

SEEKING

SOX

HERE ARE
SOME THINGS
TO CONSIDER

SOFTWARE ?

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The ongoing debate regarding the impact technology has on efforts to comply with Section 404 of the Sarbanes-Oxley Act (SOX) is accelerating at companies of all sizes. Over the past 18 months there have been significant changes to the “404-enabling” software marketplace, and these enhancements have brought the technology debate to the forefront for compliance leaders.

A recent survey of 1,000 companies by KPMG’s 404 Institute, an open forum with more than 15,000 members organized around the exchange of ideas and leading practices regarding SOX Section 404 compliance (www.404institute.com), revealed that 75% of companies either have 404-enabling software or are consider-

ing buying it soon. Those companies say that the technology will help them save time and money in the long run and enhance their overall compliance process. They also want to leverage technology to transition compliance from a project-oriented process into a sustainable one. The consensus is that 404-enabling technology can support a risk-based approach to internal controls and that the solutions are now scalable to a company’s existing IT systems.

But history is filled with examples of failed software projects. In the case of Section 404 compliance, the cost of failure could be much higher than just time and money. Failure could put a company at risk of noncompliance, and it could impact reputational

(negative publicity) and shareholder (stock price volatility) risk and cause lost opportunities as management focuses additional attention on this project to the detriment of other company priorities. This greater sensitivity to risk requires an increased focus on the selection process and implementation plans.

404 SOFTWARE'S EVOLUTION

SOX compliance over the past two years has been an extremely complex and time-consuming exercise for many companies, so deploying some form of 404-compliance technology can be an attractive option for those looking to ease the process. This software provides support in three areas:

- ◆ **Workflow.** Most software is designed to facilitate routing of information and monitoring of progress, activities, and documentation regarding 404-specific work being done across the organization.

- ◆ **Communication.** The technology is also a communications vehicle for enabling staff throughout the layers of an organization to have an understanding of the status of 404-compliance activities.

- ◆ **Archiving and Reporting.** The software features capabilities to capture and permanently archive 404-related information and work. Users can then access this information for customized reporting.

There have also been other new developments in this software that address automating the 404 process. One of the key advances is that the software is now much more scalable and structured to fit an organization's particular needs vs. "one-size-fits-all" earlier versions that were introduced into the market. In addition, 404 software providers have released new versions with more robust capabilities, including executive "dashboards," workflow data analytics and communications tools, and the ability to connect compliance work with other governance measurement activities. The evolution in the market is based on the providers gaining a better understanding of the 404-related procedures and activities that companies have actually experienced. Finally, as 404 technology has matured and product upgrades have been made to achieve greater efficiency, installation and integration with an organization's existing business functions and activities is being done more easily than in the past.

Companies undergoing compliance efforts are also approaching software providers for tools that facilitate movement toward a sustainable compliance system. They want greater efficiency so they can reduce costs. Yet, given that many of these tools are still new and untested in the

marketplace, companies are left with some questions about how best to choose appropriate products for their organizations.

COMPLIANCE TECHNOLOGY SELECTION CRITERIA

A key issue to consider when choosing a software vendor is the provider's knowledge of Section 404 and how it views future needs for meeting evolving compliance requirements. Technology providers should be ready to discuss the issue strategically with clients, not just tactically.

During a recent two-part webcast sponsored by the 404 Institute on "Enabling Section 404 Compliance," Brian Reilly, chief auditor for St. Paul Travelers, said his company took a strategic approach when choosing 404-enabling software. St. Paul Travelers had been using two separate approaches to meet Section 404 requirements, but it needed a single technological process to eliminate costly redundancy. Reilly said his company's first priority was to identify a technology-driven process that could be implemented quickly and would also meet the company's needs over the long term. This new process would effectively move the company from a project-oriented mind-set regarding Section 404 compliance to a compliance system that enables consistent and efficient compliance to be repeated year after year. Reilly noted several key criteria in considering a 404 technology vendor, including the vendor's knowledge of Section 404 requirements, overall strategic approach toward technology implementation, and the data management and reporting capabilities of the software available to executive leadership. In addition, the vendor had to be willing to be a partner with St. Paul Travelers before, during, and after implementation.

Another key factor in determining which 404 enabler to employ relates to managing data. In a recent 404 Institute survey, 52% of the respondents indicated that the key aspect of software is its ability to monitor and/or track steps in the compliance process and that it should have the ability to identify control issues.

Reams of information are generated every day from the Section 404 compliance process, so the software's capacity for retrieving and managing that data should be a critical consideration. The application should provide the ability to create detailed reports that can compose a body of evidence that would give management the support needed to determine if the company's internal controls are operating effectively. In addition, the software reporting function should be available to the business unit level, as well as to leadership, who will want to know

the progress of each unit as it proceeds through the compliance process. The software should also have the capability to integrate with the company's existing enterprise risk management applications while monitoring automated controls and configurations. The final consideration should be its ability to provide a single view of compliance with other regulations.

SELECTION COMMITTEE

Like all software projects, selecting and implementing 404-enabling software has a number of risks. Companies can combat risk of failure by setting up an informed committee to oversee the selection process. Determining who will sit on the committee is important.

The CIO and the IT department should receive strong consideration since they will integrate the new technology into the company's current applications. Finance department members, controllers, and the corporate internal audit group should be included as well. Companies also should include the key business-process owners because they will be directly involved in regularly using the software. Including line management on the committee is even more critical for companies that rely on self-assessments or business-process owner testing as part of the compliance process. For additional oversight and input, the selection committee should make periodic presentations to the management committee and the board of directors. Once the selection committee is formed, its members should insist on speaking to the technical professionals from the provider, not just its sales force. Companies also should consider trial runs with the short list of potential vendors to gain a sense of both the application and the type of support they will get.

For their part, suppliers should demonstrate an eagerness to listen to the company's needs and be willing to commit adequate resources and people toward project implementation. They must view working with the company as a long-term investment as compliance and regulatory issues continue to evolve in the marketplace.

ROAD MAP FOR DEPLOYING 404 TECHNOLOGY

Once compliance software is selected, it needs to be installed and tested, and key staff will need to be trained on how to use it. During the rollout phase, organizations should work with the software provider regarding the application's ease of use to ensure that key employees will use it effectively. During this process, companies should provide a means for detailed feedback from users and listen to suggestions on ways to make the application more

user-friendly. Also, training should be consistent across the organization, so companies might consider creating a website available to all users that details the application's features and gives instructions on how to use it. Overall, a staged and methodical implementation will pave the way for problems to be resolved efficiently.

According to the 404 Institute webcast participants, the timeline for implementation varies greatly depending on the organization, ranging from two months to several months for global multinational companies. Regardless of size, companies need to design an implementation plan and execute it, following their standard system implementation processes.

Some key areas to focus on that are specific to 404-compliance software implementation are:

1. Take advantage of the software selected to learn lessons from, streamline, and increase efficiency of Section 404-compliance processes (e.g., documentation, testing, etc.) and enable improvements going forward.
2. Transfer historic compliance-related data, and ensure appropriate archiving and trend data is available.
3. Install and test the software from both a technical and user perspective. User testing will be critical because this type of software touches many noncompliance-related users in the organization's business units.
4. Roll out the technology across the enterprise, train users, and consider using a staged pilot-based approach to allow for learning and risk mitigation. Companies can't afford to hinder their ongoing compliance program, so deliberate rollout is a preferred strategy.

TECHNOLOGY IS ONLY ONE FACTOR

The discussion around 404 enablement will continue to increase as companies begin to move beyond their initial years of compliance. Those striving to meet Section 404 requirements should consider themselves on a compliance sustainability journey. Software can help sustain the journey, but it isn't an overarching cure-all. Although technologies are starting to better support compliance needs, companies need to remain focused on creating an effective compliance process, improving the awareness and understanding of their people, and putting a strong governance approach for achieving sustainable compliance in place. ■

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