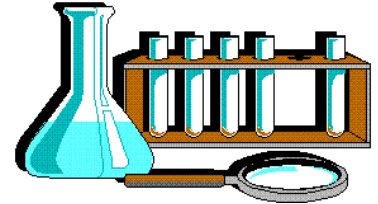


“The Internal Audit Professionals”™



INTEGRATING IT AUDIT SERVICES AND SARBANES-OXLEY COMPLIANCE

Information Services and Information Technology were all but ignored when the Sarbanes-Oxley Act (“SOX”) was passed in 2002. The PCAOB in their initial statement on IT controls issued in October 2003, indicated that IT general controls were important and should probably be included as part of the SOX compliance testing, but the PCAOB did not indicate which controls needed to be tested. The identification of relevant controls was left up to management and the external auditors. As a result, guidelines for testing IT controls related to SOX were often prepared without a thorough understanding of the IT control environment and its relationship to the published financial statements, and often included irrelevant and extraneous controls.

In this environment, many companies found themselves required to document, test and evaluate numerous IT controls that had no impact on the preparation of financial statements or the accuracy of operating results reported in the financial statements. Other companies spent many hours and large sums of money only to find out later that the IT items tested either did not meet the requirements of their external auditors or testing was not coordinated with other internal audit work, causing redundancy or omissions, ultimately driving up the cost of compliance. Still others relied on outdated and ineffective “checklists” that failed to deliver a “risk-based” approach to measurement of control deficiencies, a glaring weakness in the COSO framework.

Recognizing the need for an integrated and SOX-compliant approach to the evaluation of IT controls over financial reporting, PRI developed and implemented a proprietary methodology for evaluating IT controls with the sole purpose of providing companies with a systematic, risk-based approach that will minimize costs and provide assurance that the relevant provisions of SOX are complied with. This methodology has been implemented at each of our clients and been accepted by their external auditing firms. Fundamental to our approach is the identification of key controls within nine different IT process areas. Similar in approach to the COBIT® methodology, PRI has developed a reference framework of IT controls affecting financial statement presentation that is consistent with SEC and PCAOB requirements and guidelines, but more importantly, is in compliance with the intent of the Sarbanes-Oxley Act.

PRI’s risk-based approach identifies nine key IT process areas, such as Change Management and Application Controls, that must be evaluated prior to expressing an opinion on the

overall effectiveness of the internal control environment. For each of these nine IT processes, specific control objectives have been identified. These control objectives have universal applicability for any company that strives to publish accurate financial statements. For example, one specific Control Objective in the “Applications Controls” section would include the following:

- Assurance that each critical application has a security methodology in place so that:
 1. New and existing users are assigned appropriate access rights;
 2. Users are set up in a way that promotes adequate segregation of duties;
 3. Notification of terminations and/or job responsibility changes are communicated in a timely manner;
 4. Effective password parameters are being utilized for each specific financial application

The PRI methodology focuses on the inter-relationship between the IT control environment and the reliability of the published financial statements. Key systems that impact the initiation, recording, processing and reporting of financial information are identified and evaluated. General computer controls are identified and evaluated **only to the extent** they could have an impact on the presentation of financial information. In the case of general controls on which other controls are dependent, detailed testing is required.

The determination of whether or not control deficiencies are significant or indicative of a material weakness requires professional judgment and the consideration of several factors. These factors include the size and complexity of business operations, diversity of activities, organizational structure and the probability that the identified deficiency could result in a material misstatement of the organization’s financial statements. The professional judgment required can only be gained from years of experience evaluating similar situations in similar industries – based on our experience and expertise, PRI is uniquely qualified to provide this determination.

For more information on PRI’s IT and internal auditing capabilities, including our DOERS® approach for Sarbanes-Oxley compliance, please contact:

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