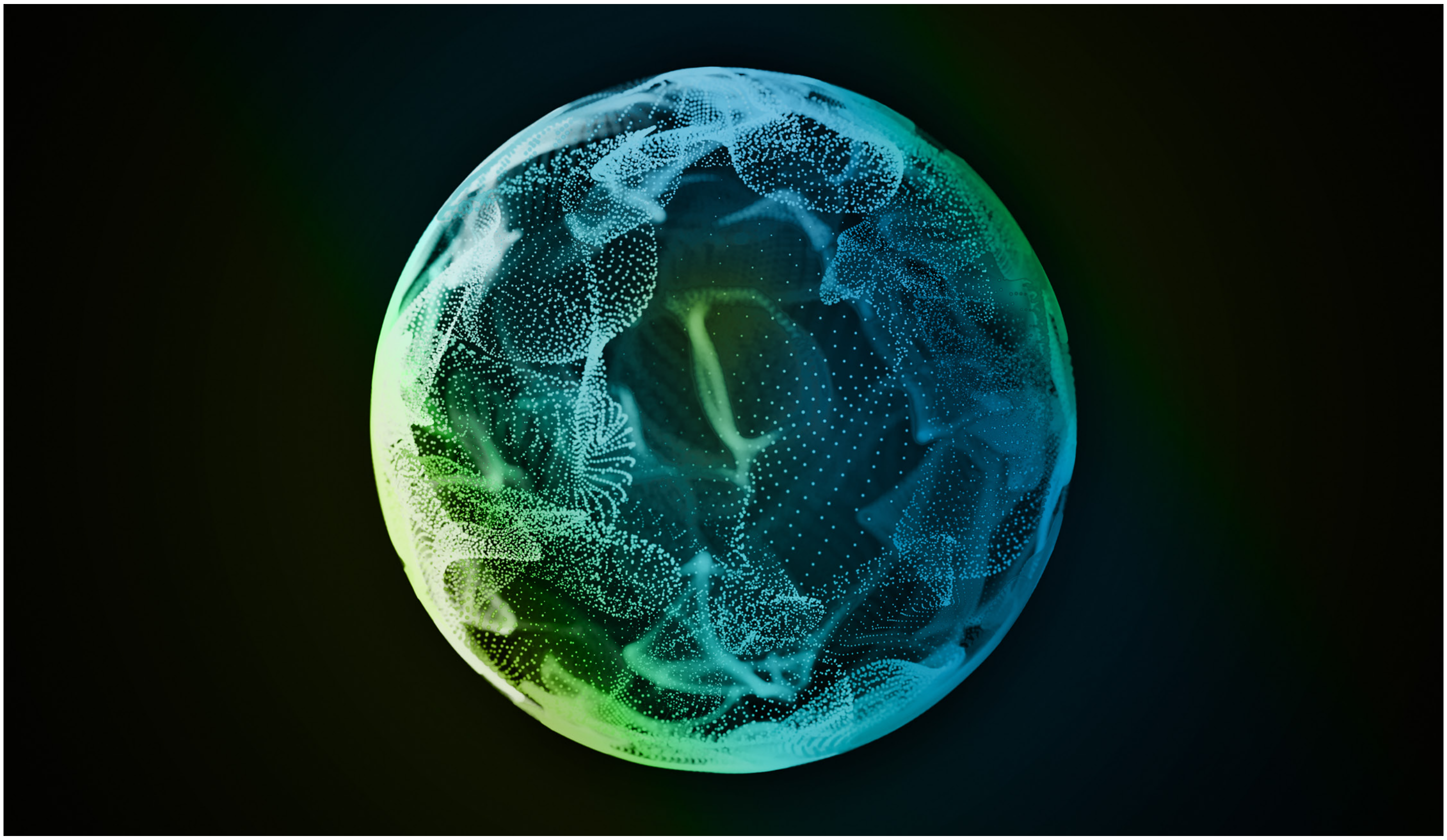

Are you experiencing SOX compliance and internal control challenges after going public?

Pain points that chief financial officers (CFOs) of new public companies may be facing and how to address them

Many new public companies are currently experiencing challenges with establishing and maintaining effective Sarbanes-Oxley Act (SOX) programs. When reflecting on the journey to achieve effective internal control over financial reporting (ICFR), most CFOs will identify something that could have been executed better or differently within their company. Although you cannot change the past, it is never too late for continuous improvement or realignment to steer your SOX program in an impactful and effective direction. What follows are various SOX program pain points that many new public companies face today, as well as suggestions on how those pain points can be managed or addressed.

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Not setting an effective tone at the top for SOX implementation

An appropriate tone and commitment from most organizational leaders (not just the finance organization) and the audit committee are the driving forces behind an effective SOX program. CFOs typically understand the importance of SOX compliance and the impact that it will have on their company. However, establishing and communicating an effective tone to the rest of the business to explain why SOX compliance is important and necessary to their company may be missing. Oftentimes for new public companies, the journey to SOX compliance is a perceived burden for the employees of the company. Many employees may view internal control improvements and changes as a pure compliance exercise that simply adds to their already busy schedule. While that may be true in some companies, CFOs have the responsibility and opportunity to lead their company through a shift in mindset on the importance of effective ICFR. Establishing and communicating an effective tone regarding the importance of SOX compliance is vital, and successful companies will take it a step further by involving control owners in establishing an organizational tone that focuses on why ICFR is a business imperative and how an effective program can help manage the financial statement risks of the business.

Lack of adequate resources

There are many competing priorities throughout the public readiness journey, and finding adequate resources to complete all required activities—including the establishment and execution of an effective SOX program—can be a challenge. If your company lacks adequate resources to execute an effective SOX program, you are not alone, as this is a common challenge that many companies find to persist in the early stages of becoming a public company.

The lack of proper resources is often a contributing factor to other issues such as improper segregation of duties in the design and operation of internal controls and not being able to properly execute an effective monitoring program. When a company assesses its system of internal control, they will find that a lack of adequate resources and segregation of duties leads to a less mature—and, in some cases, ineffective—ICFR environment. As a result, the operational inefficiencies and necessary remediation efforts that companies face can ultimately lead to an increase in overall costs.

CFOs who find themselves in this position should revisit their resource pool and address any shortages that they find. Through this assessment, CFOs may decide to hire additional internal resources and/or engage an outside service provider on a short-term or long-term basis. The utilization of an outside service provider can be beneficial. However, most companies find that using this model to support its SOX program is most efficient and effective when designated internal project managers are assigned to help facilitate the overall program.

Failure to perform a robust risk assessment

The challenges and level of effort required during the public readiness journey can often distract management from conducting a risk assessment that is thoughtful and comprehensive, resulting in SOX programs that are inefficient, ineffective, or alienate important parts of the business. An impactful and beneficial SOX program starts with a robust risk assessment that involves stakeholders throughout the company. A robust risk assessment allows companies the opportunity to identify account balances and risks that are relevant, and whether there are any gaps or improvements required in their internal control activities necessary to mitigate those risks to an acceptable level.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), in its 2013 *Internal Control – Integrated Framework* report, defines internal control as:

> "A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance."

Companies that do not conduct a robust risk assessment each year are at risk of having a gap in their internal control structure that may lead to ineffective ICFR. Significant changes within a company, such as changes in an accounting process, information technology (IT), organizational structure, or financial performance, may be overlooked if a robust risk assessment is not performed or is not treated as an iterative process to factor in those significant changes throughout the year.

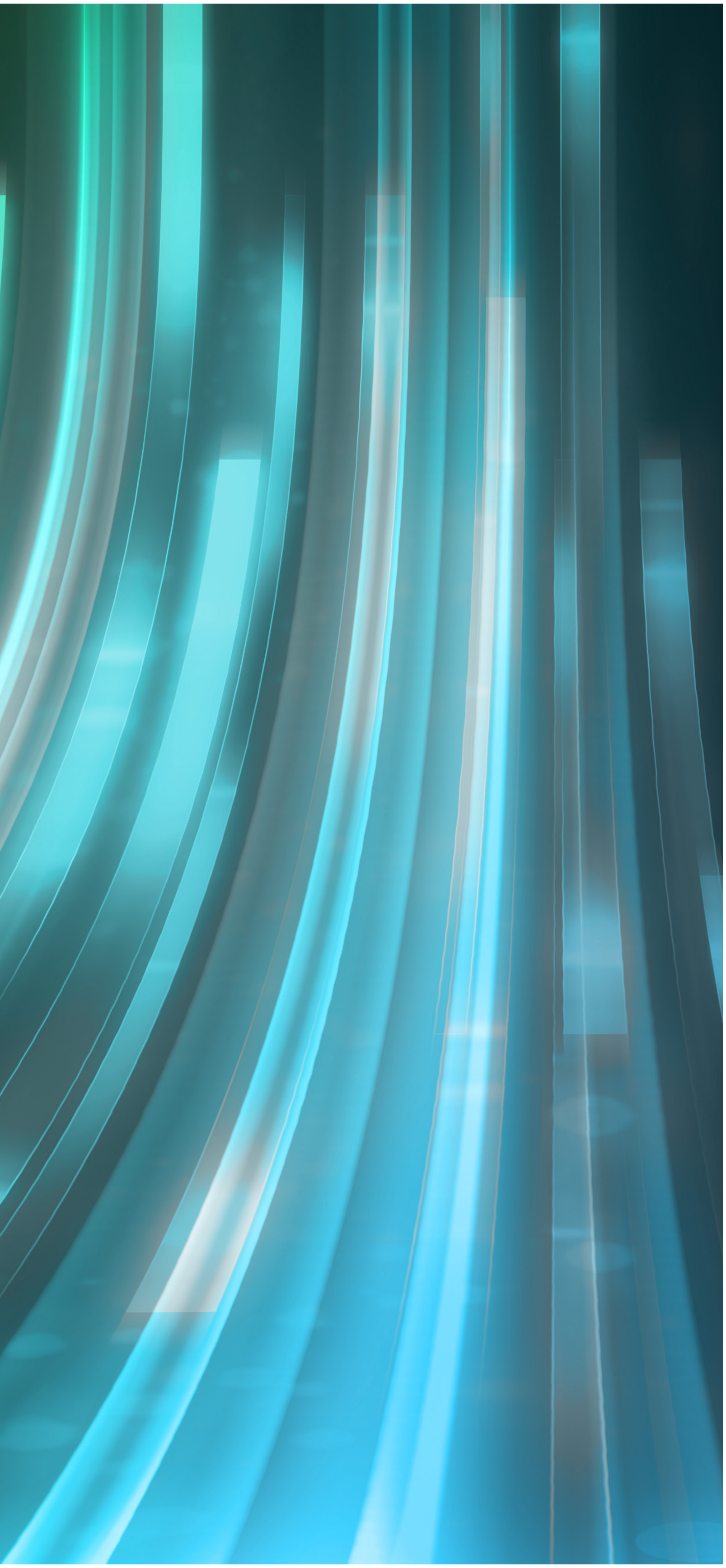
CFOs and/or the controllership function should be involved in the overall risk assessment process and also ensure that all key company stakeholders are involved to improve the value that comes from conducting one. Conducting a robust risk assessment is imperative for SOX compliance, but it can also be beneficial to a company well beyond SOX compliance. A thorough risk assessment may also identify other relevant risks that do not directly relate to the financial statements. CFOs should revisit their company's risk management and compliance program to verify that it is effective and comprehensive.

The current state of the SOX program is not sustainable

There are various factors that would indicate that the current state of a company's SOX program may be at risk of not being sustainable:

1. The approach in which the program was, and continues to be, developed, implemented, and executed (i.e., centralized model with limited involvement from control owners).
2. A failure to perform a robust risk assessment that considers change throughout the year (see "**Failure to perform a robust risk assessment**" above).
3. The level of training that is provided to internal control owners (i.e., understanding what SOX compliance is but not appreciating the importance of why control activities matter and the risks that are being addressed).
4. The processes in place to address workforce turnover within the company while maintaining control effectiveness (i.e., no plan to onboard new control owners to reduce the risk of a gap in the operation or effectiveness of control activities).
5. A weak monitoring program that does not have clearly defined roles and responsibilities, sufficient oversight, or a formal evaluation and communication process.

This does not represent an all-inclusive list of factors that CFOs may be concerned with when reflecting on the current state of their SOX program. It is important that CFOs identify and address relevant factors that are indicative of having an unsustainable SOX program, especially in cases where there is expected growth, changes in the current business, mergers, acquisitions, or when new accounting standards are released, among others. Companies can address these factors, but it takes developing an appropriate actionable plan and having experienced professionals involved to execute the plan. Developing the actionable plan starts with an appropriate governance structure, such as a SOX steering committee, to achieve appropriate accountability and collaboration.



Many CFOs have also learned that they have continuously missed the opportunity to pull various levers to modernize their company's system of internal control. SOX modernization, whether through the implementation of technology and automation, a holistic review of the design of internal controls or operating model, drives overall efficiencies and effectiveness. A SOX modernization analysis will not only identify opportunities to implement new technology into the operation of controls and the monitoring program, but it will also identify improvement points related to people, processes, and technology within the system of internal control to maximize effectiveness. CFOs have also found that modernizing through the implementation and use of a governance, risk, and controls (GRC) tool can help drive the sustainability of the overall SOX program. A GRC tool brings structure and organization to the overall SOX program, which is pivotal for public companies that strive for effective ICFR.

New public companies may find great benefits from conducting a SOX modernization analysis, especially if their current system of internal control remains closely aligned with their structure before going public. In many cases, the current structure may simply not be sustainable. There is common hesitation because of the time and cost associated with modernization, but the long-term benefits will help align with workforce transformation and support the future structure of a company that will be able to weather change and anticipated growth.

Ineffective information technology environment

Companies should not underestimate the importance of a sustainable and reliable IT infrastructure to support operational needs and financial reporting requirements. When companies experience challenges in general information technology controls (GITCs) that lead to unaddressed risks associated with information technology (RAIT), which may ultimately lead to ineffective ICFR, companies often struggle with identifying the best corrective course of action. These types of issues have a pervasive impact on the entire system of internal control given that most business process controls rely on information that is obtained from information technology systems. Common information technology challenges that companies face may also relate to the various pitfalls highlighted above. There is not a one-size-fits-all solution when determining how to correct these GITC challenges, as the approach is tailored to the company based on the root cause of the issue. CFOs and other executives who are experiencing challenges due to ineffective information technology environments should establish and execute a tailored remediation plan with the involvement of experienced IT professionals.

Let's talk

If any of these pain points are something that resonates with you, you are not alone. We know how to effectively navigate them and are here to help. Please contact us for assistance that you may need.

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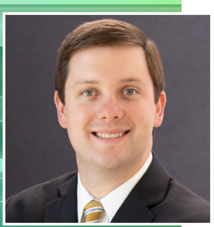

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SOX and ICFR Services