Galvanize

Making SOX compliance easier for everyone

How technology transforms SOX processes

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SOX compliance doesn't have to be resource-intensive

The Sarbanes-Oxley (SOX) Act was passed into law in 2002. By now you might assume that most public companies would have fine-tuned systems that minimize compliance costs & resources.

But, it seems like cost and efforts aren't going down. In fact, Protiviti[1] reported that 66% of companies actually saw more than a 10% increase in hours spent on SOX compliance in 2018. And, the average annual spend on SOX compliance efforts was reported at more than $1 million.

Section 404 of the Act is largely focused on controls testing, a major area where technology like automation can help. Unfortunately, a mere 28% of study respondents said they currently use technology for testing controls.

Technology can be used far more effectively and efficiently in SOX compliance processes—and not just for testing controls.

This eBook will guide you through five areas where you can use purpose-built software to make significant improvements in SOX compliance processes and reduce costs.

1. Get greater insights into risk relationships.

2. Increase collaboration among the Three Lines of Defense.

3. Test entire data populations with analytics.

4. Automate traditional SOX processes.

5. Integrate SOX into ERM/overall compliance.

[1] **Protiviti,** *2018, Benchmarking SOX costs, hours, and controls*

The use of automated controls testing and robotic process automation remains low. Implementing these technologies represents a significant opportunity for organizations to build efficiencies into the SOX compliance process and, over the long term, potentially reduce the costs and hours incurred, as well as introduce overall improvements to the control environment.[2]

[2] **Protiviti,** *2017, Fine-tuning SOX hours, costs and controls*

Are you aware of your technology gaps?

Many companies are using general-purpose tools, outdated software, and manual procedures to manage SOX-related processes, but they're not ideal.

In the following sections, we'll take a look at how dedicated technology can improve your SOX compliance processes and significantly reduce SOX-related costs.

How dedicated software improves SOX processes

In many industries, purpose-built software and the smart use of data analytics have transformed core business processes, including customer service, marketing, and sales. There are huge opportunities for auditors and other professionals involved in SOX compliance to do the same. This gives them the chance to rethink processes that may have been in place for 15 years or more, and use technology to make real improvements that deliver massive benefits to the organization.

Based on our many years of experience helping customers adopt better technology in their SOX processes, we've uncovered five leading ways that dedicated technology can improve SOX compliance processes.

01

Get greater insights into risk relationships

A major part of regulatory compliance management is staying on top of countless regulations and all their details. A solid content repository includes not only the regulations themselves, but also related data. By centralizing your regulations and compliance requirements, you'll be able to classify them for easy identification.

Different risks and controls are often interconnected. But spreadsheets and older software applications struggle to provide a comprehensive view of the relationships between all of the risks and controls.

Purpose-built technology better integrates risk and control definitions, assessments, and testing, making it possible to quickly understand the status of SOX compliance efforts.

Benefits of dedicated technology

+ Gives control specialists and auditors a much deeper understanding of controls.

+ Connects risks and controls to appropriate accounting standards and frameworks.

+ Integrates and examines all components of SOX compliance in ways that can't be achieved by other means.

+ Reflects new control processes and testing results immediately in a dashboard, providing quick insights into the state of your overall SOX compliance.

+ Triggers response requests from control owners when there are changes in policies, requirements, and control frameworks.

02

Increase collaboration among the Three Lines of Defense

In many organizations, control owners, risk managers, compliance specialists, and auditors have different views on risks and controls, and their own respective responsibilities. This can lead to control failures and inefficient testing approaches.

Having all three lines use a common system improves collaboration and communication in ways that traditional approaches can't match.

Purpose-built technology benefits

+ Gives the Three Lines of Defense appropriate access to centralized information about all aspects of SOX-related risks and controls.

+ Helps define accountabilities and responsibilities of each line of defense more clearly.

03

Test entire data populations with analytics

The IIA and other professional organizations regularly say the use of data analytics is a critical factor in the future of auditing. While many audit and compliance teams are using data analytics in some aspects of auditing, according to Protiviti,[3] only 27% are doing so as part of their SOX compliance activities.

Data analysis provides a highly reliable means of testing control effectiveness and getting immediate insight into control deficiencies.

+ Increase assurance by testing entire transaction populations for compliance with financial controls.

+ Examine full IT-related controls (i.e., the detail of network and system access records).

+ Examine transactions to assess risks in situations where no effective control has been implemented.

+ Identify outliers in financial and IT activities.

+ Examine non-financial data (e.g., results of Section 404 compliance surveys and questionnaires).

[3] **Protiviti,** *2017, Fine-tuning SOX hours, costs, and controls*

04

Automate traditional SOX processes

Automation improves processes and significantly reduces costs. Robotic process automation (RPA) allows way more work to be done, makes controls far more effective, and can be applied directly to control testing techniques.

With automation, you can test controls continuously by regularly examining and testing all financial and IT transactions that impact SOX compliance. Virtually every control can be tested for effectiveness on an ongoing basis (e.g., testing for general ledger journal entries on a monthly basis, key controls around payments daily, and payroll on a weekly basis).

No matter what continuous control monitoring approach is taken, the result should be that it eliminates or reduces the need for manual testing. Anomalies and risks are immediately identified so they can be addressed before any control weakness have time to escalate.

Automating control testing

A mid-size multinational manufacturer recently made the decision to introduce RPA techniques into SOX compliance processes.

For the past 15 years, most control testing has been manual. After implementing RPA:

+ Every journal entry is now subjected to a series of 12 automated data analysis tests each week.

+ Tests check controls, while also looking for a range of control weakness indicators.

+ The results of the tests are then risk scored.

+ Those journal entries with high-risk scores are automatically routed to an overall control owner as well as to the internal audit team for review.

+ Unresolved issues above a monetary threshold are automatically reported to the CFO, CCO, and CAE.

After fine-tuning this process over one SOX compliance period, similar approaches were implemented to automatically test controls and assess risks in the purchase-to-pay cycle, as well as the inventory and customer billing systems.

EXCEPTION & RESPONSE MANAGEMENT

Automation is important when it comes to how you manage exceptions found by transaction monitoring and risk assessments. When issues are identified, they're routed immediately to appropriate people for response. Depending on the response, issues can be escalated as needed, and the overall results of automated monitoring are made available through management dashboards.

QUESTIONNAIRES & CERTIFICATION

Questionnaires for control owners and other employees is part of Section 404 compliance. But gathering responses and analyzing them can be labor-intensive and time-consuming. Automating the distribution and collection of control questionnaires and certification is far more efficient and painless.

The accuracy of questionnaire results can also be checked by analyzing and comparing against results of transactional control monitoring.

Dealing with the results of automated SOX control testing

Control testing and transaction monitoring can generate a lot of exceptions. Well-designed software manages this process and gives audit and compliance leaders insight into issues that represent significant risks and compliance failures.

Let's say that a number of journal entries posted in a remote office location failed a test for approvals and segregation of duties. Typically, the control owner receives an automatic notification and is able to immediately access the details of the "failed" transactions. After some investigation, it turns out not to be a control failure, but instead is a result of the limited staff in the remote location. There may be compensating controls that reduce the risk. At this point, the control owner can use the system to adjust the test so that future exceptions are no longer reported as a problem.

On the other hand, perhaps the control owner fails to respond appropriately, or at all. The software then automatically escalates the issue, bringing it to the attention of a more senior person.

RISK HEATMAPS & EXECUTIVE DASHBOARDS

The results of automated control testing, transaction monitoring, and exception management can be used to automatically build heatmaps and dashboards. These visuals help risk and compliance leaders get immediate insight into the status of SOX compliance and associated risks.

If you're using a tool like Excel or non-purpose-built software, building heatmaps and dashboards can be a really laborious and error-prone process. The benefit of tightly integrated SOX management and audit management systems is that accurate dashboards and drilldowns can be created instantly.

TIMELINESS, SPEED, & AGILITY

Automation improves the immediacy of risk assessments, as well as the speed of generating insights into control issues and delivering responses. Applying ongoing transaction testing makes continuous auditing and monitoring a reality, and puts you on the road to achieving what the IIA terms "continuous assurance."[4]

This level of automation means that traditional compliance and audit activities involved in SOX are transformed into quick and agile steps that deliver more dynamic responses to SOX-related risks. This provides far greater value to a company than the traditional approach to control testing.

Executive dashboards

One of our customers recently implemented a data-driven SOX compliance approach. This was part of a broader technology-enabled corporate risk management initiative. Executives were happy with the progress the SOX compliance team made in designing automated control tests and exception management procedures. Their primary ongoing interest was to regularly review the overall results of all risk assessment and transaction monitoring activities, and identify outstanding issues that might require discussion with the audit and risk committees.

This is now achieved using a detailed dashboard that shows levels of risk around SOX controls and compliance, for all key process areas. The dashboard also provides drilldown capabilities to examine specific controls and tests. The purely visual aspect is also supplemented by a quantification of testing procedures performed in each process area (e.g., examining control deficiencies and identifying potential financial risks in the purchase-to-pay system transactions).

05

Integrate SOX, overall compliance, & ERM

Not all companies take an integrated approach to managing risks. Some have closely integrated approaches to enterprise risk management (ERM), while others have to deal with a series of separate or siloed risk and compliance functions.

It's almost impossible to implement consistent and comparable ERM and compliance practices without the right technology. Using software that is designed for all aspects of ERM, including regulatory compliance, also provides many benefits to SOX compliance.

Even if the organization hasn't yet moved to integrated ERM, the use of dedicated risk and compliance management software for SOX compliance will help prepare for that future.

For those organizations that have already implemented ERM, SOX compliance activities and results can be seen within the context of other risk and compliance areas, which adds great strategic value for executives and risk leaders.
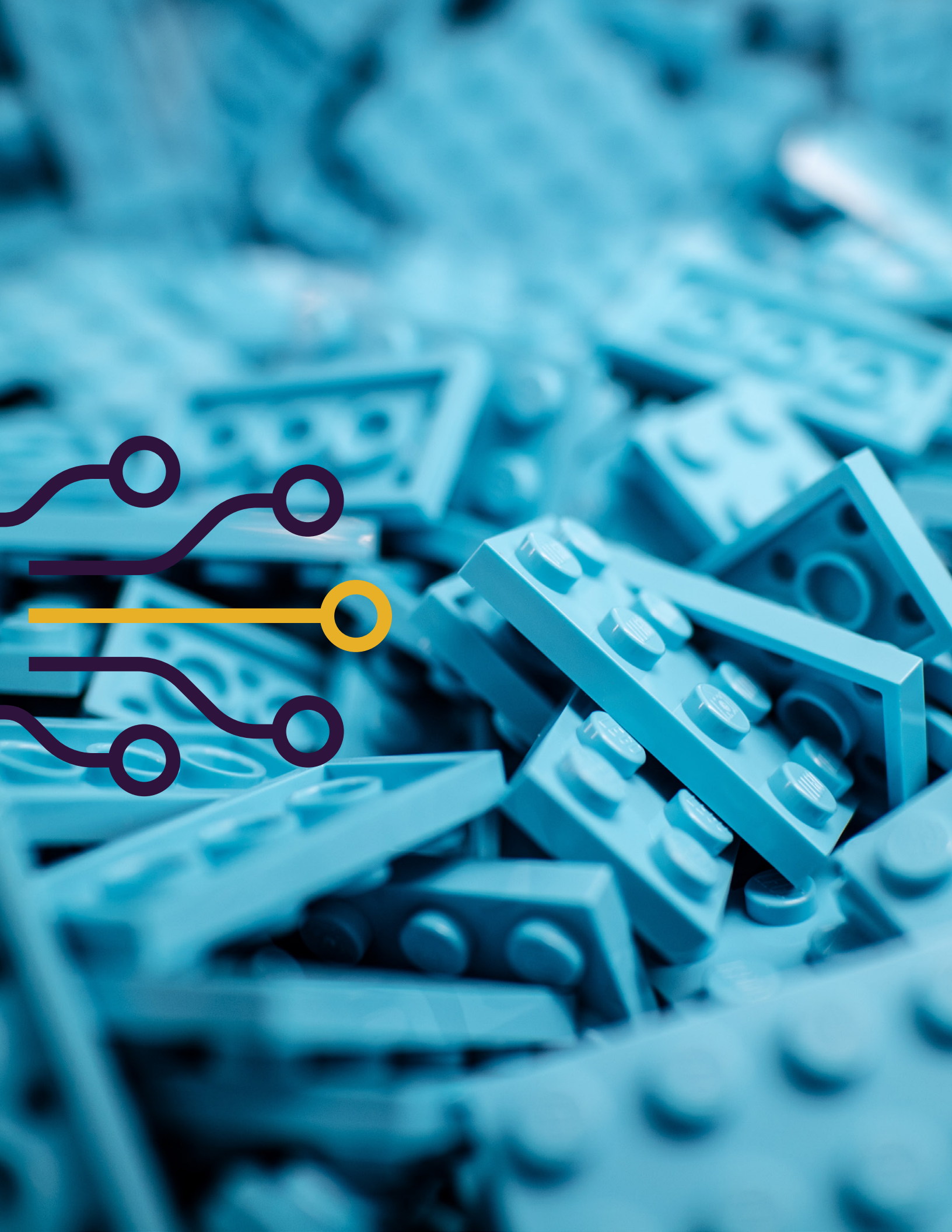
How better technology can reduce SOX costs

01

Reduces the time & resources involved in control testing

Automated control testing and transaction monitoring analytics can dramatically reduce time and cost requirements, especially in cases where large numbers of controls are involved.

For example, Protiviti[5] found that each organization in their survey spent an average of 5.8 hours testing each individual control. In a company with around 300 controls, that's 1,740 hours. If automation halved that time requirement, 870 hours of precious time would be clawed back for more value-added activities.

02

Makes auditors more productive & sought after

Technology can help free up internal audit teams to focus on areas that matter more to the C-suite and audit committee. Most audit teams are already under pressure to do more with less, and better use of technology is one of the most effective ways to achieve efficiencies and reduce costs.

The insights that auditors can bring to the table about how technology helps create better controls and improve compliance processes also makes them more sought after and recognized for the value they contribute.

[5] **Protiviti,** *2018, Benchmarking SOX costs, hours, and controls*

03

Reduces admin time & effort involved in SOX compliance processes

Administrative tasks like managing control changes, risk and controls spreadsheets, status reports, evidence request tracking, and quarterly certifications take thousands of hours to manage. When done manually, these are enormous drains on resources. It's also not a valuable use of an organization's skilled compliance and audit professionals.

Using purpose-built GRC software means you end up spending far less time trying to improve procedures and processes. Less time spent on this results in direct cost savings—or the ability to divert resources to more productive activities.

04

Improves controls & reduces error, fraud, & abuse risks in financial systems

Using data analysis to monitor and test all financial and IT activities related to SOX compliance results in stronger, more effective controls, and helps you identify and resolve problems quickly, before they escalate.

After all, it was the enormity of the Enron collapse— and other corporate accounting scandals during the early 2000s—that resulted in the enactment of the Sarbanes-Oxley Act in the first place.

In some cases, avoiding fraud and major errors can also mean avoiding large costs, potential regulatory penalties, and reputational damage. Even if the problems found and prevented are relatively insignificant in monetary terms, other direct benefits include a stronger culture of compliance and risk awareness, which delivers improved financial results.

05

Greater collaboration among all lines improves control design & testing

If each line of defense has a different view on the significance of specific controls and testing activities, the whole process becomes sub-optimal. Poor or disconnected communication among different groups about priorities and respective responsibilities leads to inefficiencies.

Arriving at clear and common understandings about the roles and activities involved in SOX compliance results in better collaboration and alignment. It helps reduce role redundancies and makes sure that responsibilities are clearly outlined.

When the Three Lines of Defense are working together more efficiently, there are greater risk and compliance outcomes and reduced costs. An additional benefit is management having increased confidence in control design and testing.

06

Dashboards give better assessments of overall compliance status & related risks

Modern dashboards allow for greater exploration of all aspects of SOX compliance, and make it possible to easily assess risk levels and control and compliance issues. Starting from a high-level summary, all those involved in managing the compliance process can visually review and drill down into the specific issues and risks in more depth.

This helps provide common understanding and avoid disproportionate responses, especially when SOX risks are able to be viewed in the context of other enterprise-wide risks. This then leads to cost reductions, as appropriate responses are more measured, and results in better allocations of resources to the most significant risks.

07

Optimizing controls directly reduces costs

Software capabilities that clearly indicate the relationships and connections among controls are very helpful in identifying duplicate, overlapping, or redundant controls.

Software can also help to identify non-essential controls. This provides the opportunity to optimize controls and eliminate unnecessary ones, directly reducing the money and time spent on control and compliance activities.

08

Improved SOX compliance reduces external audit costs

A heightened focus by the PCAOB on inspections and continued organizational control failures have resulted in increased external audit costs. If external auditors find it difficult to follow the work that has been performed, or too challenging to review documentation, they will likely place less reliance on the work itself. They might ask for more documentation or increase their own testing, resulting in additional costs.

If an external auditor can see that there is comprehensive, well-evidenced documentation around processes, they should be more confident in the work itself, reducing testing procedures and related costs.

High-performing companies invest in technology[6] to directly reduce external audit costs, improve processes, and reduce overall time and effort (e.g., less time invested in independent auditors gaining access to large volumes of supporting information).

[6] **PwC,** *2018, Journey to the future: Making digital SOX compliance a reality*

Steps you can take today

+ Complete a technology needs assessment.

+ Identify technologies and data skills already available within the company.

+ Prioritize areas in need of technology assistance/ that can be improved.

+ Consider data needs and sources, which will help prioritize areas to enable first.

+ Build a business case for technology investment.

+ Identify how the technology will make compliance risk management more responsive, comprehensive, and current.

+ Execute against the technology and skills roadmap to evolve to data-driven, real-time compliance risk management.

Ready to start improving your SOX compliance processes?

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For a free assessment of how our audit and SOX solution can transform your team's value proposition, call 1-888-669-4225, email info@wegalvanize.com, or visit **wegalvanize.com**.

Galvanize

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John Verver is a former vice president of Galvanize. His overall responsibility was for product and services strategy, as well as leadership and growth of professional services.

An expert and thought leader on the use of enterprise governance technology, particularly data analytics and data automation, John speaks regularly at global conferences and is a frequent contributor of articles in professional and business publications.

ABOUT GALVANIZE

Galvanize delivers enterprise governance SaaS solutions that help governments and the world's largest companies quantify risk, stamp out fraud, and optimize performance.

Our integrated family of products—including our cloud-based governance, risk management, and compliance (GRC) solution and flagship data analytics products—are used at all levels of the enterprise to help maximize growth opportunities by identifying and mitigating risk, protecting profits, and accelerating performance.

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