

Compliance

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# Sarbanes-Oxley Section 404 Compliance

## COMPLEX ACCOUNTING AND RISK MANAGEMENT

Under Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"), corporate officers of publicly traded companies are required to submit an annual financial report to the SEC containing management's assertions regarding the effectiveness of the company's internal controls over financial reporting.

When initially implementing SOX, many companies experienced the common pitfall of spending excessive amounts of time testing controls in areas that do not materially impact financial statements. Auditing Standard No. 5 ("AS5") afforded companies the opportunity to reduce the scope of testing by focusing efforts on high-risk and material transactions. The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued the 2013 Internal Control – Integrated Framework which contributed to companies further refining their SOX programs. In current-day, SOX compliance costs an average company \$2.3 million annually in indirect costs, including documentation and external audits, compared to Internal Audit costing companies less than \$100,000 before the Act was passed in Congress (according to [sarbanes-oxley-101.com](http://sarbanes-oxley-101.com)). As SOX programs continue to evolve, more companies are leveraging SOX as a means for standardizing business processes throughout the company and implementing process and strategic planning improvements.

**"SOX compliance costs an average company \$2 million annually in indirect costs"**

**SARBANES-OXLEY  
ACT**

Our professionals work closely with each client to establish a comprehensive control structure, or strengthen the existing control structure, while tailoring the COSO framework to the organization's specific environment. With years of experience in financial reporting and disclosure issues, as well as firsthand experience helping clients implement the requirements of SOX, our professionals are skilled in analyzing, testing, and enhancing internal control systems and procedures. Our experience includes working with large global companies with centralized and decentralized finance organizations as well as small and midsize public companies, including those positioning for an IPO or to be acquired. Specifically, we work with companies to:

- Evaluate the existing overall control environment;
- Establish the scope of work to determine the units, divisions, and/or business cycles, as well as significant account and transaction risks to document and test;
- Develop business cycle documentation, testing plans, and strategy to compare with best practice controls;
- Identify existing internal controls and evaluate their effectiveness;
- Detect primary versus secondary internal controls;
- Test primary controls to evaluate operating effectiveness;
- Design and implement an antifraud program and related controls;
- Prepare recommendations to remediate identified control weaknesses and provide implementation assistance;
- Avoid surprises by regularly communicating with external auditors, the audit committee, and management; and
- Identify and capitalize on process re-engineering opportunities to improve operational efficiencies.



Additionally, our professionals assist in assessing an organization's enterprise risk management ("ERM") program or, if necessary, assist in the design and implementation of the program. This assessment is based on the updated ERM publication released in September 2017, "Enterprise Risk Management – Integrating with Strategy and Performance." Although COSO's "Internal Control – Integrated Framework" and the ERM publications are distinct and have different focuses, they support each other in maximizing an organization's ability to set and implement strategy, while effectively deploying resources.



# THE CHESS CONSULTING ADVANTAGE

Our highly experienced team of regulatory compliance experts assist companies and their internal audit functions to design, develop, and implement a methodology and sustainable approach for testing the effectiveness of internal controls that not only meets SOX's standards, but also fits the company's unique environment. We analyze a company's operating environment utilizing a risk-based approach to identify critical processes and material accounts to be evaluated, ensuring that each of the core components of the COSO internal control framework have been addressed. In addition to assisting clients with documentation, assessment and testing of internal controls, we also provide assistance improving and monitoring the internal control structure to effectively manage business risks unique to their organizations.

For those public companies that are government contractors, we have extensive experience effectively leveraging existing SOX compliance programs to address compliance requirements of the Defense Federal Acquisition Regulation Supplement ("DFARS") Business Systems Rule.

Our professionals deliver depth in virtually all areas of the financial accounting and reporting continuum, including internal audit and controls evaluation, financial reporting and related securities disclosures reviews, and complex accounting consultation. Additionally, our professionals possess an in-depth understanding of Federal Acquisition Regulation, DFARS and Cost Accounting Standards compliance requirements. It is this combination of critical audit and accounting skills, regulatory expertise, and business process expertise that distinguishes us from other consulting firms.

## Notable client engagements:

- A global biopharmaceutical government contractor. We began working with the company in 2008 to refine its existing SOX program. Our work included conducting process walk-throughs, flowcharting processes, identifying key controls and opportunities for enhancing control gaps ("gaps" represent the difference between current processes and best practice controls), and improving process efficiencies. We also assisted with testing of controls and provided recommendations for remediating findings. Upon issuance of AS5, we helped the company further refine and reduce the amount of controls testing required. Over the eight years we assisted the client, its external auditors did not identify any material weaknesses or significant deficiencies warranting disclosure and increasingly relied upon our work. The company's internal audit function continues to use the SOX foundation established by our work.
- A publicly traded, Fortune 500, engineering, technology, and management consulting firm. After the company spun-off its government sector business from its commercial sector, we were engaged to assist the company set-up its accounting system infrastructure including implementing a sustainable SOX program prior to the company's initial public offering ("IPO"). After several years assisting with all aspects of SOX including evaluating design and testing operating effectiveness of controls, facilitating remediation of gaps identified, assisting with implementation of process improvements and liaising with external auditors, we assisted the company transition from a co-sourced SOX program to an in-sourced SOX program.

### SERVICE LINE CONTACTS:

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*When the right move matters, contact Chess Consulting.*