IBM

Post-SOX, Internal Controls Still Need Your Attention

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This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

The renewed emphasis on internal controls created by Sarbanes-Oxley (SOX) and other transparency regulations forced many organizations to invest significant time and resources on internal controls.

Q. Now that the Sarbanes-Oxley work is substantially "finished," do internal controls still matter?

Clearly, internal controls still matter. On the one hand, businesses today are watching their pennies and they need to have control over what is important. On the other hand, there is a lot of change going on. Organizations are challenging their business models, challenging their existing processes and adapting to scale to current realities.

A company may have had what they determined to be a stable control environment, but it may no longer be stable. Things change. So controls will continue to matter. No question about it.

When we look at compliance, it still represents a sizable cost for organizations. There are great variations between "world class" companies and the averages for their peer groups. World class organizations now spend about 43% less on compliance than their peers. That is approximately $11 million–per year–for a typical Global 1000 company.

These differences, by the way, appear irrespective of company size or industry. Whether you're looking at a large company or a small company, and whatever your industry, there continues to be a substantial gap between the top performers and the others. So clearly, there are opportunities for cost savings within the compliance area. And it's important to keep in mind the Hackett philosophy that "world class is not a lifetime designation."

In the first couple years of Sarbanes-Oxley there was a lot of debate about what exactly a key control is. We saw organizations define key controls differently. One company might say, "We talked to our auditors, and we can pull back. This isn't a key control." But the reality is that, while maybe it's not something you have to test all the time, nonetheless there was a control there somewhere in your organization that was put there for a reason. Perhaps it can be eliminated, but you need to make sure that removing that control isn't a shortcut that will come back to bite you.

Another company might conduct a review and find that they were more conservative than they needed to be and ended up with duplicate key controls. That duplication isn't really enhancing the control environment, so there may be an opportunity to simplify. One of the mantras that you hear from Hackett is "leading firms simplify and standardize." And nowhere is that more true than in the compliance area.

We also think that the automation of controls to the extent possible is something that organizations should continue to look at. As we said before, environments are changing and what worked two years ago may not work now.

We think the challenge for company controllers is to not be complacent because they got done with SOX. Key controls continue to harbor gaps or present opportunities for most organizations. And all the underlying premises around common systems, common processes, common geography where those processes are performed, are all critical to keeping a good control environment.

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About Bryan Hall

Bryan Hall is the Practice Leader of the Finance Executive Advisory Program for The Hackett Group. Mr. Hall has more than 20 years of experience in finance, accounting, systems and consulting, with a focus on transforming the finance function through effective planning, efficient process management and working capital management. Mr. Hall may be contacted at bhall@thehackettgroup.com.

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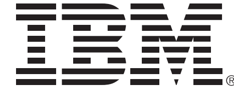

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