

Meeting Sarbanes-Oxley Requirements Using Audit Software

By Richard B. Lanza

One Main Effect of Sarbanes-Oxley....More Timely Reporting

Sarbanes-Oxley is the buzz within all public companies today as they work towards complying with the new regulations. Even private companies are joining in as a recent survey noted that 58% of private companies are instituting changes to improve their accounting practices in response to the new act. Of particular note are the following sections:

- **Section 302** – CEO and CFO certifications of quarterly and annual reports.
- **Section 409** - Disclose to public on a “rapid and current basis” material changes to financial condition or results of operations. Although the SEC has not fully ruled on the definition of “rapid and current basis”, it is expected that it will be in line with 8-K filings or five business days but may go to as low as two business days.
- **Section 404** - Requiring annual assessments of the effectiveness of internal controls over financial reporting, including an attestation from an external auditor.

One main effect of the Sarbanes-Oxley regulations is that CFOs will need to dig much deeper into how their companies control their financial reporting, as well as, disclosing material changes in their operations on a “rapid” basis. For many companies, the documentation and validation of internal controls (section 404) will be an entirely new experience and will take months, if not years, of consistent effort to be completed. The timeframe to complete the project could be reduced through transaction analysis audit software which would assist mainly in validating any documented controls. This effort, using 100% of the data for validation in less time than taking a sample, may identify control gaps and high risk areas for more current monitoring.

Such monitoring will require efficient software that should be a stand-alone package rather than integrated with the company’s enterprise resource planning (ERP) system. This is given ERPs are very strong as transaction-based processors but generally not as effective in the areas of business analytics. ERPs also are normally infighting for processing power and are not accommodating to monitoring applications that impact system performance. In response, lightweight audit software can be used to develop continuous monitoring applications, side-stepping the barriers posed by ERP systems. These tools can be up-and-running within a week with fantastic results. As to a higher-end approach, organizations are looking to data warehouses. Regardless of the solution, the technology underpinnings to enable an effective continuous monitoring strategy should include several key components:

- independence from the system that processes the transaction
- the ability to compare data and transactions across multiple platforms
- the ability to process large volumes of data and
- prompt notification to management of transactions that represent control exceptions.

The First Steps To Developing a Timely Reporting System

Given the magnitude of required Sarbanes-Oxley effort, much focus these days is on documenting and then independently validating internal controls around the financial reporting aspects of an organization. This initial step is being taken to create a baseline of internal control gaps, key risk areas, and issues within the information channels of the company for use in future monitoring.

While the initial documentation effort is being completed, the following questions should be asked of business process owners:

- What are your highest risk areas within the process?
- What process will be put in place to continue an appropriate level of evaluation of internal control, especially control gaps, on an ongoing basis?
- How is the quality and timeliness of information that is critical to decision making validated on a timely basis?

- a. market/customer indicators
 - b. human resource indicators
 - c. competitor indicators
 - d. physical environment indicators
 - e. financial indicators
- How are you notified of control issues in your process?
 - Do you believe you need to be notified on a more timely basis of process issues than your current situation?
 - How will these monitoring processes be made efficient (i.e., through automation)?

Through answering the above questions, business process owners will highlight opportunities for improved internal controls and key areas for bolstering their information channel. For instance, an organization may discover it has a high risk in its revenue recognition. Through automated monitoring at a tactical level, business process owners can monitor daily or even hourly transaction flows through their sales registers. Monitoring reports would be considered a control activity, as well as, a sign of a properly functioning information and communication channel. Other analytical reports may include reviewing the trend in sales, sales by customer, a high number of sales close to period end in relation to the remainder of the year, adjustments to increase sales, and adjustments immediately after year end to negate sales made prior to year end.

For listings of reports for various audit areas, and other free tools, please see www.auditsoftware.net/community, an independent site devoted to improving audits and business intelligence through the use of audit software. Also see the vendor directory at the above listed site or in AuditNet for a list of audit software for data analysis.

Through more periodic or “continuous” exception analysis discussed in this article, finance functions can more confidently report on their internal control effectiveness at each applicable period end while improving their return on investment. To support this ROI claim, a recent study by IDC showed that business analytics returned an average payback of 112% with the majority of organizations having a full investment payback in less than one year. Therefore, the Sarbanes-Oxley effort can be completed to not only comply with new regulation but also to provide a stable return to the organization.

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