

COVID-19 AND YOUR SOX COMPLIANCE PROGRAM

Practical Considerations While Navigating the Crisis

Issue 1

Alternate Evidence/Control Update Reminders

With the impact of Covid-19 extending further every day, the effect on your SOX program is unlikely to be your top priority. However, despite the fact that the SEC has allowed for some delay in filing dates, business continues. Internal controls must still be executed and documented, even if in a different manner than was done historically. Paying attention to these practical reminders and taking action now with your control and process owners will save you time and effort later in the year.

We understand that you need to adjust today, especially with calendar year companies quickly coming to the end of Q1. We have compiled a list of adaptable approaches proven with clients and their external auditors. There are also related improvements you can make in your process in the longer term to get ahead of these types of concerns in the future. The table below provides some illustrative solutions for common items we have helped clients work through over the past few weeks.

Potential Impact	Short-Term Solution	Long-Term Solution
Manual journal entry review	<ul style="list-style-type: none">Review: Use digital signature and PDF writer to complete review and markup scanned documents.Supporting evidence: Capture support information through screen shots or phone pictures and email to retain evidence for this period (including computer timestamp to prove timeliness of review).	<ul style="list-style-type: none">Use workflow within ERP or a tool such as Blackline, with an add-on to allow for easy viewing of JE support if needed.Utilize a tool like Mindbridge to perform analysis over JE data and identify outliers and anomalies.
Period-end manual journal entry completeness review	<ul style="list-style-type: none">Use SharePoint or similar tools to store journal reports and PDF writer to evidence review and mark up review notes.Use a manual journal review risk ranking to focus on high risk journal entries.	<ul style="list-style-type: none">Use collaboration tools such as Microsoft Teams to evidence task completion and recording evidence of completion.Use a manual journal review risk ranking to focus on high risk journal entries.
Manual account reconciliation review	<ul style="list-style-type: none">Create a SharePoint or intranet folder with restricted access and allow posting to that site to signify approval for this period;Grant a temporary extension or scope out certain low risk or low activity;Validate with a follow-up e-mail to the preparer noting approval and no required follow-up procedures.	<ul style="list-style-type: none">Leverage an automated reconciliation tool such as Blackline or Trintech to facilitate the process and retain support; risk-rank account reconciliations.
Period-end checklists	<ul style="list-style-type: none">Use SharePoint with secured folders to store checklists and online signature tools such as DocuSign to evidence completion of tasks with a digital record of timeliness.	<ul style="list-style-type: none">Use collaboration tools such as Microsoft Teams to evidence task completion and recording evidence of completion.Use process workflow tools such as Nintex to help enforce the process, support step to step progression and monitor status

10-Q/K tie-out binder	<ul style="list-style-type: none"> Utilize Adobe Acrobat to capture tie-out electronically. Capture hand-written tie-out via a scanner such as Genius Scan and save. Create a network folder which only the reviewer had access to and allow transfer into this file to serve as evidence of review. 	<ul style="list-style-type: none"> Use a tool such as Workiva to facilitate financial reporting support and tie-out process.
Manual employee change notices or user access provisioning forms	<ul style="list-style-type: none"> Create a centralized SOX documentation email box to be copied on email approvals; Leverage DocuSign or other signature tools or any other workflow tools such as Nintex 	<ul style="list-style-type: none"> Leverage ServiceNow or another tool to capture and evidence approvals.
Period-end physical inventory count/validation	<ul style="list-style-type: none"> Utilize video share to locate and view sample selections to validate quantity and quality where needed for higher risk locations; or deploying in-building/outside drones. Have third-party certify or confirm count for lower risk locations; Rollback or rollforward inventory balance to alternate date 	<ul style="list-style-type: none"> Use automated/remote scanning or tagging solutions to validate barcodes of inventory on hand.
Period-end user access review	<ul style="list-style-type: none"> Remind owners to run reports on or as of period end date exactly. If reports are run as of a later date, this may force reconciliation back to the period-end date. 	<ul style="list-style-type: none"> Configure system to automatically run and distribute reports within pre-defined date and data parameters.
Minimum password reset frequency	<ul style="list-style-type: none"> If your organization is suspending the reset of passwords every X days, ensure that control wording is updated, and risks are mitigated by other controls. 	<ul style="list-style-type: none"> Institute an automated reset application driven off security questions to avoid impact on IT Support to allow for the password reset frequency without interruption.
Dual check signature requirement	<ul style="list-style-type: none"> Temporarily update transactional authority to a central point such as Controller or Head of Finance; and periodically monitor activity through weekly review of high-risk/high-dollar activity to ensure appropriateness. 	<ul style="list-style-type: none"> Utilize banking software tools.
Manual approval of invoices, contracts, agreements, asset purchase or disposals, scrap sale etc.)	<ul style="list-style-type: none"> Utilize secured digital signature tools such as DocuSign to record approvals on the secured documents. 	<ul style="list-style-type: none"> Use workflow within ERP, with an add-on to allow for easy viewing of secured documents and sign off using digital signature tools.

Other Control Reminders:

While there may not be time to update all process and procedure documents now, control descriptions should be updated to reflect changes to procedures to ensure that testing occurs against these revised practices. Organizations may consider facilitating a control certification, even if off cycle from their typical annual or quarterly frequency, to ensure that control owners have adjusted control design and timing of execution to still adequately mitigate risk and document their activities. When

activities begin to settle down, it will be important to reassess any temporary changes in control design and operation to ensure that they continue to remain in alignment with the organization's risk appetite.

COVID-19 will require you to dust off your significant and unusual transactions controls and the related management review considerations. The same treatment will be needed for going concern and debt covenant controls, along with controls over disclosures outside the basic financial statements. Be sure to consider the guidance provided by the SEC Division of Corporate Finance (<https://www.sec.gov/corpfm/coronavirus-covid-19>) with regard to COVID-related financial reporting matters. With the timing of the largest impact in the US hitting in the last several weeks of calendar Q1 2020, there will not be much time to quantify the impact, record adjustments needed, draft disclosures and get external audit through Q1. However, don't lose sight of retaining evidence for management review controls.

Companies in certain industries are furloughing staff and shuttering or substantially reducing operations. Individuals may also be off for some time due to illness or caring for family members. This can result in the period end close being performed with substantially fewer or different resources. This may be the time you wish you had detailed policies and procedures, documented methodologies, and job descriptions which detail internal control responsibilities. You may wish you had better documentation of how a resource calculated that reserve or completed that analysis. When we get through this crisis, emphasize the importance of this documentation and work with your team to make sure it is there – or more readily retrieved - the next time it is needed.

You will also likely find it easy in this situation to rely on phone calls and video chats, but it will be more important than ever to formalize decisions and follow-up procedures in e-mail or formal "minutes" following these telecommunications, to memorialize the support for the decisions made. Where we suggest above that you utilize email to capture control activity, we suggest that all supporting evidence be attached to email string, for example forwarding your e-mail with approval versus replying, which does not retain the attachments.

Applying these practical tips for the short term can help you take quick action now to avoid adding ineffective control execution to your list of challenges to overcome in FY20. Addressing the long-term considerations we suggest above can make the next business disruption less stressful than the last several weeks have been.