Internal Controls Too Cumbersome? Try “SOX Lite”
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Most companies that are not required to comply with Sarbanes Oxley (SOX) are glad. If you ask small to medium sized non-publicly traded companies their thoughts on SOX, you may get answers like: “it just adds extra work”, “there is no real benefit”, “it costs too much money”, or “how can companies grow if they have controls slowing them down”.

However, Boards of Directors, Boards of Advisors, and management of non-public companies are beginning to understand the long term value of understanding and evaluating internal controls of their organizations. Many are expressing an interest in “SOX Lite”. Besides just shareholders, stakeholders such as employees, managers, customers, and vendors also benefit from a company having proper internal controls in place. Not to be confused with the full blown requirements of SOX, SOX Lite refers to a simpler, less expensive way to evaluate internal controls over financial reporting to make sure companies have a good foundation of internal control. Once companies gain a general understanding of internal controls, why they are needed, and where they are needed to provide the most value, management can develop better processes and build on this foundation to strengthen internal controls.

Below are some suggestions on how to get started:

Start with the low hanging fruit. Find areas of higher risk or think of processes where you typically have issues or high turnover and start there. Performing a high level risk assessment based on the most recent financial statements will also help pinpoint these areas.

Understand the low risk areas too. While it is important to identify high risk areas and make sure you have controls in place to cover these risks, it is also important to understand low risk areas to make sure you do not waste time and money trying to control areas of minor financial or operational significance.

Focus on one area at a time. The most common mistake companies make is to try to address a lack of internal control broadly across the entire company all at once and then find they are overwhelmed and give up. Complete one small area from start and finish, evaluate if it was a success, and then move on from there.

Set a goal. Make realistic goals for what you want to accomplish given the resources available. Take the long term view, but require consistent, measurable progress.

Ask for help. While there is no cookie cutter list of internal controls, consultants with expertise in risk management will have a good idea of internal controls that span across many companies and can help tailor controls to your needs. If you hire a consultant to help, make sure someone from the company is involved in the process. Internal involvement is essential to make sure controls identified are addressing the key areas of concern. Companies also want to be sure they can monitor controls and recognize when adjustments and additions are needed.

Think beyond financial reporting. Not only is it important to have internal controls around financial reporting, but also in operational and compliance areas as well.

Multitask. Going through the exercise of evaluating a process to identify where internal controls reside and where they may be missing can often call out areas in need of efficiency and other process improvements.

If you are wondering if internal controls are right for your company, the answer is yes. The challenge is finding the time and resources needed to determine the level of internal control that will provide the most value to your company. It really does not have to be as cumbersome, or as costly, as it may seem.