NON-ACCELERATED FILER
SOX OPTIMIZATION
How to Reduce Costs Without Jeopardizing Compliance

Both the SEC and the PCAOB released new guidance on SOX in May, 2007. **The Management of Non-Accelerated Filers and their auditor can use this guidance to reduce the cost of compliance without jeopardizing its effectiveness.** The following are a few steps that can be taken in this direction:

- **Use the Work of Others** - Review your evaluation process to make sure it is designed in a manner that allows your auditors to maximize their reliance on your work. The new standards make it clear that your auditor may use the work of others to provide evidence supporting the effectiveness of internal control for both the audit of internal controls and the audit of the financial statements. Be aware that your auditor might challenge you on this issue as they may believe that using the work of others increases their risk and reduces their fees.

- **Combine the Financial Statement and Internal Controls Audits** - You should no longer be faced with the frustration and expense of having two separate audits. As a result of the new standards, the auditor should integrate the audit of internal controls with the audit of the financial statements. In addition, AS No. 5 states that “Obtaining sufficient evidence to support control risk assessments of low for purposes of the financial statement audit ordinarily allows the auditor to reduce the amount of audit work that otherwise would have been necessary to opine on the financial statements.” Meet with your auditors and determine how they plan to integrate the audits. Ask your auditors how and to what extent they plan to use your internal controls evaluation to reduce the amount of audit work required to express an opinion on your financial statements. Your auditor may challenge you on this issue as they might perceive that reducing their substantive test work increases their risk and reduces their fees.

- **Implement a Top-Down, Risk Based Scoping Approach** - Focus on financial reporting risk and not operating risks. Revisit risk assessment from a top-down, risk-based perspective every year. At the account and business process level, increase focus on the assessment of qualitative risk factors, such as subjectivity to estimates and nature of processing (routine and non routine), as opposed to focusing primarily on quantitative factors, such as size of balance. Remember, all risks are not equal.

- **Re-evaluate Key Controls Annually** - Focus on those controls that, should they fail, would materially impact the financial statements. Look first at entity level controls (especially those controls that directly relate to financial reporting risks such as analytical reviews), before focusing on process-level controls.

- **Automate Controls** - Investigate automated controls, such as the automation of system access, monitoring segregation of duties, monitoring the status of account reconciliations, monitoring unusual account activity and journal entries. Automated controls are generally more reliable, less costly, and more easily tested than their manual equivalents.

- **Initiate a Program of Control Self Assessment** - A well designed control self assessment program can significantly augment and enhance control testing work, while at the same time reinforce the need for accountability with the control owners. This program also takes some of the responsibility for control testing off the shoulders of internal audit and allows them to focus on the areas of greatest risk.

Always discuss revised plans and contemplated changes with the external audit team to help assess how these changes may affect the audit process. **Solicit their guidance on how to design your evaluation process in a manner that allows them to reduce their work without comprising compliance.**