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<input type="checkbox"/>	Doctor's thesis

Subject	Finance and Accounting	Date	8.11.2006
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		Number of pages	96
Title	Towards efficiency in internal control in Sarbanes-Oxley compliance Case study: Harmonization of internal controls in sales processes		
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Abstract

The purpose of this action research is to analyze the possibilities for harmonizing the internal controls and operational effectiveness testing procedures in four case business units. Internal controls are analyzed from the sales process point of view. In addition, the research aims to identify the contingencies affecting the internal control designs and to explain how the contingencies affect the efficiency of the organization.

The empirical research was conducted in a Finnish company of a multinational group that is listed on NYSE. Thus, the case company must comply with Sarbanes-Oxley Act of 2002 (SOX) and publish its first management's report on internal control over financial reporting after the fiscal year 2006. The Section 404 of the law requires a report of the effectiveness of internal control. The researcher intervened to the case and had a role of an actor. She took part in the SOX project meetings and the operational effectiveness testing. The case material, such as process templates, flowcharts and test plans, played a significant role in the research. Literature on auditing, internal control and contingency theory was also used in the research.

Efficient internal control processes now have more relevance for those companies complying with SOX than before. As SOX requires the testing of effectiveness of internal control yearly, it is important that testing procedures become as clear and harmonized as possible. This also requires the harmonization of internal control designs. The research has identified three major contingencies affecting the internal control designs: human factors, strategic activities and ERP-systems. The most direct reason to the differences in case business units' internal controls is the separate ERP-systems. It became obvious that without lessening the amount of ERP-systems from the current ten, it is impossible to harmonize internal controls and testing procedures in a detailed level. With one ERP-system some testing could even be centralized, and other testing procedures could become more similar. However, there are other things affecting the harmonization possibilities, such as a low number of employees makes it impossible to achieve the perfect segregation of duties in some units. In those situations, other controls are needed to compensate for the financial reporting risks. Despite the high amount of time and work needed to harmonize the internal controls, the research concludes that harmonization would be reasonable in the long run. In addition to reduced amount of testing and control descriptions maintenance, harmonization would also lead to reduced number of system interfaces and less potential for mistakes. This way it could also affect the overall efficiency.

Key words	Sarbanes-Oxley Act, internal control, contingency theory
Further information	