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WELCOME

בקרה פנימית ו-SOX בעולם הדיגיטל

Technology (VS / AND) Internal Controls

Lior Mistriel, Partner, Digital Audit

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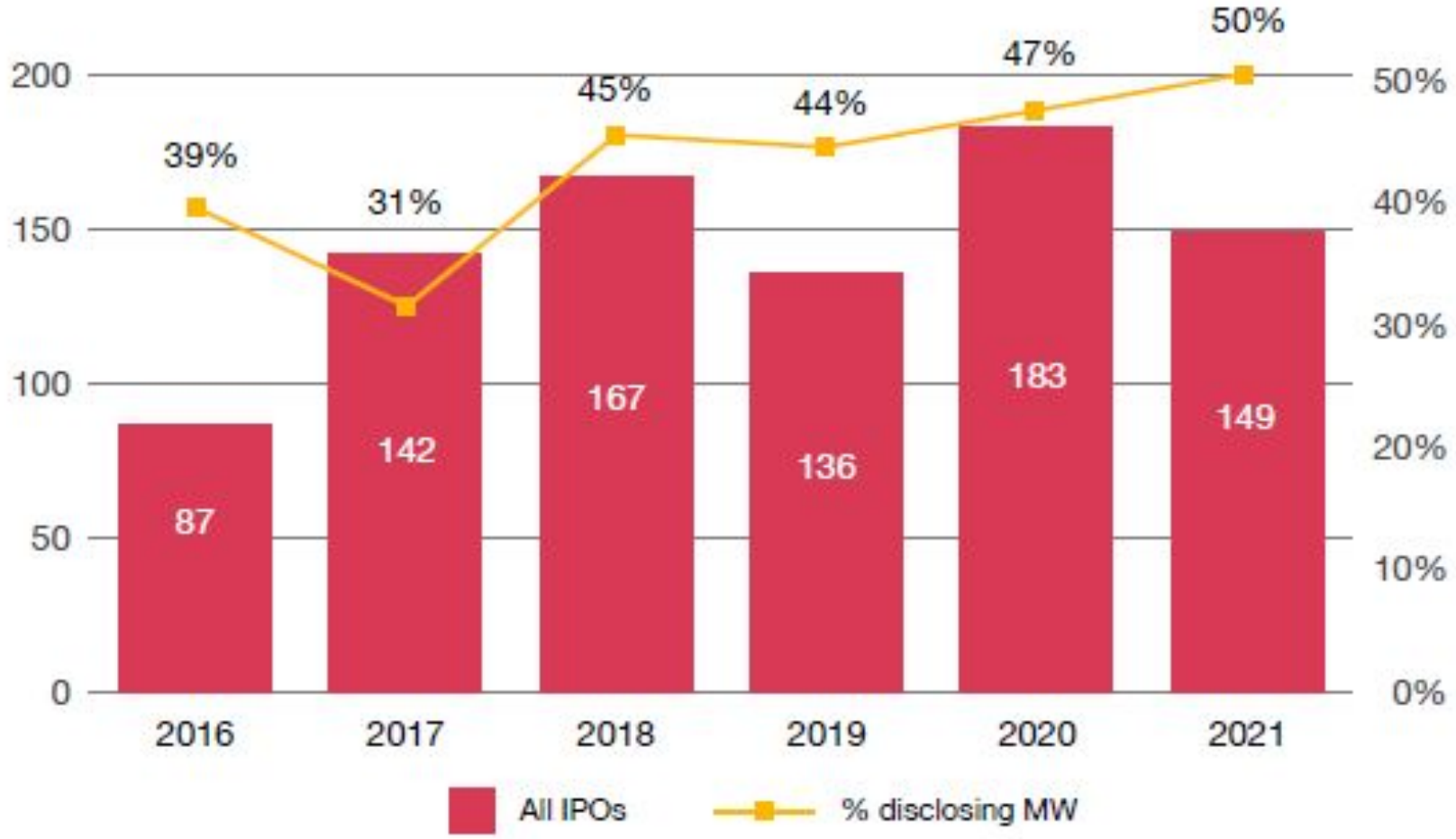
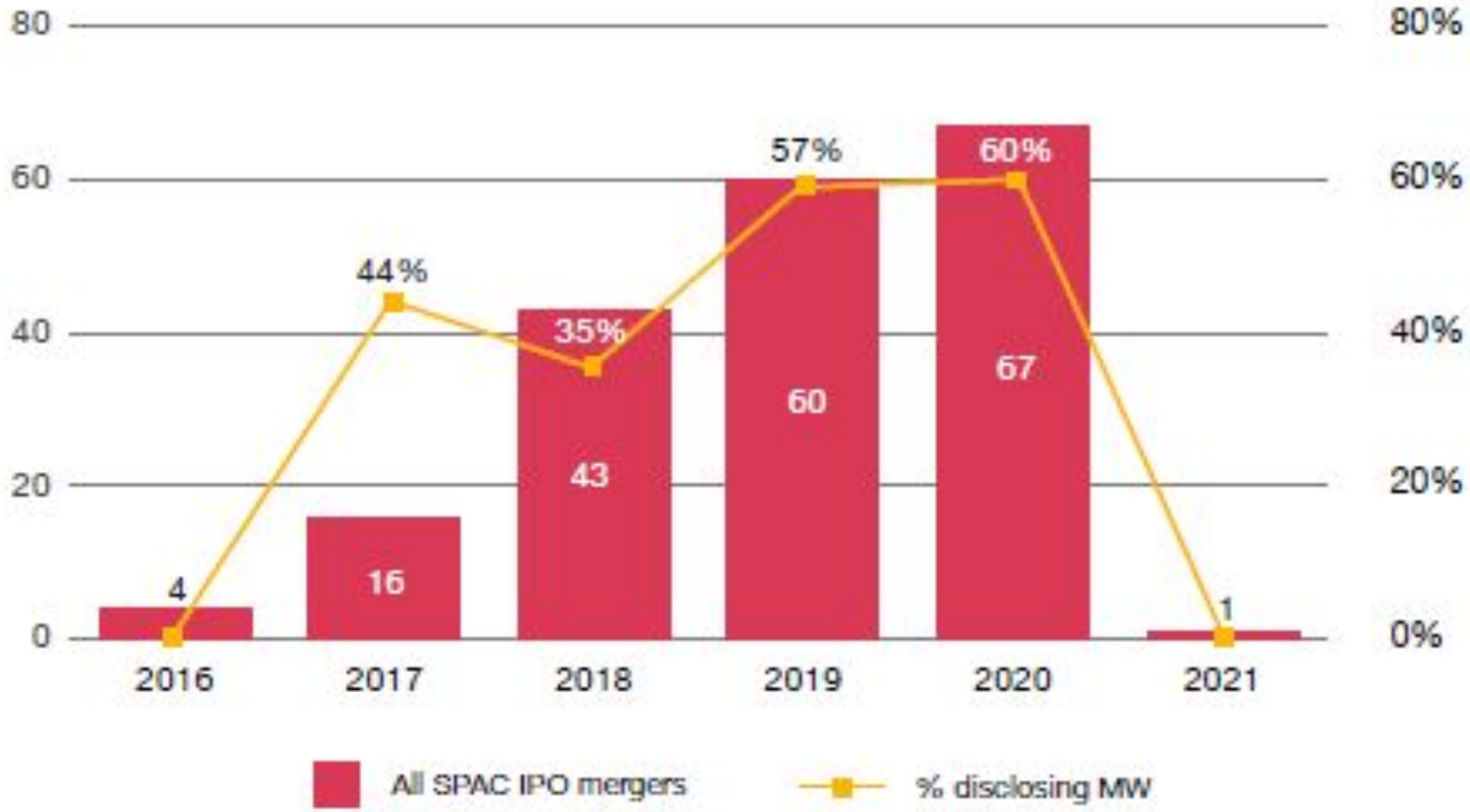
Tech Challenges

- More and more companies use technology to support their activities (including internal controls)
- However, more and more companies disclose material weakness in their internal controls over financial reporting (ICFR) prior to going public or shortly after.

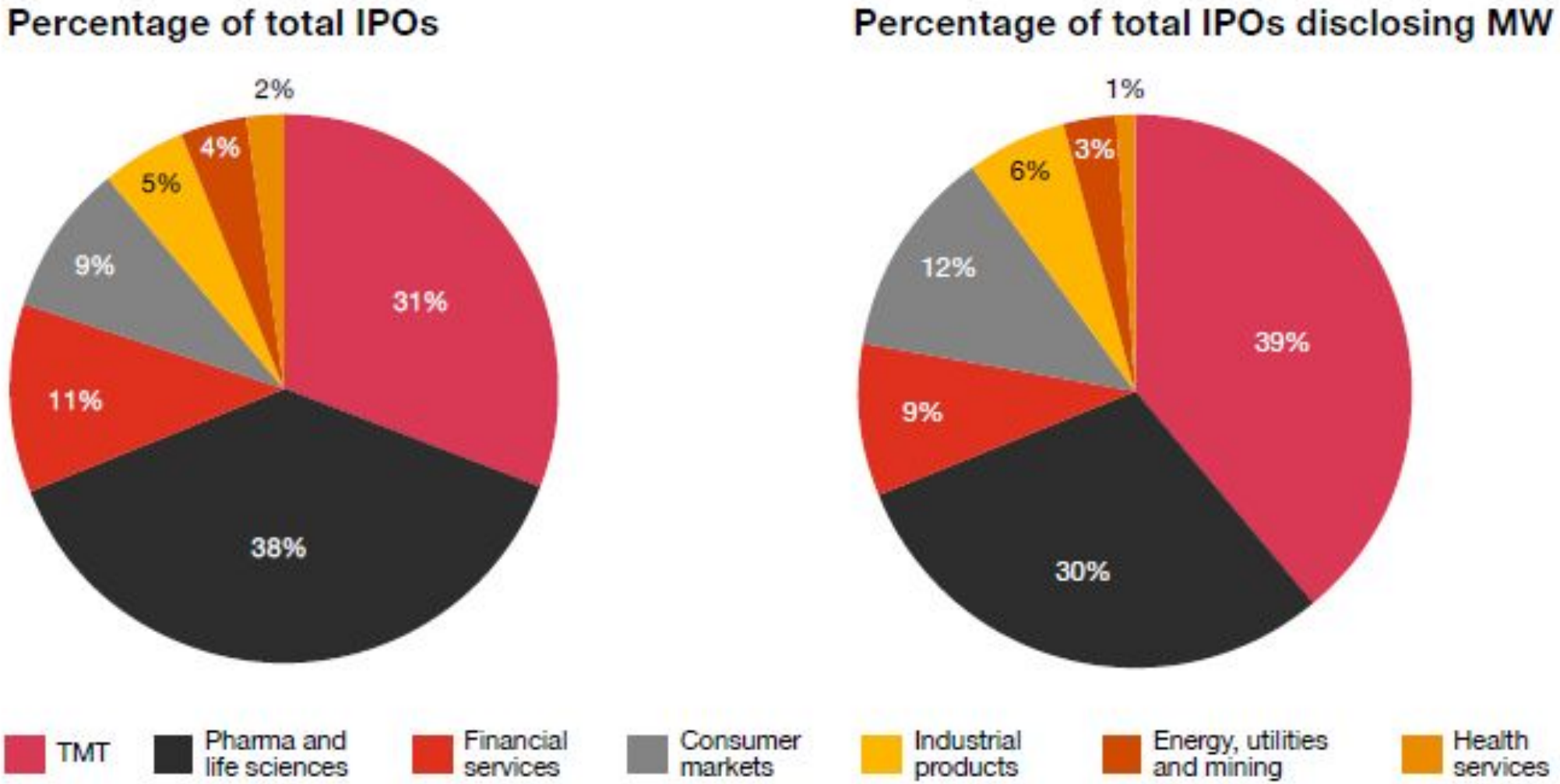
IPOs ending with Material Weakness



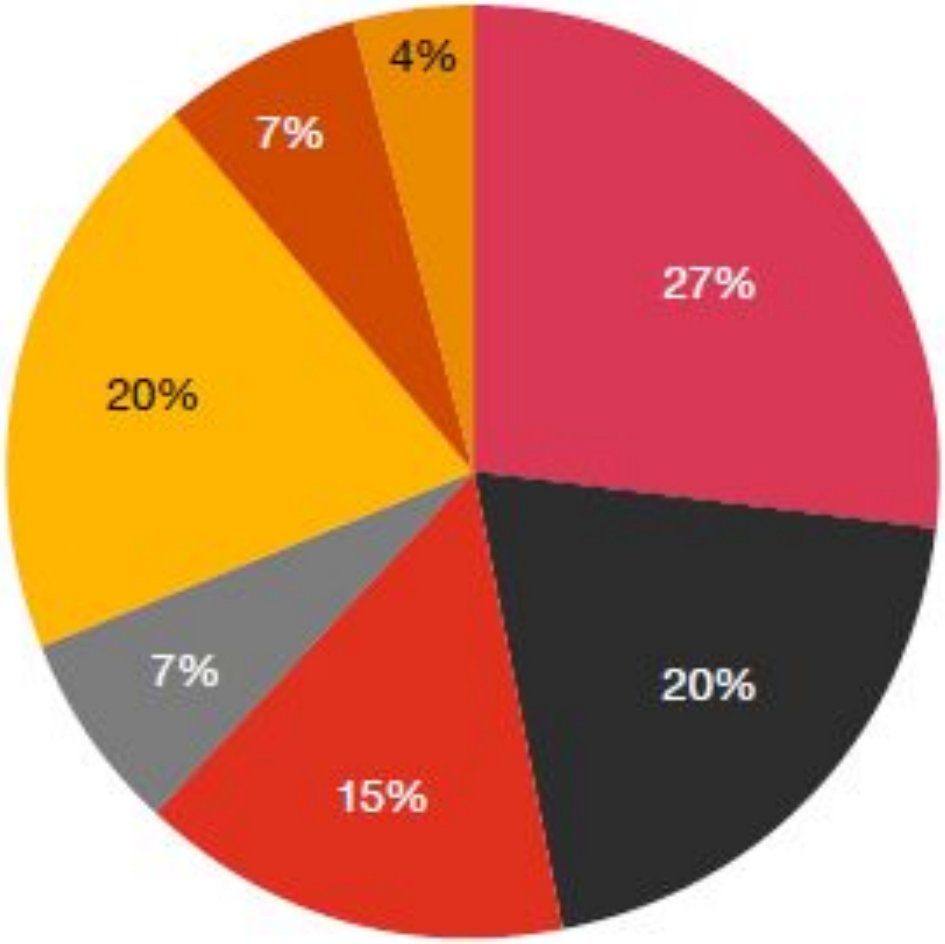
SPACs ending with Material



Sectors Disclosing Material Weaknesses



Challenges for Tech Companies



- Insufficient accounting personnel
- Lack of financial reporting oversights/level of review
- Inappropiate reconciliation of complex or non-routine transactions
- Insufficient technology systems
- Lack of procedures
- Lack of segregation of duties
- Other

Even though we see more automation and IT systems involved, surprisingly we also see deficiencies around lack of monitoring, lack of procedures, inappropriate reconciliations and issues around IT systems and segregation of duties.

Why?

1. Agile systems

Companies are growing very fast, and their IT systems change rapidly.

Old models of ITGCs do not necessarily fit agile environments!

2. Data

Companies deal with a HUGE amount of data, transactions and information.

Do they really have proper controls in the right places to prevent or detect misstatements?

How to test effectiveness of ad-hoc online controls over data (dashboards)?

3. Complexity

Automated procedures, especially in the tech industries, face inherent complexity.

Do we really understand the end to end process and the data flows in our organizations?

Can we really gain comfort that an automated control works appropriately in a complex environment?

4. Changing Technology

Information systems can help our organizations, but can also raise risks if the systems do not support proper control environment, especially if the systems are maintained by a third party service provider with no proper controls report (SOC1).

Useful Tips

Start early. Make sure you dedicate enough time to truly understand the end to end business processes and IT

Make sure you're involved in decisions related to major changes in systems. Your input regarding internal controls is highly important!

Use technology tools where possible. Tools can save you time and also give you more comfort over large databases and transactions.

Use experts to test automated complex controls / system reports. Our biggest challenges from the regulator are related to these areas, which require experience and expertise.

Be creative! Agile IT environment requires agile IT controls. Design and implement controls according to the TRUE risks in your systems.

Challenge your understanding. Use colleagues / experts to challenge your end to end understanding

Where next?

Top 4 challenges for the next decade

01 Automated working papers / testing

More tools will help us generate the SOX / controls testing procedures more effectively

02 From Business Driven to Data Driven SOX

Data will be interfaced completely and directly to the auditors
Controls will be designed more on data irregularities/errors and less on papers and manual testing procedures.

03 From periodic to Continuous SOX monitoring

The testing procedures will run constantly instead of “testing phases / rounds”. This will also change the concept of having “internal testing” procedures before the auditors, as they will also have full visibility on your data and controls 24/7/365.

04 From manual procedures through RPA to AI

We see more and more automated procedures run by robots. We will also see decision making by robots pretty soon. **Can we really test a review control operated by an intelligent robot?**

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Thank you

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