

2007 Oversight Systems Financial Executive Report on Sarbanes-Oxley

The 2007 *Oversight Systems Financial Executive Report on Sarbanes-Oxley* identifies growing benefits of continuous monitoring and improved management of year-three compliance costs. The 4th annual survey found financial executives bullish on the use of continuous monitoring in Sarbanes-Oxley (SOX) compliance, greater control of year-three compliance costs, a positive jump in shareholder value and a risk-based approach to 2007 compliance.

Nearly two-thirds of financial executives (64 percent) see merits in using continuous monitoring as a detective tool in SOX compliance. Additionally, 58 percent feel it can serve as a preventative tool, 50 percent think it can facilitate management's assessment of risk and help test the effectiveness of other controls, and 42 percent believe it can be used as a compensating or mitigating control. (See: *Bullish on Continuous Monitoring*)

"The time for continuous monitoring has arrived," said Dr. Dana R. Hermanson, Dinos Eminent Scholar Chair of Private Enterprise and Professor of Accounting in the Coles College of Business at Kennesaw State University. "This technology will fundamentally change internal controls and auditing, bringing them fully into the 21st century. Financial statement users demand rock-solid financial reports, and risk-based human testing performed by audit firms cannot possibly cover more than a small sample of company transactions."

Dr. Hermanson continues to say that internal controls cannot stamp out all abuse and error. Rather, continuous monitoring complements the efforts of auditors and management by electronically reviewing all transactions for indications of

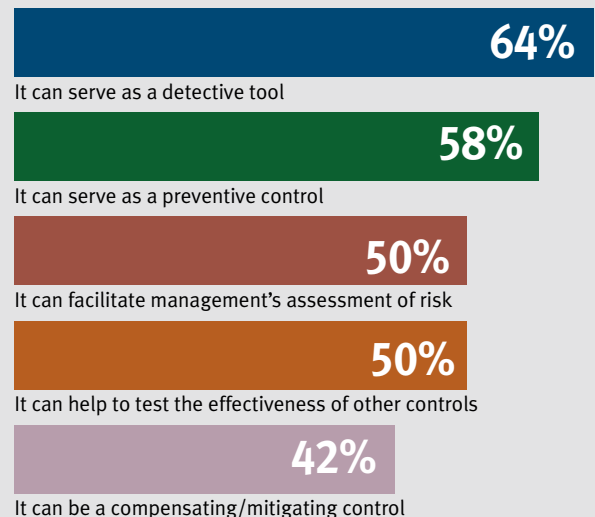
trouble. Once identified, suspicious transactions can be further evaluated by management or auditors.

Continuous Monitoring

Continuous monitoring of transactions is real-time, automated testing of recorded transactions using rules and artificial intelligence. Advances in continuous monitoring provide the capability to generate significant benefits from more efficient controls testing, elimination of manual controls and testing by becoming the control, and identification of exactly where processes can be improved.

Bullish on Continuous Monitoring

Continuous monitoring of transactions is real-time, automated testing of recorded transactions using rules and artificial intelligence. When asked, financial executives report big possibilities for this technology in managing SOX compliance.

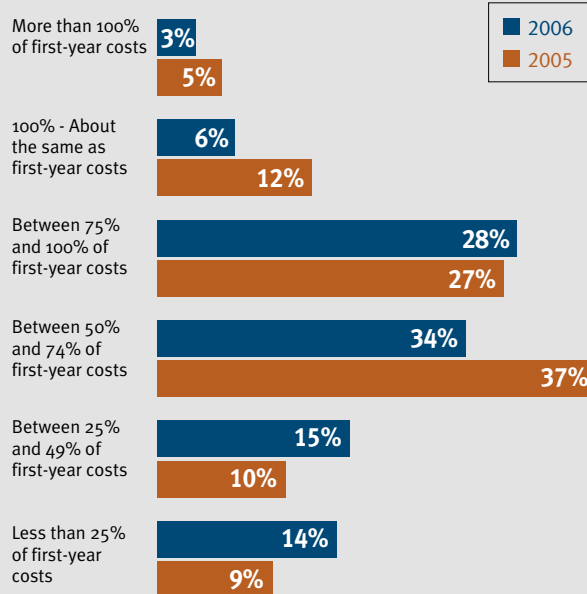


“Now is the time for corporations to fix fraud and controls weaknesses. Permitting the hangover from the corporate fraud scandals of 2002 to remain unaddressed is highly risky for any company and its executives,” said Patrick Taylor, president and CEO of Oversight Systems. “Today, continuous monitoring is a mature process that allows companies to automate controls testing and get real-time visibility into their financials. Smart compliance officers and corporate executives are adopting these processes and technology.”

The study also identified numerous benefits of real-time transaction monitoring within financial systems. Nearly three-quarters of executives (71 percent) report that real-time transaction monitoring facilitates a stronger control environment, 59 percent state it reduces errors in financial processes such as order-to-cash and procure-to-pay, and 49 percent believe the benefits lie in automated testing of control effectiveness. An additional third of respondents believe the benefits of real-time transaction monitoring are reducing the cost of maintaining compliance (36 percent), increasing confidence in financial reports (35 percent) and mitigating segregation of duties risks (31 percent). *(See: Real(-Time) Success)*

Compliance Costs

When comparing 2006 SOX costs with 2005 figures, financial executives report spending less.



State of Year-Three SOX Compliance

Now in its third year, the cost of implementing SOX regulations is coming under control. When comparing 2006 SOX costs with 2005 figures, financial executives report spending less. Comparing 2006 and 2005 SOX spending to year-one spending, only nine percent of executives report spending an equal or greater amount on 2006 SOX – nearly half as many as in 2005 (17 percent). And there was a double-digit increase in the number of companies that spent less than half of first-year costs in 2006 (29 percent) as compared to 2005 (19 percent). *(See: Compliance Costs)*

“As many predicted, SOX compliance costs continue to drop,” said Dr. Hermanson. “I strongly encourage Congress and the SEC to let SOX continue to improve financial reporting and bolster investor confidence. This is no time to gut the SOX reforms, but rather to continue to strive for effective and efficient implementation.”

Politicians and political pundits alike have proposed revisiting SOX legislation under the newly elected Democratic Congress. Financial executives are divided on what they feel the new political majority means to SOX regulations, 30 percent think a Democratic Congress will seek to expand or strengthen market regulations such as SOX and 27 percent believe Congress will

Real(-Time) Success

Real-time transaction monitoring has proven successful to financial executives. In fact they report such monitoring has generated significant benefits in their financial systems. What benefits?

71%

Stronger control environment

59%

Reduce errors in financial processes

49%

Automate testing of control effectiveness

36%

Reduce cost of maintaining compliance

35%

Increase confidence in financial reports

31%

Mitigate SOD risks

reduce and weaken such regulations. Another 27 percent believe a the new Congress will usher in more vigorous enforcement by the SEC and PCAOB, while 16 percent feel that less vigorous enforcement is on the horizon.

Today, more than five years after Enron filed for bankruptcy, many companies still feel the fallout of the accounting scandals that rocked the early 21st century. Nearly all financial executives (90 percent) report a cultural change among U.S. business leaders toward institutional integrity and fraud prevention as a result of the scandals. The outlook among executives about this change, though, is divided – 31 percent perceive a vigilant change that will remain for the foreseeable future, 30 percent feel the interest will fade over the next five years, and 29 percent feel vigilance and interest by corporate leaders has already begun to fade.

“Any company that allows institutional integrity and fraud prevention to fade is swimming against the tide of investor preferences,” said Joseph Carcello, Ernst & Young Professor of Accounting, and Director of Research – Corporate Governance Center at the University of Tennessee. “Investors, especially large institutional investors, have stated publicly that fraud prevention and detection is very valuable when evaluating potential investments. Continuous monitoring software offers a cost-effective means of reducing exposure to certain fraudulent financial reporting risks.”

Likewise respondents’ attitudes toward the benefits of SOX compliance indicate a fading level of interest compared to previous years. Although when asked the benefits of SOX compliance, 68 percent report that it ensured the accountability of individuals involved in financial reports and operations while all other factors lost support as compared to the 2006 study. The SOX benefit with the biggest drop was strengthening investors’ view of a company, garnering just 16 percent support – down 10 percent from last year. (*See: Losing its Luster?*)

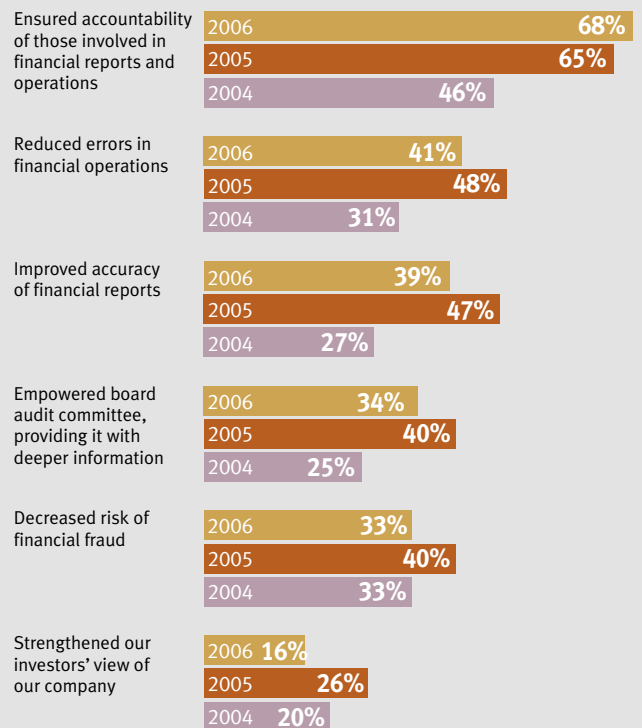
“I’m not surprised that SOX is losing its luster a bit,” said Dr. Hermanson. “However, I would encourage everyone to remember how bad things were in 2002 and how far we have come since then – except, of course, for the stock option backdating scandal.”

Investment Picture

Recently, stock options back dating stories have run rampant in the headlines. The unsightly stories have resulted in renewed

Losing its Luster?

When asked what benefits companies realized from SOX compliance, financial executives showed less optimism this year.



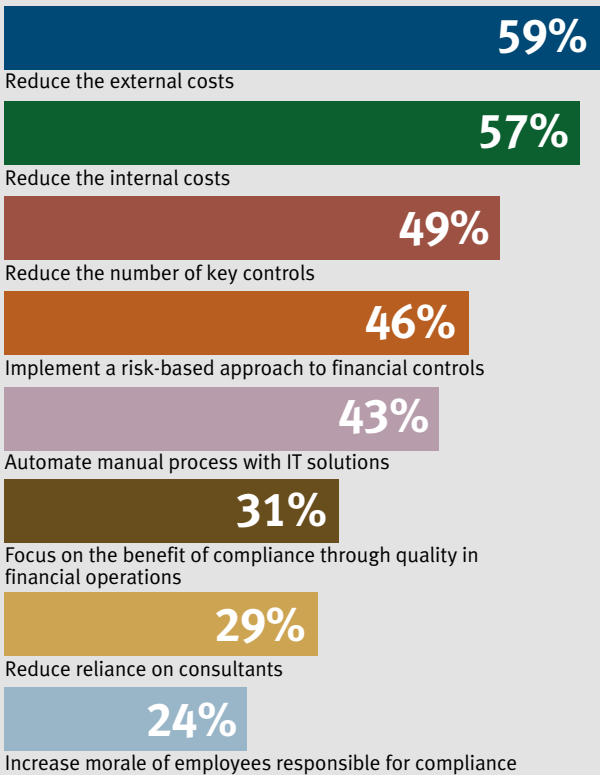
efforts by companies to review and reform options dating practices. Financial executives report only small increases in the amount of time auditors spend reviewing stock options as compared to one year ago. Of financial executives whose companies have stock options, 38 percent report no increase in the amount of time spent auditing and 47 percent report a 30 percent or less increase in time spent auditing stock options.

“Auditors have not really faced a lot of heat over stock option backdating, so their relatively tepid response to date is not too surprising,” added Dr. Hermanson. “However, now that the issue is on the table, I’d hate to be an auditor who misses a future backdating abuse.”

In 2007, financial executives report a significant increase in the positive impact SOX compliance has on shareholder value. Four in ten executives (41 percent) report that SOX boosts shareholder value by building overall confidence in the market. Additionally, 37 percent said SOX increased shareholder value because investors know their company is operating ethically, up 10 percent from the 2006 figures. Moreover, 30 percent of executives report SOX created a cost burden that suppresses

Outlook for 2007

What SOX goals do financial executives have for 2007?



stock value, though a significant amount it is down seven percent from 2006.

Board involvement is also apparent among companies. Nearly three-quarters of executives (72 percent) report their Board is actively involved in company management with 19 percent reporting the Board to be highly active.

A Risk-Based Approach in 2007

The study found nearly two-thirds of executives (63 percent) take a risk-based approach to redefining controls. Likewise, 46 percent of executives report implementing a risk-based approach to financial controls as one of their 2007 goals. Other financial goals leading the way include to reduce external costs (59 percent), reduce internal costs (57 percent), reduce the number of key controls (49 percent), automate manual processes with IT solutions (43 percent), focus on compliance benefits through quality financial operations (31 percent), reduce reliance on consultants (29 percent) and increase the morale of employees responsible for compliance (24 percent). (See: *Outlook for 2007*)

About the 2007 Oversight Systems Financial Executive Report On Sarbanes-Oxley

Through a combination of an invitation-only online survey and survey intercepts, 168 financial leaders from across the U.S. participated in this study. Titles of those surveyed included chief financial officer, chief audit executive, controller, treasurer, vice president, director and internal auditor. This marks the fourth time Oversight Systems has conducted executive research into the impact of SOX. The previous annual SOX reports can be found at www.oversightsystems.com/survey.

This study follows the October release of the 2006 *Oversight Systems Executive Report on Shared Service Centers*, a survey of financial executives that found more than half of respondents report their shared service centers are well short of achieving their operational goals. Also recently released was the 2006 *Oversight Systems Financial Executive Report on Risk Management*, which found room for improvement in the way companies assess, manage and prevent risk.

Other research studies completed by the company include the 2006 *Oversight Systems Financial Executive Report on Sarbanes-Oxley* and the 2005 *Oversight Systems Report on Corporate Fraud*. All these research studies can be downloaded for free by visiting www.oversightsystems.com/survey.

About Oversight Systems

Errors in day-to-day financial transactions consistently result in adjustments, reversals and rework. Oversight Systems drives defect-free financial processes to eliminate these extra costly efforts. Increasing the quality of financial operations leads to accelerated, more accurate closes and validates policy compliance. Our software inspects each step of every financial transaction in real time for errors and control violations, so companies can address these issues when they are less complex and less costly to correct. For more information, visit www.oversightsystems.com.

Contact: Jeff Johnson
jeffrey.johnson@oversightsystems.com. 770-984-4663