

The Sarbanes-Oxley Act

The Role of IT

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The Sarbanes-Oxley Act:
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Executive Summary

The Sarbanes-Oxley Act of 2002 (SOX) forever changed financial reporting by requiring corporations (and therefore, IT professionals) to protect the integrity of financial data and alter the IT infrastructure to meet regulatory standards. Section 404 of the act specifically outlines its requirements and defines IT's role in reducing the risk of unauthorized access and data tampering. To achieve compliance, corporations must implement mandatory IT controls, continually test them, and sustain their effectiveness.

Some organizations have attempted to comply with the Sarbanes-Oxley Act by implementing temporary, manual controls - a costly effort in terms of man hours and dollars. Unlike the Y2K challenge, a one-time event, organizations are now faced with an ongoing, dynamic process. According to the Journal of Accountancy, "Organizations reporting rises in SOX compliance costs and external audit fees in 2012 vastly outnumbered those reporting decreases." Expectations to operate within SOX are increasing and as a result, so are the costs of doing business under Sarbanes-Oxley.

While there are many facets to SOX compliance, change management has emerged as its cornerstone. To ensure and demonstrate that only authorized and intended alterations have been made, all changes to the IT infrastructure must be monitored, tracked, and documented.

For each tracked change, specific details are required:

- Who was involved in the change?
- What did the change entail and what systems were affected?
- When was the change made?
- Where was the change made?
- Why was the change made?

To increase the efficiency and cost-effectiveness of the change management process, IT organizations must implement an automated system configured to mirror its workflow. A well-designed change management tool provides organizations with a clear view of the internal IT infrastructure and its dependencies, creating a living snapshot for IT, internal auditors, and third party auditors who validate the controls. It also enables IT organizations to automate key controls supporting compliance efforts, ultimately reducing downtime and costs.

With SunView Software's ChangeGear enterprise solution, IT organizations can easily and quickly establish change control using ITIL best practices - achieving compliance effectiveness.

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Requirements for Successful SOX Compliance

The Sarbanes-Oxley Act of 2002 (SOX) focuses on restoring confidence in public capital markets following several highly publicized failures of corporate ethics - most of which relate to breaches of managerial trust and falsified or manipulated financial data. Section 404 of the act, Management Assessment of Internal Controls, requires corporations to produce an annual internal control report proving they achieve the following:

Establish and maintain an adequate internal control structure for financial reporting.

This entails ensuring only authorized users have access to specific data, and there are measures in place to protect the confidentiality, integrity, and veracity of that data. When asked by analysts from the risk & business consulting firm Protiviti, "How has your internal control over financial reporting structure changed since SOX Section 404(b) was required for your organization?" 32 percent of large accelerated filers claimed they had experienced "significant" improvement while 48 percent of accelerated filers noticed a "moderate" improvement.

Assess controls and their effectiveness. Organizations must assess implemented controls and prove they are continually effective.

If the system changes and/or adding new user to the system, modifications must be made. According to the data collected by the analysts, this has resulted in 66 percent of executives and professionals involved with SOX reporting "at least moderate change due to demand for increasing process and control documentation for high-risk processes."

Engage an outside party to audit controls and attest to their soundness.

External audits test control systems and ensure they have not been and cannot be breached. When audits uncover system weaknesses, organizations must repair them.

While Section 404 specifically addresses the company, IT's role in producing these reports is evident since most financial data resides within the IT infrastructure. According to the risk & business analysis, automation of controls continues to be an area of increased focus, with 90 percent of companies surveyed in 2013

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indicating they have plans to automate IT processes and controls for SOX compliance, up from 83 percent in 2012.

What Does SOX Compliance Mean For IT?

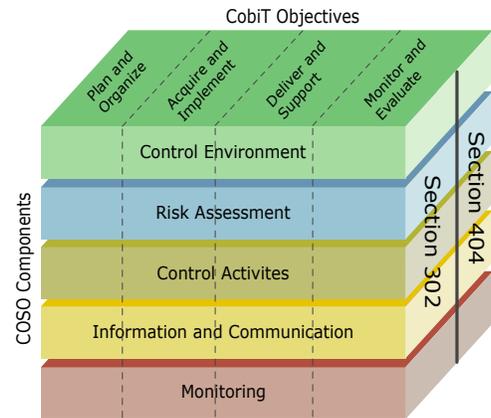
Since SOX is rooted in ensuring the accuracy and integrity of financial reporting, the authenticity of these reports is heavily dependent on a well-controlled IT environment. IT must close the loop on security issues and establish internal control solutions that demonstrate repeatability and sustainability.

However, according to Christian Lahti, Roderick

Peterson and Steve Lanza, authors of *Sarbanes-Oxley IT Compliance Using COBIT and Open Source Tools* state, “There is one enormous problem: there is no specific mention of IT in Section 404, and more importantly, there are no specifics as to what controls have to be established within an IT organization to comply with Sarbanes-Oxley legislation.”

According to Protiviti, while in the process of conforming to the requirements of SOX standards, there is also the opportunity for organizations to modernize by automating more of their manual processes and key controls. 16 percent of organizations surveyed in 2013 responded they had, “Significant plans to automate a broad range of IT processes and controls (further than the requirements).” This represents a 33 percent increase of this plan over the previous year.

While the Sarbanes-Oxley Act provides new corporate governance rules and regulations, the SEC mandates that companies select and implement a suitable internal control framework. Two frameworks—COSO (Committee of the Sponsoring Organizations) and COBIT (Control Objectives for Information and related Technology)—are commonly adopted for SOX compliance. While COSO generally focuses on business processes, COBIT is an internationally recognized IT governance framework, as well as the leading model for establishing and maintaining robust IT controls. As such, the majority of auditors have adopted COBIT (as the) path of least resistance to (SOX) compliance (Lahti, Peterson, Lanza).



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The COBIT framework encompasses four domains containing 34 IT processes for Section 404 compliance requirements. One of these domains is change management. COBIT states: “Controls provide reasonable assurance that system changes of financial reporting significance are authorized and appropriately tested before being moved to production.” For the COBIT framework to succeed, change management processes must be implemented.

Information Technology Infrastructure Library (ITIL) is the framework for managing your IT processes. The ITIL v3 methodology is made up of 26 processes and four functions.

By combining the framework and operational protocols of both ITIL and COBIT, a business increases the likelihood of operating within the requirements of SOX and ensures that the IT departmental awareness encompasses more than either IT framework alone.

Regardless of whether an organization uses COSO or COBIT standards for establishing internal controls, control objectives should reflect the complexities of the organization’s IT infrastructure. To determine which controls should be employed, IT organizations should analyze each system component and its inherent dependencies, looking across the entire business system to understand how they manage these resources. In addition to acquiring and implementing new applications, IT must also maintain existing applications and segregate duties.

Change Management’s Role in SOX Compliance

As IT organizations grow from small to large, their change control procedures often involve a manual process - or no process at all. Since they generally rely on ad hoc change activities, these organizations can’t adequately track system and application changes as required for SOX compliance.

As the cornerstone of sound IT operations, change management plays a key role in SOX compliance. A solid change management system provides an all-encompassing view of IT operations, establishes a gate-keeping protocol to track and limit access to financial data (and the systems generating the data), ensures that simple changes like software updates don’t impact or circumvent implemented controls, and supplies an audit trail. And as the report points out, “by intensifying scrutiny of high-risk processes, organizations can increase compliance effectiveness and efficiency (by investing less time and money on low-risk processes).”

It’s frequently challenging for IT to implement a change management system in a timely, cost-effective manner. If planned and implemented

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properly, however, an automated change management system can steer an IT organization toward improved efficiency while reducing the cost of compliance. Having a solid change management system in place lays the groundwork for sustainable, repeatable outcomes and validates the effectiveness of IT change control.

The ChangeGear Change Management Solution

SunView Software's ChangeGear offers IT organizations a powerful, easy to use solution that helps manage, track, and document IT infrastructure changes. With automated approval and notification, historical audit trail, and a real-time view of change activities, IT organizations can demonstrate the effectiveness of IT change management to ensure Section 404 compliance.

With ChangeGear, IT organizations can:

- Achieve regulatory compliance by demonstrating the formal IT change control process required by the Sarbanes-Oxley Act, HIPAA, and others.
- Ensure the segregation of duties.
- Eliminate erroneous or fraudulent transactions.
- Provide notification to all stakeholders before, during, and after a change takes place.
- Decrease security vulnerability by gaining tighter control over assets and information.
- Track and verify changes.
- Ensure repeatable and sustainable processes with a customizable, automated workflow.
- Increase the success rate of IT projects by adopting software built on industry best practices.
- Decrease operating costs by reducing or eliminating change management failures.
- Enhance IT operations efficiency to better meet service level agreements.

SOX compliance is a primary, ongoing, and dynamic challenge facing today's IT organizations. As the foundation of sound IT operations, change management plays a key role in SOX compliance. Discerning companies know that automating change management functions can reduce downtime and costs while increasing efficiency. SunView Software's ChangeGear provides the perfect solution.

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Summary

More than a decade after it was passed into law, SOX compliance requirements continue to have a significant impact on the IT organization of many companies. As the foundation of sound IT operations, change management plays a key role in SOX compliance. Discerning companies know that automating change management functions can reduce downtime and costs while increasing efficiency. SunView Software's ChangeGear provides the perfect solution.

About SunView Software

Founded in 2003, SunView Software is a leading provider of cost-effective IT Service Management software solutions. Our Change and Configuration Management suite helps enterprises drive IT operational efficiency and achieve regulatory compliance. Using the ITIL best practices framework, our solutions enable organizations to control and manage change processes, automate IT resource discovery, and view their infrastructure from a centralized repository. Results include streamlined processes, improved communication, and reduced costs.

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