

How the digital-savvy would modernize compliance

A tech-enabled approach to SOX compliance can lower costs while boosting control efficiencies



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Think back to the year 2002. The smartphone with the fluid, multitouch-based interface didn't exist. Fax machines still screeched out business documents that required signatures. Facebook had not yet been founded. And at the beginning of that year, the US Justice Department launched an investigation into the imploding Enron Corp., an action that prefigured the Sarbanes-Oxley (SOX) Act of 2002.

Despite two decades of technology advances, most businesses today continue to navigate compliance with a distinctly pre-digital mindset. Many controls and processes, for example, still entail significant manual effort: On average, only 15% of a company's SOX controls are automated, according to PwC research.* This glacial pace of progress can be explained, in part, by the fact that many business leaders view compliance as an obligation that yields little strategic or competitive value, and thus have not invested in compliance processes at the same rate as other parts of the business.

That's starting to change. Business executives are waking up to the powerful promises of automation to significantly reduce costs of compliance. PwC's own analysis of SOX controls at more than 70 companies suggests that a 15% increase in automation can yield a 10% decrease in the cost of compliance. Compliance now represents a prime opportunity to lower costs as companies modernize systems, migrate to the cloud and adopt low-code automation.

What's more, tech-enabled processes can help reinvigorate overworked compliance teams, deliver meaningful insights early on and rapidly maximize the value of robust compliance and risk assessments. These capabilities are increasingly

essential, given the escalating complexity of compliance requirements. In fact, our [2022 Global Risk Survey](#) found that keeping pace with digital transformation and compliance pressures are among today's top overall business concerns. Almost three-quarters (74%) of respondents told us external compliance requirements are consuming the resources and time of the risk-management function.

For many, SOX is the logical starting point, given that the compliance requirements are well understood. Organizations know how to comply with SOX, and that experience can help prepare them to successfully manage other evolving and new regulations.

And there's no shortage of fresh compliance obligations beyond SOX. Businesses are required to comply with an expanding patchwork of federal and state data-privacy laws, in addition to an evolving landscape of international requirements.

Organizations are grappling with new cyber and ESG regulations, increased sanctions against individuals and entities, higher transaction volumes, and accelerated digital transformation. They're also under mounting pressure from regulators to adopt technologies such as automation and data analytics to more rigorously monitor transactions and manage corruption risks.

Forward-looking companies recognize the need to implement a tech-enabled compliance program that's scalable. Taking advantage of opportunities to streamline compliance activities can yield benefits in potential cost savings and freeing risk-management staff to work in emerging and evolving high-risk areas.

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What would a digital native do?

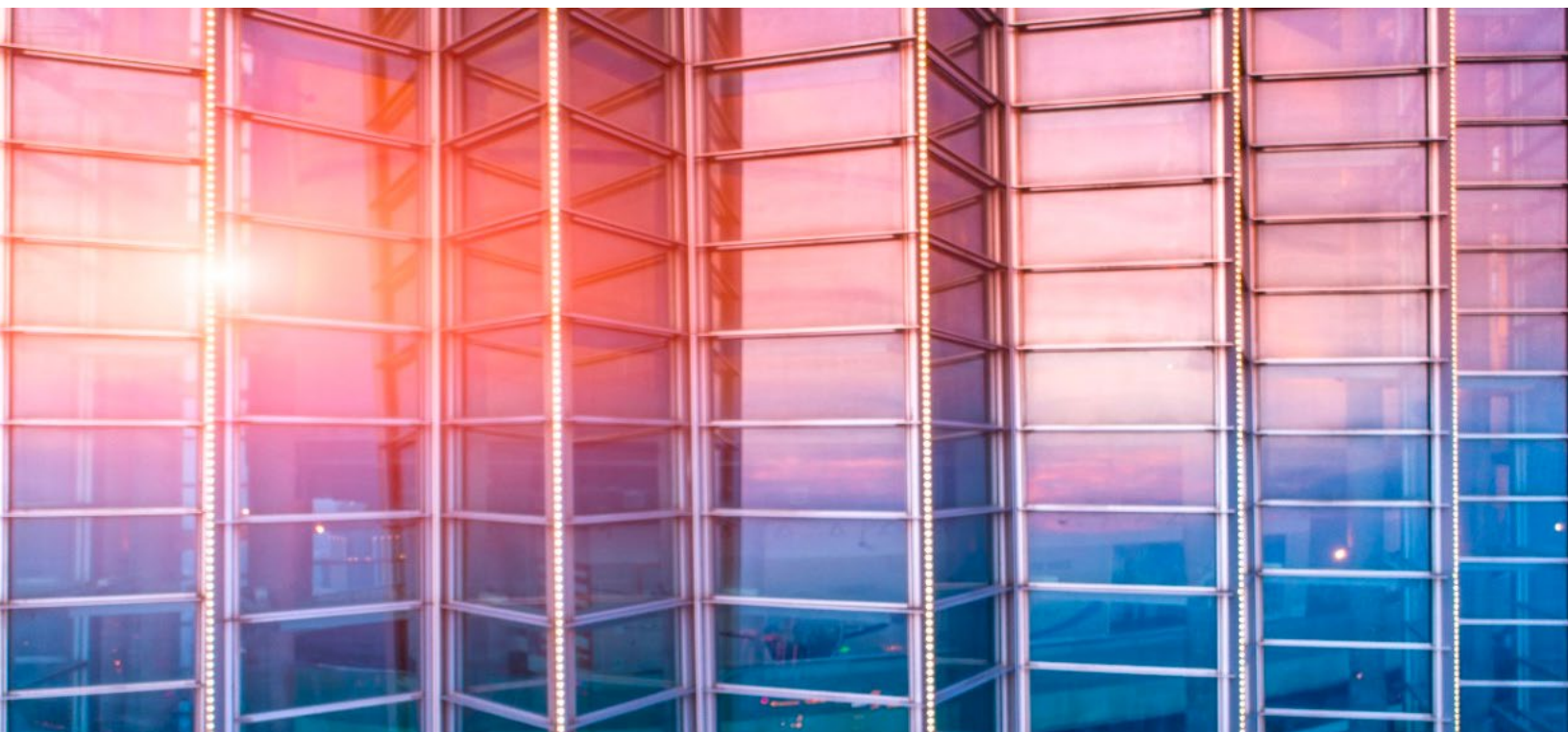
Today's digital natives grew up with technology at their fingertips. They innately understand the power of tech tools and the advantages of automation. Which begs the question: How would digital natives update and modernize a compliance program?

Chances are they would embrace a technology-first, automation-must mindset in streamlining compliance and enabling business processes. These workers tend to be highly literate in technology. They have little tolerance for manual tasks and tedious, repetitive activities. It seems likely, then, that digital natives would focus on automating compliance controls to enhance operational efficiencies, lighten employee workloads and ultimately reduce the costs.

We recently helped a Bay Area semiconductor business do just that. With only 10% of the company's SOX controls automated, business leaders recognized that modernizing controls could help boost efficiencies and lower costs.

Management engaged PwC to help assess the company's risk and control environment and evaluate opportunities to enhance efficiencies for a limited scope of its business processes.

Using our Intelligent Controls Diagnostic tool, we identified 30 recommendations that would yield more automated, configurable controls within the company's enterprise resource planning (ERP) tool. We also pinpointed intelligent automation enablers that helped reduce manual effort across the organization. Our tech-enabled compliance solution helped the company increase its automated controls to 23% in only two weeks. Doing so enabled the company to trim its annual SOX compliance costs by 10%. This quick win has spurred the company to extend tech-enabled compliance to business processes that were not evaluated in the initial assessment. By doing so, the company aims to achieve at least 60% automation across its risk and control environment and reduce SOX compliance costs by 25%.



Moving toward automated management of risks and compliance

Businesses are constantly evolving their products, processes and systems. As they do, they must strategically meet compliance requirements that are ever-present and ever-evolving. The goal is to create a proactive, tech-first strategy to manage and mitigate digital risks while maximizing continuous improvement and growth.

That's where tech-enabled compliance can help. Blending intelligent controls into your risk-management methodology can elevate the human experience of overseeing risk and evaluating compliance. Additionally, tech-enabled compliance tools can help standardize and automate controls as well as digitize monitoring procedures.

Tech-enabled compliance, especially in the context of SOX, can also play a critical role in the success of initial public offerings (IPOs), divestitures, and mergers and acquisitions (MandAs). These types of transactions provide opportunities to build a compliance function for the future, rather than simply addressing short-term issues. Following an "automate by design" approach can help you determine the design and testing of controls from the outset. What's more, early identification of risks and adoption of proper digital controls can help pave the way for a smooth transition after a transaction closes. A tech-enabled compliance program also signals business maturity by demonstrating a company's ability to manage risks, implement effective controls and maneuver complex financial reporting.

Risk management challenges

75% Technology solutions don't work together

73% Resource constraints, including budgetary

72% Lack access to digital tools and enablers

65% Risk management approaches do not manage risks arising from complex business initiatives

Source: [2022 PwC Global Risk Survey](#)



The potential cost savings are significant

Centralization of compliance activities, combined with a low-cost resource model that's enabled by technology, can allow companies to drive cost savings even as requirements evolve. The potential value at stake is considerable. PwC's Intelligent Controls Diagnostic benchmark of more than 70 businesses estimates that tech-enabled compliance can help generate an average annual compliance savings of up to 32%, given the current level of automation in those companies.

The savings potential increases in line with the level of automation. Consider a large US electric power distribution company that recently asked PwC to assess its control environment. Using our Intelligent Controls Diagnostic tool, we found that the company had automated only 9% of its internal controls—but had room to automate 65%. At this level, our benchmarks indicated the company would be positioned to reap an estimated 47% in savings in its SOX compliance efforts.

What tech-enabled compliance can do for you

- ✓ Optimize a compliance program for efficiency and efficacy
- ✓ Cut SOX compliance costs by 10% or more
- ✓ Lessen staff compliance efforts by up to 30%
- ✓ Streamline periodic SOX compliance testing
- ✓ Provide real-time visibility into the compliance program
- ✓ Transform and reinvigorate compliance teams
- ✓ Deliver custom reports on risks and remediation processes

The right tools for tech-enabled compliance

Currently available technology can be used to both enable processes and controls and to automate the testing of controls to meet compliance requirements. First, you'll need to assess your existing environment using a tool such as PwC's Intelligent Controls Diagnostic to benchmark your implementation of configurable and automated controls. This provides a snapshot of your company's ability to seize opportunities that create efficiencies and achieve corresponding cost savings.

This starting point also enables you to maximize investments in existing technologies such as your ERP system. When implementing tech-enabling processes and controls, the obvious place to begin is your ERP system(s), given their prevalence in today's finance functions. Concurrently, you might want to assess your manual controls to determine whether ERP-native controls can be used. If not, technologies such as robotic process automation (RPA) can help drive automation, efficiencies, and cost savings. We also see clients using data analytics to assess and manage risk. Data analytics, for example, can be used as a control to identify potentially erroneous transactions in payables processes as part of the control environment.

To take full advantage of potential cost savings, seize opportunities to automate the testing of controls. You can use tech tools to monitor configurations of key systems such as ERPs to help ensure that system controls are working as intended over a particular period. Some companies are further automating the testing of manual controls. For example, a tool in PwC's Intelligent Automation suite uses natural language processing (NLP) and optical character recognition (OCR) technologies to read manual control documents such as PDFs housing an approval. The tool also uses analytics to execute the control test, thus lowering the manpower (and ongoing costs) needed to test manual controls.

Your action plan for compliance transformation

Now, more than ever, companies should automate the design and testing of compliance controls for regulations such as SOX. Doing so can help create tangible cost savings, advance digital transformation and boost operational efficiencies, and it can help develop and retain employees. Here's an action plan for compliance transformation:

- Start your tech-enabled compliance initiative with SOX. Recent advances in technology have given rise to affordable new options that can deliver significant efficiencies—in the design and operation of controls as well as testing of controls management.
- Apply automation and tech enablement to other compliance programs, in collaboration with other second-line functions. Involve the first-line control owners to maximize efficiency.
- Work within your organization as transformation projects are initiated to build tech-enabled controls into the program from the start to maximize cost savings. Prioritize repetitive, high-volume rules-based activities.
- Ensure that compliance automation initiatives are well connected so as to provide consistency, learning and efficiencies as well as the ability to scale in the future.

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To learn more about how your company can begin or build out a tech-enabled compliance program, visit PwC's [Intelligent Controls](#) site.



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