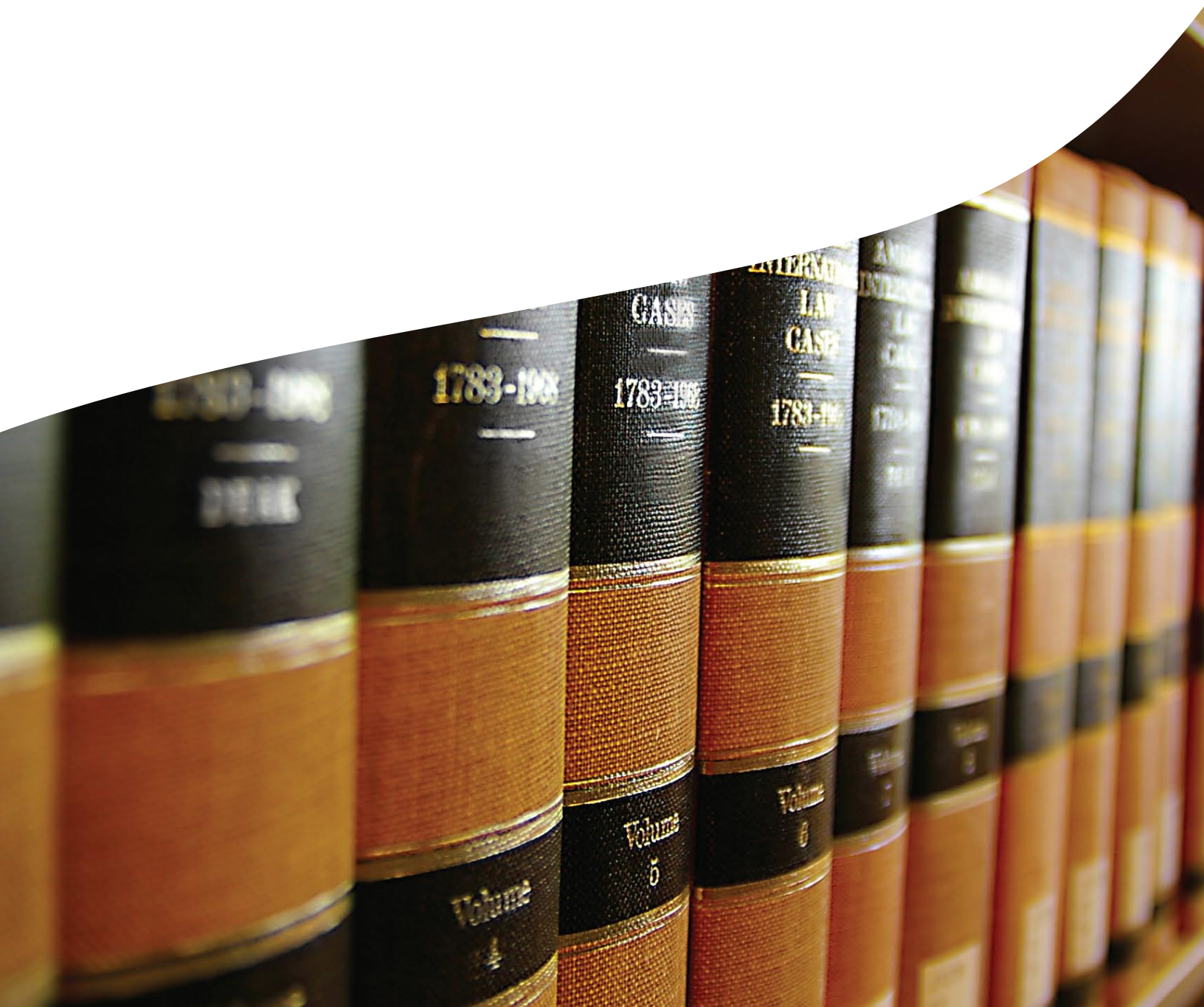


# Achieving Sustainable Compliance

**A cost-effective approach to annual SOX compliance**





# Executive Summary

**“... the average cost for compliance in a public company of 1bn turnover is \$3 million”**

2006 Foly & Lardner report

Companies impacted by Sarbanes-Oxley compliance requirements have had a tough and expensive time in the early years of implementing this statutory legislation.

For many this has not been a comfortable experience. The assessment, analysis, management attestation documentation and not forgetting the remedial works, process modifications, governance and procedural alterations have been onerous. In many cases this has resulted in significant expenditure.

The legislative requirement has been completed either with the use of internal resources, which often meant special hires or redirection of existing staff, or in many cases with the help of the large audit firms. In both cases there have been massive impacts on the business in terms of time, distraction from operational duties, and the absolute man-hour cost of compliance support. These costs have in many cases exceeded budget and even when on budget they have become a major annual overhead on the business. In addition, process remedial requirements are often uncovered which, at best, may delay attestation whilst a fix is put in place but then often reoccur the next year since the “patch” was only temporary. Of course, there has been learning in the introductory years and many of the legislative requirements are being simplified to ensure better fitness for purpose and a level of scrutiny that matches the target enterprise’s scale and risk profile. This will help balance compliance investment with risk but will still leave a significant repetitive annual operational task and will not address the under-exploited potential for process improvement that a SOX project can reveal.

Many companies, whilst recognizing, in addition to legislative requirements, there are benefits of scrutiny and good governance, are also acknowledging that the support model that has developed historically is becoming unsustainable year-on-year. The cost of compliance is often exorbitant and yet the processes are increasingly well-understood, repeatable, and measurable. What is needed is a compliance support service that meets regulatory needs, is high quality, but much more cost effective as a continuous year-on-year process. If this approach can add value in terms of improved processing, security, best practice and governance then this is a welcome bonus that may offset some of the underlying program costs.

The most forward-thinking businesses now understand that whilst the stage of compliance that is “sign-off” clearly needs the external auditor’s involvement actually the rest of the SOX compliance preparation work could be addressed with a much more cost effective and industrial model than the current “traditional” approach which typically deploys a “big 4” audit firm in “heavy-weight” style. Those aspects of SOX compliance involving review of processes, documentation and steps leading to management attestation, including the remedial works to processes and procedures found wanting, can be handed over to an external body expert in the exercise. In other words, the process can be Outsourced to a SOX Support Service Provider. This will ensure that compliance is achieved at the best value whilst leaving internal staff free to focus on the day-to-day operations of the business. In this paper we will illustrate that this is not only a practical and cost-effective way of supporting the SOX program but also that there is the potential for benefits in process improvement that can add value to the business year on year.

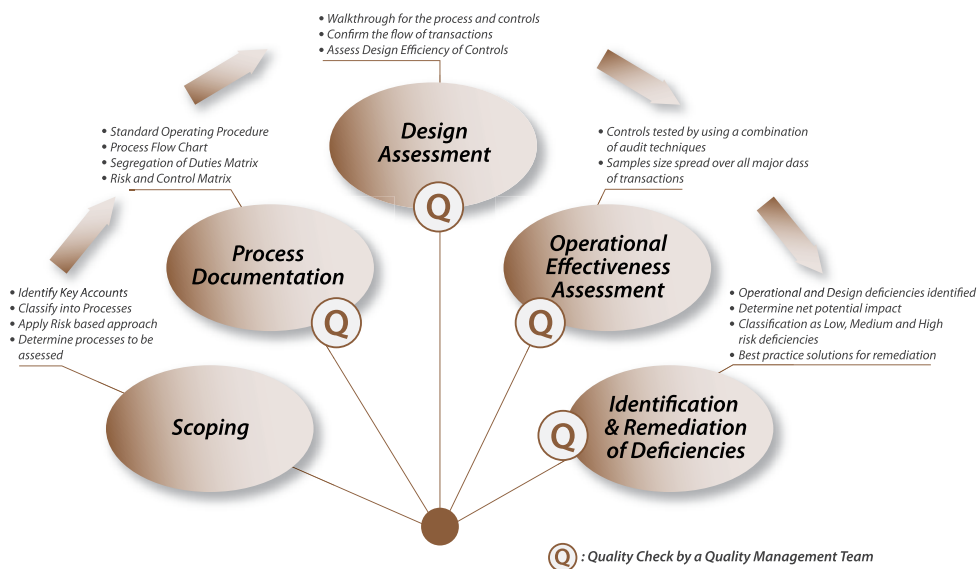


Figure 1. A proven SOX Assessment Methodology

A few of the leading Business Process Outsourcing (BPO) providers, such as Capgemini, have extended their F&A (finance & accounting) BPO practices to include Management Assurance Services incorporating SOX support and Enterprise Risk Management (ERM) services. For the client there are several advantages of SOX services aligned to a BPO provider. Perhaps the key benefit is it brings best practice in business processes and controls drawn from the BPO provider’s global delivery networks together with deep industry knowledge, consistent standardized methods, and the latest BPM (business process management) tools and technology. When this is coupled with the cost effectiveness of the Rightshore® delivery

model, bringing the benefits of compliance teams operating from an offshore labor-rate cost-base makes a compelling case for an alternate compliance delivery model. Capgemini has developed a dedicated Management Assurance Services operation based in offshore Centers of Excellence, which provides a comprehensive compliance service delivered via a flexible mix of on-client-site support backed up with industrialized Offshore Centers of Excellence.

This combination of efficiency and effectiveness in SOX support services enables annual operational consistency, a cost-effective delivery model, and brings the additional ability to add value to the business through process improvement. This is what we mean by Sustainable Compliance.

# Introduction

Since the advent of the Sarbanes-Oxley (SOX) Act, the corporate world has been divided on the total benefits that could be derived from SOX compliance, but most people in the business community have acknowledged that some sort of reform had become necessary.

However, the cost of implementing the new requirements has led some to widespread questioning of how truly effective or even necessary are some of the specific provisions of the law. These debates are continuing but gradually a steady state is emerging. Whichever way that steady state is established and how the Act is molded and changed is yet to be fully realized but one way or the other compliance programs are here to stay and are a fact of corporate life. So how to achieve a sustainable model that, first, achieves satisfactory completion of all the steps towards attestation and sign off; second, covers the requirement in the Act for a “regular operational controls review”; and third, adds value through exploiting the opportunity for process and business benefits?

In this paper we describe an alternate delivery model to the conventional, “big 4” accounting-firms style; an alternate method for a long-term Sustainable Compliance model which adds value to the business.

# Transforming SOX from Project to Process

Even before addressing method and tools, historically there are perhaps two distinct psychological perspectives to take in the compliance task:

*... we must comply, let's get the best out of it*

*... we must comply, let's do the minimum necessary*

Whether you view a SOX program as a process improvement opportunity or simply as an administrative task, the organization with tight control on its operations will want to develop a sustainable procedure. This will require a top-down compliance culture in the organization. Sustainable compliance requires the creation of an environment where SOX programs are seen as a positive value-adding facet of the business. Like any other area of specialism, this is best delivered by experts equipped with best practice and the most effective tools. Whilst compliance itself must become integral to management and staff practices and pervasive in all process and reporting, the expertise in deployment of the methods is only engaged part year and therefore difficult to maintain and justify from an internal perspective.

There is no doubt that SOX is here to stay but during “start up” many of the compliance exercises have been done as one-off, annual projects. This has led to the exclusion of key functions that should have been involved from the outset. This lack of focus leads to inconsistency in the application of internal guidelines. SOX compliance should be part of the Enterprise Risk Management (ERM) framework adopted by the company rather than being treated as a once-a-year activity. This calls for a sustainable and collaborative effort by the organization and its SOX service provider, whether that is internal or external. Adopting a process approach and deploying this in multiple business entities internationally and with the complexities of language adds a level of difficulty that drives towards the need for specialist expertise and a degree of “industrialization” and, for some companies, this is on a global scale. Response to this scale and complexity is difficult to sustain and justify internally.

Capgemini's BPO services business unit has developed the leading example of a global model for Sustainable SOX Compliance and was the first BPO service provider to offer a Management Assurance Service (MAS) program.

The MAS team is integral to the BPO operations teams, which ensures that “compliance is grounded in process expertise”. Capgemini’s global delivery network incorporates dedicated offshore Compliance Centers of Excellence in Bangalore and Ghangzhou which are part of a BPO Rightshore® network of operations, delivering full service Finance & Accounting support in over 34 languages from 18 delivery centers.

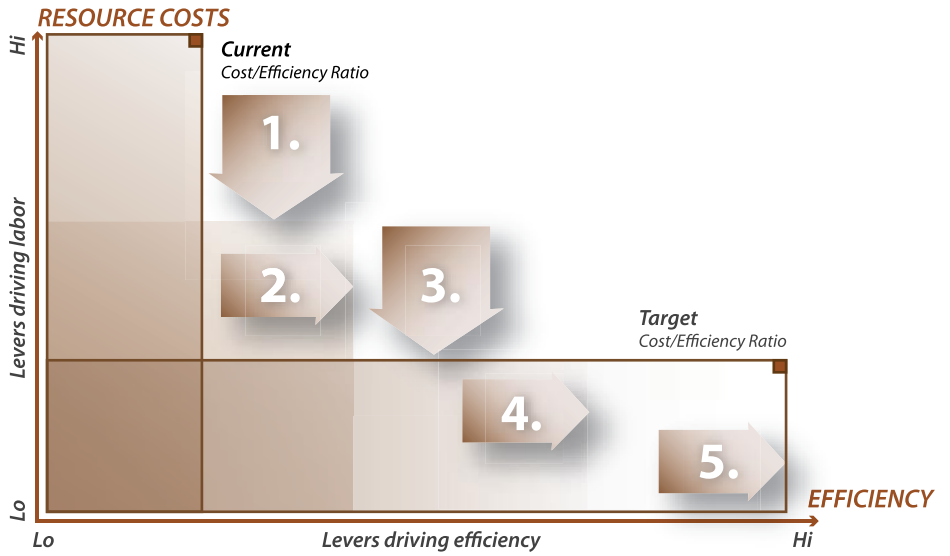


Figure 2. Leveraging the Rightshore® Center of Excellence model

1. Outsourced delivery model utilizes offshore CPA-equivalent accredited skills teams
2. Centralized model delivers project management efficiencies and reductions in overheads
3. Variable mix of on/offshore resourcing further exploits the Rightshore® advantage
4. Leveraging proven tools, standardized methods and industrial processes
5. Linkage to the BPO unit unlocks process expertise, continuous improvement & best practice



# A Process vs Project Approach

The conventional approach has been to treat the SOX compliance program as a different project each year. Typically, using the services of audit firms with regionally orientated offices has often led to an expensive and often unwieldy and inefficient result. This has invariably been characterized by high project management costs combined with high operational costs for field staff based in expensive locations. When you add in sometimes inconsistent views across the clients business due to multiple regional teams operating in separate geographic locations and then add on the complexities of the overhead of global project coordination and compound these with a lack of standardization, it is not surprising many clients have experienced less than optimal support.

By taking an alternative view that looks to address the shortcomings in that conventional approach, the key requirement is to drive the compliance service from dedicated Global Compliance Centers of Excellence, which creates the potential for a more holistic and sustainable SOX support service.

# The Key Attributes of a Sustainable Model

## Cost effective and sustainable SOX support services

- using a delivery model of offshore-based Compliance Centers of Excellence driving centralized and co-located client teaming
- providing one global perspective, taking account of regional variation, via a single team with a balanced mix of onsite & offshore resources
- delivering a cost-effective program which also reduces project management overheads and removes issues of poor coordination, lack of standardization, and inconsistency

## Compliance simultaneously with Continuous Process Improvement

- resourcing only CPA accredited or equivalent professionals with domain expertise, who can provide Business Insight as experienced practitioners
- delivering excellence in management attestation support services, and going further to provide process remedial solutions for year-on-year continuous improvement
- together with the best practice only available in a SOX service that is embedded within a leading global BPO F&A provider

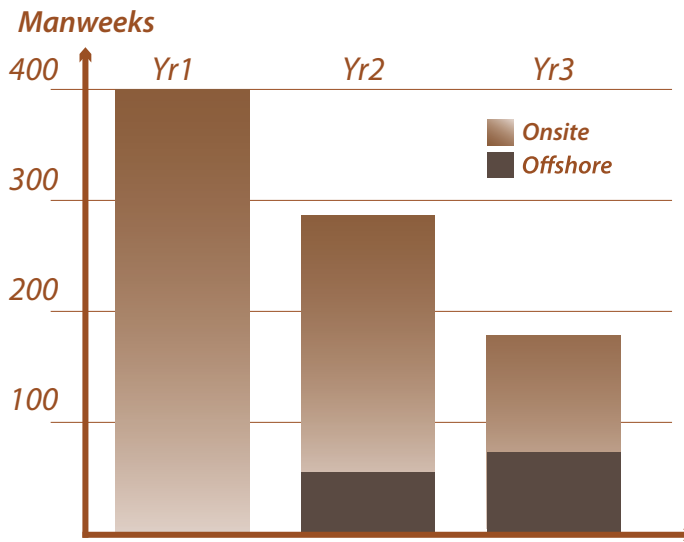
## An adaptive & proven Assurance & Enterprise Risk methodology

- leveraging a modular method which accommodates framework variability from 100% Capgemini components to 100% client components or a mix of both
- using leading compliance tools provides: document & data security, archiving & document management and project specific tailoring which can accommodate a “client-tool” interface if needed
- transforming an annual compliance project into a sustainable ongoing and value-adding process

	Year 1			Year 2			Year 3		
	ONSITE EFFORT MAN-WEEKS	OFF-SHORE EFFORTS MAN-WEEKS	TOTAL EFFORT	ONSITE EFFORT MAN-WEEKS	OFF-SHORE EFFORTS MAN-WEEKS	TOTAL EFFORT	ONSITE EFFORT MAN-WEEKS	OFF-SHORE EFFORTS MAN-WEEKS	TOTAL EFFORT
Scoping	6	0	6	2	2	4	0	4	4
Process Documentation / Review of Documentation	80	0	80	48	0	48	16	8	24
Test of Effectiveness of Design of controls	96	0	96	64	0	64	40	0	40
Test of Effectiveness of Operation of controls	185	0	185	112	44	156	62	50	112
Remediation planning & testing of implementation of remediation plans	32	0	32	12	4	16	9	0	9
<b>TOTAL EFFORT</b>	<b>399</b>	<b>0</b>	<b>399</b>	<b>238</b>	<b>50</b>	<b>288</b>	<b>125</b>	<b>62</b>	<b>185</b>
Percentage Offshore	<b>0%</b>			<b>17%</b>			<b>33%</b>		
Percentage effort reduction from prior year				<b>28%</b>			<b>34%</b>		

Figure 3. SOX compliance - from project to process

In addition to these compelling benefits, adopting a dedicated, centralized model can provide other opportunities for extracting value, which may go some way to offsetting the cost of the compliance program. Many forward looking organizations see the requirements under the Act as an opportunity to enforce better corporate governance and a strong control environment in the business. SOX requires companies to assemble a vast array of information about risks, controls, processes, and systems. In many companies the assembly and maintenance of this data in one repository may be occurring for the first time. This is a massive opportunity to improve business processes, mitigate risk, transform controls, and increase business value.



Additional business benefit opportunities that management should look for from their SOX service provider include:

- implementing best practice in corporate governance
- establishing a compliance culture
- best practice in processes and controls
- implementing automated controls for greater reliability
- access controls and segregation of duties reviews
- real-time assurance of high risk transactions using Business Insight processes, such as “Concurrent Audit” of payments and master data updates.

These services require a level of business analytics, the use of business intelligence tools, and a depth of understanding in both process and industry-specific expertise that is a combination often beyond many clients’ day-to-day capabilities. But this same combination is the day-to-day business of leading BPO service providers. These aspects of added value, as a result of the Management Assurance Services team being aligned to the BPO operation, can produce cost savings, benefits and revenue recoveries that may help neutralize the cost of the compliance program.

# Conclusion

The key elements of a sustainable SOX compliance model are management commitment, standard control policies, rigorous documentation, and a robust methodology supported by leading Business Process Management software tools and the right mix of onsite support together with cost-effective off-shore teaming. This is best delivered through an outsourced model, such as Capgemini's solution that operates from a number of dedicated Compliance Centers of Excellence worldwide.

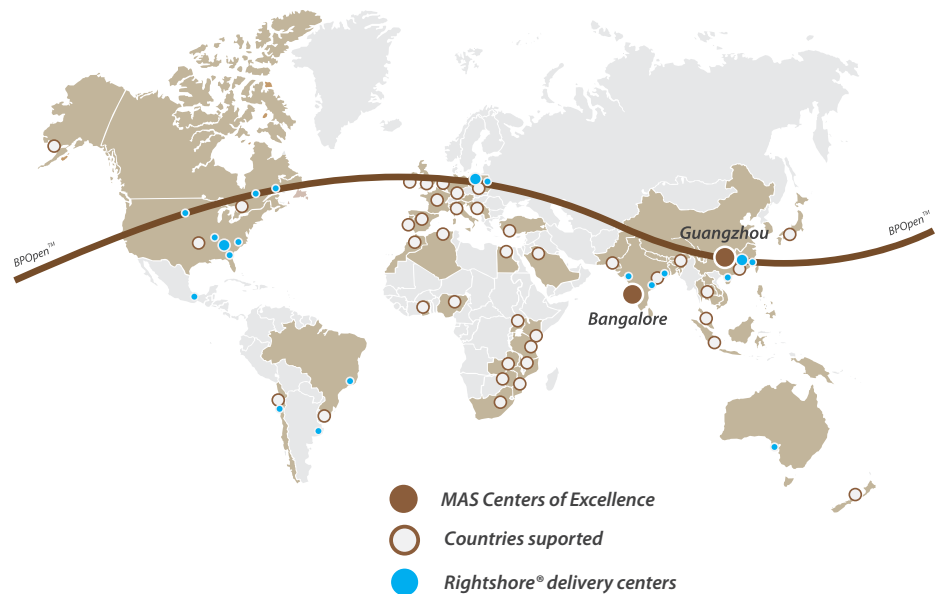


Figure 4. Capgemini's Compliance Centers of Excellence worldwide

Our solution delivers Sustainable Compliance benefits, including:

- Lower operational costs via a team operating out of an offshore center
- Balanced on-site and offshore mix of resourcing for an optimal cost profile
- Lower costs of project management through a centralized model
- A global view with regional variation via a co-located "One Team" approach
- Standardization and consistency in methodology and attestation
- Best practices drawn from the BPO providers global experience pool

- Improved documentation quality through a centralized QA review process
- Proven industrial methods and processes for reductions in re-work, remedials, and re-performance of assessments
- Use of tools and technology to maintain quality and reduce cycle times and to provide easy document archiving and access
- Process improvement and re-engineering in remedial work to add value to the business in addition to meeting legislative requirements
- The potential for cost neutralizing compliance by employing revenue recovery Business Insight processes
- Freeing up internal staff to focus on more strategic projects
- Delivering greater stakeholder confidence and long-term competitiveness.



## About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and

collaboration-focused methods and tools.

Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini reported 2007 global revenues of EUR 8.7 billion and employs over 86,000 people worldwide.

More information about our services, offices and research is available at:

[www.capgemini.com](http://www.capgemini.com)

For more information on Capgemini's Management Assurance Services,  
please contact:  
Ravi Shankar  
Capgemini Business Services  
+91 994 556 4340  
[ravi.shankar@capgemini.com](mailto:ravi.shankar@capgemini.com)