

New Sarbanes-Oxley Deadlines Give Big Firms a Break

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The extension of Sarbanes-Oxley compliance deadlines will help the overburdened U.S. IT and financial management community. Use the extra time to ensure that your processes and applications meet the requirements.

NEWS ANALYSIS

Event

On 24 February 2004, the Securities and Exchange Commission (SEC) pushed back deadlines for compliance with Section 404 of the U.S. Public Company Accounting Reform and Investor Protection Act of 2002, more commonly known as the Sarbanes-Oxley Act.

- A public company with market capitalization over \$75 million and on an accelerated (2004) filing deadline now has until the date of its first annual report, after 15 November 2004, to comply with the requirement to identify and test internal financial controls.
- Any other publicly traded company must comply with Section 404 by the date of its first annual report, after 15 April 2005.

Analysis

The SEC has responded to pressure for a short-term extension to ensure that the largest public companies will have adequate time to complete the central provision of Section 404. It pushed back the deadline from 15 June 2004 after some companies admitted that it would be extremely difficult for them to comply by that date, and for auditors to implement new standards that have yet to be finalized. Feeling the delay is warranted, the SEC took action without further input, invoking the Administrative Procedure Action. The SEC stated that public hearings were "impracticable, unnecessary or contrary to the public interest."

As many as 70 percent of public companies are unaffected by the compliance extension. However, most IS organizations are still trying to figure out how to respond to Sarbanes-Oxley. The law does not have a single technology requirement, but IT is the backbone of the financial systems targeted by the compliance issues. As IT struggles with the "how to," the finance and accounting organizations within most enterprises still don't understand the full implications of the change. The reason is that some key accounting and reporting standards have yet to be finalized. The late-2004 deadline for Section 404 levels the playing field for all accelerated filers.

Recommendations: Do not view the SEC announcement as a sign that Sarbanes-Oxley will be weakened or ultimately repealed. Gartner believes the opposite. If your company is among the 30 percent of companies that were given an extended deadline, your IS department has gained at least one more fiscal quarter to ensure your processes and applications fulfill the requirements. Use this time to perform a thorough gap analysis of the compliance architecture and improve records management systems and risk management infrastructure.

Analytical Source: John Bace, French Caldwell, Debra Logan, Lane Leskela and Rich Mogull, Gartner Research

Recommended Reading and Related Research

- "Sarbanes-Oxley: The Role of Technology" — Using technology effectively can reduce the cost, time and risk of an enterprise's compliance activities. **By Debra Logan and Rich Mogull**
- "Sarbanes-Oxley Compliance Demands IS Involvement" — Compliance with Sarbanes-Oxley will require IS departments to work closely with other enterprise departments. **By Lane Leskela and Debra Logan**

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