

The Role of Internal Audit in Complying with Sarbanes-Oxley

Finding the Right Talent Transforms a Challenge into an Opportunity

The Challenge

In the wake of the corporate scandals of corporate malfeasance and auditing failures that have eroded investor confidence in U.S. equity markets, Congress and the President have passed new Securities legislation. The new laws empower the SEC to require significant additional disclosure to ensure the reliability and integrity of public company financial reporting.

New Requirements — Sarbanes Oxley

The Sarbanes Oxley Act, signed into law in 2002, has revamped federal regulations pertaining to publicly traded companies' corporate governance and reporting obligations. In particular, Section 404 of the Act requires publicly traded companies to include the following information in their annual financial reporting:

- A statement of management's responsibility for establishing and maintaining an adequate internal control structure and procedures;
- Management's assessment, as of the end of the company's most recent fiscal year, of the effectiveness of the company's internal control structure and procedures; and
- Outside auditor's attestation to, and report on, management's assessment of the effectiveness of the company's internal controls and procedures for financial reporting, in accordance with standards established by the Public Company Accounting Oversight Board (PCAOB).

The Role of Internal Audit

Because Section 404 extensively tightens accountability standards for directors, officers and auditors, the Internal Audit function plays a large role in all three disclosures referred to above. According to The IIA's Standards for the Professional Practice of Internal Auditing (Standard 300—"Scope of Work"), "The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." The Standards require internal auditing to:

- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports;
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets;
- Appraise the economy and efficiency with which resources are employed.

Achieve Value & Compliance — Hire the Right Talent

With the right leadership, Internal Audit can turn a compliance requirement into a value-added opportunity. In order to realize value, Internal Audit leadership must anticipate and stay abreast of business trends and best practices. This requires talent that is proactive, responsive and reactive.

Over the last two years M. Wood Company has consulted and completed internal audit executive search assignments for billion dollar organizations. Because we have built an in-depth understanding of the Internal Audit function and the scope of experience needed for an individual to succeed in such a role, we have secured leaders for our clients that have enhanced the efficiency and effectiveness of company operations (i.e. increased value) while enhancing internal controls (i.e. ensuring compliance).

We would like to share our experience with you. Please contact us at:

**M. Wood Company • 10 South LaSalle Street • Suite 3700 • Chicago, IL 60603
P: (312) 368-0633 • F: (312) 368-5052 • www.mwoodco.com**