



**Choosing the right solution  
for Sarbanes-Oxley Section 404  
—and beyond.**

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**Executive summary**

The Sarbanes-Oxley Act of 2002 (SOX) is a complex regulation with many rules. This Act requires, among other things, that public companies report their financial results in a clearer, faster and more cost-efficient manner. One of the most pressing aspects of Sarbanes-Oxley is Section 404. SOX Section 404 mandates that companies affected by the law establish, assess and report about internal controls and procedures for their enterprises. Section 404 places a higher level of responsibility and accountability for accurate financial reporting on a public company's executives, board of directors, internal resources and others involved in corporate reporting.

This executive brief outlines:

- *Key items to consider as you evaluate how technology offerings might help your organization respond more effectively to SOX Section 404.*
- *How IBM Lotus® Workplace for Business Controls and Reporting can help you assess your business controls as mandated by SOX Section 404 and facilitate transparency of internal controls across your enterprise.*
- *Why IBM is the best business partner to help you achieve both short-term and long-term potential returns on your compliance technology investment.*

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**Think tactically and strategically about how technology can help**

Mandatory compliance with SOX Section 404 for companies with shares traded on U.S. exchanges is, in some cases, only months away. As you evaluate solution offerings that can help your response to this regulation by automating aspects of your internal controls framework, keep the following recommendations in mind to help you gain the maximum return on your investment.

*Spreadsheets are not the answer.* You may be tempted to avoid automating your processes and controls, relying instead on checking and rechecking financial reports in the form of spreadsheets. But this approach requires much maintenance and does nothing to decrease your organization's risks because of errors or omissions. And the spreadsheet approach doesn't give your company executives visibility into control risks that could result in financial restatements or fraud.

*IT must be involved from the beginning.* The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework advises that a company must have all of the following components for effective internal controls: a control environment, risk assessment, control activities, an information system, and communications and monitoring. Overlooking how these components impact your technology infrastructure can leave you surrounded with ineffective pillars of information rather than the desired central repository. You can escape this pitfall by getting your IT professionals involved early.

*Point solutions are only good for a point in time.* Point solutions designed just for SOX Section 404 may be partial, short-term fixes at best. They can provide a window into specific financial reporting systems, but they can't provide visibility into the controls across your enterprise. Companies that implement point solutions often discover they have limited flexibility to respond to changes in Sarbanes-Oxley in the future.

*Sarbanes-Oxley efforts shouldn't be just for the sake of compliance.* Companies that take a strategic view of Sarbanes-Oxley can use the requirements as an opportunity to improve transparency and accountability in their accounting and business processes. The real value of SOX efforts isn't strictly compliance – it is the ability to use information from these efforts to potentially improve your business. Recognizing this fact, thirty-nine percent of companies polled in a recent META Group survey<sup>1</sup> said that SOX will eventually make them more competitive.

To utilize SOX-related efforts as a means of improving business efficiency, companies need redesigned processes and new collaborative workplaces that can deliver:

- *Visibility, to obtain information that is timely, relevant, accurate and available throughout the organization.*
- *Control, to develop strategies, enforce policies, create and maintain synergies among divisions, and detect and correct exceptions before they spiral out of control.*
- *Efficiency, to accomplish visibility and control without crushing their organizations under administrative burdens.*

**Utilize a collaborative workplace to speed compliance efforts—and more**

IBM Lotus Workplace for Business Controls and Reporting is a Web-based solution that:

- *Helps you document, test and assess your internal controls.*
- *Can help you enhance your organization's visibility, internal controls and efficiency to optimize your business for competitive advantage.*

Lotus Workplace for Business Controls and Reporting provides a framework that allows company executives, employees and auditors to identify, assign, test and monitor business controls – with minimal impact on day-to-day operations.

*Transparency.* The Lotus Web-based solution can help you quickly identify business processes, subprocesses, controls and risks from an executive dashboard. Lotus Workplace for Business Controls and Reporting utilizes your existing infrastructure by pulling data from legacy systems and aggregating this data to provide high-level visibility into the effectiveness of controls. Management can quickly see a snapshot of the organization's control framework and then drill down to understand the details in any business unit. This level of transparency was almost impossible before Lotus Workplace for Business Controls and Reporting.

*Control.* Lotus Workplace for Business Controls and Reporting is also a role-based solution that provides a platform and a consistent, organized approach that can help your organization quickly identify issues and mitigate risks. Key roles and risks are defined for each process in an organization. The processes are then linked to corresponding financial statements. Controls you put in place can be checked with test cases to validate the effectiveness of financial reporting. Ownership by individuals is assigned at each level in the system, so that employees can focus on the specific controls and processes for which they are ultimately accountable.

*Efficiency.* Lotus Workplace for Business Controls and Reporting enables users to quickly and efficiently work on their appropriate tasks and then resume their day-to-day work activities. With the controls and processes in place, employees across all divisions are able to evaluate their controls in a consistent way. The simplified user experience provided by Lotus Workplace for Business Controls and Reporting helps you get quick and effective evaluations from your staff with little or no interference with their primary responsibilities. Users can gain access, execute evaluations, sign off and go on with their work. And Lotus Workplace for Business Controls and Reporting lets you create a dynamically adaptive workplace, where it's easier for project teams to respond to new requirements.

#### **Facilitate your response to SOX Section 404**

Look at how Lotus Workplace for Business Controls and Reporting can help your organization respond to SOX Section 404 faster and more efficiently.

*Scope and organizational definition.* Lotus Workplace for Business Controls and Reporting simplifies the process of defining the structure and identifying the parts of your organization that are material to your business controls and reporting efforts. The flexibility of the Lotus offering allows you to define your approach to internal controls for financial reporting around your existing corporate structures. You can set up an unlimited hierarchy of business units and subunits mapped to the way your business works.

You assign individuals ownership for each business unit of your organization. As you move through your organization, people are assigned to divisions, processes, controls and ultimately control evaluations.

With Lotus Workplace for Business Controls and Reporting, you can classify which business units you consider to be key contributors to the overall assessment of business controls and reporting. This classification helps you define the level of resources and skills of individuals necessary to properly evaluate your underlying business controls.

*Documentation of processes.* After you have added your high-level organization structure to the system, you need to identify key processes. You can either manually enter or import definitions from existing control catalogs. The knowledge and experience of KPMG, a financial and accounting firm, can be leveraged in a set of optional control catalogs (available from KPMG) that correspond to commonly used enterprise resource planning (ERP) systems and industry products. You can use these catalogs to jump-start the documentation of processes, controls and evaluation procedures for your organization. As processes are characterized, individual employees are assigned as owners. Processes are then linked to the financial statements that they ultimately affect. By linking processes to statements, you can focus on the parts of your business that are on a critical path toward financial reporting.

*Identification of risks and controls.* For each process, you spell out the objectives and corresponding risks relevant to financial reporting. The identification of risks can help your organization manage or mitigate the defined risks through controls.

Each risk is, in turn, assigned one or more controls. A control defines a key activity in a business process. An individual evaluates the effectiveness of a control to help maintain a consistent and reliable level of financial reporting.

Each control is then assigned one or more procedures. The procedures itemize steps for employees to follow when evaluating the effectiveness of a control. The importance of the control determines the frequency of evaluation required.

Management can map controls to financial statement assertions and COSO—two critical components in determining the readiness of the organization's system of internal controls over financial reporting.

*Evaluation and testing of controls.* Frequency and schedules can be set for each evaluation so that you can balance the needed resources, while enabling timely evaluation and monitoring of business controls.

Controls are evaluated with *yes* or *no* as to whether they are effective. This simple judgment helps reduce ambiguity as items are rolled up to executive dashboards. The control owner must judge for the given procedure whether the overall control is successful.

Controls that are designated as ineffective require the owner to explain the deficiency. Descriptions and supporting information can be attached to further detail the ineffectiveness of the control.

The owner must assess the impact on financial statements and can point to mitigation controls that are able to reduce the impact of the deficiency. Using this consistent approach across divisions allows information to be clearly presented to executives.

Processes and controls can then be evaluated across your entire organization. This view allows executives to actively monitor the progress and state of current evaluations by business unit. They can see which divisions are up to date and which are falling behind in defining and evaluating controls.

By clicking any graph in the system, you can quickly and seamlessly view a report of the underlying data driving the graph. Real-time data drives the graphs and reports that give your project team the ability to make clear and timely decisions as they move towards completely documenting and evaluating your key business control efforts.

### **Go beyond Sarbanes-Oxley**

Lotus Workplace for Business Controls and Reporting can help you respond to SOX Section 404 quickly and efficiently through role-based interaction and integrated collaboration. But beyond that, by helping you to document, test and assess your business controls and processes throughout your enterprise, the Lotus offering can help you transform and potentially optimize your business.

*Transform your business.* The information that Lotus Workplace for Business Controls and Reporting system integrates from among your disparate systems and makes available to your employees virtually anytime, anywhere, contributes to better business decisions. With Lotus Workplace for Business Controls and Reporting, your employees can have peripheral vision to more effectively monitor your ever-changing business.

*Optimize your business.* The clear, documented view of your company's standard operating procedures that the Lotus offering provides can make it easier for your employees to identify opportunities for process and organizational efficiencies that could ultimately make your business more competitive.

### **Leverage IBM technology, expertise and experience**

No other company has the breadth of technology, services, experience and partnerships to help your company address the SOX Section 404 requirements.

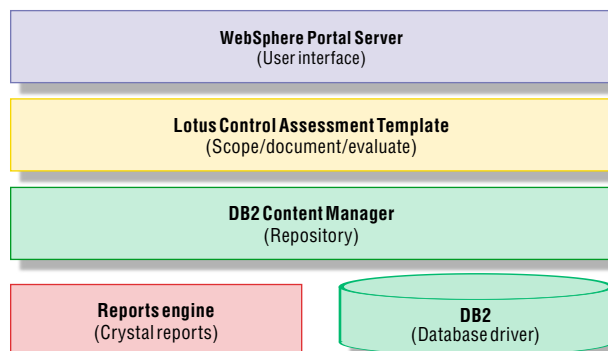
*Category-leading technologies.* The IBM world-class technology platform, which includes IBM WebSphere® Portal and IBM DB2® Content Manager, is the foundation of the Lotus Workplace for Business Controls and Reporting solution.



IBM DB2 Content Manager has been recognized by major IT analyst firms for its leadership. This includes placement in leader quadrants in Gartner Magic Quadrants relating to enterprise content management (Integrated Document Management<sup>2</sup> and Integrated Document Archiving and Retrieval Systems<sup>3</sup>—both in summer 2003), as well as the ECM MetaSpectrum (January 2004),<sup>4</sup> where IBM was listed as a leader. In August 2003, IBM is also listed by Gartner as the industry's revenue and share leader in content management, with a growth rate (34 percent) in 2002 that far exceeds any other major vendor.<sup>5</sup>

Major IT analyst firms have also recognized IBM WebSphere Portal for its leadership. This includes being listed in the leader quadrant in the Gartner Horizontal Portal Magic Quadrant (Spring 2003).<sup>6</sup> In addition, the enterprise portal evaluations by META Enterprise Portal METAspectrum two consecutive years, both 2002<sup>7</sup> and 2003<sup>8</sup> also positioned IBM as a leader. In the Patricia Seybold Group rating of leading portal platform providers (November 2003),<sup>9</sup> IBM was declared the clear leader in the space with WebSphere Portal 5.0. IBM is also listed by Gartner as the industry's 2002 AIMP License revenue market share leader in portals.<sup>10</sup>

#### Lotus Workplace for Business Controls and Reporting



*Standards-based.* This platform is built on top of Java™ 2 Enterprise Edition (J2EE™) standards-based technology to extend the value of your existing IT investments. For example, Lotus Workplace for Business Controls and Reporting can pull and aggregate data from a variety of back-end systems including the leading ERP systems.

*Full suite of services.* IBM risk management consulting and software services solutions can help you get started quickly, and close gaps in your response plans. Lotus offers services—both tactical and strategic—designed to address not only your company's finance function, but also the enterprise-wide issues arising from Sarbanes-Oxley compliance requirements. IBM Software Services for Lotus and the broad Lotus partner network can help you:

- *Install, migrate and customize Lotus Workplace for Business Controls and Reporting.*
- *Identify and migrate internal and external deployment risks.*
- *Make timely and well-informed deployment decisions.*

*Flexible pricing.* Lotus Workplace for Business Controls and Reporting pricing model is per user, so you license just what you need. It's an affordable solution for enterprises of all sizes.

*KPMG knowledge.* You can leverage KPMG's Control Catalogs (available separately from KPMG), which are the accumulation of years of industry and financial controls experience captured in a knowledge base.

*Comprehensive solution.* Only IBM provides an end-to-end solution from a single vendor that can help you respond to SOX Section 404 – and potentially improve business efficiency at the same time.

#### **Conclusion**

To be in a position to respond to SOX Section 404, the capability to identify, assess and monitor your business controls with minimal impact on your everyday operations is critical. Lotus Workplace for Business Controls and Reporting provides this capability in a clear, integrated solution. In the short term, this IBM platform can help you respond to SOX Section 404 quickly and efficiently. In the long term, it can provide managers and executives greater visibility into the company's processes to identify opportunities for transforming and optimizing the business.

#### **For more information**

To learn more about the IBM Lotus Workplace for Business Controls and Reporting platform and how it can help you respond to SOX Section 404 – and beyond, visit:

[www.lotus.com/products/product5.nsf/wdocs/bcghomepage](http://www.lotus.com/products/product5.nsf/wdocs/bcghomepage)

