldCom and Enron 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 \$80billion and by December the same 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 \$5million have been established for violation of some of its sections. Whilst these new US rules came into effect in the United States in December 2004, it was expected to affect Europe and SEC-listed companies by the middle of 2005. As a result the European Union made other account changes and adopted new IFRS rules from 1 January 2005 to harmonise reporting on compliance across the 25-nation bloc.

Under the Act it's not just organisations publicly listed in the US that are required to comply. International elements of those organisations (i.e., UK organisations with US parentage) are also compelled to meet Sarbanes Oxley rulings. Traditionally UK subsidiary organisations employed an external accountancy firm to audit transactions and check the final financial record, under SOX, the organisation's Management are required to create a plan to trace monies, audit the tracking process and make improvements. It is then that auditors are employed to review the management plan, test the tracking processes and review the financial statements. Within the regulations it is also required that any 3rd party service provider employed by the organisation to carry out any financial aspects of the company are also expected to meet stringent guidelines, unless they already carry SOX certification.

As a world leader of Business Process Outsourcing to a global client base of 518,000 organisations, ADP take SOX seriously. In the UK alone we have invested 4-5 man years of work and £100,000 to ensure clients are associated with a certified partner.

The Act is made up of 11 elements, with Section 404 of biggest concern to most organisations. This requires that a company's process must:

- Determine which controls are significant
- Determine which locations or business units should be included in the evaluation
- Document and evaluate the design of significant controls
- Evaluate the operating effectiveness of controls
- Identify significant deficiencies or material weaknesses
- Document the results of the evaluation
- Communicate findings (e.g., significant deficiencies and weaknesses) to the independent auditor

In response to this, ADP can assure their clients that they have the following measures in place:

- Internal Controls Project (Finance, Purchasing, etc) – on-going
- Service Operations Project – Worldwide
- Specifically to answer the question: Client auditor must consider the effect of the service organisation on the user organisation internal control
- Assess control risk at the user organisation
- Perform an examination of the effectiveness of service organisation internal control involved in relevant transactions.
- He may use a service auditor's report (independent auditor engaged by ADP to perform audit procedures and report) if he considers it as satisfactory
- A long history with BSI and ISO 9000 (9001-(2000) Tick-IT) standard
- BACS approved Bureau status – "Excellent" all five categories

ADP's investment in compliance means that clients are not obligated to audit ADP as a 3<sup>rd</sup> Party Supplier as specified within the Sarbanes Oxley Act and can potentially saved further expenditure in auditing fees.