Based on reports in the media as well as comments on this matter posted on the SEC website, cost is the number one complaint of respondents. I absolutely agree that this assessment is correct. However, before we jump to the conclusion that we should lessen the requirements in an effort to ease the cost burden, perhaps we should first examine the following:

1. Why compliance is so expensive and
2. Whether or not compliance cost can be reduced without sacrificing these important new controls.

Why Compliance is So Expensive

Internal controls are not new. All companies have internal control structures in place to differing degrees. The majority of companies needed significant improvements in their internal controls and the PCAOB, established by the Sarbanes-Oxley Act, does an excellent job of setting forth new requirements. The main issue is that the current requirements detail an internal control theory and a new audit report as a finished product, but do not detail a working model for how to make the leap from theory to practice.

In comparison, let’s look at what happens before a financial audit. Auditors complete college coursework in Audit. Auditors sit for and pass the CPA exam, which contains an entire section on Audit. This background provides them with an excellent framework before they ever walk into a client’s office. If complex questions arise on how to handle a situation, an audit partner provides guidance. If a client has a question about how to book a transaction, the auditors review it and provide guidance to their client.

Obviously none of this exists yet for the new internal control requirements. Pieces of it exist based on ongoing compliance work done by internal auditors and general internal control evaluations performed by external auditors, but there is no specific concrete source of information on how exactly to comply with the Act. As a result, compliance is extremely expensive because companies are currently paying for a large-scale case study in Sarbanes-Oxley compliance being performed by their employees, their auditors and their consultants.

Can Compliance Costs be Reduced without Sacrificing these Important New Controls?

In a word: Absolutely. The fastest way to reduce the cost is to work diligently to set forth guidelines based on last year’s experience that can help companies and auditors ensure that they are designing and testing the right controls and reporting these controls in the most efficient manner. Consistency among audit firms in auditing internal controls will immediately result in decreased cost to comply.

Consistency in reporting requirements is best gained through sharing of knowledge and experiences with the goal of designing a more standardized procedure for approaching Sarbanes-Oxley compliance.
The development of a more standardized methodology will require legions of examples of properly and improperly designed controls and numerous end-to-end case studies on how to efficiently comply with the internal control requirements of the Sarbanes-Oxley Act. But in the end, it will enable investors to better rely on the financial statements of public companies and provide additional assurances to employees that their company will not become the next Enron.

I look forward to the roundtable and the coming results.

Lisa Vann
Principal
TLV Group, LLC
Dallas, Texas
www.tlvgroup.com