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Often, internal controls make no sense to the people ultimately responsible for performing them.

BUREAUCRACY
The decisions it makes, have as much sense as this picture.
Costs of Internal Controls
Internal Control Costs

- **Direct Costs**
  - Personnel
  - Third-party audits
  - I/T systems

- **Indirect Costs**
  - Potential inefficiency
  - Reduced productivity
Protiviti 2015 Sarbanes-Oxley Compliance Survey

Surveyed more than 460 C-Suite & Internal Audit Employees
Reported an increase in total hours devoted to changes in SOX compliance in 2014

Two-thirds of companies

More than half of these companies reported increases of more than 15%
58% of large company respondents ($10B+) spent more than $1MM in most recent fiscal year – just on internal SOX compliance costs.
Three of four organizations reported external auditors placing more focus on ICFR.

More than half reported external audit fees rose in most recent fiscal year.
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The biggest cost jumps were for:

- Mid-size companies (revenues $100MM – $10B)
- Non-accelerated filers
- Emerging growth companies
- Pre-IPO organizations
External Drivers

- SOX
- COSO 2013
- PCAOB Inspection Reports
- Industry Specific Laws & Regulatory Guidance
  - Dodd-Frank Wall Street Reform and Consumer Protection Act
External Audit Costs

Greatest impact on cost for companies related to their external audit:

- Testing system reports and other information produced by the company
- Testing review of controls
- Addressing IT considerations
Considering All the Risks
Risk Considerations

- Misappropriation of assets
- Fraudulent or inaccurate financial reporting
- Operational effectiveness and efficiency
- Compliance risk
- Reputational risk
- Regulatory and legal compliance risk
- Strategy and operational alignment
- Profitability
Risk Considerations

Balancing is important in both big and small companies.

A number of studies support the conclusion that material weaknesses in internal control are more likely in smaller, younger and financially weaker organizations.
“Better to have a simple model backed by excellent people than the other way around.”

– Paul Carrett
Rather than on perfecting individual compliance activities, focus on driving:

- Improvements in upstream business processes
- Higher levels of maturity in overall compliance efforts
This likely reflects the maturity of SOX compliance in many companies to prune controls down to the most efficient levels.

73% Reported minimal or no reduction in total control count in 2015
Balancing Internal Controls
Consider both loss mitigation and cost mitigation in recommending controls.

- Communicate the link between internal controls, risk management, and profitability.
- The costs of a control should never exceed the benefits of a control.
Balanced Controls

Establish efficient separation of duties

- Deploy minimal number of employees for processes

Increase reliance on system controls

- Limit posting and maintenance access
- Utilize auto-balancing capabilities
- Establish dual control
Focus on crucial issues

- Determine which activities pose greatest degrees of risk

- Ensure that secondary reviewers of critical activities consider:
  - Accuracy
  - Completeness
  - Validity
  - Reasonableness
Discussion

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