

Leverage Entity-Level Controls and Virtual SOX

Presenter:
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Affordable Accountability



A Big Picture Approach

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“Many companies are looking for ways to drive down costs and increase overall value associated.”

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1. Spend more time on meaningful risk assessments,
2. Company-level controls and,
3. Fraud detection in order to reduce transactional testing.

Meaningful Risk Assessment

Meaningful Risk Assessment

Enterprise Risk Assessment:

1. Significant assets and liabilities subject to the estimation process (product warranties, impairment of intangibles, contingent liabilities, derivatives, loss contingencies, income taxes, purchase contracts, R&D)
2. Revenues and marketing methods (few customers, difficulty meeting demand, bonuses affected by earnings, life cycle).

Meaningful Risk Assessment

Enterprise Risk Assessment:

3. Political and social environment risks (negative publicity, significant foreign sales, safety, party to frequent lawsuits)
4. Production or service risks (changes to production process, ability to meet demand, dependence on a few suppliers, labor relations, product quality)

Meaningful Risk Assessment

Enterprise Risk Assessment:

5. Significant discretionary expenses (R&D, advertising, travel)
6. Regulatory environment (gov't contracts, OSHA, FDA, HIPA, SEC, IRS, EPA)
7. Sensitivity to economy
8. Significant related party transactions

Meaningful Risk Assessment

Enterprise Risk Assessment:

9. Financing Sources (financing adequate to meet cash needs, restrictive covenants, significant foreign exchange or interest rate exposure)
10. Earning and cash trends
11. Derivatives, hedging, interest rate swaps, embedded in other contracts
12. Going concern factors

Meaningful Risk Assessment

Enterprise Risk Assessment:

13. Business strategy (changes in IT, business acquisition/disposal, restructuring, changes in level of employment)
14. IT risks (previously identified control failures, major IT initiatives, security incidents, reliability of information systems, access controls)

Meaningful Risk Assessment

Enterprise Risk Assessment:

15. Other risks (previously identified control weaknesses, competency, integrity, outside auditor relationships, legal issues, risks identified in Form 10K, loss of major customer)

Meaningful Risk Assessment

Fraud Risk Assessment:

1. Susceptibility (accounts and transactions, fraudulent reporting, nature of overrides)
2. Inquiries (knowledge or suspicions of fraud, internal controls, compliance with laws, tone at top)

Meaningful Risk Assessment

Fraud Risk Assessment:

3. Management incentives (competition, rapid changes in tech/obsolescence, declining margins, negative cash flows, new accounting pronouncements, investment analyst expectations, financing, failure to receive promotion, employee layoffs)

Meaningful Risk Assessment

Fraud Risk Assessment:

4. Company's industry (highly complex transactions, revenue recognition, foreign jurisdictions, high turnover, untimely reconciliations)

Meaningful Risk Assessment

Fraud Risk Assessment:

5. Attitudes/Rationalizations (history of violations of laws, failure to correct deficiencies in internal control, frequent disputes on acctg matters, unreasonable demands, inability to access people or information, attempts to justify inappropriate accounting on basis of materiality)

Meaningful Risk Assessment

Mapping Significant Accounts, Locations and Business Units

1. Identification of significant accounts at both financial statement level and account level.
2. Identify significant locations.
3. Identification of significant business units
4. Fraud risks, qualitative factors, volume of transactions, complexity, centralization, judgement required

Reduce Transactional Testing

Reduction transactional testing

- Discussion of sample size
- Which processes must be tested
- What steps in the process must be tested
- Discussion of preventive vs. detective controls
- Discussion of compensating controls

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“An emerging tool that is creating value for organizations is Virtual SOX compliance.”

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Why can SOX be done remotely?

- Not an audit
- Management Self Assessment
- Local administrative personnel
- As long as objective
- Relationship of objectivity to size of business

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Advantages

- Least vexing way to comply SOX Section 404 - without compromising quality
- Most cost effective: no travel time or travel costs
- The remote “testers” are well trained and supervised
- Requires minimal management disruption

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Advantages

- Leaves an audit trail for the outside auditors
- Engagements are well planned
- Meetings are scheduled in advance, min ad hoc
- The right questions are asked in advance

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How it is done affordably

- Use of simple and affordable technology tools.
- Good communication
- Good project management, planning, scoping, sampling

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Types of Communication

- Teleconferencing, chat rooms and online audio visual meeting tools.
- Web cams for more personal communication.
- Web-based presentation tools using screen sharing (our machine or the client's machine could be viewed or changed real time)
- Instant messaging
- Share contact lists including the outside auditors
- E-mails for copies of financial statements, spreadsheets, journal entries and disclosure checklists

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Data Collection Tools

- Document scans
- VPN connections for screen shots, data integrity testing and access controls
- Shared desktop
- Version control and access control tools to prevent unauthorized or inadvertent file changes.
- Access controls
- Shared site for sharing any documents which is more secure, especially one with SSL certificates established to encrypt any uploads and downloads to/from the site

Shared Documents - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Refresh Home Search Favorites RSS Print Mail New Tab Favorites

Address http://compliance.section404.com/.../Shared%20Documents/Forms/AllItems.aspx Go Links

Home Documents and Lists Create Site Settings Help Up to Team Web Site

Shared Documents

Select a View

All Documents

Explorer View

Actions

- Alert me
- Export to spreadsheet
- Modify settings and columns

Share a document with the team by adding it to this document library.

New Document Upload Document New Folder Filter Edit in Datasheet

Type	Name	Modified	Modified By	Checked Out To
	B.1 Understand the Entity	12/9/2006 2:47 PM	Bob Benoit	
	B.2 Significant Estimates	12/9/2006 2:56 PM	Bob Benoit	Bob Benoit
	B.3 Materiality Worksheet	12/9/2006 2:48 PM	Bob Benoit	
	D. Mapping - Sign Accts, Loc, IT, Processes	12/4/2006 3:10 PM	Bob Benoit	
	E.1 Enterprise and Fraud Risk Assessment	12/4/2006 3:10 PM	Bob Benoit	
	F. Company Level Controls - COSO	12/4/2006 3:12 PM	Bob Benoit	
	G. Company Level Accounting and Disclosure Controls (1)	1/8/2007 11:49 AM	Bob Benoit	
	H.2 Cycle - Expenditures (Accounts Payable, Purchases, Accruals) USA (1)	1/3/2007 10:36 AM	Bob Benoit	
	H.3 Cycle - Payroll and Related USA (1)	1/8/2007 12:40 PM	Bob Benoit	
	H.5 Cycle - Property USA (1)	1/8/2007 12:32 PM	Bob Benoit	
	J. IT Control Objectives	1/3/2007 10:53 AM	Bob Benoit	
	N. Summary of Deficiencies (1)	1/3/2007 10:57 AM	Bob Benoit	
	N. Summary of Deficiencies (2)	1/12/2007 10:12 AM	Bob Benoit	
	N. Summary of Deficiencies	12/4/2006 3:16 PM	Bob Benoit	
	2006 Yearend Binder	3/26/2007 9:54 AM	Mike Mooradian	
	Israel	3/28/2007 9:09 AM	Bob Benoit	
	K. Service Auditor Reports	1/3/2007 10:23 AM	Bob Benoit	

Internet

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Project Management

- SharePoint installation
- Web project management tools
- Project management
- Scheduling
- Task management tools
- Automatic notification of document updates

All Events
Calendar
Current Events

Actions

- Alert me
- Export to spreadsheet
- Modify settings and columns

[New Item](#) | [Link to Outlook](#) | [Today](#) | [View by Day](#) | [View by Week](#) | [View by Month](#)

April 2007						
Sun	Mon	Tue	Wed	Thur	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23 Audit Committee ...	24	25	26	27	28
29	30	1	2	3	4	5

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Other Benefits

- Give access to outside auditors and BoD
- Send and share documents
- Version controls
- Backup virtual sites at offices
- Access control tools to prevent unauthorized or inadvertent file changes
- Automatic notification of document updates

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Many companies are looking for ways to drive down costs and increase overall value

- Spend more time on meaningful risk assessments,
- Company-level controls and
- Fraud detection in order to reduce transactional testing
- Increase value with virtual SOX compliance

Leverage Entity-Level Controls and Virtual SOX

Questions?

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