

*K. Nazarova,
PhD, Associate professor, The Head of Financial Analysis
and Audit Department of Kyiv National University of Trade and Economics, Kyiv
V. Mysiuk,
Post graduate student of Financial Analysis
and Audit Department of Kyiv National University of Trade and Economics, Kyiv*

SOX COMPLIANCE-AUDIT

*К. О. Назарова,
д. е. н., доцент, завідувач кафедри фінансового аналізу та аудиту,
Київський національний торговельно-економічний університет, м. Київ
В. О. Мисюк,
аспірант кафедри фінансового аналізу та аудиту,
Київський національний торговельно-економічний університет, м. Київ*

КОМПЛАЄНС-АУДИТ SOX

Under the conditions of doing business in the open economy area, the formation of a reliable control environment in the company, as a tool for fighting fraud and managing other risks, is a necessary element of its management system. Among the most world popular measures to protect against corporate fraud are an internal audit system and an internal control system, whose work system needs to be continuously improved. One of the ways to increase the reliability of the internal control system is its assessment of compliance with the Sarbanes Oxley Act (SOX). The article considers the possibility of estimating the company's internal control system based on SOX requirements. We suggest to develop a system of auditor's documents for the assessment of the internal control system, which will provide an expanded list of control tests, the results of which will enable the auditor to promptly conclude on its reliability. The use of this complex of tests in the work of the internal auditor will facilitate a more effective evaluation of the internal control system, which will show the result in the process of determining the synergistic effect of the interaction of external and internal audits.

За мов ведення бізнесу в зоні відкритої економіки, формування надійного контрольованого середовища в компанії як інструменту боротьби з шахрайством та управління іншими ризиками є необхідним елементом її системи управління. Серед найбільш популярних у світі заходів захисту від корпоративного шахрайства є система внутрішнього аудиту та система внутрішнього контролю, процедуру роботи яких потрібно постійно вдосконалювати. Одним із напрямів підвищення надійності системи внутрішнього контролю є її оцінка на відповідність положенням Sarbanes Oxley Act (SOX). У статті розглянуто можливість оцінки системи внутрішнього контролю (СВК) компанії, базуючись на вимогах SOX. Нами запропоновано розробити систему аудиторських документів для оцінки СВК, якими буде передбачено розширений список тестів контролю, за результатами яких аудитор матиме можливість оперативно зробити висновок про її надійність. Застосування цього комплексу тестів у роботі внутрішнього аудитора сприятиме проведенню більш ефективній оцінці СВК, що проявить результат у процесі визначення синергетичного ефекту від взаємодії зовнішнього та внутрішнього аудитів.

*Key words: audit, internal audit, internal control, SOX, compliance-audit, SOX compliance-audit.
Ключові слова: аудит, внутрішній аудит, внутрішній контроль, SOX, комплаєнс-аудит, комплаєнс-аудит SOX.*

URGENCY OF THE RESEARCH

Since the signing the EU-Ukraine Association Agreement, Ukraine is gradually merging into an open economy zone, and the requirement to form a reliable

control environment to serve as a guarantor of the quality of the information forming in it, is put forward to all those present companies in the market. A significant number of companies that have survived the period of the financial

crisis, in their tactics of business development are growth-oriented, including through the development of new markets or buying new assets. Capturing of additional geographic regions is accompanied by unplanned risks, including fraud. Under these conditions, companies face a dilemma: invest in growth and the need to create a sound corporate environment that ensures compliance with all rules and regulations, which is also a labor-intensive process that requires investment in technology, personnel and training. Accordingly, there is a need to justify the effectiveness of the business as one that involves investment in compliance. Among the most popular measures to protect against corporate fraud in Ukraine and in the world the leading is the internal audit activity (hereinafter the IAA) and the system of internal control (hereinafter the SIC). Public Company Accounting Reform and Investor Protection Act, issued in 2002, or more often referred to as the Sarbanes Oxley Act (hereinafter the SOX), was put into force in response to a number of serious scandals related to the insolvency of the audit and the fraud in the financial reporting area. The main objectives of the SOX Act are [1, p. 73]:

- Improving the quality and transparency of financial reporting, as well as independent audit and accounting services for public companies;
- Improving the process of developing the reporting practice standards;
- Increasing the independence of enterprises involved in the audit of public companies;
- Internal control and audit in management;
- Increase of corporate responsibility and usefulness of disclosure of financial corporate information;
- Ensuring a guarantee of the objectivity and independence of securities analysts.

In this regard, within the last years modernization of a company's internal control environment has become increasingly popular due to the Sarbanes Oxley Act. The need for a deeper investigation of the company's SIC is caused by the fact that about 80% of respondents interviewed by the International Finance Corporation are lacking information on the SIC. In turn, 92% of respondents argue that the company becomes more transparent just due to the effective SIC in the company [2].

TARGET SETTING

In recent years, there has been a tendency in Ukraine when the agencies of international companies, listed on the New York Stock Exchange, each year conduct a detailed audit of the SIC for compliance with its SOX provisions, thereby expanding in practice a list of procedures aimed at evaluating its SIC. Such tendency is justifiable, since open economic relations envisage the integration of business, which will lead to the filling of the national market with international companies, which will be highly competitive on the domestic market. Nevertheless, many leading companies of the domestic market, based on these provisions, form the SIC, which is supposed to serve as the guarantor of the reliability of information about its activities. Therefore, today's problem issue for such companies is the formation and enforcement of a single SIC policy that would allow managers of different levels to rely on a single document and foresee its periodic assessment of the SIC for its compliance with these requirements.

ACTUAL SCIENTIFIC RESEARCHES AND ISSUES ANALYSIS

The issues concerned the control environment evaluation as a part of the audit in companies, as well as issues of generalization of internal and (or) external audit, were studied by the following scientists in their works: M. Bilukha, V. Bondar, F. Butynets, N. Vyhovska, H. Davydov,

I. Dmytrenko, N. Dorosh, V. Zemskov, T. Zyrianova, T. Kamenska, O. Redko, B. Usach, N. Shalimova and others.

UNINVESTIGATED PARTS OF GENERAL MATTERS DEFINING

Under conditions of doing business in an open economy, it is expected the formation of new problem issues caused by the expansion and complexity of business processes. Therefore, the issue of forming an effective interaction between external and internal audit under the company's SIC valuation, based on extension of control procedures in accordance with the provisions of SOX.

THE RESEARCH OBJECTIVE

Based on the above, we consider it expedient to substantiate the necessity of forming an expanded complex of tests for the assessment of the SIC, which will enable to identify its gaps and to promptly take all measures to prevent their occurrence in the future. The use of this complex of tests in the work of the internal auditor will facilitate a more effective evaluation of the SIC, which will show the result in the process of determining the synergistic effect of the interaction of external and internal audits.

THE STATEMENT OF BASIC MATERIALS

As an internal audit is rather new, it needs its own maintenance which has not yet been fully developed, internal auditors widely use SOX standards [3] in practice, which require management of the organization to carry out and continuously monitor the system of ensuring the effectiveness of internal control over the preparation of financial reporting. M. Bilukha and T. Mykytenko argue a clear substantiated position on internal audit and its imperatives determining that the internal audit solves the following tasks for the client: studies the system of asset control; checks the compliance of control with the policy of the entity; analyzes risk situations and prevents bankruptcy; uses the know-how to increase the profit and efficiency of the new technology; takes other measures that promote the development of the business entity in business [4, p. 101—102].

Adapting the leading practice, domestic business entities began to form internal audit systems to carry out only a controlling function. Since the introduction of the SOX Act, its perception was more focused on complying with the requirements of the legislation. Participation in risk management was only an idea. Today, compliance with SOX is an important part of the risk management system, which is designed to add value to the enterprise.

In forming an effective company management strategy the use of SOX provisions is given particular attention, directly for the purpose of enhancing corporate responsibility and the usefulness of disclosing financial and corporate information. According to the results of the study above [2], the achievement of this goal caused a significant lack of information among its users.

As a developed economy involves the functioning of business entities in open markets, this fact should be taken as a challenge and positive experience of other countries for the synergy of internal and external audit.

A synergistic approach to the interaction between internal and external audit has a tangible advantage via a larger amount and, consequently, the quality of audit evidence. The auditor must indicate whether the received audit evidence provides sufficient and appropriate basis for expressing the opinion of the auditor. It is necessary to clearly distinguish between the responsibility of the external

Table 1. Auditor’s working paper "Assessment of the SIC in compliance with its SOX requirements"

Information for testing the SIC in compliance with its SOX requirements and recommendations for testing		
1*	Name of the control procedure	Confirmation of the reality of contractual relations
2	Code of the control procedure	APA01
3	Important test updates	N
4	Description of the control procedure	Checking the availability of approved contractors list, which is tested annually to ensure the compliance of the contractors policy with the company policy. The list gives grounds for asserting that all contractors are active and information on their cooperation is relevant. Checking whether all contractors' accounts, which have not been transacted for a long time, are closed and blocked in the banking system
5	Risk	Error and fraud
6	Purpose of the control	Existence, validity and accuracy of information about suppliers
7	Recommendations for carrying out the control procedure	Approach to the testing: - Receive a report on the work with contractors in accounting, banking and electronic SIC data - Identify which contractors are not active - Ensure that all accounts of inactive contractors are blocked - Ensure that all information about active contractors is true - This information should be reviewed by the supervisor at least once a year Possible scenarios for obtaining information (in detail) The correctness of presenting the information (detailed)
Evaluation criteria of the SIC testing in compliance with the requirements of SOX		
1	Code of the control procedure	APA01
2	Important test updates	N
3	Test result (score)	5
4	List of control tests	
	1	What percentage of all contractors list was checked and approved by the supervisor?
	2	What is the date of the frequency of approval the contractors list?
	3	What percentage of contractors has been verified and agreed upon in an electronic SIC?
	...	What is the date of approval of the list of inactive contractors in the accounting system?

Source: * instance of filling a document on the example of the control procedure (developed by the authors).

auditor, internal auditor and other personnel of the entity. The result of such a clear distinction is increasing the responsibility of both the auditor and the entity of the entity for the information provided. This approach is absolutely correlated with the leading global experience of interaction between internal and external auditors regulated by SOX. In turn, expanding the tasks of internal auditors testing the company's control system, will increase the level of trust to the company's SIC.

The introduction of synergy of internal and external audit should be based on the effective work of the IAA and qualitative external audit. In particular, a large survey of domestic business entities and banks on the state of internal audit and internal control conducted by IFC experts made it possible to establish that domestic business increasingly recognizes that the function of effective and independent internal audit is a key component of effective management risks and SIC [2]. This shows the changes in the mental perception of internal audit: from the type of internal control to a separate significant component of risk management.

The proof of this thesis is an example of an assessment of existing positive experiences in developed market economies, where defined structures should have an internal audit department that regularly assesses risk management and internal control systems. As a result, the attitude of enterprises to the risk management process has changed fundamentally. Companies around the world have invested heavily in personnel, processes and technology to control business risks. Historically, these investments are primarily focused on financial control and compliance with legal requirements.

One of the key reasons for recourse to external audit services is the shortcomings in the work of the IAA, which is also confirmed by the results of the global EY study. 70% of respondents say about the need to improve the IAA. Most respondents, whose internal audits involved in the SOX, said that less than 25% of the IA budget was spent on SOX testing, which is in fact justifiable, taking into account the effect that the users of information receive [5]. In this case, in practice, internal auditors assess the compliance of the SIC with

the requirements of SOX, without providing a separate conclusion, although it would be desirable to form separate files with the list of control procedures and their outcome. Based on this, the auditor will be able to argue his conclusion on the SIC and provide recommendations on weak areas. The above study provides four areas for expanding the functionality of SOX: automating processes, coding control tests, using IT investments, and strategic innovations for SOX execution. Based on this, we propose the introduction of an internal SOX compliance-audit, which will cover all four stages of its expansion. The technique of conducting it is supposed to work with several documents on the assessment of the SIC in accordance with its internal corporate policies on SOX. Such documents can be presented in tab. 1.

These auditor's documents can be created in an Excel file, which will contain two tabs: the recommendation for control, as well as a tab for conducting a direct evaluation of the information. Such electronic form involves its periodic use by the auditor, this will reduce the time for conducting an assessment of the SIC, due to the fact that for each type of control procedure a list of control tests will be provided, the results of which will allow the auditor to give an operational and unbiased assessment of the company's SIC.

According to the results, the auditor concludes whether the company complies with the policy or not, or in which part it does. As a result of the testing, it will be clearly understood what areas of the SIC need to be finalized and in which direction.

Nevertheless, using these documents, external auditors will be able to reduce the time spent on conducting an assessment of the SIC and increase the level of confidence in the internal auditors information.

Taking into account the above, we consider it necessary to introduce the concept of "SOX compliance-audit", which involves the use of a set of tests for the assessment of the effectiveness of the company's system of internal control, as required by the SOX law, compliance of which is provided by the company's internal-corporate policy.

Directly Point 404 SOX requires managers to recognize their responsibility for the creation and maintenance of a

reliable SIC in the company, as well as procedures for generating transparent financial reporting. Therefore, managers should take all measures to ensure such level of reliability. It is possible to realize this task precisely because of the implementation of policies for assessing the SIC for compliance with its SOX requirements, by expanding the work of the IAA with an additional set of control tests for the assessment of the SIC.

CONCLUSIONS

Developing a company's internal audit strategy, it is necessary to focus on the company's corporate strategy, including compliance with all the policies and procedures relevant to its internal-corporate environment and directly to the control environment. The work of optimized internal audit is focused on the risk management and is aimed at implementation of the corporate strategy of the enterprise, and therefore, it is necessary to introduce the SOX compliant audit, the results of which will not only fully satisfy the interests of information users, provide sound evidence of the quality of the SIC for internal auditors, but also will significantly increase the level the confidence of external auditors to the results of internal work, which will manifest its result in the form of a synergistic effect. In turn, such users as managers and owners will have a permanent and operational access to the results of the company's SIC valuation, which will give an opportunity to influence directly on that zone which really has gaps in management and can serve as a reason for the emergence of a business risk.

References:

1. Redko, O.Yu. & Kamenska, T.O. (2015), *Vnutrishniy kontro li audyt v upravlinni* [Internal control and audit in management]. Kyiv: "Informatsiino-analytychne agenstvo".
2. *Doslidzhennya praktyky vnutrishnoho audytu i vnutrishnoho kontrolyu v Ukraini* (opytuvannya ukraïnskykh kompaniy i bankiv pro stan vnutrishnoho audytu ta vnutrishnoho kontrolyu) [Investigation of the internal audit and internal control practice in Ukraine (survey of Ukrainian companies and banks concerning internal audit and internal control state)]. (n.d.) ey.com. Retrieved from <http://www.ey.com/UA/uk/Home> [in English].
3. Zyrjanova, T.V. & Terekhova, O.E. (2006), *Vnutrenniy audit kak otsenka nadezhnosti i effektivnosti systemy vnutrennego kontrolya* [Internal audit as an assessment of the reliability and effectiveness of the internal control system]. *Ekonomicheskyy analiz: teoriya i praktika — Economic Analysis: Theory and Practice*, 16, 17, 8—14, 13—20.
4. Bilukha, M.T. & Mykytenko, T.V. (2005), *Finansoviy kontrol: teoriya, reviziya, audyt* [Financial control: theory, audit, audit]. Kyiv: "Ukrayinska akademiya oryhinalnykh idey".
5. Thinking outside the SOX box Transforming your compliance function for competitive advantage. (n.d.) ey.com. Retrieved from [http://www.ey.com/Publication/vwLUAssets/Think_outside_the_SOX_box: Transform_your_compliance_function_for_competitive_advantage/\\$FILE/Thinking%20outside%20the%20box.pdf](http://www.ey.com/Publication/vwLUAssets/Think_outside_the_SOX_box: Transform_your_compliance_function_for_competitive_advantage/$FILE/Thinking%20outside%20the%20box.pdf).
6. International standards for the professional practice of internal audit. (n.d.) iia.org.ua Retrieved from https://www.iia.org.ua/?page_id=189 [in English].
7. Mizhnarodni standarty kontrolyu yakosti, audytu, ohlyadu, inshoho nadannya vpevnenosti ta suputnykh posluh [International quality control, auditing, review, other assurance related services pronouncements]. (n.d.) app.com.ua Retrieved from <http://www.apu.com.ua/msa>.
8. Sarbanes-Oxley Act. (2002), Edition. (n.d.) soxlaw.com Retrieved from <http://www.soxlaw.com/s302.htm> [in English].
9. Shalimova, N.S. (2013), *Audyt v systemi sotsialno-ekonomichnykh vidnosyn Ukrainy* [Audit in the system of

social and economic relations of Ukraine] Doctor's thesis. Kyiv: KNEU.

10. Bomdar, V.P. & Bomdar, Yu.V. (2012), *Upravlinnya yakistyu ta yakist v audyti: shlyakhy udoskonalennya* [Quality management and quality in the audit: ways to improve]. *Audytory Ukrainy — Ukraine Auditor*, 7(201), 11—25.

11. Dmytrenko, I.M. (2015), *Teoriya, metodolohiya ta orhanizatsiya audytu korporatyvnykh system* [Theory, methodology and organization of audit of corporate systems] Doctor's thesis. Kyiv: "Natsionalna akademiya statystyky, obliku ta audytu".

12. Zemskov, V.V. (2007), *Otsenka auditorskogo riska* [Audit risk evaluation]. *Auditorskiye vedomosti — Auditor's statements*, 3, 81—86.

13. Usach, B.F. (2005), *Audyt za mizhnarodnymy standartamy* [Audit according to the international standards]. Kyiv: "Znannya".

14. Davydov H.M. (2006). *Audyt: teoriya i praktyka* [Audit: theory and practice]. Kirovohrad: "Imeks-LTD".

Література:

1. Каменська Т.О. Внутрішній контроль і аудит в управлінні: практ. посіб. / Т.О. Каменська, О.Ю. Редько; Наук. шк. аудиту, Нац. Центр Обліку та Аудиту. — К.: ДП "Інформ.-аналіт. агентство", 2015. — 375 с. (Наука — практиці).
2. Дослідження практики внутрішнього аудиту і внутрішнього контролю в Україні (опитування українських компаній і банків про стан внутрішнього аудиту та внутрішнього контролю) // Міжнародна фінансова корпорація. — 2008. — Черв. — С. 73—79.
3. Зырянова Т.В. Внутренний аудит как оценка надежности и эффективности системы внутреннего контроля / Т.В. Зырянова, О.Е. Терехова // Экономический анализ: теория и практика. — 2006. — № 16. — С. 8—14; № 17. — С. 13—20.
4. Білуха М.Т. Фінансовий контроль: теорія, ревізія, аудит: підручник / М.Т. Білуха, Т.В. Микитенко. — К.: Українська академія оригінальних ідей, 2005. — 888 с.: іл.
5. Thinking outside the SOX box Transforming your compliance function for competitive advantage. (n.d.) ey.com. Retrieved from [http://www.ey.com/Publication/vwLUAssets/Think_outside_the_SOX_box: Transform_your_compliance_function_for_competitive_advantage/\\$FILE/Thinking%20outside%20the%20box.pdf](http://www.ey.com/Publication/vwLUAssets/Think_outside_the_SOX_box: Transform_your_compliance_function_for_competitive_advantage/$FILE/Thinking%20outside%20the%20box.pdf)
6. International standards for the professional practice of internal audit. (n.d.) iia.org.ua Retrieved from https://www.iia.org.ua/?page_id=189
7. International quality control, auditing, review, other assurance related services pronouncements. 2015 Edition. International Federation of Accountants. Retrieved from <http://www.app.com.ua>
8. Sarbanes-Oxley Act. 2002 Edition. (n.d.) soxlaw.com Retrieved from <http://www.soxlaw.com/s302.htm>
9. Шалімова Н.С. Аудит в системі соціально-економічних відносин України: автореф. дис. ... докт. екон. наук. / Н.С. Шалімова. — К.: КНЕУ, 2013. — 40 с.
10. Бондар В.П. Управління якістю та якість в аудиті: шляхи удосконалення / В.П. Бондар, Ю.В. Бондар // Аудитор України. — 2012. — № 7 (201). — С. 11—25.
11. Дмитренко І. Теорія, методологія та організація аудиту корпоративних систем: дис. ... докт. екон. наук: 08.00.09 / І. Дмитренко. — К., 2015. — 544 с.
12. Земсков В.В. Оценка аудиторского риска / В.В. Земсков // Аудиторские ведомости. — 2007. — № 3. — С. 81—86.
13. Усач Б.Ф. Аудит за міжнародними стандартами: моногр. / Б.Ф. Усач. — К.: Знання, 2005. — 247 с.
14. Давидов Г.М. Аудит: теорія і практика: монографія / Г.М. Давидов. — Кіровоград: Імекс-ЛТД, 2006. — 324 с.

Стаття надійшла до редакції 28.01.2018 р.