



Understanding the cost of Sarbanes–Oxley compliance

By Gary A. Curtis and Les S. Stone

New research shows that the Sarbanes–Oxley Act has created unprecedented levels of cooperation between finance and IT executives. And companies whose business and technology managements are aligned with respect to investment consistently deliver higher operating performance and return to shareholders.

When companies do not have an accurate picture of their costs, they risk making poor decisions. Case in point: A recent Accenture survey of more than 300 companies with revenues of \$1 billion or more revealed that senior executives' perception of the cost of complying with the Sarbanes–Oxley Act of 2002 is often substantially higher than the actual outlay. Indeed, although the survey respondents—information technology and finance managers from a broad range of industries—believed that their companies spend on average nearly 7 percent of revenues on Sarbanes–Oxley compliance, the real cost ranges from 1 percent to 3 percent.

Overestimating a cost to this extent can lead companies to cut back on important market-facing initiatives or value-creating IT expenditures. They may not invest in bringing a new product to market, for example, or in the technology required to launch a new capability. Or management might delay the development of necessary capabilities like sales force automation that could help improve the company's ability to penetrate customer accounts. Those decisions, of course, ultimately have an effect on the bottom line.

Compliance with Sarbanes–Oxley legislation—which was intended to

improve the accuracy and reliability of financial and other disclosures of companies doing business in the United States—is having other unintended consequences. Few companies consistently exploit the value-creation opportunities presented by their remediation efforts. For example, while trying to improve reporting transparency, companies have an opportunity to ensure that they are monitoring and measuring the correct key performance indicators and metrics to gauge the overall health of the business. But many companies are not taking this step.

Accenture also learned from this research that companies that have assigned Sarbanes–Oxley compliance efforts on a broad organizational basis are more likely to have overestimated the cost than those that have focused compliance accountability on a small number of specific executives. Meanwhile, finance managers are less sure than IT managers about what it costs to support Sarbanes–Oxley compliance.

Creating historical alignment

There's broad agreement among these executives that this legislation

will deliver multiple benefits by strengthening corporate governance and financial controls. In addition, the survey found that Sarbanes-Oxley has created unprecedented levels of cooperation between finance and IT executives.

For example, 90 percent of survey respondents report that IT and finance functions have collaborated closely to support Sarbanes-Oxley requirements. Eighty-six percent of finance managers say IT has provided the technical support needed

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to comply, and 84 percent of IT managers indicate that finance has sought support via related project requests. Moreover, both groups agree that remediation efforts will have a greater impact on governance than on any other area of their company's business.

This new level of cooperation and alignment is a positive development. Accenture research has shown that companies whose business and IT managements are aligned with respect to investments consistently deliver higher operating performance and return to shareholders than companies where such alignment is poor.¹

Despite this new level of alignment, however, IT managers and finance managers differ on what the major challenges are for meeting the compliance requirements. Thirty-two percent of finance managers see

business process improvement as the greatest challenge, a view held by only 17 percent of IT managers. And although 19 percent of IT managers report that ongoing systems support for IT functions represents the greatest challenge, that opinion is shared by only 7 percent of finance managers. Reprioritization of other initiatives is seen as the biggest challenge by 16 percent of finance managers; only 7 percent of IT managers agree.

The survey also found that IT managers and finance managers have divergent opinions on the effectiveness of their company's compliance efforts. For example, while 56 percent of IT managers consider their company's technology tools for Sarbanes-Oxley reporting to be extremely effective or very effective, that view is shared by only a third of finance managers.

This gap can be troublesome. When IT departments believe they are fulfilling their compliance duties but finance departments are not getting the reports and data they need, the disconnect will inhibit compliance—and make compliance efforts more expensive than they need to be. Managements need to come together on the issue of compliance effectiveness, taking a broader view that considers not only the technical results but also that the systems and the data they deliver provide what's needed.

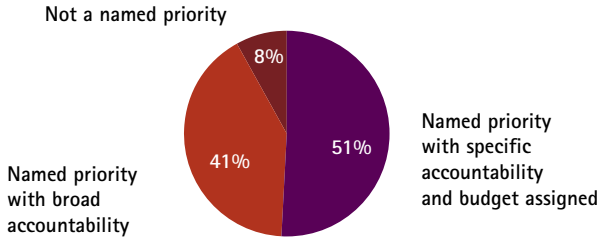
A long-term effect

Clearly, Sarbanes-Oxley has had significant impact on IT and finance departments. Two-thirds of the IT and finance managers surveyed say they are involved in remediation efforts and that their companies

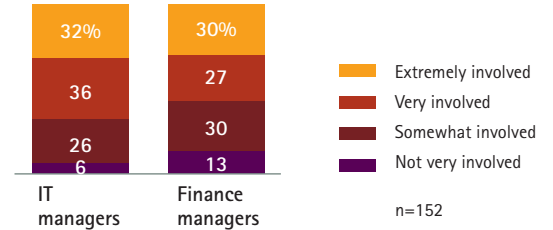
¹ See "IT-Driven Productivity," Accenture 2004.

A corporate priority

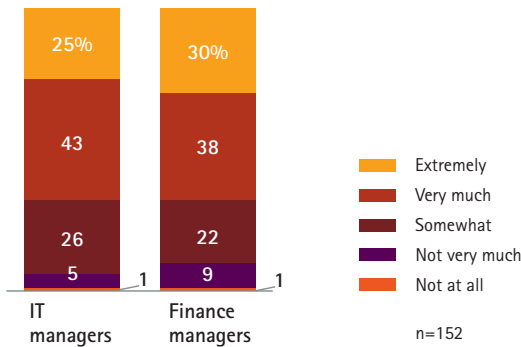
Almost all large corporations have named Sarbanes-Oxley a corporate priority. About half have specific accountability and budget assigned.



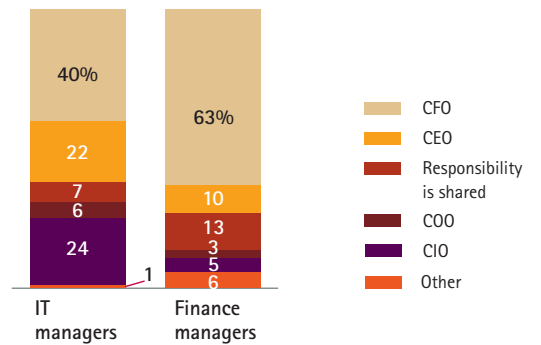
More IT managers than finance managers are either extremely involved or very involved in Sarbanes-Oxley compliance.



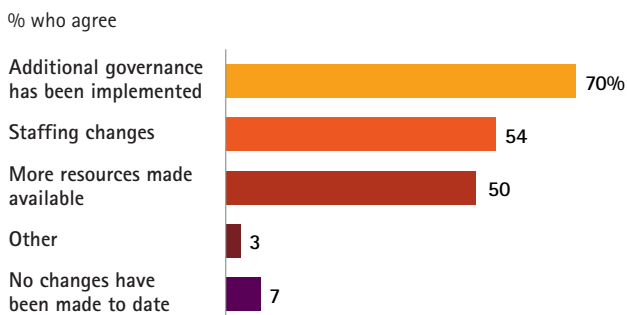
Over the next one to three years, two-thirds of both IT and finance managers expect Sarbanes-Oxley to affect their area of responsibility either extremely or very much.



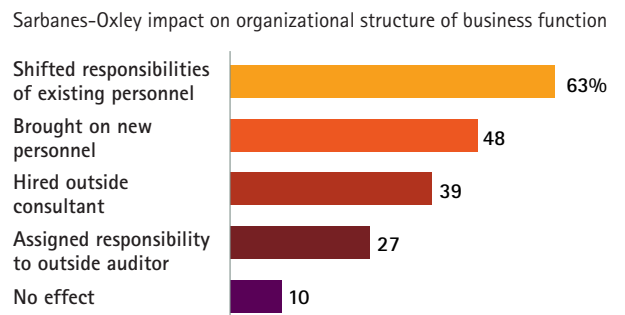
More finance managers believe that CFOs have the primary responsibility for Sarbanes-Oxley compliance, while more IT managers believe that CEOs and CIOs have that responsibility.



Sarbanes-Oxley has had significant impact on the organizational structure of large corporations, including implementing additional governance, changing staff and adding more resources.



Many corporations have shifted staff responsibilities as a result of Sarbanes-Oxley, nearly half have brought on new personnel, and more than a third have hired outside consultants.



Misunderstandings about Sarbanes-Oxley compliance are likely to lead to decisions that may hurt performance.

will continue to feel the effects of the legislation over the next several years.

Nearly every company surveyed has changed its organization in some way to meet the new standards. The changes have most often affected governance, the management of business processes and how data are handled. More than half of the companies have added governance structure and processes, made more resources available and made staffing changes directly related to

Sarbanes-Oxley compliance. Half of the companies have brought in new personnel, and two-thirds have shifted the responsibilities of current employees. Half of the IT managers surveyed expect to increase their compliance-related staff in the future. The Accenture survey also found that efforts to meet Sarbanes-Oxley requirements are primarily conducted internally. One-third of such efforts, however, are handled through outsourcing.

Chief financial officers are most often cited as having the primary responsibility for compliance by all respondents. Finance managers and financial services companies are more likely than others to believe that this responsibility should be shared. Finance managers also

About the survey

In July 2005, to better understand the impact of efforts to comply with the Sarbanes-Oxley Act of 2002 and related remediation efforts and to explore possible differences in perceptions between IT executives and finance executives, Accenture conducted 304 online interviews at US corporations with revenues of more than \$1 billion worldwide (41 percent of the companies had more than \$10 billion in revenues). Although the survey universe covered a wide range of industries, the best-represented sectors were financial services (28 percent), health care (11 percent) and manufacturing/non-computers (11 percent). The interview mix was split evenly between 152 IT managers and 152 finance managers. All respondents were senior executives (titles included vice president, division/department head, director, executive vice president and others).

believe that involvement by board members has increased during the past year.

Overall, Accenture's survey shows that to date the impact of Sarbanes-Oxley compliance efforts has been something of a mixed bag for large companies. The most positive effect, aside from compliance itself, is that top finance and IT managers are working more closely together with a better-aligned agenda than ever before. Accenture's research into IT and business alignment shows that this will pay off in improved business performance.

At the same time, however, it is also clear that the costs of Sarbanes-Oxley compliance and IT remediation efforts are misunderstood at most companies, and that this misunderstanding will likely lead to decisions—especially about IT investment priorities—that may hurt performance. Top management, including senior IT executives, should work to identify the costs of Sarbanes-Oxley compliance and remediation efforts, in all affected functional areas, and to centralize responsibility for ongoing tracking and management of those costs as well as the results of investments made for compliance. We expect such efforts will pay off in greater transparency and accuracy, in a positive impact on IT and finance budgets, and in increased investment for discretionary, performance-improving initiatives.

About the authors

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