



School of Business
Economics and Law
GÖTEBORG UNIVERSITY

**Key success factors for a sustainable compliance with
section 404 of the Sarbanes-Oxley Act -**

**Are the recommendations from American accounting
firms considered useful by Swedish companies?**

*A case study of Volvo Car Corporation
and Volvo Financial Services*

Master Thesis in Business Administration

ICU2006:16

Authors:

Therese Andersson 800813

Emma Hjelte 820930

Kristin Persson 820209

Advisors:

Andreas Hagberg, Jan Marton

Spring Semester 2006



Abstract

ICU2006:16 Master Thesis in Business Administration. School of Business, Economics and Law, Göteborg University. Spring Term 2005

Authors: Therese Andersson, Emma Hjelte, Kristin Persson

Tutors: Jan Marton, Andreas Hagberg

Title: Key success factors to sustainable compliance with section 404 of the Sarbanes-Oxley Act - Are the recommendations from American accounting firms considered useful by Swedish companies? A case study of Volvo Car Corporation and Volvo Financial Services

Background and problem: The implementation of the Sarbanes-Oxley Act in Swedish companies is in the transition phase between project and process. To address the issue of how to reach a stage of sustainable compliance, the large American accounting firms have identified a number of key success factors. Considering that American and European companies use different models of internal control, can Swedish companies still benefit from the experience and advice of these accounting firms?

Purpose: The aim of this study is to obtain an understanding of how Swedish companies that have implemented the Sarbanes-Oxley Act plan to reach sustainability, and whether it is in accordance with how American companies are recommended to do.

Method: The study is of a qualitative character based on three interviews. Of those, two were made with employees at Volvo Financial Services and one at Volvo Car Corporation. The analysis of the empirical material is based on the guidance presented by American accounting firms as the solution to companies striving towards sustainable compliance to the Sarbanes-Oxley Act. Information from articles and literature on the topic is added to enrich the discussion. Furthermore, theories about implementation processes and organizational change are included to serve as a complement for the analysis.

Result and conclusion: The factors Volvo Financial Services and Volvo Car Corporation consider essential for a sustainable implementation of the Sarbanes-Oxley Act do not appear to differ considerably from the key success factors presented as important according to American accounting firms. However, it seems cultural differences might have caused different control systems to develop in Sweden and the US. If the people involved have problems to see the necessity of extended controls, it might be harder for Swedish companies to reach a sustainable stage.

Key Words: Sustainable compliance, key success factors, Sarbanes-Oxley Act, internal control, section 404, change management.



Table of Contents

| | |
|---|-----------|
| 1. INTRODUCTION..... | 1 |
| 1.1 BACKGROUND..... | 1 |
| 1.2 DISCUSSION OF PROBLEM | 2 |
| 1.3 FORMULATION OF PROBLEM | 3 |
| 1.4 PURPOSE | 3 |
| 2. METHOD | 4 |
| 2.1 RESEARCH METHOD..... | 4 |
| 2.2 INTERVIEW STUDY | 4 |
| 2.3 SELECTION OF INTERVIEWEES | 5 |
| 2.4 COLLECTION OF INFORMATION | 6 |
| 2.4.1 Primary and Secondary Data | 6 |
| 2.4.2 Structure of the Questionnaire..... | 7 |
| 2.5 INTERPRETATION AND ANALYSIS OF QUALITATIVE DATA | 8 |
| 2.6 CRITICISM OF SECONDARY SOURCES | 9 |
| 2.7 VALIDITY | 9 |
| 3. FRAME OF REFERENCE..... | 11 |
| 3.1 KEY SUCCESS FACTORS TO SUSTAINABLE COMPLIANCE | 11 |
| 3.2 ORGANIZATION | 14 |
| 3.2.1 Tone at the Top | 14 |
| 3.2.2 Delegation..... | 15 |
| 3.3 OPERATIONS | 17 |
| 3.3.1 Change Management and Risk Assessment | 17 |
| 3.3.2 Training..... | 20 |
| 3.3.3 Best Practices..... | 21 |
| 3.4 TECHNOLOGY..... | 22 |
| Databases..... | 22 |
| 3.5 SUMMARY OF THE CHAPTER | 23 |
| 4. RESULTS AND ANALYSIS | 25 |
| 4.1 ORGANIZATION | 26 |
| 4.1.1 Tone at the Top | 26 |
| 4.1.2 Delegation..... | 28 |
| 4.2 OPERATIONS | 31 |
| 4.2.1 Change Management and Risk Assessment | 31 |
| 4.2.2 Training..... | 35 |
| 4.2.3 Best Practices..... | 37 |
| 4.3 TECHNOLOGY | 40 |
| Databases..... | 40 |
| 5. CONCLUSION | 42 |
| 5.1 ORGANIZATION | 42 |
| Tone at the Top | 42 |



| | |
|---|----|
| <i>Delegation</i> | 42 |
| 5.2 OPERATIONS | 43 |
| <i>Change Management and Risk Assessment</i> | 43 |
| <i>Training</i> | 43 |
| <i>Best Practices</i> | 44 |
| 5.3 TECHNOLOGY | 44 |
| <i>Databases</i> | 44 |
| 5.4 ADDITIONAL REFLECTIONS | 44 |
| 5.5 SUGGESTIONS FOR FURTHER RESEARCH | 45 |
| 6. ACKNOWLEDGEMENTS | 46 |
| 7. BIBLIOGRAPHY | 47 |
| APPENDIX 1 - INTERVIEW GUIDE | 50 |
| APPENDIX 2: ORGANIZATION SCHEME AB VOLVO AND VFS | 52 |



1. Introduction

The aim of this chapter is to provide a background to emphasize why the chosen topic is both relevant and interesting. A description of the objectives will demonstrate the different aspects within the research area problem.

1.1 Background

Lately, several complicated off-balance sheet arrangements with doubtful legitimate business purposes have obscured key aspects of reporting companies' financial condition.¹ An infamous example is the case of Enron, who managed to hide extensive debts by enhanced turnover figures, lost documents, insider trading and false stock-market recommendations.² In response, the American Congress enacted the Sarbanes-Oxley Act, signed on July 30, 2002. The legislation aims to change the corporate culture by drawing a direct enforceable relationship between senior corporate management and the integrity and quality of their companies' financial statements.³

The Sarbanes-Oxley Act is valid extraterritorially and thus applicable to all American as well as non-American companies holding shares or ADR (American Depository Receipts) in the American stock market. Those affected of the Act are called issuers.⁴ American issuers (accelerated filers) had a deadline for compliance with SOX for fiscal years ending on or after November 15, 2004, while the rules for foreign private issuers (non-accelerated filers) are made effective for fiscal year ending on or after July 15, 2006.⁵

A central part of the Sarbanes-Oxley Act is section 404, Management Assessment of Internal Controls that obliges the management the responsibility to establish a system for internal control that guarantees the quality of the financial reports. According to SOX 404 sufficient internal control will assure that no material weaknesses appear in the financial statements. CFOs and CEOs have to certify in writing that appropriate operational controls are adapted. The written report is then reviewed by an external auditor who can remark on errors as well as possible flaws and material or substantial deficiencies.⁶

The legislation of the Sarbanes-Oxley Act has received critique for being enacted too quickly and has been considered as a hasty and rash law.⁷ The first year of compliance with Section 404 resulted in large expenses and complicated issues to solve for

¹ Rinninsland, *Understanding the Sarbanes-Oxley Act of 2002*, 2002

² Svernlöv, Blomberg, *Sarbanes-Oxley – Ny Värdepapperslagstiftning*, 2003

³ Rinninsland, *Understanding the Sarbanes-Oxley Act of 2002*, 2002

⁴ Svernlöv, Blomberg, *Sarbanes-Oxley – Ny Värdepapperslagstiftning*, 2003

⁵ Ernst & Young, Pressmeddelande 060220

⁶ Ibid

⁷ Francis, *What do we know about audit quality?*, 2004



companies with deadlines in year 2004.⁸ Many companies did not know how to approach the legislation or how to institute the implementation. The large accounting firms such as KPMG, Deloitte, PricewaterhouseCoopers and Ernst & Young worked with the companies on the implementation process and provided guidance and consultant services. After dealing with the implementation problems, the companies now find themselves facing new ones – how to achieve a sustainable compliance to the Sarbanes-Oxley Act.

Sustainable compliance can be defined as a way of embedding the controls into the business system to reduce risk and costs. According to the accounting firms, this is essential not only to efficiently use resources and protect the benefits from the initial implementation, but also to keep up the improved transparency and confidence from the market that the Sarbanes-Oxley Act can bring.⁹

1.2 Discussion of Problem

KPMG states that many company leaders recognize that the attention of their organizations will presumably decrease now that deadlines are passed and new projects arise. Thus, they are aware of the risk of eroding the efforts invested if they do not come across a path to sustain ongoing compliance.¹⁰ To address these issues, the accounting firms have identified a number of key success factors to reach a stage of sustainable compliance. PricewaterhouseCoopers¹¹ and Deloitte¹² claim that a sustainable environment relies on three key structural elements: organization, operations and technology.

Foreign companies registered at the US stock market shall during 2006 complete the adjustments to the Sarbanes-Oxley Act. This includes 15 companies situated in Sweden. Consequently, the implementation of the Sarbanes-Oxley Act in the Swedish companies is in the transition phase between project and process. A recent report from Ernst & Young shows how foreign companies in this phase could benefit from the American experience.¹³

However, American and European companies use different models of exercising control of resources in the firms' corporate governance. It could be considered a reflection of two different cultural value preferences: individualism as opposed to communitarianism. For Americans, corporate governance is about shareholders controlling managers for purposes of shareholder profit (managerial responsibility); whereas for many Europeans it is about society controlling companies for purposes of social welfare (corporate social responsibility).¹⁴

⁸ Deloitte – *Under Control*, 2005

⁹ KPMG, *The Compliance Journey - Making Compliance Sustainable*, 2005

¹⁰ Ibid

¹¹ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

¹² Deloitte, *Sarbanes-Oxley Section 404: Lessons Learned ... and the Road Ahead*, 2005

¹³ Ernst and Young, *Emerging Trends in Internal Controls*, 2004

¹⁴ Hampden-Turner, Trompenaars, *The Seven Cultures of Capitalism: Value Systems For Creating Wealth in the United States, Japan, Germany, France, Britain, Sweden and the Netherlands*, 1993



Systems of internal control are not ready-made forms that can be easily replaced. Rules within organizations are marked by the culture of the societies in which they function. As they contain cultural values, these systems are more than just a technology that can be chosen at will by corporations. Hence, one cannot assume that an American control system that contains American values of individualism can substitute the European attachment to community values right away.¹⁵

The different definitions and perspectives on corporate governance make it essential that in any trans-Atlantic exchange on corporate governance, the two sides are aware that they may be discussing two different things. Changes of corporate governance and internal control must take culture, both national and organizational, into account.¹⁶

1.3 Formulation of Problem

The above-mentioned reasoning leads to following formulation of the research question;

- *Are the key success factors that American accounting firms and experts believe important to achieve sustainable compliance with section 404 of the Sarbanes-Oxley Act useful to Swedish companies?*

If the Swedish companies have considered similar key success factors as the accounting firms it might be considered applicable to Swedish companies. A possible alternative is that specific factors to each separate company are considered to be more relevant.

1.4 Purpose

The aim of this study is to obtain an understanding of how Swedish companies that have implemented the Sarbanes-Oxley Act plan to reach sustainability. This study is not an attempt to find a universal solution. However, if the investigated companies work in similar ways and have identified similar key success factors as the accounting firms it could be a confirmation of their own process. If not, they will hopefully receive another perspective on the issue at hand.

¹⁵ Braker, *European Corporations American Style? Governance, Culture and Convergence*, 2002

¹⁶ Ibid



2. Method

This chapter explains the process of gathering and processing information in order to answer the question of this study. The selection of our methodological approach will be motivated. Additionally, the quality of the study will be discussed based on the concepts validity, reliability and criticism of sources.

2.1 Research Method

To obtain the desired result it is essential to select the proper approach. One common classification of research methodology is a division into quantitative or qualitative studies, which refers to how information is gathered, processed and analyzed. The concept of a quantitative method contains a number of different means to execute research. However, it often involves the transformation of data into statistics and is a common base for statistical analyses.¹⁷ When using this method of compilation, questions need to be rather standardized which leaves less space for the investigator to adjust questions according to the interviewee. In a qualitative study on the other hand, primary data is gathered from few sources with the aim to achieve a comprehensive picture of the research issue.¹⁸ As opposed to a quantitative method, the qualitative tends to be unstructured, open and aimed at reaching an explanation of the relation between cause and effect. This approach can be more flexible and enable a more profound understanding of the research problem. However, one method does not necessarily exclude the other. In some cases a combination of the two can be the best way to reflect reality.¹⁹

2.2 Interview Study

The factor determining which research method to apply should be based upon the research problem at hand.²⁰ This case study aims to describe how Swedish companies intend to keep a lasting compliance with the Sarbanes-Oxley Act, and whether the suggestions given by accounting firms can be considered relevant in a Swedish environment. There is hardly any written material that could be obtained from the companies and there are only a few initiated persons who possess information about the research issue. Thus, we decided an interview study would be most suitable. Due to limited knowledge in the area, we considered it important to provide the higher degree of flexibility that a qualitative approach would contribute to. The interviewee could then direct the conversation to the focal areas of their work. It also gave us the possibility to adapt the structure of the study over time if our focus would slightly change as we performed the interviews.²¹

¹⁷ Holme, Solvang, *Forskningsmetodik*, 1991

¹⁸ Ibid

¹⁹ Andersen, *Den uppenbara verkligheten*, 1998

²⁰ Patel, Davidson, *Forskningsmetodikens grunder: Att planera, genomföra och rapportera en undersökning*, 2003

²¹ Holme, Solvang, 1991



2.3 Selection of Interviewees

Selecting suitable candidates is essential for the quality of the final result. A sample consisting of interviewees without sufficient relevance to the study could implicate a less trustworthy result of the research.²² The number of companies that are concerned is limited to 15. A possible approach was to interview every company. However, such a study would be a too extensive due to the limited time frame.

In this case the selection of the first candidate was rather given, since one of the authors of this thesis work at Volvo Financial Services International AB (VFSI). It is one of the business areas within VFS AB, a subsidiary completely owned by AB Volvo, which is one of the 15 Swedish companies that have implemented the Sarbanes-Oxley Act. VFS has to implement SOX since the owner AB Volvo is registered at the US stock market. As a foreign company they need to be certified by Dec 31 2006. The implementation process began in 2004, and the company shall during 2006 complete the adjustments in order to be fully compliant by the end of the year.

The first person that was contacted at VFSI was the CFO in order to find out whether the company would be interested in us doing a report about their view on sustainable compliance to SOX. The CFO expressed his interest and redirected us to the person responsible of the specific area, the Chief Accountant. The Chief Accountant at VFSI has been the person in charge for coordinating the SOX-process in her business area under guidance from the Department of Internal Control at VFS. She has worked at VFSI since 2004 and before that she worked six years as an auditor at Ernst & Young. After presenting our idea the Chief Accountant suggested a comparison to one of the other Swedish companies, Volvo Car Corporation, (VCC) would be interesting. It would help to confirm that the company was focusing on the essential key factors for a successful compliance, if another company considers the same ones to be the most important. As the Chief Accountant felt that her knowledge in some of the areas was limited she also advised us to contact the Department of Internal Control at Volvo Financial Services that operates directly under the VFS head office in Montvale. There we interviewed the Internal Control Analyst. She has a similar background as the Chief Accountant, working five years as an accountant at Deloitte, one of them in the US, before she started at VFS in 2004. It can be seen as the Internal Control Analyst possessed information directly from the head office, while the Chief Accountant was more familiar with how the SOX process was progressing on the operational level in one of the business areas. From here on, when mentioning VFS it refers to both VFSI and VFS. See appendix 2 for an organization scheme of AB Volvo and VFS.

Judging by the names of VCC and VFS it is easy to believe they belong within the same corporation. This is not the case. VFS is a part of the Swedish corporation AB Volvo whereas the American company Ford owns VCC. Due to this fact, it is one of the companies in Sweden that implemented SOX in 2004. Hence, their experience on the topic of maintaining a high standard of the internal control after the

²² Holme, Solvang, 1997



implementation of SOX could be very useful to VFS, and other Swedish companies who implemented it a year later.

The Chief Accountant's suggestion of focal point was Volvo Finance, one of the companies of Volvo Car Corporation. Consequently, the next step was to contact VCC when we learned that Volvo Finance has not implemented SOX due to ownership issues. After a dialogue with the Director of Accounting at VCC we were recommended to contact the Director of Internal Control. He is the head of a section that was created in 2004 specifically for the implementation of SOX. The Director of Internal Control has worked within Ford for more than 20 years at different positions, as the Manager of the Audit Section of the Automotive Division and as a Finance Director. He found the subject to be up to date and interesting and suggested an appointment for an interview. Our reason for only choosing to make one interview at VCC was that our respondent was well updated in how the SOX process functioned at all levels within the company.

The study focuses the sustainability of SOX, thus our aim was to interview experienced candidates involved in the actual implementation process. The Chief Accountant has been the SOX coordinator at VFS and responsible for the implementation of SOX, whereas the Internal Control Analyst has supported with guidance and information, and was the key person regarding SOX-related questions. At VCC the Director of Internal Control filled the correspondent function. To reassure ourselves that the selected interviewees were the suitable persons to answer our questions, the questionnaire was sent in advance to the candidates, which also gave them an opportunity to prepare for the interview.

2.4 Collection of Information

This section will provide a description of the collection of information, as well as criticism of the sources.

2.4.1 Primary and Secondary Data

Primary data is data collected from the original source by the researchers themselves.²³ In this thesis, primary data has been collected from interviews with representatives from VCC and VFS and will be presented as empirical findings. Secondary data has been collected from foremost literature, reports and articles, and is presented in the theoretical framework.

2.4.2 Interview Method

It is important to explain the aim of the study when interviewees are contacted for the first time, to establish an interest as well as to transmit a feeling of security regarding what the results of the study will be used for.²⁴ Thus, at the first contact a presentation of the authors and the purpose of the study was given. In order to achieve confidence for the study the interviews started with a presentation of the aim of the study and an explanation of how the information gained would be handled.

²³ Lekvall, Wahlbin, *Information för marknadsföringsbeslut*, 2001

²⁴ Patel, Davidson, 2003



When qualitative interviews are conducted, the interviewee is allowed to lead the conversation forward, which leads to a less structured interview.²⁵ Nevertheless, a certain level of structure is recommended since it facilitates the analysis of the information afterwards. It is the responsibility of the interviewer to decide how structured the interview should be.²⁶ In this study, the structure of the interviews is rather low. The interviewees were allowed to lead the interview forward to a certain extent, and enter more deeply into areas they considered important. However, before conducting the interviews, we decided which specific areas to focus. By using similar key questions, corresponding to the focal points, we were able to maintain some structure. This is further explained in the following section, “*Structure of the Questionnaire*”.

A personal and open interview can often encompass large amounts of information. To make use of it all, we recorded the interviews on tape. This brings an advantage by giving an interviewer the chance to concentrate on the interview instead on writing down what is being said. It decreases the risk of misinterpretations as the authors can repeat what has been said in case any confusion would arise after the interview.²⁷ The pros and cons of using personal and open interviews will be further analyzed in the section “*Validity*”.

2.4.2 Structure of the Questionnaire

An important consideration in the design of the questionnaire is to select relevant questions. This is based on a certain level of knowledge among the interviewers about the subject of the study before interviews are conducted. An interviewer can prepare for an interview by studying former research and thereby gain knowledge of central aspects.²⁸ From the authors’ point of view, the area of research was relatively complicated, which called for a need to be well informed on the routines within VFS and VCC.

To design the questionnaire it was fundamental to base it on a narrow and clear purpose. As the thesis seeks to investigate if the key success factors for a successful compliance to the Sarbanes-Oxley Act from the accounting firms’ point of view are applicable for Swedish companies, we collected information from different accounting firms regarding this. It turned out several of them had specific lists of the most important issues to consider. These lists were used as a basis for the construction of the questions and the theoretical chapter. Moreover, some of the questions were formulated with help from a comprehensive previous study; “*Sustainable Compliance with Section 404 of the Sarbanes-Oxley Act in a Swedish Environment - a benchmarking study*”.²⁹ The same thesis helped us to find relevant sources through its extensive list of bibliography. In addition, we collected more updated information from recent publications, such as accounting firms’ guidance, other theses, articles and literature dealing with the Sarbanes-Oxley Act for some of the questions. The

²⁵ Holme, Solvang, 1997

²⁶ Jacobsen, Vad, *hur och varför: Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*, 2002

²⁷ Trost, 1997

²⁸ Patel, Davidson, 2003

²⁹ Dock, Martinsson, Petterson, 2005



questions were developed to be sufficiently specific for us to be able to compare and analyze the answers.

During the interview with VFS we received detailed information about a number of key controls they had implemented on their respective processes. We were shown schemes describing the technical structure, which helped us to reach a deeper understanding and reformulate some of the questions. This information came in handy during the interview with VCC when the interviewee used similar terms.

The questionnaire was divided into four different sections; *Introduction*, *Organization*, *Operations* and *Technology*. The intent with the first section was to obtain an idea of the interviewees and background information of the implementation process. A recurring factor when studying the recommendation of the accounting firms is the importance of communication within the organization. Thus, the section *Organization* aims to outline their communication process and how the SOX-organization is structured within the company. It also contains questions about whether the organization plans to change the SOX-project as it moves into the future. The third section, *Operations*, seeks to identify the changes that had to be made and the existing as well as planned operations within the company regarding Sarbanes-Oxley. It includes questions about how risk areas within the organization are discovered, and how to work to remediate these. *Technology* treats whether the companies uses databases as a tool to compile information in the daily operations. The sources will be structured according to the mentioned key areas instead of a separate section for each interviewee in order to facilitate a comparison of the answers.

2.5 Interpretation and Analysis of Qualitative Data

To analyze the information gained from the interviews, the theoretical chapter is used as a basis. It contains the same sections as the questionnaire; *Organization*, *Operations* and *Technology*. It is a summary of the discussions in reports from accounting firms, articles and literature about the key factors for a successful compliance to the Sarbanes-Oxley Act. Since the checklists on which we have based the key success factors found by the accounting firms were extensive and the content was similar we chose to place them under more comprehensive headings. Theories about implementation and organizational changes are added to serve as a basis for analysis.

In chapter four, the empirical material is presented and combined with an analysis made from the information in the theoretical chapter. The choice to combine the empirical material and the analysis was made with the intention to provide a richer picture of the situation and avoid repetition. The key success factors identified by experts will be compared to how VCC and VFS are working today and plan to operate in the future. As this is a comparative study, the answers of the companies will be compared to each other. Hopefully, a somewhat clear structure of the empirical material and the analysis will be obtained by dividing the chapters into the same sections as the questionnaire and the theoretical chapter; *Organization*, *Operations* and *Technology*.



2.6 Criticism of Secondary Sources

For an estimation of the credibility of the investigation, it is important to examine the sources used. One relevant question is for what purpose the material was published.³⁰ When estimating the credibility of secondary data, it is important to keep in mind what personal interest the source of information has. This interest can express itself in the choice of words, expressions, or in the selection of facts exposed.³¹

The theoretical chapter contains information gathered from accounting firm's guidance's, articles and literature. Information from accounting firms cannot be classified as scientific sources. The implementation of the Sarbanes-Oxley Act was in many companies performed in close relation to the accounting firms, who benefited from additional consulting fees. It is therefore not strange that it is foremost the same consulting firms who emphasize the difficulty of reaching sustainability and the importance that companies consider the step of moving the project into a process stage. The checklists for reaching sustainable compliance can in this sense be regarded as a product the accounting firms have produced to sell to their clients. The material has not been peer reviewed. The incentives among the companies to follow these checklists for which they have paid a great amount of money should also be taken into consideration. However, we consider ourselves justified to use this type of non-scientific sources as well, since the accounting firms are experienced on the topic. They can provide information based on their professional involvement as well as on surveys made with company leaders.

In an attempt to avoid the problem that could arise if the study was based solely on non-scientific sources, the check-list we have put together based on material from the accounting firms has been complemented by information found in articles and literature from other sources. Our experience is that the different sources are coherent regarding the aspects that are considered important to reach a sustainable compliance, although the material from the accounting firms expresses it in a more "selling" way.

2.7 Validity

An investigation can be defined as trustworthy if a separate investigation with a similar purpose and method would give the same result independent of the fact that another person performs the investigation.³² Validity is increased if you investigate what you intend to investigate. It is enhanced if the author gives the reader a main thread to follow throughout the research process.³³ We hope to provide this by the previously illustrated process (presented in section "*Interpretation and analysis of qualitative data*"). The purpose of this thesis was focused throughout the entire process; we connected the frame of reference and the empirical research while simultaneously considering the problem formulation, in order to increase the validity.

³⁰ Patel, Davidson, 2003

³¹ Eriksson, Wiederheim-Paul, *Att utreda, forska och rapportera*, 2001

³² Lundahl, Skärvad, *Utredningsmetodik för samhällsvetare och ekonomer*, 1999

³³ Patel, Davidson, 2003



There is always a risk of error when basing a study upon interviews. Two possible versions are response and interviewer errors. Response errors can for example occur if an interviewee is restricted by confidentiality issues or during the processing of the information collected.³⁴ To avoid errors in the processing of data the interviews were recorded and typed after the interview sessions, while the intentions behind the complementing questions were still fresh in mind. By recording an interview the researcher can, if necessary, repeat specific parts of the interview to quote the interviewee accurately or to analyze the tone of voice of the interviewee.³⁵ However, the transcription process involves judgments by the interviewer. Errors in the processing of data may have occurred during the compilation and the subsequent translation of the empirical findings from Swedish into English, since this involved judgment by the translator. By sending the empirical findings in English to the interviewees for them to get an opportunity to correct misinterpretations and translation errors, the risk of possible errors was decreased.

An interviewer error can be defined as when the interviewers' control of the process affects the quality of data. This problem can occur if the interviewer does not succeed to motivate the interviewee enough to answer properly, or if the interviewer influences data in different ways at different interview sessions.³⁶ For example, the interviewer might formulate questions distinctly at different interview sessions. We tried to avoid this by thoroughly discussing the questionnaire in advance, among ourselves to make sure the underlying intentions were the same regarding each question.

Validity also refers to whether the instrument of measuring, in this case the questionnaire, is capable to perform the intended measurement. If questions are not formulated and expressed in a correct way, the validity is decreased.³⁷ As previously mentioned, our knowledge on the area is limited which could imply that we misinterpret certain information or fail to follow up answers with adequate questions. By returning the compiled results of the interviews to the interviewees for them to comment on our conclusions, we hope such errors were avoided.

³⁴ Cooper, Schindler, *Business Research Methods*, 1998

³⁵ Häger, 2001

³⁶ Cooper, Schindler, 1998

³⁷ Eriksson, Wiedersheim-Paul, 2001



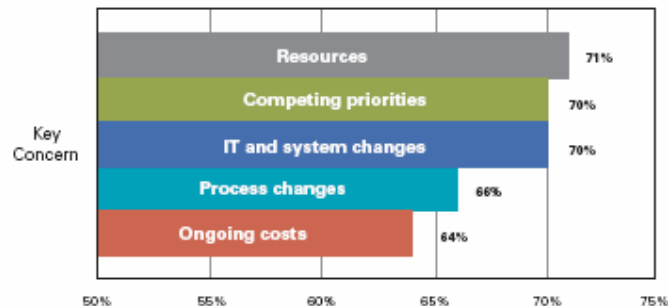
3. Frame of Reference

This chapter is used as a basis to analyze the information gained from the interviews.

The following chapter, *Key Success Factors to Sustainable Compliance*, contains the same sections as the questionnaire; *Organization, Operations* and *Technology*. Each section contains a summary of the advice presented by accounting firms as the solution to companies striving towards sustainable compliance to the Sarbanes-Oxley Act. Information from articles and literature on the topic is added to enrich the discussion. In the chapter concerning results and analysis this information will be compared to the success factors found by VCC and VFS. Furthermore, theories about implementation processes and organizational change are included as a complement to the basis for analysis.

3.1 Key Success Factors to Sustainable Compliance

A survey by KPMG³⁸ shows the main challenges that companies face when moving in to the second year of compliance;



Source: KPMG's 404 Institute, 2004

The main problems at hand are lack of resources, problems with competing priorities that pull attention away from the Sarbanes-Oxley Act and changes of processes, IT and new systems.³⁹ The shortage of resources is not foremost of an economic nature although the implementation is a costly process. Despite all the invested efforts, the project was more time-consuming than expected which left little time to develop plans or evolve the compliance efforts for coming years. A related issue is competing priorities. To meet the deadlines of compliance requirements, employees were pulled away from important projects to release the necessary resources. There is a risk that once deadlines are passed new important projects and business requirements will

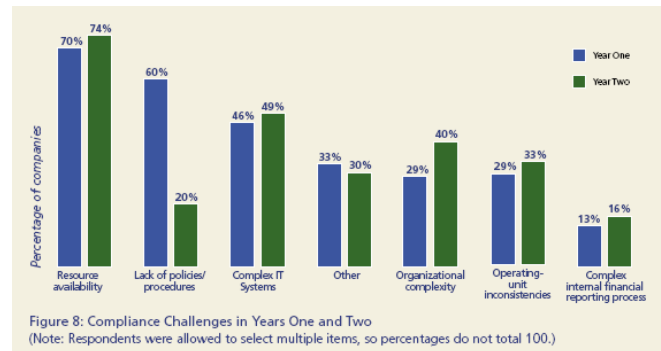
³⁸ Survey by KPMG's 404 Institute, 2004

³⁹ KPMG, *The Compliance Journey - Making Compliance Sustainable*, 2005



arise, and this change of priorities might lead to an erosion of the efforts made in the first year.⁴⁰

A similar survey by Deloitte & Touche LLT shows the following results;



Source: Survey by Deloitte & Touche, performed in USA, May 2005

Although it contains some different response alternatives, this investigation agrees with the similar survey by KPMG on several aspects. Both have identified the most common problems to be lack of resources, lack of written policies and procedures, and complexity of IT systems structure.

Normally, the focus in permanent organizations is on production rather than transition. A possible scenario is that business continues as usual when a project such as the Sarbanes-Oxley Act has been implemented, which could implicate that experiences from the project are not absorbed into the ordinary business. Hence it does not continue to develop as the company changes.⁴¹

A previous example similar to the Sarbanes-Oxley Act was the passage of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Its aim was to improve the financial reporting of banking organizations and other depository institutions in USA. Among other requirements, FDICIA similarly to Sarbanes-Oxley also mandates that management confirms the institution's controls over financial reporting. The banking industry responded by developing and implementing extensive control programs to comply with the requirements, and the banks' internal and external auditors evaluated the effectiveness of these processes. However, by the time SOX was to be adopted, the FDICIA compliance was on "autopilot" in many organizations and had little substance. The subsequent question is whether SOX compliance also will be reduced to merely paper work as time passes?⁴²

⁴⁰ KPMG, *The Compliance Journey - Making Compliance Sustainable*, 2005

⁴¹ Wikström, *Projekt och produktiv kommunikation*, 2000

⁴² Beaumier, DeLoach, *Sustaining SOX Compliance*, 2005



To make sure this is not the case and that companies reach a stage of sustainable compliance, the accounting firms have identified a number of key success factors. According to PricewaterhouseCoopers⁴³ and Deloitte⁴⁴ a sustainable environment relies on three key structural elements: organization, operations and technology. In the following chapters, the key success factors described below will be further developed. This is a short introduction of the important factors to consider within each element;

1) Organization

Tone at the Top - Companies need to establish clear responsibilities of the Board, senior management and business unit leaders to reinforce control awareness and impose accountability.⁴⁵

Delegation - Delegate the responsibility of identifying change, perform documentation and testing and to business unit leaders and process owners.⁴⁶ Place Internal Control in a quality control role rather than active partaker on behalf of management.⁴⁷

2) Operations

Change Management and Risk Assessment - Build Sarbanes-Oxley requirements into the project plans for major changes, such as system implementations and acquisitions or divestitures.⁴⁸ Review the company's risk and compliance requirements.⁴⁹

Training - Provide training customized to the different functions of the company.⁵⁰

Best Practices - To give the business units an opportunity to learn from one another, seminars on the sharing of best practices in the business should also be included.

3) Technology

Databases - Define a compliance technology architecture to pull data from separate systems to enforce accountability, improve data quality and identify exceptions.⁵¹

⁴³ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁴⁴ Deloitte, *Sarbanes-Oxley Section 404: Lessons Learned ... and the Road Ahead*, 2005

⁴⁵ Ibid

⁴⁶ Ibid

⁴⁷ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁴⁸ Deloitte, *Sarbanes-Oxley Section 404: Lessons learned ... and the road ahead*, 2005

⁴⁹ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁵⁰ Ibid

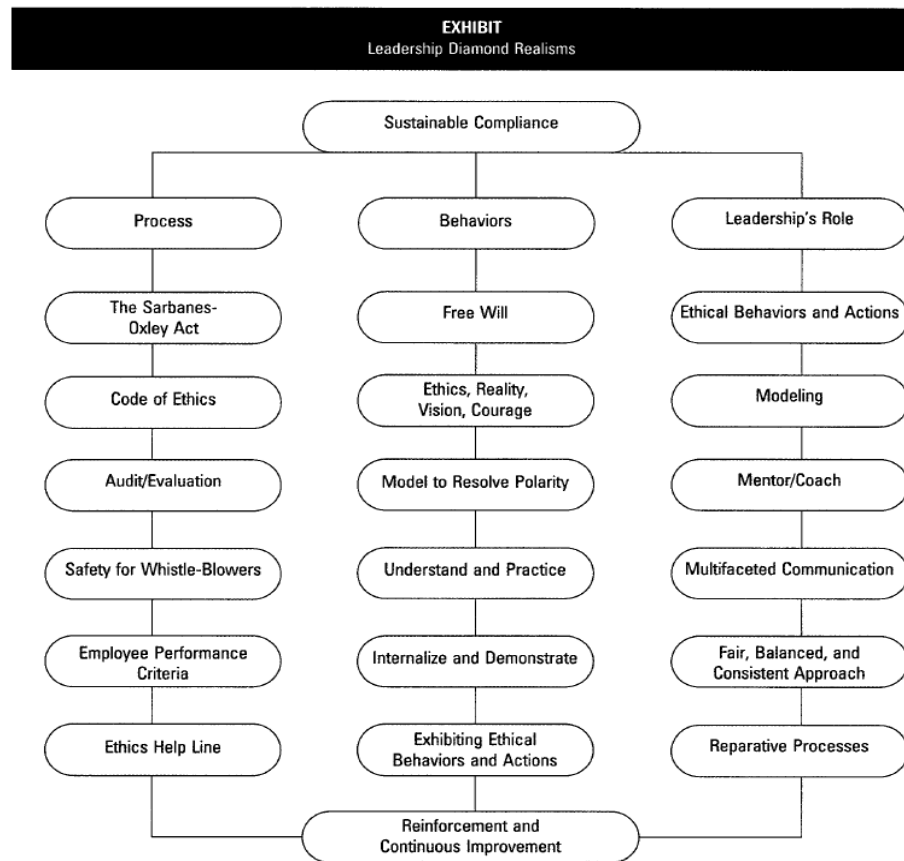
⁵¹ Ibid



3.2 Organization

3.2.1 Tone at the Top

A challenge to corporations is to create a *tone at the top* that penetrates the corporate culture and encourages ethical behavior, with the aim to deter misconduct before it takes place rather than punishing it retrospectively. An essential factor of a proactive ethical environment is strong, committed leadership by the senior management.⁵² Larger changes are impossible to carry out without an active support from the top manager. Changing processes additionally demand a strong team with leading representatives giving guidance and setting a good example, thus obtaining the influence required.⁵³



Source: Koestenbaum, P., Leadership Diamond Realisms, 2005

If lacking the correct *tone at the top* - described in the model above as Role of Leadership – the advisors claim there is a risk that a compliance program fails. An

⁵² Kola, V, *Sarbanes-Oxley, Section 404: From Project to Practice... to Best Practice*, 2004

⁵³ Sandström, *Att lyckas som förändringsledare – Processmetodikens grunder*, 2000



example of a tool to enable the sustainability of a compliance program is presented in the model above. The model by Kostenbaum shows that a leader should act as a role model regarding ethical behavior and serve as a mentor and coach for the employees. If the company management is responsible for implementing a control system that complies with the Sarbanes-Oxley Act, they need to show the importance of it to its employees in order to succeed. If the management's approach is that the changes are expensive and inutile, it will most likely be reflected in the attitude of the employees.⁵⁴

To develop a universal solution to avoid unethical behavior is impossible and there is no such thing as a quick fix. A sustainable solution will, however, involve compliance with Sarbanes-Oxley and punishments for non-compliance alongside with the role of leadership, a shift in behaviors and attitudes throughout the company and continuous improvements.⁵⁵

In many cases processes of changes fail to reach a positive result. According to Sandström (2000) one of the main reasons of failure is when management lacks the ability to convey the vision of the process to the rest of the organization. The vision has a key role when leading the process in the right direction. The employees will get inspired and the importance of the process will increase. As a consequence of a missing vision the process obtains a low level of importance among the employees, which obstructs the endeavor to compliance.⁵⁶

3.2.2 Delegation

In the first year many companies relied on Internal Audit or outside consultants to conduct test plans. Neither are particularly attractive alternatives in a long term, as they are expensive in both out-of-pocket as well as lost-opportunity costs as it distracts the department from its original tasks. It would also eliminate the opportunity for employees to use testing as a means to learn the business.⁵⁷ Internal Audit's role in monitoring is often a critical element of management's overall risk assessment efforts.⁵⁸

Management will need to reflect on which impact the SOX compliance program has had on the ability of the function to carry out the audit plan while supporting the SOX compliance effort.⁵⁹ According to a survey made by PricewaterhouseCoopers in November 2004, almost 60% of the Internal Audit respondents said that they had dedicated 50% or more of their resources to Sarbanes-Oxley efforts.⁶⁰ Thus, the question of ongoing compliance could become a problem. If Internal Audit continues to be so heavily relied upon, this responsibility will likely continue to detract attention

⁵⁴ Koestenbaum, Keys, Weirich, *Integrating Sarbanes-Oxley, Leadership, and Ethics*, 2005

⁵⁵ Ibid

⁵⁶ Sandström, 2000

⁵⁷ Sinnott, *Process Improvements in Sarbanes-Oxley Section 404 for Year-Two Compliance*, 2005

⁵⁸ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁵⁹ Beaumier, DeLoach, *Sustaining SOX Compliance*, 2005

⁶⁰ PricewaterhouseCoopers conducted an Internal Audit Alert Internet Survey that closed on November 2, 2004, in which 247 companies subject to the requirements of Sarbanes-Oxley participated.



from the department's original function of monitoring financial, operational and compliance processes and programs besides Sarbanes-Oxley.⁶¹

The department of Internal Control should perform an overall monitoring program and serve as a quality assurance function that will challenge the effectiveness of the Sarbanes-Oxley program. This would convey that responsibilities for day-to-day activities such as testing and business-change documentation might need to fall to another function within the company.⁶²

Hence, companies should try to delegate the responsibility of documentation and control evaluation to business unit leaders and process owners. A process owner is an employee responsible for a certain process, for example the accounts payable ledger.⁶³ Involved personnel include both operational and financial employees. The role of employees in maintaining an effective internal control over financial reporting should not be underestimated, especially as the larger part of key controls is performed manually.⁶⁴

Process owners must early on understand *what* is expected of them and *when* they are expected to be engaged and held accountable. They should be given the responsibility of identifying change, perform documentation and testing it by self-assessment.⁶⁵ Involving operating personnel in compliance facilitates a proactive monitoring and remediation of control weaknesses, because process owners are more suitable to detect changes, as they understand the risks in their areas.⁶⁶

Companies should also consider appointing risk and control specialists who would report to the Chief of Internal Control but be positioned within business units to support both process owners and business unit leaders. They would provide concrete guidance and assistance with updating process and control documentation, as well as creating and performing test plans and evaluating results. It would preferably be employees from Internal Control who participated in the implementation process that take these positions.⁶⁷

⁶¹ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁶² Ibid

⁶³ Green, *Manager's Guide to the Sarbanes-Oxley Act*, 2004

⁶⁴ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁶⁵ Beaumier, DeLoach, *Sustaining SOX Compliance*, 2005

⁶⁶ Langer, Popanz, *Sustainable Compliance*, 2006

⁶⁷ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005



3.3 Operations

3.3.1 Change Management and Risk Assessment

As business processes and the risks associated to them are not static, an important challenge is to be able to acknowledge and proactively address the impact of changes such as acquisitions and new systems have on the organization. Changes in the business or operational environment of an entity may have effects on the internal control and result in making former well functioning internal controls less efficient. Change management shall therefore, according to the Committee of Sponsoring Organizations of the Treadway Commission (COSO)⁶⁸ framework, be a part of an entity's regular risk assessment process.⁶⁹

To facilitate updating of documentation and to quickly incorporate new processes into the compliance effort, companies must have procedures in place. For larger companies, that seems to require an electronic document management system.⁷⁰ Companies that lack such a program need to design one and implement it into the business core operations so that changes will be recognized.⁷¹

The business dynamics will set the level of change that companies must consider. The more change a company expects to encounter, the more help the process owners are likely to need to sustain SOX compliance.⁷² To make sure that efficient internal control over financial reporting is maintained throughout the year and to supply management assurance for reporting, several approaches can be used:

- Carry out testing plans throughout the year, to allow a timely control, deficiency discovery, remediation and retesting.
- Perform quarterly testing for higher risk processes and supplementing testing with self-assessments for other processes.
- Rely entirely on the previously described self-assessment process.⁷³

Each company should choose the method appropriate to their specific organization and environment.⁷⁴

⁶⁸ In the United States, the internal control integrated framework published by COSO is the most commonly used criteria to assess the effectiveness of internal control.

⁶⁹ Ramos, *How to Comply with Sarbanes-Oxley Section 404: Assessing the Effectiveness of Internal Control*, 2004

⁷⁰ Beaumier, DeLoach, *Sustaining SOX Compliance*, 2005

⁷¹ PWC, *How to Move Your Company to Sustainable Sarbanes-Oxley Compliance*, 2005

⁷² Langer, Popanz, *Sustainable Compliance*, 2006

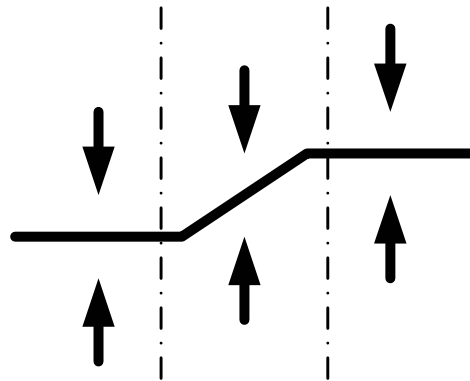
⁷³ Deloitte, *Sarbanes-Oxley Section 404: Lessons learned ... and the road ahead*, 2005

⁷⁴ Ibid



Lewin's Theory of Organizational Change

In the 1950s, the social psychologist Kurt Lewin developed a theory of social change that defined social institutions as a balance of forces, some driving and the others restraining change. In Lewin's model, stability was defined by the forces opposing change and a tie between forces for and against change. It is more a theory of stability than of change, thus Lewin defined change as a temporary instability interrupting an otherwise stable equilibrium. Lewin described the implications of his theory in terms of normative advice about how to approach change in organizations.⁷⁵



Based on Lewin's Model of Organizational Change.⁷⁶

According to the model of Lewin, organizational change involves three separate phases: unfreezing, change or movement, and refreezing. Phase one, unfreezing, unbalances the equilibrium that sustains organizational stability. Locating existing stress or dysfunctions within the current system is an example of unfreezing.⁷⁷

Once unfreezing has occurred, the organization enters the second phase. The change stage involves influencing the direction of movement in the system. Strategies for controlling the direction of change include training, new system patterns and altering reporting relationships. Change continues until a new balance between driving and restraining forces is reached.⁷⁸

The third and final phase, refreezing, takes place when new routines are stabilized or become institutionalized⁷⁹ and returning to the previous situation is no longer a possibility.⁸⁰ An explanation to how this theory will be applied to a company's change management is given in the summary of this chapter.

⁷⁵ Hatch, *Organization Theory*, 1997

⁷⁶ Lewin, *Field theory in social science*, 1951

⁷⁷ Hatch, 1997

⁷⁸ Ibid

⁷⁹ Ibid

⁸⁰ Sandström, 2000



Risk Assessment

Risk assessment can be defined as forming the basis for determining control activities by identifying and analyzing appropriate risks to achieve a company's goals.⁸¹ Absence of a carefully planned and executed risk assessment process in a company's compliance activities can be an obstacle in the effort to move away from the project approach that defined many initial efforts.⁸² The COSO framework considers the risk assessment process to be essential in order for the management to identify the company's critical success factors.⁸³

The COSO report explains various ways for companies to identify risks and how these risks can arise from internal as well as external causes. However, the COSO framework does not recommend any particular process in order to identify the risks, as long as the process is complete and takes into account all factors that may increase risks.⁸⁴ The COSO framework provides an example that management should assess how it considers the risk of unrecorded transactions or identifies and analyzes significant estimates recorded in the financial statements.⁸⁵

A commonly recognized process for risk analysis includes assessing the consequences of the risk and the chance of the identified risk occurring. Once risks are assessed, management can easier make decisions about what actions to take. Techniques in order to manage the risks may include several strategy changes on the operational level.⁸⁶

Before starting remediation efforts it is critical that management analyze how deficiencies interact with each other. When an auditor estimates the probability that a control deficiency or a combination of deficiencies would result in a misstatement, the auditor should evaluate how the controls relate to other controls. For example, different controls may achieve the same objective. With an early understanding of the impact of general and compensating controls, it may be possible to correct multiple gaps with one new control instead of multiple redundant controls and by this saving considerable amount of time.⁸⁷

Specific risks should be aligned with specific business processes and relevant control environment areas, and responsibility for monitoring and controlling each particular risk be allocated to the appropriate individuals to avoid significant flaws in the risk assessment process. Formal communication protocols regarding control performance and changing risk conditions have to be established. Each employee has to fully understand the risks associated with the own business area and the performance of the specific processes as well as to possess an adequate knowledge of how to execute the relevant control activities.⁸⁸

⁸¹ PWC, *Sarbanes-Oxley Section 404 – A Toolkit for Management and Auditors*. Vol. 1, 2003

⁸² Dittmar, Heffes, 2004

⁸³ Ramos, 2004

⁸⁴ Ibid

⁸⁵ PWC, *Sarbanes-Oxley Act: Section 404 Practical Guidance for Management*, July 2004

⁸⁶ Ramos, 2004

⁸⁷ McNally, Wagaman, *Hard Climb is Done, But Trek Continues*, 2005

⁸⁸ Deloitte, *Sarbanes-Oxley Section 404: 10 Threats to Compliance*, 2004



During the first year of the implementation numerous companies, even those that commenced with a healthy internal control environment, were surprised by the various deficiencies identified.⁸⁹ In an analysis of 225 registrants, approximately 275 control deficiencies were remedied per company in year one.⁹⁰ Thus, creating necessary action plans and performing gap remediation required much more time and resources than anticipated, which in many cases forced companies to implement temporary and inefficient remediation activities. For this reason the management of many organizations is obliged to revisit year one gap remediation efforts to certify that recently implemented controls are long term efficient and sustainable.⁹¹

3.3.2 Training

When the correct accountability structure is in place, understood and accepted, companies need to design training programs on Sarbanes-Oxley. To avoid the high cost of third-party consultants and assure that qualified individuals are leading the Sarbanes-Oxley control, it is recommended to appoint a Chief of Internal Controls or a Chief Compliance officer as the internal expert.⁹² A program could include the following:

- **Workshops for the Board and business unit leaders**

A program for ongoing compliance typically includes periodic workshops for the responsible parties.

- **Certification of risk and control specialists**

It is important to have certification training for process owners or specialists in internal control. In a roundtable discussion initiated by Deloitte & Touche LLT in USA,⁹³ a number of executives were concerned over the lack of training at the process-owner level. The participants saw a need to provide adequate training to those employees who actually perform the control activities, to provide instructions that will fortify the link between policy and performance.⁹⁴

- **Orientation for newly hired**

Obligatory training sends a very clear signal of the importance of maintaining the effectiveness of internal control.⁹⁵ To achieve this, consistency is essential. Internal control must not become a varying factor depending on the fact that employees come and go. Consequently, SOX-training should be a part of the orientation for newly employed.⁹⁶

According to Johansson et al (2000) a developing project is related to the permanent operations and in the transition between the temporary and the permanent is where there is hope for learning and change. When the new knowledge has been

⁸⁹ McNally, Wagaman, *Hard Climb is Done, But Trek Continues*, 2005

⁹⁰ PWC, *Submission to the SEC regarding Sarbanes-Oxley Section 404*, April 2005

⁹¹ McNally, Wagaman, *Hard Climb is Done, But Trek Continues*, 2005

⁹² Ibid

⁹³ Survey by Deloitte & Touche, performed in May 2005 in Dallas, San Francisco, New York, Chicago

⁹⁴ Deloitte, *Sarbanes-Oxley Section 404: Lessons learned ... and the road ahead*, 2005

⁹⁵ PWC, *How to move your company to sustainable Sarbanes-Oxley compliance*, 2005

⁹⁶ Deloitte, *Sarbanes-Oxley Section 404: Lessons learned ... and the road ahead*, 2005



implemented, problems of keeping up the work within the permanent organization often arise, problems that usually can be avoided with the right kind of training. Changes are often described as successful but this is really a question of judgment that depends on which criteria you choose for evaluation and how it is applied.⁹⁷

3.3.3 Best Practices

To give the business units an opportunity to learn from one another, seminars on the sharing of best practices in the business should also be included. It could encompass the optimal control design and how to streamline and standardize financial and operational processes. The company would benefit from a collective understanding and sharing of ideas among its employees.⁹⁸

The concept best practice can be described as the inspirational approach to governance, compliance and control as opposed to the minimal approach. Best practices can bring business benefits, reduced liabilities and increase the chance that the external auditors approve the company's financial statements. It is obtained when the architecture and processes of compliance are used to drive value and benefits above and beyond compliance.⁹⁹

An example of adapting best practice is the American company Suntron. Its CFO says, "We are taking the opportunity to drive ongoing process efficiencies and sustainable compliance practice, which is a key aspect of our management discipline and central to our commitment to customer and shareholder's value." (Kola, V, 2004, p 49) He expects to reach a 15-20 per cent improvement in processes as a result of SOX.¹⁰⁰

To maintain the compliance framework and the change management program there are a number of best practices to attend to;

- A full implementation with detailed documentation of compliance processes and scoping decisions including their justification, referenced evidence, and concurrence of the external auditor.
- Standardized templates with common structures should be designed and used consistently throughout the company to fulfill the requirements of compliance.
- An accurate compliance index can be made within a central database to organize the vast amount of information. Such integration will facilitate an efficient auditing, both from management and externally, and minimize questions and work delays.
- Redirect corporate strategy from risk aversion to risk intelligence.¹⁰¹

⁹⁷ Johansson, Ljöfström, Ohlsson, 2000

⁹⁸ PWC, *How to move your company to sustainable Sarbanes-Oxley compliance*, 2005

⁹⁹ Kola, V, *Sarbanes-Oxley, Section 404: From Project to Practice... to Best Practice*, 2004

¹⁰⁰ Ibid

¹⁰¹ Langer, Popanz, *Sustainable Compliance*, 2006



Brunsson and Olsen (1997) have studied the problems that arise after an implementation process. It is often hard to take advantage of the lessons learned from the project in an established regular business.¹⁰² Can the learning obtained from a project be used in the regular business? Is the organization of the project a condition or a limitation of whether the results of the project will be used successfully or not? The answer to this question is the expected benefit of the project according to Johansson et al (2000). The results need to appear useful and legitimate to the users.¹⁰³ Thus, a successful implementation of a sustainable architecture to satisfy compliance requirements can lead to cost savings and limit unwanted surprises. Furthermore, by focusing on the aim rather than the letter of the law, companies can realize the benefits of being proactive, risk management, transparency and process improvement efficiencies.¹⁰⁴

3.4 Technology

Databases

As companies continue to work towards SOX sustainability several accounting firms emphasize the importance of developing a technology structure in order to help this progress. By developing a technology structure that gathers data from different systems and uses suitable functionality to impose accountability, improve data quality and identify incidents companies may significantly reduce their resources needed.¹⁰⁵

The Control Objectives for Information and related Technology (COBIT) framework, published by the Information Systems Audit and Control Association (ISACA) provides a generally applicable and accepted standard for IT security and control practices. The COBIT framework is widely acknowledged among IT audit professionals and is similar to COSO in that when the controls are designed it takes into account the company's need in achieving certain business objectives and the risks involved. The COBIT framework highlights the value of accurate information in order for management to make the correct decisions.¹⁰⁶

After the first year of striving towards becoming SOX compliant one significant problem emerged: The inefficient use of technology. By using technology in order to facilitate the identification of problems and lessen the work needed a number of advantages emerge:

- Quality of information improves and delivery speed increases.
- Compliance steps are performed in accordance with the program design.
- Events will be identified and managed consistently and auditable.¹⁰⁷

¹⁰² Brunsson, Olsen, *The Reforming Organization*, 1997

¹⁰³ Johansson, Löfström, Ohlsson, 2000

¹⁰⁴ Langer, Popanz, *Sustainable Compliance*, 2006

¹⁰⁵ PWC, *How to move your company to sustainable Sarbanes-Oxley compliance*, 2005

¹⁰⁶ Ramos, 2004

¹⁰⁷ Ibid



It is recommended for the company to acquire a compliance management tool, which will facilitate the implementation of compliant technology architecture. Before starting the process of choosing this technology, it is necessary to appreciate the company's compliance framework, i.e. its accountability structure together with its operating structure, and then identify information flows to facilitate the process. Aspects that have to be taken into consideration are functionality in the short term and functionality preferred as the compliance process matures e.g. workflow, encouraging communications, reporting dashboards and storage.¹⁰⁸

Before starting the process of choosing from all the databases presented at the market the company should evaluate its existing technology base and review its broader risk and technology compliance needs. By doing that the company might find out that with some adjustments the existing technology base can be used to support the Sarbanes-Oxley program. In addition, after the review other compliance needs may appear that could be taken care of at the same time.¹⁰⁹

3.5 Summary of the Chapter

The importance of an initiated and committed *company management* has been identified to reinforce control awareness and impose accountability. When the project moves into a permanent stage it is recommended to *delegate* the responsibility of identifying change, perform documentation and testing from the project group to business unit leaders and process owners. The function Internal Control has in many cases led the implementation. It should be placed in a quality control role rather than active partaker.

It is essential to have stable procedures for *change management*. Sarbanes-Oxley requirements should be built into the project plans for major changes, such as new processes or system implementations. The company's *risk* and compliance requirements are important to consider when reassuring that the company is able to identify and remediate deficiencies. In a company with a changing environment it is fundamental. Companies should also consider providing training to the personnel and giving business units an opportunity to learn from one another, by introducing seminars to share *best practices*. The technological aspect should not be forgotten. Compatible *databases* can facilitate and help to enforce accountability, improve data quality and identify exceptions.

The contents of this chapter will serve as a basis to analyze the information gained from the interviews. It has summarized the key factors for a successful compliance to the Sarbanes-Oxley Act identified by accounting firms. To each key factor additional information has been added from articles and literature by initiated persons.

Theoretical material about implementation and organizational change was added as a complementary tool for analysis. Lewin's Theory of Organizational Change can be

¹⁰⁸ PWC, *How to move your company to sustainable Sarbanes-Oxley compliance*, 2005

¹⁰⁹ Deloitte, *Raising the Bar for Governance and Compliance Understanding, Aligning, and Realizing Your Technology's Capabilities*, 2006



applied analogously to this case. It provides an applicable tool because it focuses the ability of the organization to adapt to its changing environment. Lewin's theory will be used as a means to describe the problems that arise after the implementation process has come to an end, and the organization has entered a maintenance mode. In this case, the internal control system can be seen as the "organization" in the theory. The "unfreezing" of the system of internal control will occur repeatedly as the company will continue to change. The SOX-process must be able to detect such changes and problems that can arise as a consequence. For example, if a new payment routine is implemented, it might convey deficiencies in a previously tested and secure system.

The concept sustainable compliance includes a satisfying change management, where the company detects a change (an unfreezing process) and has developed routines to control the direction of change. When the system has been tested and approved of after a change has taken place, the company can once again be reassured it complies with the Sarbanes-Oxley Act. This is an indication of stability and according to Lewin the company will re-enter a refreezing phase and stability will prevail once again.



4. Results and Analysis

In this chapter there will be a presentation of the results from the interviews. The important factors are then analyzed with reflections based on the information introduced in the theoretical material. The discussion will be a basis for the conclusions presented in the following chapter.

The empirical material is presented below and combined with an analysis based on the information in the theoretical chapter. The larger part of the information gathered in the theoretical chapter is presented by American authors and directed to American companies. In order to see whether the advice is suitable for Swedish corporations, or if they have identified other aspects as more important to their specific organization, the key success factors will be compared to how VCC and VFS work today and plan to operate in the future. The presentation is enriched by quotes from the interviews.

The chapter is divided into the same sections as the questionnaire and the theoretical chapter; *Organization, Operations and Technology*. Each section contains a short summary of the recommendation from auditors, articles and literature beneath the subtitle *According to the Accounting Firms*. It is followed by the information we received from the interviews about the situation in VCC and VFS. To conclude each section, our reflections are presented.

In the previous chapter the key success factors of the accounting firms were presented. The interviewees also named the three most important factors for their specific company. These factors will be discussed in this chapter. As they will appear beneath different headlines the key success factors given by each interviewee are enumerated here;

The Director of Internal Control, VCC:

1. *Tone at the Top*
2. Meticulous documentation and good knowledge of processes
3. Sufficient resource allocation to SOX efforts

The Internal Control Analyst at VFS:

1. High management involvement
2. Good SOX project management centrally and locally
3. Make SOX part of the daily working routine and the responsibility of every employee

The Chief Accountant at VFS:

1. Knowledge and understanding of internal control among personnel
2. Work according to established routines
3. Questioning within the organization of how changes affect the internal control



4.1 Organization

4.1.1 Tone at the Top

According to the Accounting Firms

Companies need to establish clear responsibilities of the Board, senior management and business unit leaders to reinforce control awareness and impose accountability, called *tone at the top*.

Volvo Car Corporation

The Director of Internal Control names *tone at the top* as one of the three most important factors for a successful compliance at VCC. In VCC most of the initiatives for a sustainable future comes from the top management. Information is communicated from the corporate management multiple times a week.

As one of three key success factors, the Director of Internal Control at VCC names the importance that the company management reassures that sufficient resources are allocated to SOX efforts.

“Internal Control is occupied with the day-to-day issues and we don’t have sufficient resources to find solutions for the future.”

Since SOX takes a lot of work the resources have to be invested upfront. If not, a certain level of efficiency can never be reached. He believes leaders of American corporations historically have been more involved in the aspects of internal control, and made sure that responsibility is placed on an individual level whereas leaders in Sweden seem to put more faith to the employees as a group.

Volvo Financial Services

The Internal Control Analyst points out high management involvement as one of the most important factors for a successful compliance. In the beginning of the implementation, management’s involvement was not to the extent that was wished for. However, they are now fully involved. According to the respondent, the reason might have been the fact that SOX is an American legislation, and at times considered too bureaucratic and complicated. At first the attitude of the management was that it would not stay for long and therefore there was no need to get too involved.

Analysis and reflections

As an external observer it can be difficult to obtain an idea of the attitudes and support from the top management. It could also be a sensitive question for the employees to answer. As a positive attitude from the executives is regarded as a fundamental factor for success, one might suspect this influences the interviewees. If the management emphasizes that the company shall take an all-positive stance towards the implementation, this would most likely affect the attitudes of their employees and the signals they choose to send to an external part. However, the answers we were given enabled a comparison to the recommended structure.



It was evident that all three respondents had considered the responsibilities and the roles of their company leaders. Within VFS the Financial Analyst had experienced that the involvement and support from the top was not satisfactory in the beginning, but later as the process continued it improved. This alteration of attitude can be explained by the assumption that as management realized the extent of the Sarbanes-Oxley Act they became conscious of the importance of their role in a successful compliance.

At VCC *the tone at the top* was mentioned as one of three key success factors for sustainable compliance. VFS refers to something similar to the *tone at the top* when high management involvement is pointed out as the most important key success factor. Whether this is a result of the impact from their accounting firm or something that in reality is considered as important by the company management is hard to say. But it was evident that the function of Internal Control does not have time to consider projects for sustainability in the future. They still have their hands full with coordinating and testing the compliance efforts. The model by Kostenbaum presented in the theoretical chapter claim that leaders should act as a role model of ethical behavior and serve as a coach for the employees. As the company management of VCC and VFS are responsible for implementing a control system that complies with the Sarbanes-Oxley Act, they need to show the importance of sustainable compliance to its employees in order to succeed. If the management's approach is that the changes are expensive and inutile, it will most likely be reflected in the attitude of the employees.

If management support is lacking within the company it is considered very difficult to reach a sustainable compliance. In the case of VFS the management at first was not as involved as wished for. This lack of commitment from the top could have had a negative effect on the SOX project as well as on the attitude of the organization in the process of reaching a sustainable compliance. This can be seen as a management failure and the effects should not be underestimated when evaluating the personnel's dedication to the new requirements demanded by the SOX implementation.

The respondent at VCC described how Europe and the United States have evolved different systems to regulate corporate behavior. Those systems have been shaped in both law and practice by national policies and by the cultures of the countries concerned. The leaders of American corporations historically seem to have been more involved in the aspects of internal control, and made sure that responsibility is placed on an individual level. According to the respondent at VCC, leaders in Sweden seem to put more faith to the employees as a group. We believe this can be an explanatory factor to why the American legislation initially met some resistance from the corporate leaders in Sweden, as it differs from how they traditionally have worked.



4.1.2 Delegation

According to the Accounting Firms

Companies should delegate the responsibility of identifying change and to perform documentation and testing. They should also recommend key controls for testing or self assessment to business unit leaders and process owners. It is recommended to place Internal Control in a quality control role rather than active partaker on behalf of management. They should also consider appointing the active oversight and development of standards for compliance to a Chief Internal Control Officer or similar position.

Volvo Car Corporation

Although VCC initiated the process in 2004, the Director of Internal Control at VCC emphasized that despite their two-year experience, VCC is still moving towards sustainable compliance.

“No major change has been made to the SOX-organization. Some minor realignment has taken place but it has been a slow movement and the role of the department has remained the same.”

VCC is right now going through a self-assessment process to reach a maintenance mode where the project will be easier to support from a workload point of view. Thus, the future is expected to be less workload intense but there is not a ready model yet. The department of Internal Control was implemented when the process was initiated. There will not be any changes within this function on a short-term perspective.

“In the future we hope that Internal Control will be able to decentralize the responsibility of SOX by spreading knowledge down the organization and relocate the Swedish employees to other departments, so we can dissolve the present SOX-function.”

Volvo Financial Services

Regarding if the projects around SOX has been altered, the greatest change according to the Internal Control Analyst, is that in the beginning SOX was seen as a project, with project managers handling out the information. Now that the project is more integrated in the business the local business areas will be more responsible to act on their own part. She also believes it will be less time-consuming as it will be part of the working tasks in the day-to-day operations.

The Internal Control Department operates at head office level. The responsibility and present scope of work of the Internal Control Department is:

- SOX support and reporting
- Compliance to policy and procedures
- Identify internal control improvements
- Identify potential cost savings and operational excellence.



The Management in every business area is the unit responsible for SOX compliance. The role of the Internal Control Department is to support and help whenever problems occur. They make sure that every business area keeps deadlines and fulfill their commitments. According to the Internal Control Analyst the organization that works with SOX at VFS has not really changed after the implementation. The main difference is that SOX has gone from its implementation phase to its maintenance phase. The Internal Control Department will continue to provide the organization with support and regularly follow-up on the status. Once SOX is in its maintenance phase Internal Control can focus on internal control improvements in areas besides SOX.

The second and third most important success factors found by our respondent at VFS summarizes this:

- A well functioning SOX project management centrally and locally
- The ability of the organization to make SOX a part of the daily routine and the responsibility of every employee.

During the past two years most of the work within the business areas at VFS has been related to the documentation and the changes that had to be made. This year will more consist of testing the existing processes to see if they fulfill the requirements of internal control. The documentation will be modified when needed, for example when new routines are applied, but no dramatic changes will take place. However, the work with SOX will not diminish. The sharp position today makes it stricter. For the rest of 2006 the Chief Accountant reckons a 75 percent appointment will be needed within the business area just to work with SOX.

“It would not be possible for me to perform my original function of monitoring the financial and operational processes as well as managing the SOX-program.”

Whether this work will be appointed to an existing employee, a new employee or a consultant is still to be decided. The function will be responsible for seeing to that the company always acts correctly according to SOX and follows deadlines. It will also carry the process forward and be responsible for updating the documents, which have to change as the organization changes. It will include a lot of reporting, e.g. regarding costs and how far the work has progressed. VFS is cost conscious and the costs related to SOX will probably increase in the future since more help from external accounting firms will be needed.

Analysis and Reflections

VCC as many other companies has relied on Internal Audit to conduct test plans. However, their role in monitoring is often a critical element of management’s overall risk assessment efforts. The long-term idea of VCC to delegate responsibility by dissolving the current SOX-organization and moving its personnel to different divisions within the company is exactly what the accounting firms have suggested companies to consider. This enables concrete guidance and assistance with updating



process and control documentation, as well as creating and performing test plans and evaluating results.

According to the accounting firms companies should consider appointing risk and control specialists within each business area to support and guide both process owners and business unit leaders. It would preferably be employees from Internal Control who participated in the implementation process that take these positions. This is in line with the expectation at VCC that in the future decentralize parts of their Department of Internal Control down in the organization.

On the contrary, the Department of Internal Control at VFS seems to stay intact with the current structure where they present guidance and support to their underlying areas. The Department where the Financial Analyst work existed before the Sarbanes-Oxley Act had another original function, whereas the Internal Control at VCC was created specifically for the implementation. Since VFS wanted to avoid creating a separate organization to handle SOX, it is not so strange that the advice from the Accounting firms is more relevant to VCC.

The Chief Accountant at VFS is also aware that the question of ongoing compliance could become a problem without a change in the current structure. The plan is to establish a separate function within the business area for supporting the SOX compliance effort. However, it does not seem likely that it will be an employee from Internal Control who participated in the implementation process that takes this position as Internal Control will remain intact. If the responsibilities for testing and business-change documentation fall to another person within the company, it would enable the Chief Accountant to perform an overall monitoring program and serve as a quality assurance function that can challenge the effectiveness of the Sarbanes-Oxley program.

The respondents at Internal Control at VCC and VFS both expect the work with SOX to diminish in the future. This contradicts the opinion of the Chief Accountant at VFS, who believes that because of the sharp position of being fully compliant, the workload will not lessen. The reason to the difference of opinions might be that the Chief Accountant works on the operative level in the organization. This brings dissimilarities regarding their responsibilities and how they consider their present and future workload. However, it transmits a clear signal that both companies are going through the process of delegation that the accounting firms suggest suitable.



4.2 Operations

4.2.1 Change Management and Risk Assessment

According to the Accounting Firms

As business processes and the risks associated to them change, an important challenge is to be able to discover and address the impact of such changes on the organization. It affects the company's business processes and the whole control system. According to advisors, a change management program needs to be adapted to the environment of each company.

To make sure efficient internal control of the financial reporting is maintained throughout the year and to supply management assurance for reporting, the accounting firms propose different approaches:

- Carry out testing plans throughout the year to allow a timely control, remediation and retesting.
- Perform quarterly testing for higher risk processes and supplementing testing with self-assessments for other processes.
- Rely entirely on a self-assessment process.

It is also recommended for companies to establish a risk management program that can identify and assess all the imaginable risks and the specific financial reporting risks that might appear within each respective company. This program should also be able to evaluate the potential consequences of the identified risks. The risk assessment program should be assigned to a certain group at an appropriate organizational level and specific risks should be associated with specific business processes and relevant control environment areas. Formal protocols regarding control performance and changing risk conditions should be established.

Volvo Car Corporation

According to the Director of Internal Control, VCC is right now at a transition point where the company moves from cleaning up the base to develop a robust and formal model and process to detect changes in the system. Since the implementation of SOX the daily routines of the internal control has changed. Volvo has always been a diversified organization, which is a cultural trait that Ford has strived to maintain by a passive integration. However, as a result of the requirements for SOX compliance through documentation, a higher emphasis has been put on internal control. Consequently, Volvo has had to align, formalize and standardize their procedures according to those of Ford.

At VCC the annual test process is considered as sufficiently regular to discover eventual problems that can occur from the implementation of new processes.



“It is a timely enough assessment of the control environment.”

After control deficiencies have been discovered, the Remediation Plan is documented in a database. New controls are implemented which are tested and evaluated by internal audits. As changes take place VCC strive to be upfront and move from reactive controls to preventive ones. To become proactive is one of their main priorities right now. Our respondent at VCC has identified two main obstacles they need to overcome in order to reach a sustainable proactive change management:

Educating the personnel to react to problems and risk areas. It is a time-consuming task that is not always easy to perform due to the employees’ busy schedules. Another aspect of the problem has initially been a certain reluctance of the employees. It was difficult especially in the starting-up phase for the majority to understand why the Sarbanes-Oxley Act, an American Law, should force them to sign and document every step of their work. Although it has improved, the problem still remains. The Director of Internal Control believes this behavior to be an expression of a cultural characteristic. To his opinion, Swedes are trustworthy and reliable and wish to believe the best of people around them. Thus, a difference from USA and France is for example a much smaller focus on controls in the business processes. In comparison to the implementation of SOX in the other countries, in the case of Sweden it became necessary to establish an extensive system with more tests and controls.

Lack of resources to allocate to the area. The department of Internal Control is still busy with attending to the existing deficiencies. They have not had the time yet to shift the required amount of working hours and attention from the present into a future perspective.

When altering, developing and implementing new procedures it can be difficult to maintain the frequency of the reviews and the testing of controls. To make it possible, the Director of Internal Control at VCC state that the testing has to be embedded in the change of controls process.

“You need to know what impact the changes have on other departments’ controls.”

Identifying risks is according to the Director of Internal Control an extensive corporate process at VCC, and the company has developed its own risk model. There are separate auditing functions within Volvo that perform testing and tracking of deficiencies. Besides Internal Control, there is another unit called General Audit where a group of internal auditors carry out checks. Moreover, PricewaterhouseCoopers is the external accounting firm that performs comprehensive testing once a year to discover eventual risk areas that have not been remedied internally.

Volvo Financial Services

The Chief Accountant identifies the importance of employees questioning how a changed process might influence the internal control system as another key success factor. When it comes to maintaining the frequency of the testing and control VFS



emphasizes the importance of having frequent routine checking that is always followed up as well as testing that correct things are being done. If VFS gets busier because of more processes, of course they will have to increase their personnel since it has to be operational. As our respondent several times pointed out:

“It is not an alternative not to be SOX compliant.”

Similar to VCC, VFS uses a remediation plan.

“The deficiencies are clearly documented in the process, as well as a description of the requirements necessary to correct them, the responsible person and the deadline for the corrective actions.”

A part of the SOX developing plan contains instructions on how to deal with changing procedures and when changes occur adherent documentation also has to be changed. This should not cause any problems with small changes as SOX should be a part of the daily work, but if a big change was to occur, such as changing the data system, it may imply more difficulties. All work at VFS today is more or less affected by SOX, which has led to an even higher awareness of its importance among the employees. They believe their system to discover change will work satisfactory.

“If a new function is to be implemented it will be analyzed from a SOX perspective and the Act will be taken into consideration. If we would oversee this by any chance, AB Volvo has a function called The SOX Scope that is meant to trace and discover all entries that might be affected by the SOX legislation.”

Since VFS wanted to avoid creating a separate organization to handle SOX, as in the case of e.g. Renault, the SOX organization in VFS follows the operational organizational structure and is integrated in the Internal Control Department and in every local business area. Changes in the organization will therefore undergo the scrutiny required by SOX. The SOX organization follows the other organizations; if new areas are established they are integrated in one of the areas already existing.

The proceeding to remediate deficiencies is dealt with in each business area and has a due date when the control has to be fixed and a person in charge of the remediation. Afterwards VFS Internal Control follows up the remediation plan with further testing. Measures are taken at a local level in case of minor deficiencies such as the lack of the CFOs signature, and jointly with the Internal Control Department when larger deficiencies are identified, e.g. when there is an error in the system.

Our respondent at Internal Control at VFS similar to the candidate at VCC believe that cultural differences between Sweden and the US may have an impact on how the organizational change is received by the employees.

“Most of the scandals have taken place in the US. Now a law from there is supposed to concern all of us. What forms the basis of the regulations is after all what happened in Enron, WorldCom etc. But I still find it difficult to make comparisons.”



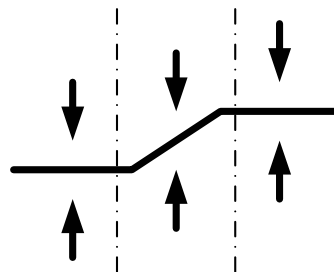
Possible problems that might come up are ventilated on weekly discussions with the local areas. The Internal Control Analyst emphasizes the importance of communication between the local areas and Internal Control in order to identify possible risk areas and to follow up possible risk areas. All employees have to participate in the search for risks. At VFS the first thing to do when inspecting a process is to structure its different components, and afterwards the documentation of this is done. Subsequently, risks are searched through both discussions with the people involved in the process as well as by reflecting on what possible scenarios that might come up. This identification of risks is also included in the SOX documentation as *Corrective Actions* and has to be documented on every control. Corrective Actions should answer the questions of what could happen if something goes wrong: what actions will be taken, what is the best way of correcting the error, what happens if the correction is ignored? Does the process still continue or is it automatically stopped?

Analysis and Reflections

Both companies have their SOX organization firmly established in their operational organization and they appear to deal with the problematic subject of integrating SOX in a satisfying way. Changes are well incorporated into the SOX compliance process in both VCC and VFS and they have procedures in place to manage change, all in line with experts' advice.

VCC stress the importance of working proactively in order to acknowledge possible changes the company faces. One of the main obstacles found by our respondent that could restrain a satisfactory change management is to educate the personnel. He considers this a result of cultural differences that emerge when employees in a Swedish company with different company values from the American values have to adapt to and comply with American legislation. He was not entirely sure if this reaction was a typically Swedish one or whether it was more of a Volvo one. Neither was the Internal Control Analyst at VFS, although she very well understood the average employee would be reluctant to appreciate the benefits of implementing an American Act in a well functioning Swedish company.

According to the model of Lewin, organizational change involves three separate activities: unfreezing, change, and refreezing.



Based on Lewin's Model of Organizational Change.



Although this is a theory of organizational change, it can be applied analogous to how VCC and VFS should react to situations they will face in the future. The companies will find themselves in a state of balance when the Sarbanes-Oxley Act has been implemented and the control system has been tested and approved of by external as well as internal auditors. However, their companies will naturally continue to evolve in the future. They might add new business processes or need to change existing ones. A changed process can bring about internal control deficiencies that will cause an unfreezing of the tested and approved compliance to the Sarbanes-Oxley Act. This can unbalance the equilibrium that sustains the internal control.

VFS find themselves in the final stages of the implementing process as they soon must pass the last tests before having to be fully compliant. Thus, VFS believe they will soon enter the refreezing stage of the implementation when the internal control system of SOX becomes an embedded process. However, they need to consider how they will detect changes after the implementation to make sure a change management program is built into the systems to detect future changes that will cause an unfreezing. The reluctance among employees against changing their routines, discovered by both VCC and VFS, can be seen as a threat to discovering challenges to the internal control. Although VCC implemented SOX during 2004 they are still struggling with issues on how to fully engage their personnel and allocate the right amount of resources to change management. According to the frame of references it is also essential to analyze how different controls interact with each other. This is something the respondent at VCC identifies as important as he mentions the necessity of knowing how changes can affect other controls.

When discussing risk assessment, both companies seem to be relatively convinced that they use well-developed methods in order to identify possible risks. However, these methods differ somewhat from each other. While VCC rely on a model and the separate auditing functions within the company, all in accordance with the accounting firms' recommendations, VFS emphasizes regular communication between the different areas as an important complement to the *Corrective Actions* program. However, as there is no particular process recommended by entities such as the COSO framework as long as the process is complete, it is hard to say that one way is better than the other.

Deloitte mentions that companies should perform a risk assessment at least on an annual basis in order to maintain the financial reporting risk profile aligned with the development of the business, something that is performed in VCC.

During the interviews we got the impression that the respondents felt secure and fully satisfied with their methods used for risk assessment.

4.2.2 Training

According to the Accounting Firms

Advisors on the subject claim an obligatory training sends a very clear signal of the importance of maintaining the effectiveness of internal control. To achieve this,



consistency is essential. By the annual training, the companies aim to make sure the internal control is not a varying factor depending on whether the employees have received SOX-training or not. In this way, it becomes part of the orientation for newly hired. To involve operating personnel in compliance makes it easier to obtain a proactive monitoring and remediation of control weaknesses because process owners are more suitable to detect changes, as they understand the risks in their areas.

It is important to provide complete training customized to the audience, including:

- Workshops for the Board and business unit leaders
- Orientation for newly hired
- Certification of risk and control specialists
- Meeting for sharing of best practices

Volvo Car Corporation

The management of VCC has introduced what they call an Annual Training Program. For the third consecutive year the personnel spend a whole day on a training program. It involves registration of documentation, test requirements, managing deficiencies and other key issues. In the end of the day there is a formal test that is executed and then reviewed by the team of Internal Control. This process helps to assure a minimum level of basic knowledge and understanding for the SOX issues, as well as a reminder of its importance and its high priority from the top management.

Volvo Financial Services

The Chief Accountant ranks the personnel's knowledge and understanding of internal control as the most important key success factor. A similar training program as the one at VCC is done by every employee at VFS, in the shape of a SOX e-learning test on the intranet, something that is also included in the introduction program for new employees. As in the case of VCC, it was introduced in order to reassure a certain minimum level of knowledge. These types of actions are initiated from a higher corporate level. VFS had a two-day SOX conference in Göteborg where everyone met up. In addition, during the implementation phase of SOX in 2005 up till April 1st 2006, there was a SOX Steering Committee consisting of the CFOs from each region in order to address information directly to management. An Internal Control Advisory Board was created in order to address issues of SOX and Internal Control directly to the top management of VFS.

As everything is working very well for the moment there has not been any discussion at VFS concerning how to maintain a future interest. Thus, there is nothing formally decided concerning follow-ups of the staff's knowledge of SOX in the future, but there will definitely be follow-ups.

Analysis and Reflections

Both VCC and VFS have similar training programs to communicate responsibilities and roles, something that is emphasized as important by the accounting firms. Furthermore, both companies apply obligatory training, but only VCC has made it a recurrent event. On this point their actions fully correspond with the advice given by



the American accounting firms. In order for VFS to implement further training the instructions have to come from higher management within AB Volvo and until today nothing of that kind has been decided. VFS may therefore face the problem discussed in the theory by Johansson et al; when companies have implemented new knowledge, problems arise with keeping up the work within the permanent organization.

A complete training, in accordance with the checklist provided by the accounting firms, should include meetings for sharing of best practices, which can be equalized to the management gatherings mentioned by VFS. Another important component of the checklist is the training for newly employees, which is a part of VFS introduction program.

4.2.3 Best Practices

According to the Accounting Firms

As described in the theoretical chapter, the best practice can be reached when the architecture and processes of compliance are used to drive value and benefits above and beyond compliance. It can bring business benefits, reduced liabilities and increase the chance that the external auditors approve the company's financial statements. In the theoretical chapter, the factors important to apply best practice were identified as follows;

- A full implementation with detailed documentation of compliance processes including their justification, referenced evidence, and concurrence of the external auditor.
- Standardized templates with common structures that are used consistently throughout the company.
- An accurate compliance index within a central database to organize the information. Such integration will facilitate an efficient auditing, both from management and externally, and minimize questions and work delays.
- Redirect corporate strategy from risk aversion to risk intelligence.

Volvo Car Corporation

The Director of Internal Control at VCC has noticed a substantially improved communication within the company as well as with other companies. When implementing SOX he believes it was an implementation of the best practices in the company. It has considerably reduced re-work and redundancy. With section 404 they have achieved a better control of the financial documents and report more accurately to the management. He can also for sure say that his company has a good internal control. There are also business related benefits, e.g. cost/efficiency. It helps to achieve benefits and synergies.

To make sure that SOX is seen as a long-term process instead of a temporary project, the candidate at VCC believe the most important factors to be consistency and



communication, together with constant pressure and training. In order to always prioritize SOX, the employees have to see and be informed about the benefits in the long run. Working with SOX is an ongoing process that never ends and after a while it will probably become clear to everyone that it is not just the flavor of the month, or even the year. The question he asks himself is when you get to the point of sustainability.

“Will it take a few years, a few decades? I’m not sure but I hope it will come within three to five years.”

Not unexpectedly, the interviewee has identified disadvantages as well. One is that many of the benefits and synergies will not show until after a long time. It makes it harder for the Department of Internal Control to motivate the employees to put in an extra effort if they can’t see the benefits beforehand. However, the largest disadvantage is that the SOX-compliance program is very time- and money consuming.

Volvo Financial Services

Since VFS is a finance company they have always had strict rules to follow, thus their level of internal control has been generally high and a lot of the controls already existed. However, previously the internal control environment was not as fully documented as it is now and it has been improved after deficiencies have been found. The Chief Accountant sees it as very positive that only small alterations had to be made.

“I think it’s because many of our employees have a “controlling personality”. We all think prevention is better than to discover problems when testing. This has really been an advantage through the whole process.”

Advantages are among others that the internal control environment is improved. There is also more focus on policies and procedures, and how to conform to them. Hopefully, there will be reductions of costs, through efficiency improvements. For example if one control used in one area is improved, it may result in improvements of similar controls in other areas.

Furthermore they find it positive to have the entire working process documented which is a great help in situations where new employees or uninitiated users, e.g. auditors, need to understand the operational activity. It is an incredible advantage for a company to be able to frequently test and get an annual update of the internal control. Possible errors will be noticed and attended to. The documentation on how to perform the controls is extremely detailed and drawn up with the intention to be applicable by anyone with or without knowledge about the business or system. VFS has from the start had a long-term perspective in the process of becoming SOX compliant, and their documents will not lose their functionality in the case of operational changes. They simply have to work considering the resources consumed to produce them.



“VFS has taken advantage of the situation and turned it into a chance to increase the internal control in the company as a whole, instead of only the areas directly concerned by SOX.”

The Chief Accountant does not think SOX will be seen as a short-term project since law regulates it.

“It is different from previous certifications like the ISO-certification for example. That was procured by request by the companies themselves.”

Thanks to the legislation VFS believe SOX will always be of vital importance with constant testing and checking. Disadvantages were also given by VFS. It is an extremely costly and time-consuming process, but there is no alternative. Although the Internal Control Analyst at VFS was not present at the very beginning of the implementation of SOX she has come to understand that there was significant resistance, and that the company did not understand the dimensions of the law in the beginning.

“If I close my eyes and hold my hands over my ears it might disappear.”

In contrast to the Chief Accountant, the Internal Control Analyst believes that the strict rules that SOX convey might not be sustainable in a long-term perspective. She says it has been debated within Europe and opinions exist that there will be a SOX “light” version for European companies, a version adapted to the European Union. Although she adds it might only be an expression of her own wish. In the future the interference from the external accounting firms implies even higher expenses, since they have to perform more than just statutory audit. This conveys a possibility that companies will become tired, and a demand for change might arise.

According to the Internal Control Analyst, SOX must be a part of the daily working routine in order to function in the long run. To avoid that SOX is dealt with in solely a routine manner; SOX should be seen as a part of the performance of the company. SOX, as well as the result, should always be a natural part of the agenda, e.g. on CFO conferences or other management meetings. Furthermore, SOX should be related to each individual’s performance, to what extent depending on the employee’s assignments, and be a part of every employee’s personal business plan, thus be an element in the evaluation of the entire job performance.

Analysis and Reflections

Both VCC and VFS seem to have focused on the whole picture and taken advantage of the positive aspects a thorough documentation can convey. By focusing on the aim rather than the letter of the law, companies have found advantages from the implementation. They have realized the benefits of working proactively, risk management, transparency and process improvement efficiencies. Thus, it seems like both VCC and VFS have attended to various best practices. Whether they are the result of the accounting firms’ influences or something that already existed internally is hard to say.



As described below in the chapter *Databases*, both companies have developed databases for documentation and remediation of risk areas. The templates are means to achieve consistency. VFS as well as VCC have detailed lists of everything that has to be checked in relation to each separate process. However, a problem seems to be that using two incompatible databases is time-consuming and causes redundancy.

The Internal Control Analyst at VFS expresses that an improved control in one area may result in improvements of similar controls in other areas, thus conducting to efficiency improvements and reductions of costs. This is in accordance with the frame of references where the importance of analyzing how different controls interact to each other is pointed out.

It seems as none of the companies have yet reached the proactive stage although they are aware of the importance of establishing a change management process. They do have the basic requirements and procedures in place for implementing one, by their respective electronic document management databases. This is a prerequisite according to the accounting firms.

The accounting firms have also emphasized the importance of technology. VCC, on the other hand, claims that sufficient resource allocation is more important. This might be interpreted as a successful implementation of a technological structure at VCC, which means they do not need to put that much focus on this area. It could also be a result of the respondents' role in the context. As the head of Internal Control, he most likely has experienced the situation in a different way than the accounting companies do. His work is to a large extent dependent on sufficient funds and support from the top management.

4.3 Technology

Databases

According to the Accounting Firms

By developing a technology structure that gathers data from different systems and uses suitable functionality to impose accountability, improve data quality and identify incidents, companies may significantly reduce their resources needed. The use of technology may also provide a guarantee that compliance steps are performed in accordance with the program design and that events will be identified and managed consistently and auditable.

Volvo Car Corporation

To manage SOX, VCC has two separate systems of which the first, Deficiency Management, is used to identify risk areas. It is a separate database that contains questionnaires where employees fill in information of the processes to form key controls. The second database is used to remediate discovered deficiencies. The systems are not compatible for the moment but there are long term plans to integrate them.



Volvo Financial Services

VFS receive templates from AB Volvo where they fill in information about what is done, when it is done, by whom and what actions will be demanded to correct potential errors.

“The SOX documentation reflects the actual work; no dream scenario has been produced describing how we would like to work. If flaws are found they have to be fixed.”

A flowchart is used to depict the various procedures, which provides a comprehensive overview by linking the different processes together and marking out the controls. The program used for this is Microsoft Visio. When storing and passing on the reports, a database called TeamPlace is used for uploading and saving documents. All the documentation has to exist in a parallel database as well, called MIC, Management of Internal Control that is based upon SAP. This database is not compatible with TeamPlace which results in the need to repeat the same procedure. All the standard and key controls are put into the MIC-system, where an assessment is made on every key control. The entire test plans and the local areas also include the test results with remediation plans. The analysts at VFS Internal Control can see the results on the different areas and the reports produced by the system. During the implementation process the testing reporting has been made manually, but in the future everything will be visible in the MIC system.

Analysis and Reflections

A well functioning technology and databases can diminish the workload in most companies today. Due to the vast documentation and testing needed to comply with SOX, a technological support can bring large advantages in this area as well. Both VCC and VFS have specific Sarbanes-Oxley databases to facilitate the project management functions such as documentation management and detecting and reporting functions. Thus, they seem to have understood the advantages that technology can provide. However, a problem seems to be that both companies need two separate databases that are not compatible which causes extra work. This might be a similar problem to the one expressed in the frame of reference; the inefficient use of technology.

Within VFS it can be assumed that a lot of time and resources could have been saved in the implementation process if the MIC system could have been used completely with automatically produced reports. It should also be possible to improve the databases within VFS. As long as MIC is not compatible with TeamPlace many procedures need to be repeated and a lot of unnecessary work is required. As a result of using technology and automatically produced reports the involvement of the human factor decreases, which could reduce the risk of deficiencies.

IT audit professionals acknowledge the COBIT framework as generally applicable for IT security and control practices. None of the respondents mention this spontaneously, but this does not mean that they are not familiar with the framework.



5. Conclusion

This chapter summarizes the conclusions made from the empirical study and analysis, about key control areas that have been identified related to the aim of this thesis.

To draw a conclusion of the information presented in the previous chapters, a retrospect of the main research problem is made;

- *Are the key success factors that American accounting firms and experts believe important to achieve sustainable compliance with section 404 of the Sarbanes-Oxley Act useful to Swedish companies?*

5.1 Organization

Tone at the Top

The accounting firms claim a strong, committed leadership by the senior management is crucial to create a *tone at the top* that will encourage the SOX-project and deter unethical behavior among the employees

Both VCC and VFS give the role of the company leaders as one of three key success factors. In the case of VFS the management at first was not as involved as wished for. The management at VCC, the American company Ford seems to have paid more attention. As the Sarbanes-Oxley Act differs from how corporate leaders in Sweden traditionally have worked, it might be a part of the explanation to why they initially appear to have showed resistance.

As the accounting firms claim, the *tone at the top* is obviously an important factor to consider for Swedish companies as well, although cultural differences might cause the Swedish *tone at the top* to sound different from the American.

Delegation

According to the accounting firms companies should decentralize parts of the responsibility of the Department of Internal Control to each business unit. The long-term idea of VCC falls in line with this. They plan to dissolve the current SOX-organization and move its personnel to different divisions within the company.

On the contrary, the Department of Internal Control at VFS plans to stay intact with the current structure and continue to give guidance and support to the business areas. The Chief Accountant at VFS believes the question of ongoing compliance could become a problem if the SOX-responsibility does not fall to another person in her business area. Otherwise it would not be possible for her to perform her regular job.



Thus, the recommendation of the accounting firms to delegate responsibility seems to be something these companies agree with although they will use different ways of delegation. Due to different structures, the Department of Internal Control will stay the same at VFS and each business area will work out their own long-term solution. However, this could also be a result of the fact that the interviewees operate at different levels within the respective companies.

5.2 Operations

Change Management and Risk Assessment

The accounting firms stress the importance of companies having a change management program adapted to their specific organization. Lewin's model shows the different steps a company should consider when facing a change in order to reach a new stage of organizational equilibrium. Both companies have their changes well incorporated into their SOX compliance process and they have procedures in place to manage change. Differences between the American and Swedish company values have been identified by VCC. Educating the personnel to react to problems and risk areas is considered as difficult. In combination with lack of resources to allocate to the area this could pose threats to reaching a satisfactory change management.

It is also recommended by the accounting firms to establish a risk management program that can identify and assess all the imaginable risks and the specific financial reporting risks that might appear within each respective company. Both companies seem to be relatively convinced that they use well-developed methods in order to identify possible risks. VCC by relying on a model and the separate auditing functions within the company and VFS highlight regular communication between the different areas as an important complement to the *Corrective Actions* program. Whether these programs and actions are enough in order to assess all possible risks is difficult to say. However, our respondents seemed to be fully satisfied with their respective programs.

Training

Advisors on the subject claim an obligatory training sends a very clear signal of the importance of maintaining the effectiveness of internal control. To achieve this, consistency is essential. By annual training, workshops for the board, orientation for newly hired etcetera, the companies aim to make sure the internal control is not a varying factor depending on whether the employees have received SOX-training or not.

Similar training programs are used by both companies to ensure that their employees obtain sufficient knowledge about the SOX processes, but only VCC has so far made it a frequent occurrence. When companies have implemented new knowledge, problems may arise with keeping up the work within the organization, a problem that can appear within VFS if they do not implement a more frequent training program.

In line with the advice from the accounting firms, VCC and VFS are aware of the value of educating their employees. However, VCC seem to have more explicitly



decided plans for a recurring training program. This could be a result of their more advanced position in the implementation process.

Best Practices

According to the accounting firms, the concept of Best Practice is an important factor in order to obtain a sustainable compliance. A proactive approach of the compliance process may lead to increased value and business benefits, not only in the matter of SOX but from a general point of view. VCC has clearly perceived the usefulness of improved communication, business related benefits and synergies emerging from the implementation of SOX, even though the respondent is aware of some disadvantages as well. The proactive stage is not completely achieved, and in order to reach this he stresses the importance of consistency, communication and motivating the employees. VFS has a similar opinion regarding the benefits of implementing a Best Practice as it facilitates a preventive approach instead of solving problems once discovered.

Not surprisingly, we can make the conclusion that Swedish companies can benefit from the use of Best Practices. As the Sarbanes-Oxley Act is a foreign legislation that has conveyed large expenses for Swedish companies, it has obtained unpleasant connotations. Thus, we believe it is important that the companies attempt to seek which advantages it can bring to their specific company in the long run.

5.3 Technology

Databases

As expressed by the accounting firms effective technology help increase the possibility to reach compliance of SOX requirements. The use of well-functioning databases facilitates the information flow and is vital to maintain consistency and to achieve accurate information. Both companies use two separate systems and emphasize their importance. It appears like both the accounting firms and the Swedish companies have identified the technological advantages databases bring. This is probably because technology always is important for an organization's performance, no matter if it is in the daily business or to implement new processes. Nevertheless, the respondents are also conscious that the present technology structure could be improved; to use separate databases may function in the short term, but they should preferably be compatible to each other in the future.

5.4 Additional Reflections

The factors VCC and VFS consider essential for a sustainable implementation of the Sarbanes-Oxley Act do not appear to differ considerably from the key success factors presented in this thesis as important according to the American accounting firms. However, it is central to remember the differences in corporate culture, which can convey that Swedish companies might have another approach to the implementation process. Corporate leaders in Sweden may in certain aspects have more confidence in their employees than e.g. the Americans. As a consequence, they may not always see



the necessity in enlarged controls. Swedish employees may also take offence if they feel that management does not trust them.

Due to the similarities between the key success factors identified by VCC and VFS and the manuals from the accounting firms, one can assume that Swedish accounting firms have used a great amount of the material from their American partner firms when advising Swedish companies. Consequently, Swedish organizations are indirectly effected by the opinion of the American auditors.

5.5 Suggestions for further research

Since SOX is a new and unexplored subject a lot of different angles and problems exist that can form the basis for further research. The main part of the research in the topic is how companies, experts and external auditors believe the future to turn out. It is almost only the United States that has had any possibility to make concrete research about experiences in the area due to the earlier implementation date. As this is just the beginning for SOX compliance in Sweden, there is no actual knowledge as to how SOX affects Swedish companies. Therefore it would be interesting to make a similar research in a couple of years, to see how Swedish companies have managed to comply with SOX.

During the process of writing our thesis, an interesting subject emerged. The differences in corporate culture between different countries that we bring up to some extent might be investigated in a more profound way, and how it might affect the internationalization.

Finally, we suggest a larger survey on the subject in our thesis. If more time and resources are available, a survey could be made among all Swedish companies concerned of SOX requirements, in order to be able to draw more generally applicable conclusions.



6. Acknowledgements

First and foremost we would like to thank our respondents for the kindness they received us with and for setting valuable time aside for our interviews;
Karin Dahlström, Victoria Einarsson and Timothy Fissinger.

Without your help and friendly approach the realization of this thesis would not have been achievable.

We would like to send our gratitude to our advisors Jan Marton and Andreas Hagberg, who gave us helpful feedback and provided a critical view and last but not least; helped us to keep the focus during the process.

Special thanks are also directed to the members of our opponent group for their useful advice and suggestions, as well as to Inga-Lill Johansson, who provided us with some useful ideas.

Göteborg, 31.05.2006

Therese Andersson

Emma Hjelte

Kristin Persson



7. Bibliography

Articles

Beaumier, Carol M. and DeLoach, James, *Sustaining SOX Compliance*, Bank Accounting and Finance, April-May Issue 2005

Dittmar, L. and Heffes, E. M., *What Will You Do in Sarbanes-Oxley's Second Year?* Financial Executive, Volume 20, Issue 8, November 2004

Francis, J.R., *What do we know about audit quality?* The British Accounting Review, Issue 36, 2004

Koestenbaum, P., Keys, P. J., Weirich, T. R., *Integrating Sarbanes-Oxley, Leadership, and Ethics*, The CPA Journal, Volume 75, Issue 4, April 2005

Kola, Vani, *Sarbanes-Oxley, Section 404: From Project to Practice.. to Best Practice*, Financial Executive, January-February Issue 2004

Langer, D and Popanz, T, *Sustainable Compliance*, Internal Auditor, February 2006

McNally, J.S. and Wagaman, D.D., *Hard Climb is Done, But Trek Continues: Sarbanes-Oxley Compliance in Year Two and Beyond*, The CPA Journal, Volume 76, Issue 3, Fall 2005

Rinninsland, R. *Understanding the Sarbanes-Oxley Act of 2002*. FDTA & CITE: February 2002

Sinnett, William M, *Process Improvements in Sarbanes-Oxley Section 404 for Year-Two Compliance*, Financial Executives Research Foundation, December 2005

Svernlöv, C. and Blomberg, E., *Sarbanes-Oxley – Ny Värdepapperslagstiftning*, Ny Juridik, VJS: Stockholm, 2003

Books

Andersen I. *Den uppenbara verkligheten*. Studentlitteratur: Lund, 1998

Brunsson, N., Olsen, J.P. *The Reforming Organization*. Fagbokforlaget: Bergen, 1997.

Cooper, D. R and Schindler, P. S. *Business Research Methods*. 6th ed. McGraw-Hill: Boston, 1998

Eriksson, L-T and Wiedersheim-Paul, F. *Att utreda, forska och rapportera*. Lieber Ekonomi: Malmö, 2001



Green, S. *Manager's guide to the Sarbanes-Oxley Act*. Wiley & Sons Inc: New Jersey, 2004

Hampden-Turner, C and Trompenaars, A, *The Seven Cultures of Capitalism: Value Systems For Creating Wealth in the United States, Japan, Germany, France, Britain, Sweden and the Netherlands*. Doubleday, New York, 1993

Hatch, M J. *Organization Theory*. Oxford University Press Inc: New York, 1997

Holme, M I and Solvang, K B. *Forskningsmetodik*. Studentlitteratur: Lund, 1997

Häger, B. *Intervjuteknik*. Liber: Stockholm, 2001

Jacobsen, D. I. *Vad, hur och varför: Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*. Studentlitteratur: Lund, 2002

Johansson, S, Löfström, M, Ohlsson, Ö. *Projekt som förändringsstrategi*. SNS Förlag: Stockholm, 2000

Lekvall, P and Wahlbin, C. *Information för marknadsföringsbeslut*. IHM förlag AB: Göteborg, 1993

Lewin, Kurt. *Field theory in social science*, Harper & Row: New York, 1951

Lundahl, U and Skärvad, P-H. *Utredningsmetodik för samhällsvetare och ekonomer*. 3rd ed. Studentlitteratur: Lund, 1999

Patel, R, Davidsson, B. *Forskningsmetodikens grunder: Att planera, genomföra och rapportera en undersökning*. 3rd ed. Studentlitteratur: Lund, 2003

Ramos, M. *How to Comply with Sarbanes-Oxley Section 404: Assessing the Effectiveness of Internal Control*. Wiley & Sons Inc: New Jersey, 2004

Sandström, B. *Att lyckas som förändringsledare – Processmetodikens grunder*. Industrilitteratur: 2000

Trost, J. *Kvalitativa intervjuer*. Studentlitteratur: Lund, 1997

Wikström, E. *Projekt och produktiv kommunikation*. BAS Förlag: Göteborg, 2000

Other Publications

Braker, H. J, *European Corporations American Style? Governance, Culture and Convergence*, Professor of Commercial Law, Conference Draft at Harvard School of Law and Diplomacy, 2002

Deloitte. *Under Control, Sustaining Compliance with Sarbanes Oxley in Year Two and Beyond*, 2005



Deloitte, *Sarbanes-Oxley Section 404: Lessons learned ... and the road ahead*, 2005

Deloitte, *Raising the Bar for Governance and Compliance Understanding, Aligning, and Realizing Your Technology's Capabilities*, White Paper, February 2006

Dock, T, Martinsson H, Petterson, J. *Sustainable Compliance with Section 404 of the Sarbanes-Oxley Act in a Swedish Environment - a benchmarking study* Magisteruppsats, Handelshögskolan vid Göteborgs Universitet, 2005

Ernst and Young. *Emerging Trends in Internal Controls U.S. -Listed Foreign Private Issuers Second Survey and Section 404 Reference*. 2004

Ernst & Young, Pressmeddelande 060220
http://www.ey.com/global/content.nsf/Sweden/Pressmeddelande_060220

KPMG, *The Compliance Journey - Making Compliance Sustainable*, 2005

KPMG's 404 Institute, Survey from 2004

PricewaterhouseCoopers, *How to move your company to sustainable Sarbanes-Oxley compliance*, 2005

PricewaterhouseCoopers, *Sarbanes-Oxley Act: Section 404: Practical Guidance for Management*, July 2004

PricewaterhouseCoopers, *Sarbanes-Oxley Section 404 – A Toolkit for Management and Auditors*. Vol. 1, 2003

PricewaterhouseCoopers, *Submission to the SEC regarding Sarbanes-Oxley Section 404*, April 2005

Legislation

The Sarbanes-Oxley Act of 2002

Interviews

Dahlström Karin – Chief Accountant, Volvo Financial Services International, 18.04.2006.

Einarsson Victoria – Internal Control Analyst, Volvo Financial Services, Department of Internal Control, 18.05.2006.

Fissinger Timothy – Director of Internal Control, Volvo Car Corporation, Department of Internal Control, 25.04.2006.



Appendix 1 - Interview Guide

Introduction

1. How would you describe your role at the company you work for?
2. When was the implementation process of the Sarbanes-Oxley Act initiated?

Organization

3. Is there a specific person or division in charge for issues concerning SOX?
4. How is knowledge/information about SOX communicated throughout the organization?
5. Do you take any special measures in order to assure that your employees are aware of what SOX 404 requires of them? How do you follow up the knowledge of the employees and that they work according to SOX. (Regular tests?)
6. Will the projects around SOX be altered in comparison to the first couple of years as it continues into the future? If so, in what way?
7. Do you already have or are you planning to establish a separate function within the company that works with SOX? If so, what is/will be the responsibility of this function and at what level does/will it operate?
8. Has the organization that works with SOX at your company changed after the implementation? (New functions, changed focus)

Operations

9. In what way has SOX changed the daily routines within the company?
10. Do you take any special measures in order for the SOX organization to follow the changing conditions of the organization?
11. What is your procedure for identifying risks?
12. How do you work in order to remediate control deficiencies?
13. In what way has the internal control changed after the implementation of SOX?



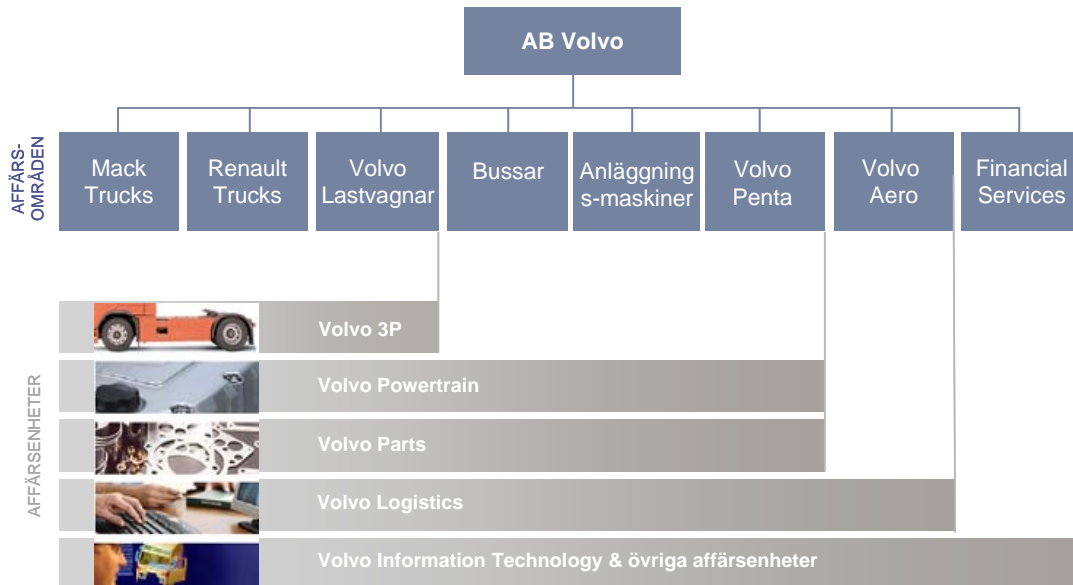
14. Which advantages and disadvantages will SOX bring to your company in the long run?
15. How do you believe the development of future regulation will be? Are the strict rules that SOX convey sustainable in a long term perspective?
16. How do you make sure that SOX is seen as a long-term process instead of a temporary project and dealt with in solely a routine manner?
17. When altering, developing and implementing new procedures, will it still be possible to maintain the frequency of the reviews/testing?
18. Could you give three key success factors to succeed in complying with the Sarbanes Oxley Act?

Technology

19. Do you use a separate system or database for managing SOX? If so, which?

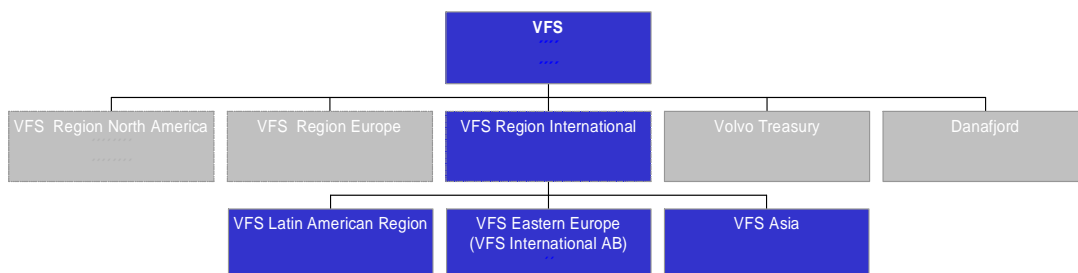


Appendix 2: Organization Scheme AB Volvo and VFS



Source: Volvo Financial Services International 2006

Volvo Financial Services



Source: Volvo Financial Services International 2006