

Sharing of Experience – Section 404 Sarbanes-Oxley Act

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Agenda

- **404 Readiness Lessons Learnt from the Field**
- **View on Sarbanes-Oxley Compliance**
- **Impact of SOX**
- **Conclusion**
- **Questions & Answers**



404 Readiness Lessons Learnt from the Field



404 Readiness Lessons Learnt from the Field

- **Check your scope**
 - **Operational VS Financial Reporting Controls**
 - **Do not ignore IT**
 - **Take a look at Tax**



404 Readiness Lessons Learnt from the Field (cont'd)

- **Critically review your progress**
 - **Ensure PMO is effective**
 - **Dedicated change management**
- **Test control environment**
 - **Control “activities” = “action”**
- **Expect control deficiencies**
- **Share 404 processes and outcomes with independent auditor**



404 Readiness Lessons Learnt from the Field (cont'd)

- **Adopt the right project attitude and communicate**
 - **Is the goal compliance or excellence?**
 - **Is the audience your external auditors or the capital markets**



Remember: Internal Control Has Limitations

- Objectives are not always clearly defined
- Provides reasonable not absolute assurance
- Human judgment
- Breakdowns happen – key is to detect and react quickly
- Management override can/does happen
- Collusion can/does happen
- Cost vs. benefit always needs to be considered



View on Sarbanes-Oxley Compliance



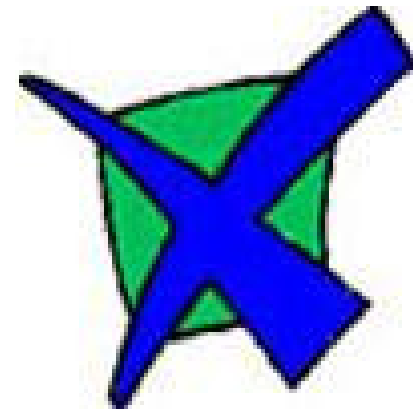
What's Your Current Attitude Towards Sarbanes-Oxley

- **Opportunist**
- **Open-minded Skeptic**
- **Negativism**



We See Perspectives Changing from a Compliance Focus

- View Sarbanes-Oxley as **added cost** of doing business
- Approach in a **narrow** financial reporting sense
- Avoid infrastructure **changes**



Sarbanes-Oxley Section 404 Compliance Survey July 2004

Question: How far along are you in the process of Section 404 compliance?

All documentation and testing requirements have been completed and remediation of control deficiencies, if any, has commenced	7%
All documentation and testing requirements have been completed, but remediation of control has not commenced	4%
All documentation requirements are complete and testing of controls is under way	32%
The company is in the process of completing all documentation requirements and has commenced testing controls	43%
The company is in the process of completing all documentation requirements, but has not commenced testing controls	14%

Raising the Bar

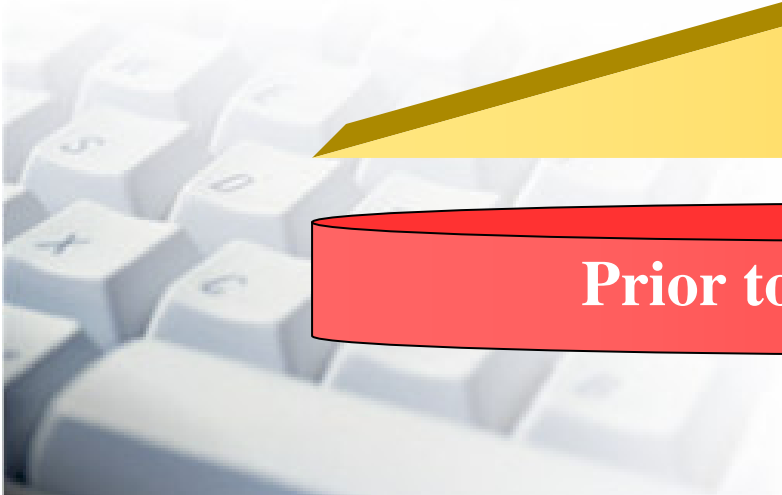
Capital Markets

SOX Compliance

SEC

PCAOB

Prior to Sarbanes-Oxley Act



Compliance With Sarbanes-Oxley Is Not "Once-and-Done"

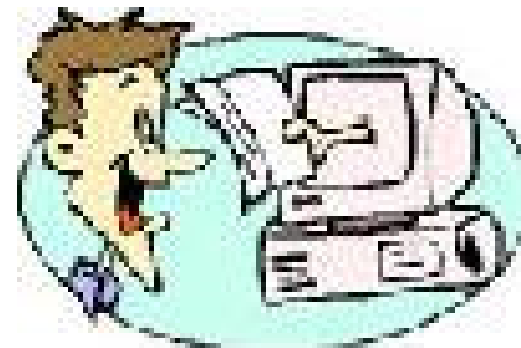


Impact of SOX

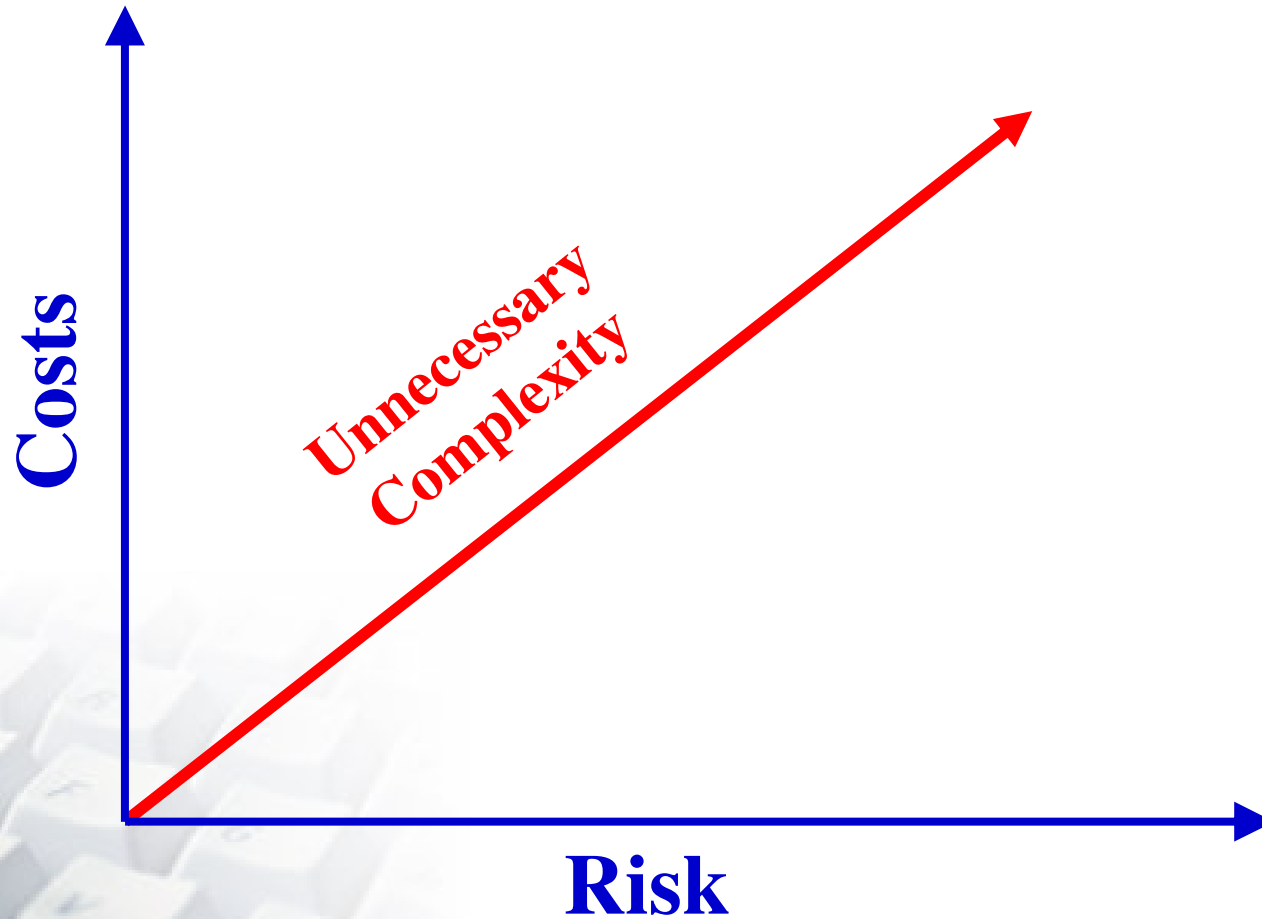


How Does Sarbanes-Oxley Impact Information Technology?

- **Application level controls for business processes**
- **Controls on IT processes**
- **New functionality to support compliance**
- **Changes to support sustainability and improvement**



When Costs + Risks > Benefits



Unnecessary Complexity Adds Costs and Risks

- Increase upfront Sarbanes **compliance costs**
- Increase annual Sarbanes **maintenance costs**
- Raise regulatory **non-compliance risks**
- Raise **capital market risks**



Source of Unnecessary Complexity

- **Fragmented** and inconsistent **data**
- **Redundant**, manual and error-prone **processes**
- **Non-standardized** / non-integrated **technologies**



The Case for the Opportunity View Is Compelling

**New
Business
Case**

Risk Reduction

SOX Cost Saving

Effectiveness Improvements

Efficiency Cost Savings

**Net
Benefit**

Organizational Plan

SOX Compliance Costs

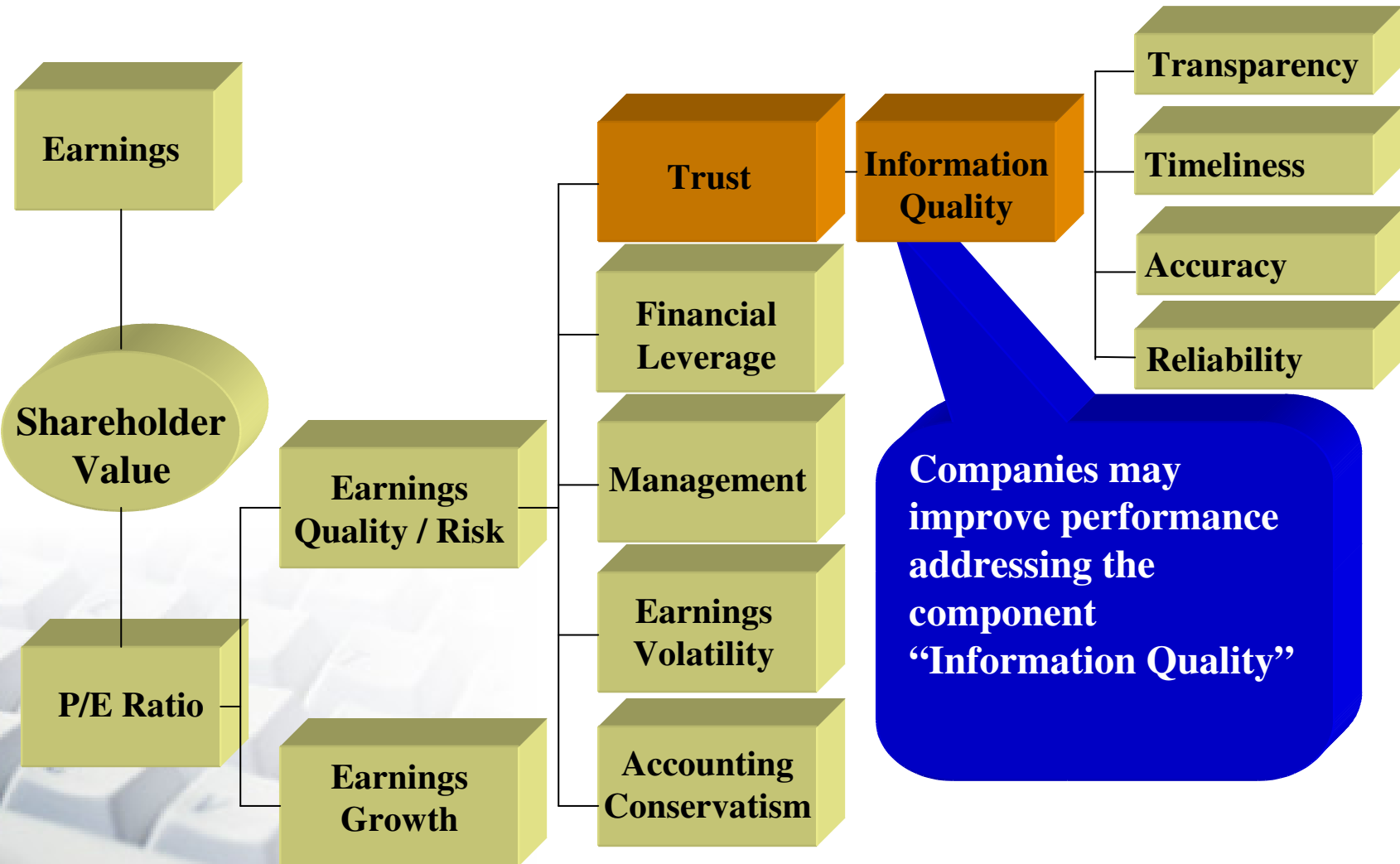
+

Value

-

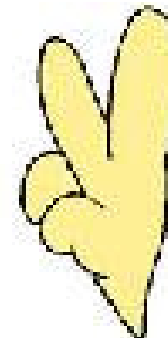


A Critical Driver of Investor Trust: Financial Information Quality



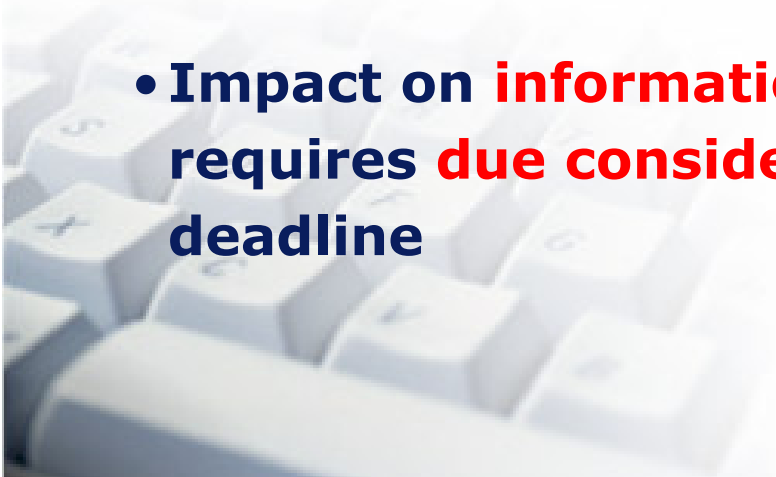
Improving Financial Information Quality for Telecommunication Companies

- **Transparency**
- **Timeliness**
- **Accuracy**
- **Reliability**



Closing Thoughts

- The world has fundamentally **changed** since the “market meltdown”
- Compliance is necessary but **not sufficient** from investment community perspective
- New requirements provide an **opportunity to improve quality** of financial information
- Impact on **information management** is significant and requires **due consideration** before the compliance deadline



Start Asking Yourself

- Are we comfortable that large investor groups have **confidence** in our ability to quickly disclose material events?
- Are we confident the investment and strategic decisions we're making won't result in **hidden infractions**?
- How confident are we that intra-company communication is **consistent** with our communications to the investment community?



Start Asking Yourself (cont'd)

- Do we have **right resources** on our 404 projects?
- Have we **re-visited** the scope of our effort recently?
- How many **improvement opportunities** have we identified?



Conclusion



Questions / Discussions

Questions & Discussions

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