



What Every CFO Needs to Know About Controls Automation

A Guide to Continuous Monitoring
and Improved Risk Management



Foreword

As the Chief Financial Officer of Pathlock and a veteran CFO with extensive experience in the public sector, I have witnessed firsthand the critical importance of strong financial controls. In my journey through various leadership roles, I have come to understand that the accuracy and integrity of financial data create the foundation of any successful organization. However, the constantly evolving business landscape and increasing regulatory demands present significant challenges to maintaining robust controls.

The traditional methods of audit testing, while familiar, have become increasingly inadequate. Manual processes, such as reconciliation and sample testing, are not only labor-intensive but also prone to human error. These inefficiencies can inflate audit costs, consume valuable resources, and divert attention away from strategic initiatives. More critically, the limitations of sample testing can leave significant portions of financial data unexamined, potentially masking emerging control weaknesses and increasing risk exposure.

As CFOs, our responsibility extends beyond ensuring compliance; we must also drive efficiency and strategic growth. Automation and continuous monitoring empower us to do just that. We can focus on higher-level analysis and strategic decision-making by freeing up resources from repetitive tasks, reducing human error, and providing real-time insights into control weaknesses. This proactive approach to risk management not only safeguards our financial integrity but also positions our organizations for sustainable growth.

This ebook, "What Every CFO Needs to Know About Controls Automation," delves into the transformative potential of Continuous Controls Monitoring (CCM). It is designed to provide CFOs with insights into the hidden costs of manual efforts and the myriad benefits of automation.

I invite you to explore the contents of this ebook and consider how Pathlock's CCM solution can enhance your organization's controls environment. Embracing automation is not just about keeping pace with regulatory demands; it is about empowering your team, optimizing your controls, and achieving a more secure and financially resilient future for your organization.

Jonathan Hildrey

Chief Financial Officer, Pathlock

Introduction

Ensuring the accuracy and integrity of financial data is a cornerstone of any successful business. Strong internal controls safeguard assets, prevent fraud, and provide a reliable foundation for financial reporting. However, as the business landscape becomes increasingly complex, with growing regulations and ever-expanding data requirements needed to effectively run the business, traditional audit testing methods are struggling to keep pace.

Manual processes, such as reconciliation and sample testing, are not only time-consuming and resource-intensive but also inherently prone to human error. These inefficiencies can significantly impact the efficiency of the audit process, driving up costs and diverting resources away from strategic initiatives. Furthermore, the limitations of sample testing leave a significant portion of financial data unexamined, potentially masking emerging control weaknesses and increasing risk exposure.

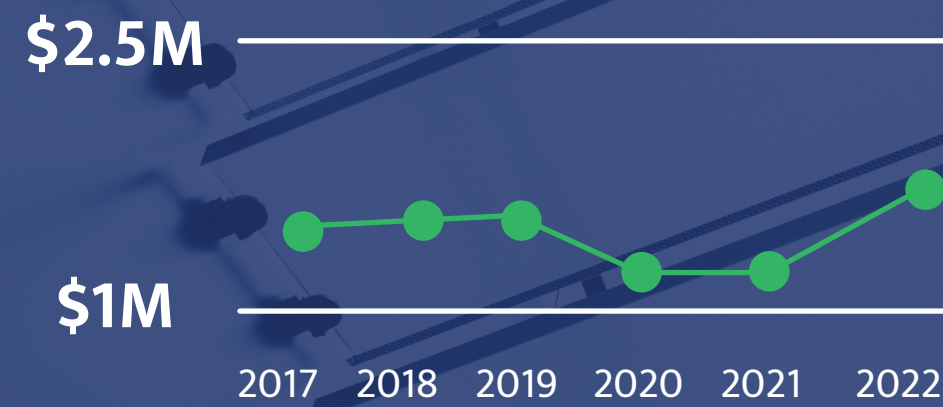
There's a better way: Automation.

Continuous Controls Monitoring (CCM) offers a transformative approach that empowers businesses to overcome the limitations of manual controls. This ebook will explore the hidden costs and drawbacks of manual testing and demonstrate how automation can streamline processes, enhance accuracy, and empower CFOs to achieve a more robust and cost-effective controls environment.

Let's get into the five things Every CFO Should Know About Controls Automation.

INSIGHT

1



The average audit fees paid by SEC registrants reached an all-time high in FY2022 at \$2,242,980 — representing an 11% increase from FY2021.

Source:
https://www.auditanalytics.com/doc/2023_Audit_Fees_Report.pdf

You're Probably Spending More on Controls Testing Than You Realize

Facing rising audit fees? You're not alone. A recent study by Financial Executives International (FEI) sponsored by the Center for Audit Quality (CAQ) revealed a 4.6% increase in audit fees paid by U.S. public companies in 2022 compared to 2021¹. This upward trend can be attributed to several factors, including:

- **Increasing Regulatory Complexity:** A growing web of regulations, such as Sarbanes-Oxley (SOX) and evolving cybersecurity standards, demands more rigorous audit procedures to ensure compliance.
- **Heightened Scrutiny:** Investors and regulators are placing greater emphasis on financial reporting accuracy, prompting auditors to dedicate more time and resources to testing internal controls.
- **Growing Need for Cybersecurity Measures:** The ever-present threat of cyberattacks necessitates additional audit procedures to assess the effectiveness of cybersecurity controls. Last year, the Securities and Exchange Commission passed a rule requiring increased disclosure around cybersecurity risks and incidents². Public companies are now required to report material cybersecurity incidents on a Form 8-K within four business days of discovery.

While these factors undoubtedly contribute to rising audit fees, a closer look reveals a hidden culprit: the inefficiency of audit testing. Manual processes, heavily reliant on data entry, reconciliation, and sample testing, are not only time-consuming but also prone to human error. Let's explore how these inefficiencies can significantly inflate your audit costs:

The Shrinking Talent Pool and Rising Costs: The demand for skilled accounting and finance professionals is outpacing supply, driving up salaries and impacting overall audit engagement fees. Audit testing tasks, often repetitive and data-driven, require significant personnel hours. By streamlining these processes with automation, companies can free up valuable staff time for higher-level analysis and strategic initiatives.

Resource Drain and Diverted Focus: Manual audit testing is a resource-intensive endeavor. Consider the time and personnel required for:

- **Reconciliation:** Reconciling accounts and identifying discrepancies is a laborious task that can significantly extend the audit timeline and increase costs.
- **Sample Testing:** While sample testing offers a snapshot of control effectiveness, it's inherently limited. The manual effort required to select, test, and document samples can be substantial.

The Cost of Human Error: Even with the most meticulous staff, manual processes are susceptible to human error. Errors in data entry, reconciliation, or sample selection can necessitate time-consuming corrections during the audit, further inflating costs. Automating these tasks can significantly reduce the risk of human error and the associated financial burden.

The hidden costs of audit testing can substantially impact audit fees. By streamlining processes, minimizing human error, and freeing up valuable resources, automation offers a compelling solution to optimize your controls testing approach and potentially reduce your overall audit costs.

INSIGHT

2

Top Three CFO Priorities for Finance in 2024

For Finance



Top Three CFO Priorities for the Audit Committee in 2024



Source:
<https://www2.deloitte.com/us/en/pages/finance/articles/cfo-signals-4q-2023.html>

Manual Audit Testing Will Slow Your Growth Initiatives

As your business scales and embraces new opportunities, the limitations of audit testing become increasingly apparent. These traditional methods, while familiar, can act as a drag on your growth trajectory in several ways:

Scaling Challenges: Audit testing thrives on routine and stability. However, growth often involves complex changes, new product lines, or market expansion. Adapting manual testing procedures to accommodate these changes can be time-consuming and resource-intensive. The very processes designed to ensure control effectiveness can become a bottleneck, hindering your ability to move swiftly and capitalize on new opportunities.

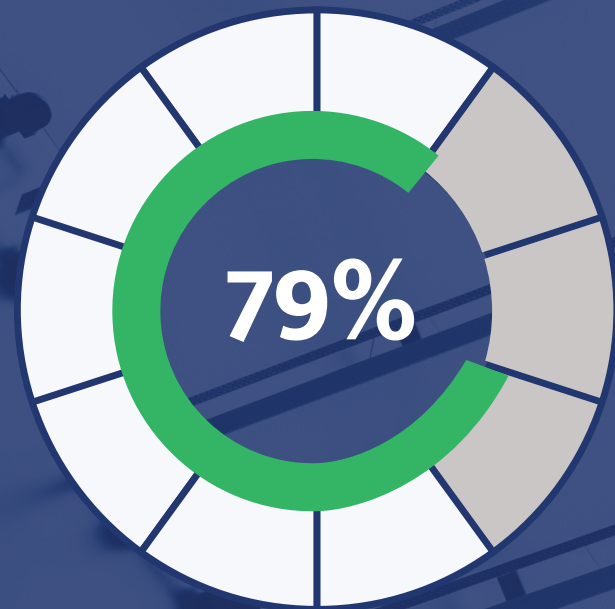
Time Consumed, Growth Opportunities Lost: Manual testing is inherently time-consuming. Automation can streamline these tasks, allowing your team to focus on driving growth and innovation. Imagine the strategic initiatives, market research, or product development that could flourish if your team were freed from the burden of manual audit testing.

Compliance Concerns and Growth Delays: Maintaining compliance with evolving regulations and internal control frameworks is essential for any business. However, outdated or insufficient audit testing can leave you vulnerable. Auditors or regulators may raise red flags if your testing procedures fail to keep pace with changing regulations or identify potential compliance gaps. Addressing these concerns can require significant resources and potentially delay your growth plans until compliance is achieved.

Risk Management and Growth Decisions: Limited visibility is a significant drawback of manual audit testing. The reliance on sample testing offers only a snapshot of control effectiveness, potentially masking underlying weaknesses. This lack of real-time insights can expose your company to financial risks, such as fraud or errors, that could hinder your growth trajectory. Making informed decisions about expansion or resource allocation becomes more challenging without a comprehensive understanding of your controls environment.

By automating controls management, you gain the power of continuous monitoring, providing real-time visibility into potential control weaknesses. This proactive approach to risk management empowers you to identify, quantify, and address issues before they escalate into significant problems, allowing you to confidently pursue growth opportunities.

Audit testing can become a barrier to growth, consuming valuable resources, hindering agility, and exposing your company to potential risks.



In 2023, 79% of companies reporting material weaknesses in public company filings stated that at least one of the root causes for the MW was related to lack of documentation, policies, and procedures.

Source:
<https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2024/trends-in-material-weaknesses.pdf>

Your Controls Documentation Probably Isn't Keeping Up

Maintaining accurate and up-to-date documentation is a cornerstone of effective internal controls. However, manual audit testing presents several challenges in this area:

Complexity and Consistency: As business processes evolve and become more complex, documenting audit testing procedures can become increasingly difficult. Ensuring consistency and accuracy in this documentation across different teams or personnel changes can be a significant challenge. Without proper documentation, it becomes difficult to track testing activities, analyze results, or identify trends over time.

Time Constraints and Incomplete Records: The time-consuming nature of manual testing often leaves little room for comprehensive documentation. Critical steps or details may be inadvertently omitted, leading to incomplete records that hinder future testing and audits. The pressure to complete testing tasks within tight deadlines can compromise the quality and completeness of exception reviews and documentation.

Lost Knowledge and Continuity: Personnel changes are inevitable. When staff members who performed audit testing move on, their institutional knowledge and understanding of the testing procedures can be lost. Relying solely on incomplete documentation to onboard new staff can be time-consuming and error-prone.

The Burden of Manual Updates: Keeping documentation current with process changes or control modifications requires manual updates. This not only creates a time gap between when a process changes and when the documentation reflects it but also increases the risk of errors or inconsistencies being introduced during updates.

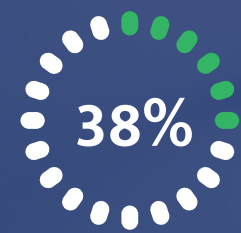
Maintaining accurate and up-to-date documentation is crucial for effective internal controls, but manual audit testing poses several challenges. Automation can help address these issues by streamlining the documentation process, ensuring consistency, and reducing the likelihood of errors.

INSIGHT

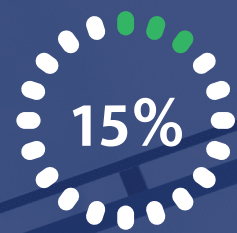
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Real-time insights and comprehensive data analysis can lead to an improvement of overall control effectiveness.

More **THAN HALF** of occupational frauds occur due to a lack of internal controls or an override of existing internal controls.



Lack of internal controls



Override of existing controls

82%

of victim organizations **MODIFIED** their anti-fraud controls following the fraud.

Source:

<https://www.acfe.com/-/media/files/acfe/pdfs/rtnn/2024/infographics/key-findings.pdf>

<https://legacy.acfe.com/report-to-the-nations/2024/>

By the Time You Read This, Your Sample Testing Data Will Be Out of Date

Sample testing, a cornerstone of traditional audit testing, offers a limited window of time into control effectiveness. Here's why relying solely on samples can be a risky proposition:

Limited Visibility and Missed Opportunities: By its very nature, sample testing examines only a small portion of your overall transactions. This limited scope can leave the vast majority of your data unexamined, potentially masking significant control weaknesses or emerging risks. Imagine a critical control failure hiding undetected within the unsampled population – a scenario with potentially serious consequences for your financial reporting and risk management.

Uncertainty and Inherent Risk: Sample testing inherently involves a degree of uncertainty. Even a seemingly well-designed sample may not accurately represent the entire population of transactions. This uncertainty makes it difficult to draw definitive conclusions about the overall effectiveness of your controls. Financial auditors and control professionals must acknowledge this limitation and consider the potential implications for their risk assessments and decisions.

Limited Assurance and Incomplete Picture: Sample testing can only provide limited assurance regarding control effectiveness. A clean bill of health on the sample doesn't guarantee the absence of control weaknesses in the unsampled population. This lack of comprehensive oversight can hinder effective risk management and informed decision-making by management.

The Challenge of Extrapolation: Drawing conclusions about the entire controls environment based on a limited sample requires careful analysis and sound statistical methods. Extrapolating findings from the sample to the entire population is not always straightforward and can be fraught with risk. Overly optimistic interpretations of sample results can lead to a false sense of security and potentially mask underlying control deficiencies.

Real-Time Insights Matter: Audit testing, often performed at periodic intervals, provides a backward-looking perspective on control effectiveness. By the time testing is complete and results are analyzed, the data may already be outdated. Emerging control weaknesses or changes in the business environment may go undetected for significant periods, increasing the risk of financial misstatements or control failures.

Sample testing in traditional audit testing provides only a limited snapshot of control effectiveness, presenting several risks. Automation can mitigate these issues by providing real-time insights and comprehensive data analysis, improving overall control effectiveness.

There is a Better Way: Continuous Controls Monitoring from Pathlock

Throughout this ebook, we've explored the limitations of manual audit testing and its impact on your organization's efficiency, compliance, and risk management. The rising tide of audit fees, the challenges of scaling with manual processes, and the inherent limitations of sample testing all paint a clear picture: the traditional approach to internal controls is struggling to keep pace with the demands of the modern business environment.

However, there's a better way. Continuous Controls Monitoring (CCM) from Pathlock offers a transformative approach that empowers you to overcome the limitations of manual testing and achieve a more robust and cost-effective controls environment.

Pathlock CCM provides a comprehensive suite of tools designed to:

- **Automate Repetitive Tasks:** Free your staff from the time-consuming burden of manual controls management, quantification, and change monitoring. Pathlock automates these tasks, freeing up valuable resources for higher-level analysis and strategic initiatives.
- **Ensure Accuracy and Mitigate Human Error:** Eliminate the risk of human error inherent in manual processes. Pathlock's automated controls management ensures consistency and reliability in your testing procedures.
- **Gain Real-Time Visibility and Continuous Insights:** Move beyond the limitations of sample testing. Pathlock provides continuous monitoring of your configurations and master data, offering real-time visibility into potential controls weaknesses and emerging risks.
- **Simplify Compliance and Reduce Audit Costs:** Pathlock streamlines your compliance efforts and simplifies audit preparation. With continuous monitoring and detailed audit trails, you can confidently demonstrate your controls' effectiveness to auditors, potentially reducing audit fees in the long run.
- **Empower Proactive Risk Management:** Gain a comprehensive understanding of your controls environment and identify potential issues before they escalate into significant problems. Pathlock empowers you to make informed risk management decisions and safeguard your financial integrity.

Pathlock's CCM solution is more than just automation. It's a comprehensive approach to internal controls, designed to empower your team and optimize your controls environment. With Pathlock, you can:

- **Reduce Time and Costs:** Free up valuable staff resources, potentially reduce audit fees, and streamline your compliance efforts.
- **Improve Efficiency and Agility:** Automate repetitive tasks and gain real-time insights to support faster decision-making.
- **Enhance Accuracy and Mitigate Risk:** Eliminate human error and gain a comprehensive understanding of your controls environment.
- **Increase Confidence and Peace of Mind:** Demonstrate the effectiveness of your controls and gain greater confidence in your financial reporting.

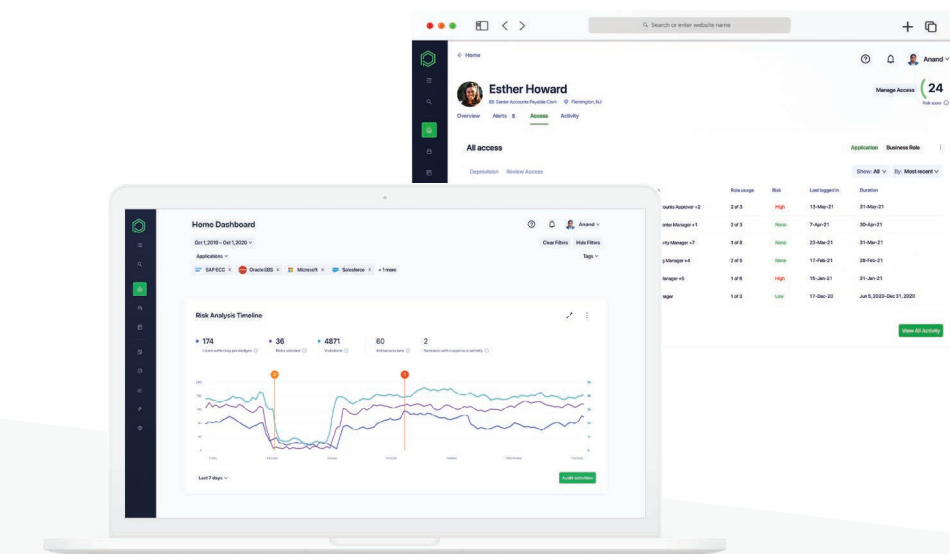
In Closing

Hopefully, this ebook has provided a compelling case for moving beyond the limitations of audit testing. By embracing automation and continuous controls monitoring, you can empower your team, optimize your controls environment, and achieve a more secure and financially resilient future for your organization.

To learn more about how Pathlock's Continuous Controls Monitoring solution can help you reduce the cost of your audits, and put cash back on the books, please visit pathlock.com

About Pathlock

Pathlock is the leader in identity and application access governance. When traditional identity governance and administration is not enough, Pathlock enables enterprises to manage all aspects of application access governance, continuous controls monitoring, and cybersecurity via a single platform across applications, including fine-grained user provisioning, user access reviews, separation of duties, control testing, and audit preparation. Today, many of the world's most respected global 2000 companies rely on Pathlock to protect their critical digital assets from financial, regulatory, and security threats, ensure corporate compliance, and improve performance. As a result, our customers have saved millions in employee productivity, labor costs, audit fees, and data loss prevention.



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Footnotes:

¹Financial Executives International (FEI)

²SAP Dynamic Access Controls: Meeting the SEC Cybersecurity Incident Disclosure Rules