

THE RESULTS.

WHAT CONSUMER BUSINESS COMPANIES
MUST KNOW TO SUCCEED UNDER

SARBANES-OXLEY

Deloitte & Touche Consumer Business Practice

READINESS SURVEY

FROM SOURCE TO CONSUMER

With the signing of the Sarbanes-Oxley Act of 2002 by President Bush on July 30th, came large scale unrest and change within the United States business community. Broadly, the legislation addressed corporate reform within the United States in response to last year's high-profile business failures. More specifically, the act seeks, among other things, to promote corporate responsibility, enhance public disclosure, improve the quality and transparency of financial reporting, create a Public Company Accounting Oversight Board (PCAOB) to oversee the accounting profession, protect the objectivity of research analysts, and strengthen penalties for violations of securities law.

In order to better understand the readiness of our Consumer Business clients and their experiences to-date in complying with the Sarbanes-Oxley Act, the National Consumer Business Practice conducted a survey, titled the Sarbanes-Oxley Readiness Survey. The survey, conducted in late November 2002, included a sampling of Consumer Business companies nationwide, primarily among Internal Audit Committee members as well as management at the CFO and Controller level. In December 2002, the survey and its results were featured in a Tri-State Consumer Business Practice sponsored forum in New York City.

The following is a summary of key findings from the survey, as well as selected comments by firm and marketplace leaders.



Tara L. Weiner

National Managing Partner
Deloitte & Touche Consumer
Business Practice

"We recognize that this survey and the results contained herein are just additional steps along the learning path regarding the full implications of Sarbanes-Oxley. We look forward to assisting our Consumer Business clients going forward as they navigate their way through the compliance process."

SARBANES-OXLEY SECTIONS 302 & 404

Section 302 requires the CEO and CFO of a public company to certify quarterly and annually that they:

- Are responsible for disclosure controls
- Have designed controls to ensure that material information is known to them
- Have evaluated the effectiveness of controls
- Have presented their conclusions in the filing
- Have disclosed to the Audit Committee and auditors significant control deficiencies and acts of fraud
- Have indicated in the report significant changes to controls

Plus, it introduces the concept of disclosure controls:

- Broadens the current emphasis of integrity and completeness controls relating to financial reporting
- Examples: Executive compensation, legal matters, and MD&A of financial condition and results of operations

Section 404 requires that the CEO and CFO annually:

- State their responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting
- Conduct and provide an assessment of the effectiveness of the enterprise's internal controls

And, calls for the external auditor to attest to management's assertion (requires a framework such as COSO)

THE MAJOR FINDINGS

SARBANES-OXLEY COMPLIANCE — IT'S ABOUT UNDERSTANDING OUR CLIENTS' NEEDS.

When asked what their major needs and concerns were regarding Sarbanes-Oxley and compliance with sections 302 and 404, the Consumer Business clients surveyed indicated the following:

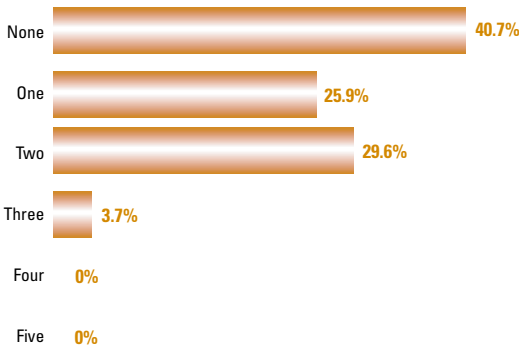
- Guidance on specific procedures for the certifications/assessments and disclosure to the Audit Committee.
- Best practices for implementing financial disclosure processes and controls.
- Best practices for implementing and performing section 404 certification/assessment process.
- Documentation standards required to support management's attestation of internal controls.
- Roles and responsibilities of Audit Committee, management, internal and external auditors.

IT'S ABOUT ASSEMBLING THE RIGHT RESOURCES.

As the role of the Audit Committee grows and its responsibilities under Sarbanes-Oxley increases, the depth and breadth of its resources will determine its effectiveness in terms of the timeliness and quality of its performance. Given the importance of financial expertise in dealing with the requirements of Sarbanes-Oxley, having experts on the committee or readily accessible will be essential to success.

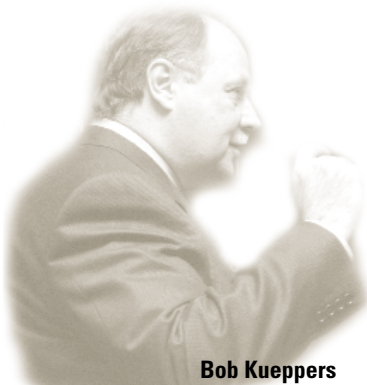
Among those surveyed, a significant number of companies (over 40%) had no one on their Audit Committee that they would consider a financial expert, as shown below:

How many members of the Company's Audit Committee are currently considered sophisticated financial experts?



Stephanie Joseph
Founder/President of
The Directors' Network

"Directors have never before been in the spotlight. This is all new. The role of director is being turned into a profession. Directors have to undergo a thorough continuing education process; they have to know more about what the company does, what their duties and responsibilities are, and what systems must be put in place to monitor compliance with their oversight responsibilities. The usual practices that provided information to the Board so that it could take advantage of the Business Judgment Rule when it had to make a decision are being called into question because now no one really knows how far the Board has to go to investigate the facts before it makes a decision."



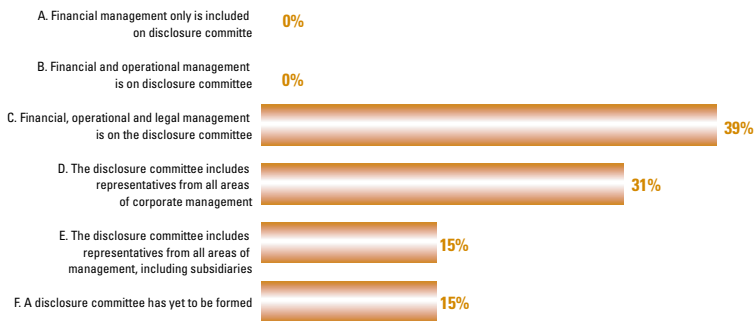
Bob Kueppers

National Managing Partner,
Professional Practice
at Deloitte & Touche

“We are in a transition phase that is often complex and confusing; with an incredible number of unanswered questions. The main message to all of us is that if these issues are important to you, try to be active and engaged.”

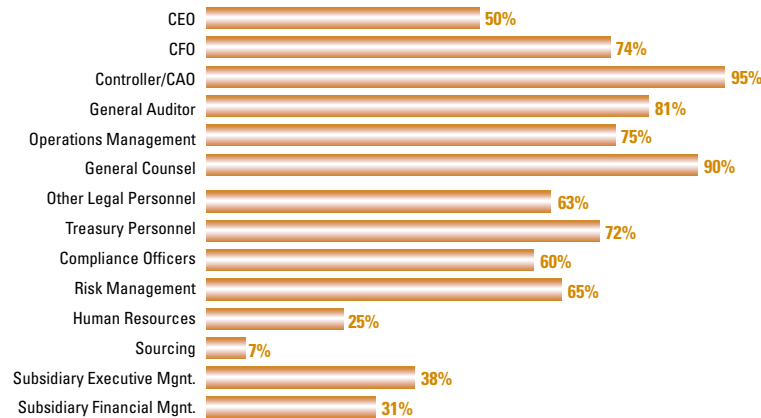
To be effective, Disclosure Committees can benefit by being inclusive, utilizing the key areas of the company to ensure involvement and benefit from their contributions. Balanced against the practicality of full representation, it appears that some companies may be short-changing themselves. As shown below, areas represented on Disclosure Committees varied; with most reporting that financial, legal and operational management is on the committee, while some indicated that a committee had not yet been formed.

A Disclosure Committee consists of representatives of all areas of the company needed to determine if disclosures are complete and accurate. What areas are represented on your company's Disclosure Committee?



In terms of the specific titles represented on Disclosure Committees, the most common (at 70% or greater among those surveyed) were Controller/CAO, General Counsel, Treasury, General Auditor and CFO. An area that could be considered an untapped contribution opportunity is Human Resources, which had much less representation among those surveyed, as shown below:

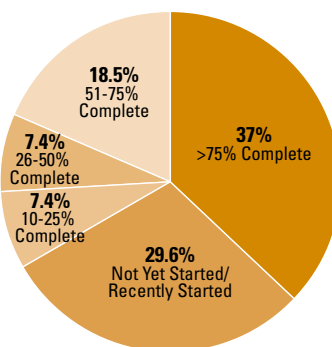
Are the following individuals included on the Disclosure Committee?



IT'S ABOUT CREATING A SOUND PROCESS TODAY, FOR CHALLENGES OF TOMORROW.

Anticipating challenges to comply with Sarbanes-Oxley requirements disputes among key parties, determining who should sign representation letters and how to most effectively involve Internal Audit resources. Specifically, based on survey participants, about 45% are less than half-way complete in implementing a process to capture employee concerns; most have either not or only recently started, as shown below:

Has the company fully developed and implemented a process to capture employee concerns regarding business/financial practices or alleged violations of business/financial practices on a confidential basis that ensures compliance with the whistle blower requirements of Sarbanes-Oxley?

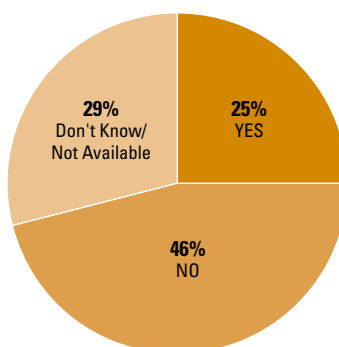


David Brodsky

Partner in Litigation at
Latham & Watkins

Although disputes will hopefully be rare, a process for potential differences of opinion among key stakeholders is essential. Among survey participants, 25% had already established a process for resolution of CEO/CFO and Disclosure Committee disputes, as shown below:

Has the Company formulated a process for resolution of issues when the CEO/CFO disagree with the Disclosure Committee recommendations?



“From a litigator’s standpoint the theme is MORE. There’s more of everything. Companies have to develop ethics codes, targeted compliance programs, hot lines for employees, regularly conducted internal investigations, compliance audits and emergency response plans — a whole set of responses that you never had to worry about before.”



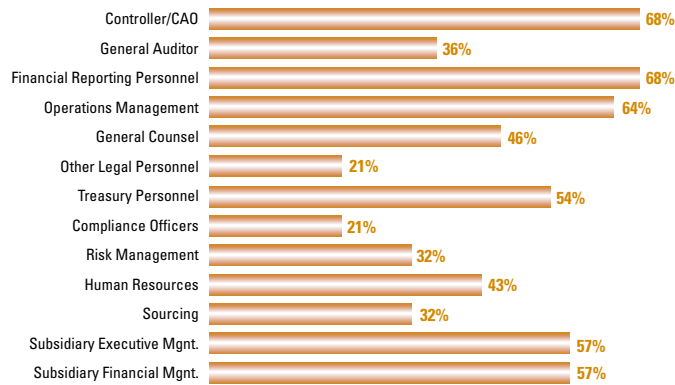
Bruce Hartman
Executive Vice President & CFO
at Foot Locker, Inc.

“Our company, as a best practice, has strived to get our whole financial management structure, top to bottom, together in terms of being aware of what’s going on and why it’s happening. One of the observations from some of the experts we’ve been working with in the governance arena is that culture is the key. And you’re not going to instill the right kind of culture, unless you communicate all the way through the organization.”

Currently, there appears to be little consensus regarding who within management must sign certification representation letters. Among those mentioned, the Controller/CAO, financial reporting personnel and Operations Management were considered the ones who should sign by more than 50% of respondents, as shown below:

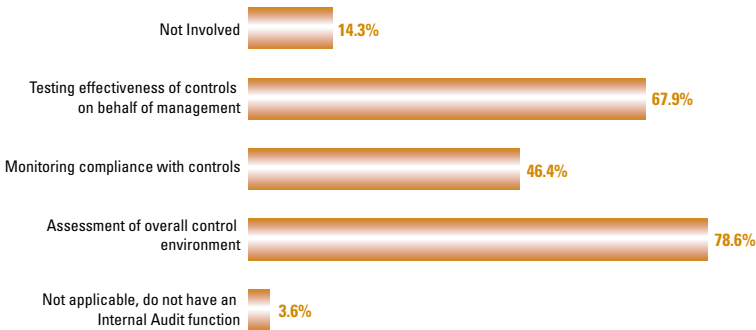
Does the Company require management below the CEO and CFO to sign certification / assessment representation letters on a quarterly and annual basis?

Percent of respondents who answered yes



The role of the internal audit function is obviously critical to the compliance process, with a significant number of respondents noting their involvement with testing effectiveness of controls and assessment of the overall control environment at similar levels, as shown below:

Is the internal audit function directly involved in the certification process? Check all that apply.

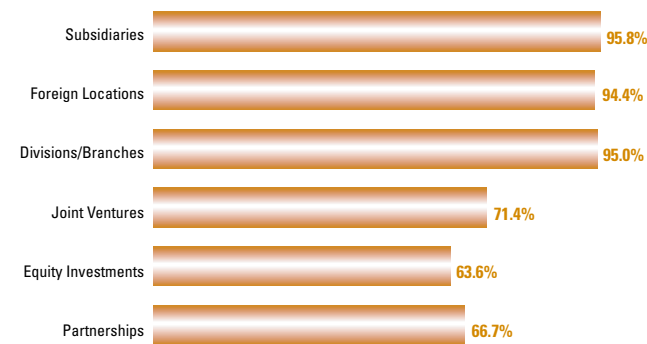


IT'S ABOUT FOCUSING ON THE WORK AHEAD.

Among Consumer Business (CB) companies who participated in the survey, approximately 70% considered themselves to be at less than half-way complete with their plans for complying with both Sections 302 and 404, while many (nearly 30%) are “just getting started.”

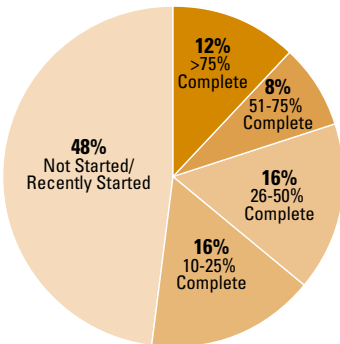
As would be expected, CB companies are further along in their assessment of preparedness relative to Section 302, where the majority of companies report preparedness as being at least 75% complete. Concerning Section 404, however, only 11.5% of surveyed companies reported that their certification/assessment processes were greater than 75% complete, indicating there is much work to be done. Importantly, when the definition of a total company is expanded to include the extended enterprise, preparedness levels drop significantly, as shown below:

Does the certification process cover the entire company, including each of the following areas?



A key issue impacting company readiness is that nearly half of the organizations surveyed lack the processes and tools necessary to 'gap' perform an analysis (“not started/recently started”) – including ongoing, continuous assessment of the organization’s current disclosure and internal controls as shown below:

How far along is management in having a functioning process and the tools necessary to perform a 'gap' analysis that includes an assessment of the organization's current disclosure and internal controls?



Brett Sherman

National Consumer Business
Partner Enterprise Risk Services
at Deloitte & Touche

“Regarding survey learning, the overall message is that a lot of work still needs to be done. Has a framework for evaluating control objectives been identified? What are the risk consequences if the objectives are not satisfied? Are there gaps between the control objectives and actual behavior? Are there regular reviews of the controls; and are they tested, validated and documented?”

IT'S ABOUT COMMUNICATING EFFECTIVELY.

Open communication throughout the organization is considered essential to drive an effective understanding of the several key components required to comply with Sarbanes-Oxley. Survey results indicate that two-thirds of respondents either “agreed” or “strongly agreed” that the certification process currently being utilized has been well documented and communicated to those accountable for internal controls, leaving one third less confident. However, when asked how far management had gone to fully develop, communicate and implement its action plan for compliance with Sections 302 and 404 of Sarbanes-Oxley, the responses in key areas varied widely, as shown below:

Has management fully developed and implemented its action plan for compliance with Sections 302 and 404 of Sarbanes-Oxley that:

	Not or Recently Started	10-25% Complete	26-50% Complete	51-75% Complete	>75% Complete
Identifies specific activities to improve or strengthen current disclosure controls?	7.4%	11.1%	18.5%	29.6%	33.3%
Identifies specific activities to improve or strengthen current internal controls?	26.9%	15.4%	23.1%	11.5%	23.1%
Establishes dates and responsibilities for completion of activities?	25.9%	14.8%	14.8%	14.8%	29.6%



Gregg Palesky
 Director – Internal Audit at Amerada Hess

“I knew my life was going to change forever, when we had our first disclosure review committee meeting. It’s a massive effort. We’re all going to grow. Communication and structure is key.”

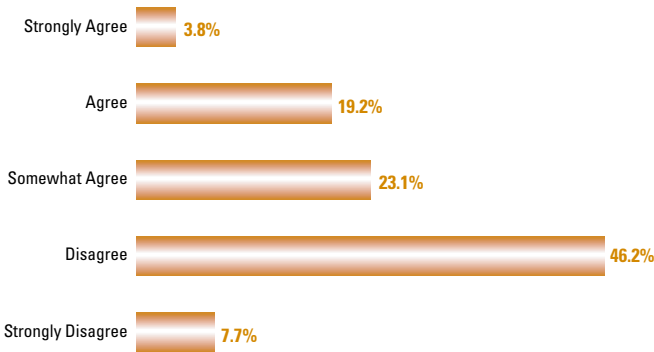
IT'S ABOUT UNDERSTANDING DOCUMENTATION REQUIREMENTS.

Once activities and responsibilities are assigned, an understanding of the specific documentation requirements also must be communicated. It appears that there is still more to be done in this environment, especially when moving from assessment to documentation criteria over internal controls, which could be a fundamental issue of selecting a framework.

When asked if the company selected an internal control framework which is based on a recognized standard or criteria (e.g., COSO), just over half of the respondents replied “yes”. However, with regard to the level of completeness for the development/documentation of a certification/assessment process that encompasses all the basic elements of an internal control framework, 30% indicated greater than 75% completeness whereas 65% indicated less than 50% completeness. As tools and platforms become more readily available, we would expect a higher level of affirmative response.

Further, findings regarding the documentation needed for attestation of controls indicate that less than half consider their company’s controls to be well documented and ready for audit, as shown below:

When asked if the documentation is complete for attestation of controls, the results show much work still needs to be done:



Bill Platt
National Office Consultation
Partner at Deloitte & Touche

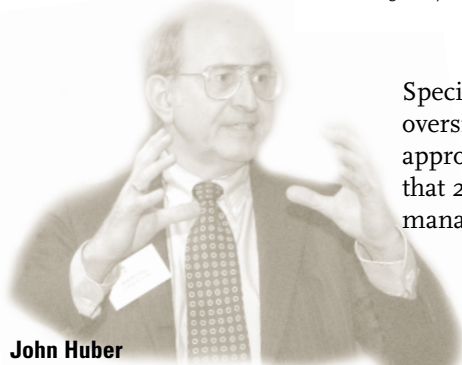
“A key question is what kind of linkage (compliance program and infrastructure) exists between control activities and governance – so that ongoing control activities are transparent to senior management. At smaller companies it’s often the “missing link”... and at larger companies the “weakest link.”

As a perspective, in order to determine what the current certification/assessment processes address across the different respondents, the following is provided for reference:

Does the certification/assessment process currently utilized address the following?

	Yes	No
Are information technology controls and processes identified, documented and tested?	83.3%	16.7%
Are operations and controls inherent in the operational processes documented and tested?	83.3%	16.7%
Are manual controls and processes identified, documented and tested?	82.6%	17.4%
Are processes of monitoring and oversight of detailed controls identified, documented and tested?	79.2%	20.8%
Are tests of controls based solely on internal management representations?	25.0%	75.0%

Note: findings only include "Yes" and "No" responses



John Huber

Partner in Corporate Litigation at Latham & Watkins

Specifically, technology, operations, manual and monitoring/oversight controls appear to be documented and tested by approximately 80-85% of those surveyed. A concern, however, is that 25% of companies based their test of controls solely on internal management representations.

"Here are some rules of the road with respect to formalizing a disclosure policy. First, fit the policy to the needs of the company – one size does not fit all. Second, do not adopt a policy that will not be followed. Third, if the practice, your company practice differs from the written policy, amend the policy or the practice so that it does comply. Lastly, until the process of designing disclosure controls and procedures is finished, continually evaluate how it's working, and adjust it to meet the changing circumstances, particularly the new rules that the Commission is going to adopt."

ABOUT DELOITTE & TOUCHE

Deloitte & Touche, one of the nation's leading professional services firms, provides assurance and advisory, tax, and management consulting services through nearly 30,000 people in more than 80 U.S. cities. Deloitte & Touche is dedicated to helping its clients and its people excel. Known as an employer of choice for innovative human resources programs, the firm has been recognized as one of the "100 Best Companies to Work for in America" by Fortune magazine for five consecutive years. For more information, please visit Deloitte & Touche on the internet at www.deloitte.com.

OUR COMMITMENT TO THE CONSUMER BUSINESS INDUSTRY

Deloitte & Touche is widely regarded as the professional service provider of choice to the Consumer Business industry. The Consumer Business Practice, comprising over 6,000 professionals in the U.S. is the profession's largest focused practice dedicated exclusively to serving the needs of consumer business companies, including companies in the Retail, Wholesale, Distribution, Consumer Products, and Services industry sectors.

Our network of professionals combine industry knowledge and a track record for excellence to help clients maximize their top lines, enhance their operations for efficiency, improve their supply chains and create measurable value.

We are a leader in providing audit, tax, and consulting services to the leading consumer business companies. We serve:

- 66% of the Fortune 500 Consumer Product Companies
- 50% of the Fortune 500 Automotive Retailers*
- 36 % of Stores Magazine Top 100 Retailers*
- 40 % of Stores Magazine Supermarket Power Players*
- 50 % of Stores Magazine Drug Stores Power Players*
- 50 % of Stores Magazine Apparel Store Power Players*
- 65 % of the public reporting Gaming companies*

*Based on attest services

Overall our practice boasts the largest market share of any other professional services firm, serving tens of thousands of consumer business clients around the world.

For more details about our Sarbanes-Oxley Readiness Survey or information regarding how Deloitte & Touche can be of service to your business needs, contact Tara L. Weiner, National Managing Partner Deloitte & Touche Consumer Business Practice , at tweiner@deloitte.com or (215)-246-2326.

© 2003 Deloitte & Touche LLP.
Deloitte & Touche refers
to Deloitte & Touche LLP
and related entities.
All rights reserved.

**Deloitte
Touche
Tohmatsu**