



# SOX Compliance

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SARBANES-OXLEY

# What is the **SOX** compliance **audit**?

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A **SOX** compliance **audit** is a measure of how well your company manages its internal controls. While **SOX** does not specifically mention information security, for practical purposes, an internal control is understood to be any type of protocol dealing with the infrastructure that handles your financial data

# What is SOX process?

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**SOX** compliance testing is the **process** by which a company's management assesses internal controls over financial reporting. This control testing is mandated by The **Sarbanes-Oxley Act of 2002 (SOX)**. **SOX** is a U.S. federal law requiring all public companies doing business in the United States to comply with the regulation.

# What are the 5 internal controls?

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The five **components** of the internal control framework are **control environment, risk assessment, control activities, information and communication, and monitoring.** Management and employees must show integrity

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# What is SOX compliance checklist ?

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A **SOX compliance checklist** is a tool used to evaluate **compliance** with the **Sarbanes-Oxley Act**, or **SOX**, reinforce information technology and security controls, and uphold legal financial practices.

# What is Next?

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Once Internal Audit has identified the SOX Controls that will be in scope for testing, the next step is planning the year's testing process. In this article we will discuss how to build upon your risk assessment to build out a quality SOX testing program to help you meet your SOX compliance requirements.

# SOX Compliance Checklist: Building a SOX Testing Program

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# 1. Performing a Fraud Risk Assessment

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An effective system for internal controls includes an assessment of possible fraudulent activity. Prevention and early detection are crucial to reducing the instances of fraud in an organization. Below are examples of anti-fraud internal controls and practices organizations can implement to strengthen the outcomes of SOX testing:

- Segregation of duties, wherein the work of one individual should be either independent of, or serves to check on, the work of another. Examples:
  - Custody of Assets
  - Authorization/Approval of related transactions affecting those assets
  - Recording and reporting of related transactions
- Policies and procedures surrounding employee reimbursements.
- Having an internal whistle-blower mechanism within the organization.
- Periodic reconciliation of bank accounts to identify unexpected differences and prevent future occurrences, such as: accounting delays, restricting auto-debits to vendors, etc.



## 2. Managing Process and SOX Controls Documentation

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Details of the operation of key controls, such as control descriptions, frequency, SOX test procedures, associated risk, population, and evidence are established within the control narrative and documentation. Often, risk and control mapping has a many-to-many relationship which can make manual documentation difficult. Some examples include: risks that appear across multiple processes or business units, audit issues that impact multiple controls or processes, and COSO principles mapping to many controls. As any audit manager can attest, if one member of the team fails to make a timely edit or forgot to make updates across all test sheets, the downstream ripple effect can cost managers hours and hours of cleanup.

The solution is to leverage an underlying relationship database to act as a central repository and as the foundation of the SOX audit program. SOX software constructed upon purpose-built database structures can allow auditors to quickly pull or push information to and from a database, and have those results cascade throughout the entire SOX program instantly.

# 3. Testing Key Controls

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The overall objective to SOX testing is threefold:

- 1) Ensure the process or test procedures as outlined are an effective method for testing the control.
  - 2) Ensure the control is being performed throughout the entire period and by the assigned process owner.
  - 3) Ensure the control has been successful in preventing or detecting any material misstatements.
- In short, control testing validates design and operating effectiveness.

SOX tests may include a variety or combination of testing procedures including ongoing evaluation, observation, inquiries with process owners, walkthrough of the transaction, inspection of the documentation, and/or a re-performance of the process.

# 4. Assessing Deficiencies in SOX

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Ongoing investment into a SOX testing program should result in an improvement in your actions, policies, and procedures. As the control environment improves, businesses should also see a clear increase in the level of automation and a corresponding decrease in the amount of manual testing required of auditors. Ultimately, this will result in your team spending less time managing fewer issues. Deficiencies should be reduced to an acceptable and predictable level, and there should be few surprises.

During the SOX testing process and analysis, the auditor may identify an exemption, deficiency or gap in the tested sample. If this happens, an “issue” is created. Besides remediating and correcting the issue, the audit team then assesses if it was a design failure in the control or an operating failure where training, responsibilities, or process needs to be adjusted. Lastly, management and the audit team assess whether or not it is a material weakness (as described above, typically a percentage of variance and with a high-risk level) and will be reported on the end-of-year financials or it was only a significant weakness.

# 5. Delivering Management's Report on Controls

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The end product of SOX testing is management's report on controls over financial reporting that is delivered to the audit committee. While a substantial amount of documentation and data is collected during the process, the SOX report should include:

- Summary of management's opinion and support for those conclusions.
- Review of the framework used, evidence collected, and summary of results.
- Results from each of the tests - entity-level, IT, key controls.
- Identification of the control failures, gaps, and corresponding root causes.
- Assessment made by the company's independent, external auditor.

As mentioned above, purpose-built SOX software such as AuditBoard can help you streamline SOX documentation, save time, and gain efficiencies in SOX testing year over year. Learn how by filling out the form below.

## Example: COVID-19 Inspection



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Inspection

Management Committee

Is there a Covid-19 Crisis Management Committee in your workplace?

Process & Procedures

Have you released internal communications on staff noticeboards for all relevant Covid-19 updates?

Stay informed

Start by identifying authoritative sources of public health guidance on the epidemic, and stay up to date on officially recommended and mandated actions in the applicable jurisdictions.

## Example: COVID-19 Inspection



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These sources include The Centers for Disease Control and Prevention, The World Health Organization, The European Centre for Disease Prevention and Control, and country-specific public health guidance such as this for Singapore and this for the United Kingdom.

Have all employees been briefed on the guidelines around temporary remote working?

Employers should consider changes to reduce overcrowding, such as facilitating remote work, shift work, and perhaps physical layout changes. Such measures may help protect workers from infection and help protect organisations from liability.

- Do you have reliable systems for real-time public health communication with employees?
- Have your Supervisors been adequately trained on the implications of Covid-19?
- Have you given employees accurate information about ways to prevent the spread of infection?
- Are your employees aware of the symptoms of Covid-19?

## Example: COVID-19 Inspection



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Symptoms of coronavirus

The main symptoms to look out for are:

1. A cough
2. A high temperature
3. A shortness of breath

Cleanliness & Hygiene

Have you reviewed the cleaning measures to ensure that high risk contact areas and touch points are being regularly disinfected?

You should ensure that public surfaces such as counters, doorknobs, and elevator buttons are regularly disinfected!

## Example: COVID-19 Inspection



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You should ensure that public surfaces such as counters, doorknobs, and elevator buttons are regularly disinfected!

Have you alerted all staff members to the hand washing protocols with your workplace?

As hand washing is one of the most effective defences, employers need to make sure that employees have ready access to washing facilities and that those are kept well stocked with soap and (ideally) paper towels.

Follow these five steps every time.

1. Wet your hands with clean, running water (warm or cold), turn off the tap, and apply soap.
2. Lather your hands by rubbing them together with the soap. Lather the backs of your hands, between your fingers, and under your nails.
3. Scrub your hands for at least 20 seconds. Need a timer? Hum the “Happy Birthday” song from beginning to end twice.
4. Rinse your hands well under clean, running water.
5. Dry your hands using a clean towel or air dry them.



# Example: COVID-19

## Inspection

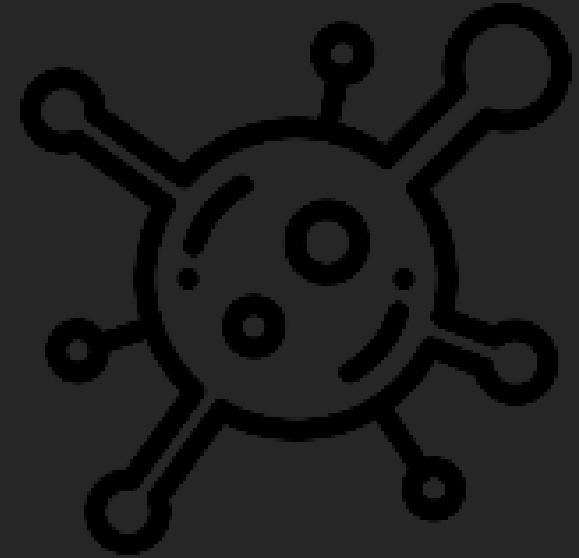
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Do you have readily available access to Hand Sanitizer for all all members of staff?

Does the Hand Sanitiser to contain at least 60 percent alcohol content?

It is imperative that all employees have access to Hand Sanitizer!

Public Health England says if hand sanitiser is used it needs to contain at least 60 percent alcohol content - most contain 60 to 95 percent.





By/ Aziz&Co