



Current Trends in Finance & Accounting

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Ready. Set. Grow.

Sarbanes-Oxley From Project to Process

Jim Calvetti

Accountability Structure

- In order to move from project to process, compliance must be baked into the corporate culture
- Compliance must be positive and viewed as best of breed
- Tailored certifications drive ownership
- Incentive compensation for best practices

Operating Structure

- Moving from project to process requires control over the process. Many do this by establishing a team dedicated to managing the parts of the SOX *process*:
 - Scoping and Enterprise Risk Assessment
 - Updating of documentation
 - Testing
 - Evaluation of results
 - Reporting
- Roles of Chief Compliance Officer vs. Chief Audit Executive

Change Management

- Identifying and dealing with changes on a real-time basis rather than looking for all changes at one time for SOX
- One-time events, modification of processes, people, systems, M&A
- Results of managing change will help to identify business and financial statement risk

Risk-Based Approach

- When applying “Top Down Approach”, management needs to form its own scoping point-of-view to deliver to the external auditor, ensuring significant risks are the focus
- PCAOB is looking closely at whether audit firms are using “Top Down Approach”
- Key risks revolve around significant change, use of estimates or judgment, complex or one-time transactions
 - Companies that focus primarily on routine process details (i.e.: purchase to pay) may miss the real risk

Software and the role it plays

- Early software fell short of expectations
- Software attributes should include:
 - Simple engineering – must focus on specific tasks & results
 - Methodology, including repository for scoping, documentation, testing
 - Quality reporting
 - Version control, change based approach to completing SOX each year
 - Distributed work model
 - Process awareness and ownership
 - Quarterly certification
- Other benefits to be derived if this is IA software and not just SOX

**Controls:
Improving Quality &
Reducing Costs**

Mark W. Smith

A simple process is easier to control than a complex one

- Big 4 surveys indicate that >85% of all SOX controls are manual
 - Applications are not fully utilized
- The “adrenaline factor” that helped companies pass first two years of SOX will diminish, increasing risk
- Studies suggest that the cost of compliance for manual controls is only 10% of the costs to operate, manage and oversee such controls on a day-to-day basis

Indicators that improvement opportunities exist

- Symptoms of underlying process issues made transparent by SOX
 - Significant percentage of journal entries are manual
 - High dependency on spreadsheets or databases outside the accounting system
 - High exception rates in transaction processing
 - Exceedingly long general ledger close cycle time
 - Operations demands analytical information vs. standard financial reporting package
- Top 5 accounting failure areas reported in Material Weakness disclosures
 - Tax Accounting
 - Revenue Recognition
 - Cost of Sales / Inventory
 - Leases and contingencies
 - Fixed or intangible assets

A link exists between improving controls and deriving value

- Improving process cost, quality and time performance directly strengthens effectiveness of internal controls
- Simplifying, standardizing, then improving processes can help reduce the number of key controls which is the number one variable cost driver in 404 compliance
- SOX efforts performed already may provide the business case for accounting process change

Some ideas for projects that can deliver value

- Low-hanging ideas are a good place to start
 - Remove multiple layers of review
 - Eliminate duplicative controls as key that achieve the same objective
 - Don't break down controls to the lowest level that results in more controls to test
- Projects that are larger in nature requiring action plans and timetables
 - Optimizing automated controls, including shifting SOX key controls from detective to preventative
 - Reengineering, including improving approval workflow, shortening close cycle
 - Change year 1-2 “stop-gap” remediation to sustainable remediation

Characteristics of companies with low deficiency rates & low cost structures

- Use of shared services
- Fast close-the-books process
- Automated journal entries
- Large portion of preventative controls
- Internal Audit involvement in testing with separate SOX group owning compliance process overall

Internal Audit's Role in Corporate Governance

Marcus Wagner

What is corporate governance?

“The board must retain full and effective control over the company, monitor executive management, and ensure that decisions on material matters are in the hands of the board.” – King Code

- Board and management must balance social, environmental, and economic **stewardship** to ensure ongoing **value protection and creation** for **shareholders** by balancing interests of legitimate **stakeholders**
- Effective corporate governance hinges on **transparency**, **accountability**, and **corporate control**

Implications for Internal Audit

- Does IA have the appropriate charter and mandate to operate in this arena?
- What is IA's status and reputation within the organization?
- Does IA have the necessary skill sets to operate in this arena?
- Does IA have the resources and bandwidth to focus on this area - SOX distraction?
- IA needs to perform in accordance with IIA Standards

Relationship with the Audit Committee

- Reporting relationship
 - Functional vs. administrative reporting lines
- Private meetings apart from management and/or external audit
- Education – Is IA educating board members about risk, controls, corporate governance?

IA's stronger & expanded role

- Review and possibly update charter, or ensure better alignment of IA activities with existing charter
- New types of engagements:
 - Review of company's governance structure
 - Assess corporate ethics policies
 - Audit effectiveness of the audit committee
 - Internal Audit self-assessment
 - Review compensation policies and procedures

The future of Internal Audit

- Revised IIA standards demand a greater focus on auditing “governance activities”
- New opportunities to demonstrate value and enhance stature
- Rebalance activities – role in operational audits and governance in addition to SOX
- Resource management:
 - Get the right resources – a change may be necessary
 - Co-sourcing is best practice
- Revise audit plans to include governance activities

Notes

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