

INTERNAL AUDIT BASICS COURSE

SOX 404 AS 5 Update and IA Best Practices including Pros and Cons of Using Automated Tools

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Objectives of the Session

- SOX 404 AS 5 Update
- IA Best Practices – migration to risk and value
- Overview of Tools Considerations

SOX 404 AS 5 Update

PCAOB Guidance - Auditing Standard No. 5

AS 5: An Audit of Internal Control over Financial reporting That is Integrated with an Audit of Financial Statements

- AS5 supersedes AS2
- AS5 provides interpretive guidance for external auditors in their evaluation of an organizations controls with the purpose of improving the efficiency and effectiveness of their SOX 404 efforts.
- Effective for audits of fiscal years ended on or after November 15, 2007.

Auditor's Evaluation and Reporting

- AS 5 and revised SEC rules eliminated the need for Auditor to opine on Management's Assessment process:
 - Intent was to eliminate redundant efforts.
 - Quality of management's ICFR process is inherently linked to amount of work the auditor will need to do.

- One opinion required:
 - Effectiveness of Company's Internal Control over Financial Reporting

AS 5 KEY FEATURES:

- Emphasis on scalability.
- Top-down, integrated, risk-based approach with emphasis on:
 - **Assessing Fraud risk** and anti-fraud controls throughout the audit.
 - Entity-level controls
- Emphasis on professional judgment, esp. in applying risk assessment.
- Principles-based approach that allows auditor to use of work of others depending on relationship between risk and the competency and objectivity of those who performed the work.

Impact of AS 5 to-date?

- PCAOB conducted training in April for AS 5 focused inspections.
- Anecdotal evidence indicates marked reduction in efforts and fees.



Best Practices – moving beyond SOX to enterprise risk and value-add auditing

SOX Compliance best practices

- Strengthen and leverage Entity Level Controls
- Risk-based design of controls
 - Focus on Risk of Material Misstatement
 - Preventive rather than detective when possible
 - Continual rationalization
- Promote integrated audit through:
 - Early and regular communication and coordination with external auditors
 - Design of controls linked to strong risk assessment
 - Test procedures clearly linked to controls
 - Re-performance standard for all documentation

SOX Compliance best practices

- Leverage technology:
 - Automated audit tools
 - Continuous Monitoring → Continuous Auditing
 - Alignment of business applications to business process
 - Reduction of workarounds and end-user computing
- Organizational Change Control
- Continuous Risk Assessment
- Internal Audit Department startup and development
 - Build core staff and strategic use of co-sourcing
 - Consider expertise requirements, career path, etc.

Spreadsheets remain common source of deficiencies

Scalable approach to mitigate spreadsheet risks

1. Establish spreadsheet risk management standards / policies
2. Inventory relevant spreadsheets
3. Conduct risk assessment and categorize by relevancy
4. Eliminate / reduce number of high risk spreadsheets
5. Build a secure repository to store spreadsheets
6. Enforce distribution controls on spreadsheet documents based on their risk profiles
7. Train spreadsheet owners / improve spreadsheet design and controls
8. Leverage automated testing tools

Beyond SOX Compliance to Value

- **Business value / risk orientation:**
 - IA management has (recent) business experience need to be credible
 - Get to know the business and business management
 - Risk assessment to build buy-in and support with business unit executive management
- **Business function rotation** – swapping operational and IA staff for 6-12 months.
- **IA rotation** – finance and IT



Overview of Tools Considerations

SOX Compliance tools considerations

Common Benefits

- Workflow
- Event based triggers and notifications
- Single web-based repository
- Reporting,
 - e.g., auto 302 rollup
 - Dashboard visibility
- Consistency in approach
- Role-based security

Common Challenges

- Conform to structure
- Costs
- Lack of standardization
- Emerging market
 - Potential consolidation
 - Migration to ERM / GRC platforms

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Thank you !

For more information:

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