



# Optimize the Value of Your **SOX 404a Compliance Efforts**

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# Presenters

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**KEVIN SHIVES, CPA**

» Partner

**Focus**

Internal Audit/SOX, Process Optimization & Technology Solutions

**Experience**

CPA with 25+ years in accounting, including large scale Oracle implementations, former external auditor, controller, accounting manager, revenue manager for public and private companies



**JAMES TAYLOR**

» Manager

**Focus**

Implementing SOX Compliance Programs, Risk Assessments, Optimizing Financial & Operational Policies and Processes

**Experience**

James is a trusted risk management professional with over 17 years experience in public accounting, including Big 4 risk management consulting.

# Firm Overview



## TAX

Individual & Business • Preparation  
Planning • Representation • Appeals  
M&A • Multi-State & International



## AUDIT

Audit • Assurance • SOX Compliance  
Employee Benefits Plan



## TECHNOLOGY CONSULTING

Assessment • Implementation • Integration • Support



## BUSINESS ADVISORY CONSULTING

Outsourced Accounting • Executive Placement • Internal Audit /  
SOX • Wealth Advisory

## HIGHLIGHTS:

- » 40+ Years in Business
- » US & International Clients
- » Thousands of hours dedicated to community service each year
- » Six locations throughout California



Certified



Corporation™



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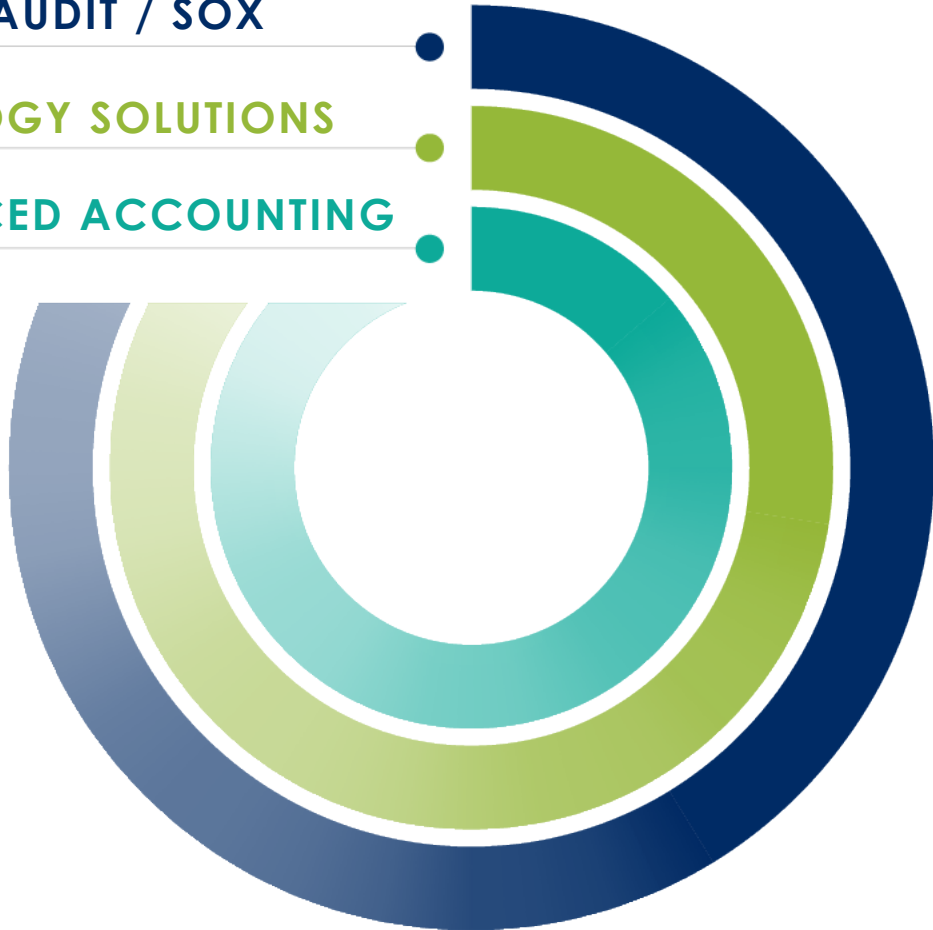
# Consulting Overview

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INTERNAL AUDIT / SOX

TECHNOLOGY SOLUTIONS

OUTSOURCED ACCOUNTING



## INTERNAL AUDIT & SOX SERVICES:

- » Full Outsourcing
- » Co-Sourcing
- » Advisory

## CERTIFIED PARTNER:



# Agenda

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- Introductions
- 404(a) vs. 404(b)
- Common issues we see in practice
- Creating a compliance culture
- High impact recommendations
- Where to focus: COSO framework
- Best Practices
- Benefits
- Q&A

# What is 404(a) vs. 404(b)?

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- 404(b) requires the auditors to include an opinion on the effectiveness of your internal controls
- 404(a) only requires management's assessment of internal controls (no auditor opinion)



WHAT WE SEE IN PRACTICE

404(a), a  
holiday from  
SOX - NOT!



# What We See in Practice

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## Previously under 404(b):

- Reduce management's assessment to bare bones:
  - Stop all internal testing,
  - Take significant deficiencies & material weaknesses found by external auditors
  - Continue to signoff on certifications

Feels like an immediate cost saver, but can be costly in the long run:

- Reduced confidence with Auditors & Board
- High remediation costs



# What We See in Practice

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## Enjoying the 1<sup>st</sup> year “pass” after IPO:

- Not using time to prepare for 404(b)
- Not building the compliance culture & infrastructure you’ll need
  - Results in a fire drill under an unforgiving deadline

# 404(a) Foundation: Building a Compliance Culture

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*Strong cultures are driven by clear purpose and expectations:*

- Set the tone at the top (CFO & Controller in lockstep)
  - Identify & announce a high-level sponsor
- Identify and involve senior department leaders **early**
- Develop a program of continuous training on compliance
- Set Quarterly check-ins
  - Discuss results and feedback

# 404(a) High Impact Recommendations

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Use your time in 404(a) to establish compliance framework, process, and be laser focused on controlling the **financial reporting risks as defined by management:**

- Obtaining a clean opinion for 404(b):
  - Requires a comprehensive SOX approach that is as much about protecting your auditors from the PCAOB as your Company against FS misstatements
  - Much of which may not actually be that risky for you

# 404(a) High Impact Recommendations (Cont'd)

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Under 404(a) you can *focus your attention and \$ on areas that pose the most direct risk to your financials.*

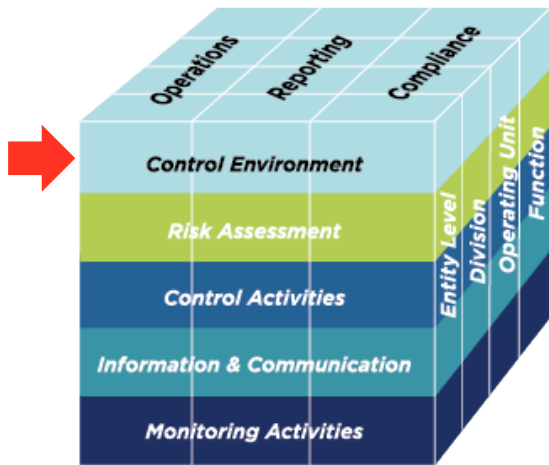
- Develop a compliance plan that will serve you year after year
  - Needs to include all the components of COSO
  - But your effort for each component is based on your Risk Assessment
  - Resources – evaluate current employee bandwidth & capabilities; hire the positions and/or leverage external expertise where needed
  - Establish a SOX Project Management Office (PMO) that serves as the clearing house for all internal control issues and activities. Maintains lists of controls, test coordination, evaluations, reporting, etc.

# Where to Focus: COSO Framework



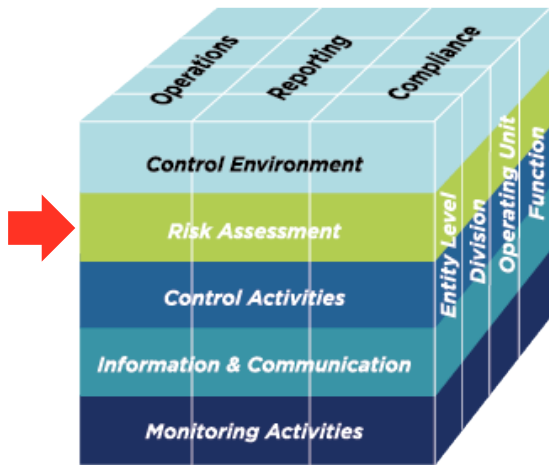
- Mapping controls to the COSO 2013 framework
- 17 principles

# COSO 2013: Control Environment



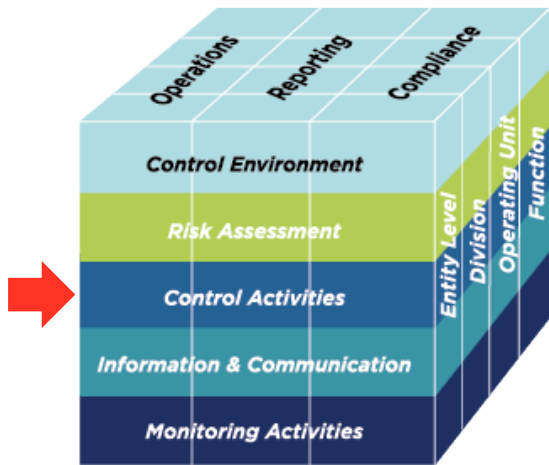
1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control (***PRO TIP: Push a 404(a) package to your Audit Committee quarterly.***)
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

# COSO 2013: Risk Assessment



6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control (***PRO TIP: Your company will change rapidly, evaluate those changes quarterly to capture, react and report on impact to controls.***)

# COSO 2013: Control Activities

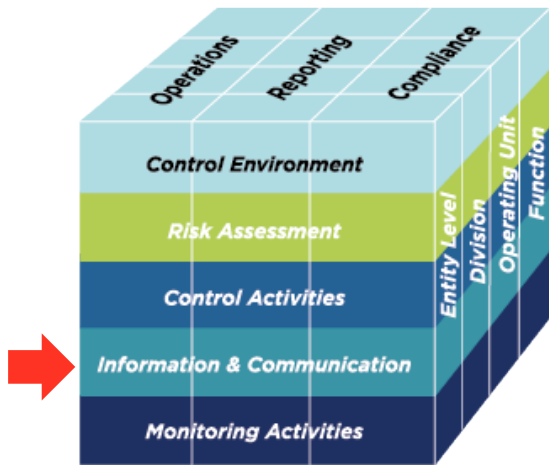


10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

***Pro Tip: All the above for 404(a). Design, Document, Test, Evaluate & Report each control prioritized by Risk.***

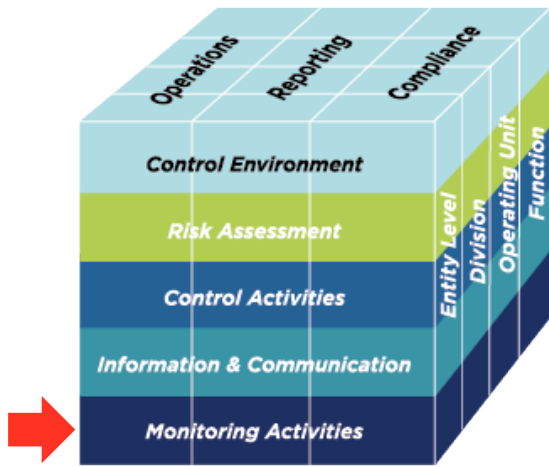


# COSO 2013: Information and Communication



13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control (***Pro Tip: Make sure your process owners are involved in the Design & Documentation of your controls for ownership and accountability.***)
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

# COSO 2013: Monitoring Activities



16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning (***Pro tip: Trust, but verify! Perform limited testing in key areas to ensure controls are operating as advertised.***).
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

## Scope & Risk Assessment

Business is driven by change. This requires an iterative process to identify and deal with the resulting problems in your internal control structure. Common realities are:

- New Employees or Turnover
- Responsibility Transfers
- Business Growth
- Acquisitions
- New Systems
- New Accounting Rules
- New Reporting Requirements

## Document

### Cycles

### Controls

## Test

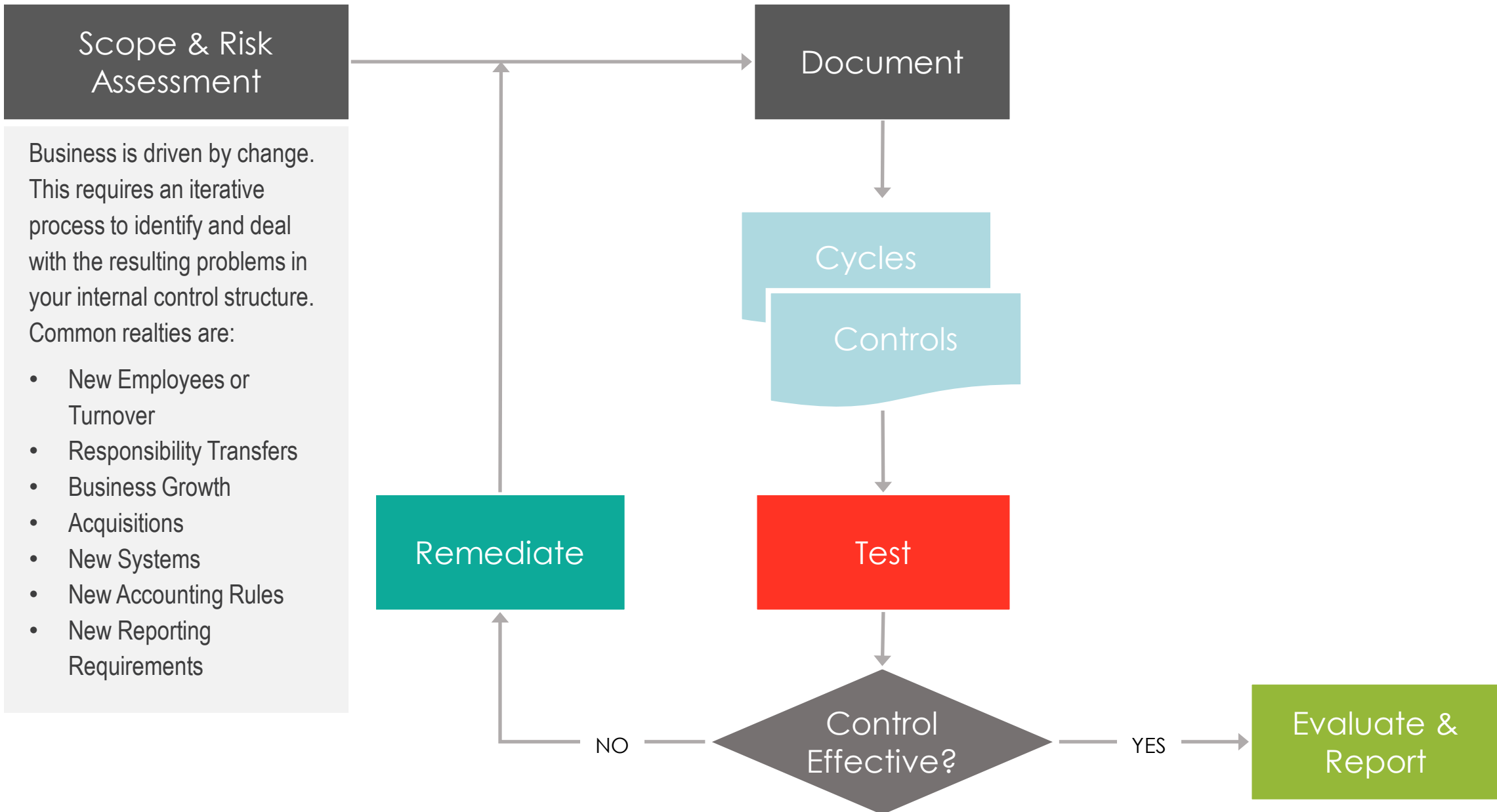
## Remediate

Control Effective?

NO

YES

## Evaluate & Report



# Best Practices

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- ID & announce high-level sponsor
- Establish a SOX PMO
- Communicate the plan, roles, & responsibilities
- Leverage the COSO framework
- Prioritize by risk
- Provide design & documentation training
- Schedule quarterly status meetings
- On a quarterly basis, push a 404(a) package to your Audit Committee

# Benefits of 404(a)

- Develop a compliance culture
- Prepare for 404(b)
- Mitigate fire drills and costs
- Minimize surprises with Auditors & Board
- Focus on areas that pose the most direct risk to your financials
- Higher quality financial data
- Improved communication and feedback



# Resources & Links

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COSO. (2013, May). *Internal Control — Integrated Framework Executive Summary*. Committee of Sponsoring Organizations of the Treadway Commission (COSO).

<https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf>



Questions?

# | Thank You!

*For questions, contact us:*

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