



## SEVEN WAYS TO CUT THE COST OF SOX COMPLIANCE

# Seven Ways to Cut the Cost of SOX Compliance

## How to Reduce Spend on Compliance Whilst Benefiting the Business

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## Overview

There is little question that many companies which need to be compliant with Sarbanes-Oxley (SOX) regulations are seeing a rise in the associated costs of compliance.

Ross Baptie, Design & Delivery Director at ICE Integrated Control Environment explains why many of these costs are avoidable, and how businesses can cut the cost of SOX compliance whilst maintaining good corporate governance.

## Cutting the Cost of SOX Compliance

With the right culture and the right tools, organisations can cut the cost of SOX compliance whilst improving corporate governance and driving behaviour change across the business that will lead to an improved control environment. The actions companies can take to cut costs include:

- Centralise information
- Get rid of spreadsheets
- Reduce time spent on admin
- Optimise and rationalise the SOX framework
- Maximise how much external audit can rely on internal audit information
- Give management the tools they need
- Support the SOX workforce and facilitate demands made on them

# The Challenge

## Managing the Rising Cost of SOX Compliance

Whilst some sources suggest that costs appear to have peaked as companies implement updated COSO-compliant Internal Control Environments, according to the 2017 industry survey by specialist consultancy Protiviti the percentage of companies which annually spend \$2m or more is on the up.

These findings will be no surprise to those responsible for managing SOX compliance.

It's now 15 years since the Sarbanes-Oxley act was introduced. During this time, the amount that companies are spending to achieve or maintain compliance has risen considerably. The findings show that the number of hours devoted to SOX activities is increasing annually, with two out of three companies reporting an increase of more than 10% for 2017 over the previous year.

## Legitimate Business Cost – or a Tax on Inefficiency?

SOX Compliance is never going to be cheap.

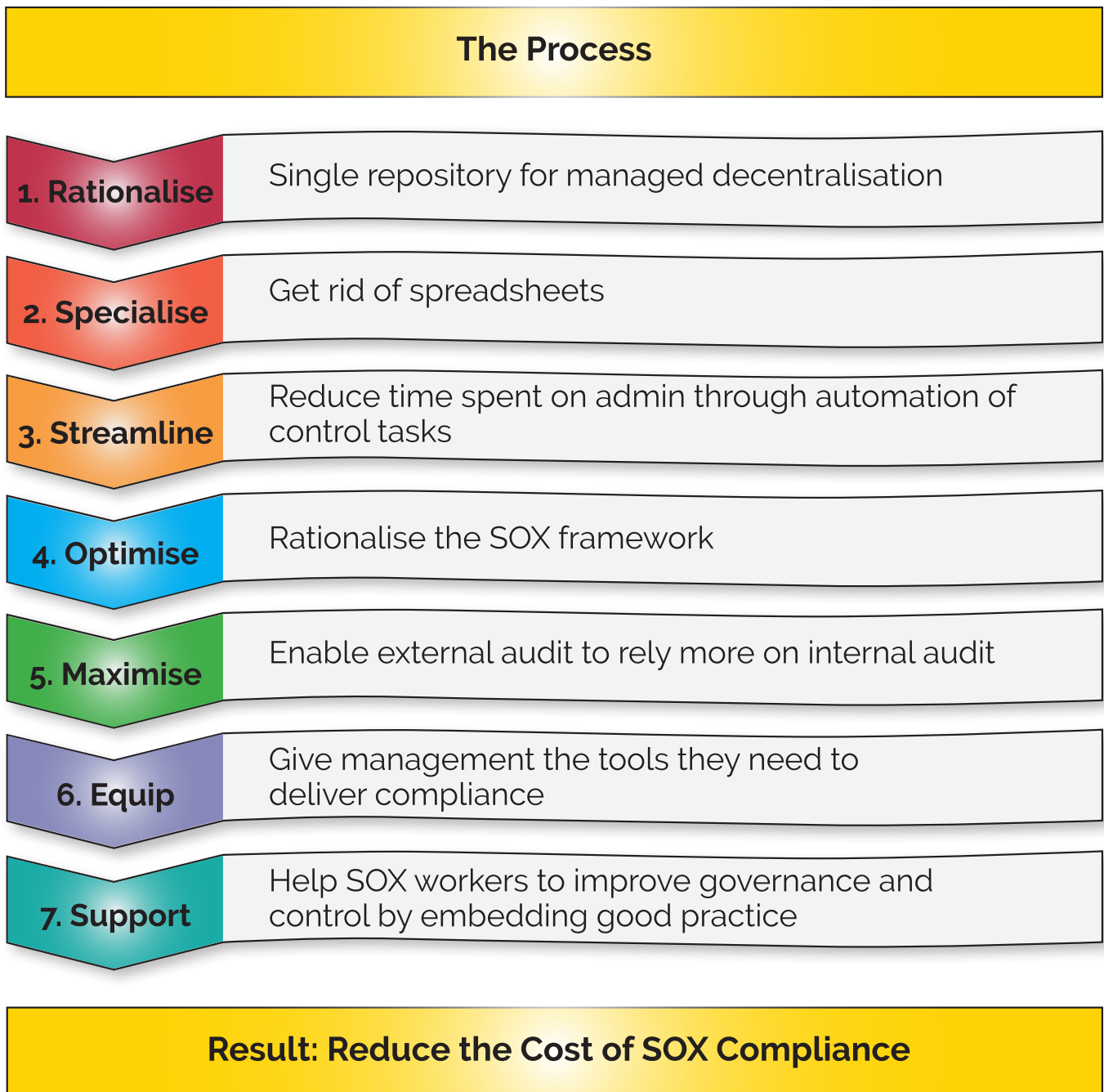
However, with careful planning and the right tools, even the most complex business can reduce the overall cost of compliance and gain business benefit from the optimisation of their internal control framework.

The first step to driving down costs is to consider where the real overheads lie. Huge amounts of time and resources are spent on administration, organisation and monitoring in addition to the work involved in preparation for internal and external audit. These activities tend to be labour-intensive and highly manual and are therefore very costly.



## Cutting the Cost of Sarbanes-Oxley (SOX) Compliance

So how can an organisation turn the management of its governance, risk and compliance from an overhead into a business asset? And how can businesses keep the initial investment down while ensuring that they can reduce ongoing costs into the future?



Using a 7-Step process based on the COSO model above, businesses can start to benefit from reducing cost, whilst also driving positive behaviours that will improve control throughout the organisation.

# Here are our top 7 tips for cutting the cost of SOX compliance:

## 1. Centralise Information

The diverse set of activities involved in achieving SOX compliance will always require some decentralisation. Activities such as updating process, risk and control documentation; the performance, self-assessment and evidencing of controls and remediation of deficiencies are often scattered throughout the organisation.

The result is that information generated from these activities tends to remain decentralised, or at best can only be centralised with significant management effort.

As a result, maintaining and monitoring the control environment becomes expensive and inefficient. Critical information becomes fragmented across spreadsheets, documents, databases, emails and SharePoint sites, with large quantities of evidence kept in hard copy. This makes reporting difficult and makes effective monitoring and analysis near impossible. The time spent by audit piecing together the information they require is considerable, pushing up costs further.

The solution is to deploy a GRC platform that offers a single repository source to enable managed decentralisation of SOX activities, while automatically capturing crucial information related to these tasks and making the information available centrally.

Using a single repository source also ensures that all the necessary information is accessible to anyone who needs it, including control owners, central compliance teams and, crucially, internal and external audit.

## 2. Get Rid of Spreadsheets

Spreadsheets are the 'go-to' solution for a variety of functions throughout virtually every organisation and often play a central role across the spectrum of activities involved in the SOX compliance process.

This widespread use of spreadsheets however, can easily lead to fragmentation of information and does not support the collaborative, enterprise-wide nature of the SOX compliance process.

Relying on spreadsheets to manage an organisation's controls seriously impacts organisational efficiency, imposing a considerable manual burden on the SOX process. This, in turn, adds a significant hidden cost to the management of SOX compliance.

Organisations that choose a software-based integrated control environment to manage their SOX programme will gain efficiencies including:

- Substantial reductions in administrative time
- Better data quality
- Elimination of version control issues
- Significant reduction in errors
- Improved status visibility
- Centralised data

### 3. Reduce Time Spent on Admin

Many companies cannot even quantify how much time is spent on SOX compliance. However, it is clear that activities such as dealing with version control issues; manually compiling status reports; creating and managing spreadsheet templates and tracking document request lists from owners add no value whatsoever.

The costs of this time may not even be explicitly recorded as SOX costs, but organisations that adopt manual or tactical approaches to SOX compliance are in fact incurring substantial 'hidden' costs from these administrative overheads over time.

Choosing a solution that takes care of all of this allows staff to focus on the value-added elements of their jobs, delivering the potential for substantial cost savings and improved productivity within a short space of time.

### 4. Optimise and Rationalise the SOX framework

Each key control within the SOX framework represents a significant marginal cost. According to the Protiviti study, in 2016 companies spent 36 hours on average for each key control on the following activities:

- Initial design, evaluation and documentation
- Performance, collection and storage of evidence
- Maintenance of documentation
- Design and operational effectiveness testing
- Remediating deficiencies.

This is why companies need to undertake regular reviews of which processes, risks and controls fall within scope on a regular basis - even if they are not planning on changing their GRC platform. Cutting the number of in-scope key controls will reduce overall costs, while choosing the right GRC solution to facilitate the SOX process will significantly drive down the time spent on each key control.

Some of the simple ways in which organisations can start to optimise and rationalise their SOX framework are:

- Focus on Material Misstatement Risks (MMRs) to an account rather than the absolute magnitude of the account. While an account may contain substantial material balances, it is worth considering whether it has any MMRs and if so, focusing solely on the controls related to those risks.
- Consider whether all current in-scope controls mitigate MMR, or whether they are in-scope because they have 'always been in scope'? Monitoring controls at the entity level can reduce the number of in-scope transactional controls, particularly in lower risk, transaction-intensive processes
- Remove bloat and duplication from the control environment by using a top-down approach to risk assessment. While bottom-up risk assessment has its place in other functions, it is not appropriate for SOX compliance and will result in an inefficient and expensive SOX framework.

Optimisation is a continuous process of improvement that establishes the right controls at the right cost for the organisation. An integrated control environment will ensure that an organisation can constantly improve without wasting money in the process.

## 5. Maximise How Much External Audit Can Rely on Internal Audit Information

As a principle, an organisation should seek to reduce the amount of time external audit spends validating internal controls. These reductions translate into time savings that can lead to substantial reductions in external audit fees.

To achieve this, the company needs an internal control environment that meets or exceeds the high standards expected by the Public Company Accounting Oversight Board (PCAOB), and regular monitoring of the control environment is crucial. Day-to-day monitoring of the completion of control performance tasks allows managers to identify problem areas early and take steps to tackle them proactively.

Ensuring that all internal audit testing information is stored in a central repository in a structured and standardised format means it can be both easily understood and accessed remotely by authorised external auditors. This not only increases the reliance external audit can place on it, but also helps to substantially reduce travel costs incurred when auditors need to visit multiple sites to gather information. Using an integrated GRC platform, a central audit function based in, say, Frankfurt can perform much of the audit for London, New York or Tokyo remotely without auditors having to leave their desks.

## 6. Give Management the Tools they Need

Managers need to be able to get a 'helicopter view' of the organisation's control environment to be able to manage risk effectively. In an article in the Raconteur supplement on Business Risk Strategies published in The Times in May 2017, EY Risk stated that large, mature organisations are often restricted by legacy systems and are having to consider how they can strengthen their lines of defence in a different way.

By having information displayed in a succinct way on a user-friendly dashboard, managers can get a snapshot of the current control and compliance completion status, or see the overall status of control and compliance audits at a glance

## 7. Support the SOX Workforce and Facilitate Demands Made on Them

There are probably hundreds of people who are relied upon to carry out SOX-related duties throughout the course of the year. They need to do the right thing at the right time in the right place, and leave a sufficient audit trail behind to prove it has all been done and that all the checks and balances are in place.

For any business, this represents a significant volume of human activity. The manual organisation and monitoring of so many diverse activities incur substantial cost in terms of time and money, as well as carrying a significant risk to the business through errors and omissions.

Choosing the right GRC solution to facilitate this entire process is critical. Users need to see at a glance what activities are required of them and when. Automated alerts and emails ensure that outstanding tasks are chased up and escalated if they remain outstanding, helping to embed control environment best practice throughout the organisation.

Information relating to these tasks needs to be automatically captured for future use by management, internal audit and external audit. This will significantly reduce the time that any SOX-related personnel need to spend on administration and help to integrate SOX activities into the day-to-day responsibilities of everyone, virtually anywhere in the organisation.





## Conclusion

### **Benefitting from an Integrated Control Environment**

SOX compliance for organisations will continue to need an appropriate control environment that can cater for new regulations and standards, such as those being introduced by the the Financial Accounting Standards Board (FASB) on cybersecurity and revenue recognition.

A well-planned, purpose-built integrated control environment enables organisations to create a framework for good governance and helps to significantly reduce the manual, repetitive tasks that make regulatory compliance so expensive. By embedding best practice into the business, organisations can drive good behaviour and significantly reduce risk and the opportunity for non-compliance events and reduce the cost of external audit.

A GRC platform such as ICE makes it easy for organisations to achieve or maintain regulatory compliance, reduce the cost of compliance and audits and implement best business practice.

## More information

ICE Integrated Control Environment reduces cost, drives change and enables businesses to manage risk.

It is designed for every business that operates in a highly regulated environment and which wants to improve governance by driving positive behaviour to more effective internal control.

ICE slashes the cost of audits by reducing the complexity of a business' control environment so it can achieve or maintain regulatory compliance and implement best business practice.

To find out how you can start to benefit from ICE Integrated Control Environment for less than you think, contact Ross Baptie, Design & Delivery Director:

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