REDUCING THE BURDEN OF SOX COMPLIANCE

APRIL 25, 2017
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Ben Termini is a Partner and Practice Leader in BDO’s Risk Advisory Services Practice. He brings more than 23 years of experience leading internal audit outsource engagements for large, multinational companies and nonprofit organizations. With Fortune 200 experience, Ben delivers value-added Risk Advisory services including Sarbanes Oxley Readiness, Enterprise-Wide Risk Assessments, the development of ERM frameworks as well as the execution of internal audit plans.

Ben has extensive experience developing and implementing risk-based internal audit plans. He also has extensive experience with SEC financial reporting requirements and has performed forensic accounting services for various clients that have uncovered fraudulent activities.
TODAY’S LEARNING OBJECTIVES

At the conclusion of this course, participants will be able to:

► Describe the items driving the cost of Sarbanes-Oxley;

► Discuss recent changes affecting the cost of Sarbanes-Oxley Compliance;

and

► Identify key options in reducing the cost of Sarbanes-Oxley Compliance.
AGENDA

- State of the Industry
- PCAOB and SEC SOX Guidance
- Increased Auditor Scrutiny and Cost
- Balancing Between Cost and Quality
- Best Practices to Reduce the Cost of SOX Compliance
- Client Perspective
STATE OF THE INDUSTRY

- The Sarbanes-Oxley (SOX) ACT
  - Act passed into law July 2002
  - Aimed to protect investors by improving the accuracy and reliability of corporate disclosures for public companies
  - Enacted in response to several corporate and accounting scandals
KEEPING PACE WITH REGULATORY CHANGE

Bottom-up Approach

Top-Down Approach

AS-2

AS-5

Provides guidance to External Auditors

Ongoing Rationalization

AS-12

Increased Auditor Scrutiny

Management Review Controls, System-generated reports and Completeness & Accuracy Assertions

PCAOB

2002

2007

2009

2011

2013

2017
WHO HAS RESPONSIBILITY FOR INTERNAL CONTROLS AND WHAT ARE THE REQUIREMENTS?

► SEC

• 302 Management Certification
• 404(a) Management of internal controls
• 404(b) Management obtains independent audit of assessment of controls

► PCAOB

• AS5 External audit of management’s assessment of internal controls
• AS12 Documentation of Management Review Controls, Completeness and Accuracy considerations, and System Generated Reports

► COSO 2013 Framework
### FILER COMPLIANCE REQUIREMENTS

<table>
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<tr>
<th>Filer</th>
<th>Market Cap</th>
<th>404(a)</th>
<th>404(b)</th>
</tr>
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<tbody>
<tr>
<td>Non-Accelerated</td>
<td>Under $75m</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Accelerated</td>
<td>$75m - under $700m</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Large Accelerated</td>
<td>$700m and above</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Emerging Growth Companies</td>
<td>Under $700m</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>with Revenue less than $1B</td>
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RECENT REGULATORY CHANGES INCREASING THE COST OF SOX COMPLIANCE

► Increased Auditor Scrutiny:

• Management review controls
• System generated report
• Roll-forward of controls tested at an interim date
• Using the work of others
• Top-down risk assessment

► COSO 2013 Framework implementation
BALANCING BETWEEN COST AND QUALITY

HIGH

- Top Down focus on risk
- Full scope testing
  - Narratives, flowcharts, risk and control matrices
  - Operating effectiveness
  - Detail documentation (MRCs and IPEs)
  - Remediation
- 302 certifications

HYBRID

- Risk assessment
- Targeted review of high risk processes
  - Design assessment
  - Limited testing
  - Remediation
- 302 certifications

LOW

- Informal risk assessment
- Document controls
- Use of controls questionnaire
- No testing for operational effectiveness
- 302 certifications
MOVING TO A 404(B) COMPLIANCE ENVIRONMENT

Impact on Management:

- Increased costs
- Enhanced documentation
- Detailed process walkthroughs
- Independent testing by the external auditors
- AS-12 compliance
- Review and test managements assessment
Impact on Company:

• According to a recent study, the average cost of a data breach is over $3.5 million

• Cost is not only concern, loss of sensitive confidential or protected information to company’s and consumers

Management and Boards are continually working to understand and fulfill their responsibilities related to guarding against cyber breaches
TRANSITION CHALLENGES

- Not using a risk-based approach
- Lack of senior executive/board support
- Too much process documentation
- Not maximizing the use of available time
- Documenting and assessing non-financial reporting controls
- Process owners not maintain supporting documentation
- Inadequate coordination and collaboration with the external auditors
MAXIMIZING VALUE UNDER A 404(B) ENVIRONMENT / BEST PRACTICES

- Eliminate the number of controls through top-down, risk-based approach
- Using the top-down approach to identify direct entity-level controls
- Maximize reliance by the external auditors on management testing
- Executing controls flawlessly
- Documenting the process and controls clearly and in detail
- Completing a substantial portion of work, including testing all key controls
CONTROL IMPROVEMENTS DERIVED FROM SOX COMPLIANCE

![Bar chart showing control improvements derived from SOX compliance. The categories are Control Environment, High-Risk Accounting Areas, Routine Accounting Controls, Anti-Fraud Processes, and Compensation Schemes. The percentages range from 0% to 70%.](image)
CLIENT INTERVIEW:

1. What are the most significant SOX challenges you see for your company in the current year?

2. What are some of the key benefits in becoming SOX Compliant?

3. What are your top SOX priorities for this fiscal year?

4. What percentages of your controls tests are related to technology around Cyber?

5. In light of the changing requirement from the PCAOB over the external auditors, what changes have you experienced in your external audit fees?
CONCLUSION

THANK YOU FOR YOUR PARTICIPATION!

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