

# INFORMATION TECHNOLOGY AND INTERNAL CONTROL FOR SARBANES-OXLEY COMPLIANCE

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## INTRODUCTION

SOX is concerned with corporate governance, standards, and other issues related to financial reporting by public companies including registrants with the Securities and Exchange Commission (SEC). Even though SOX has many provisions, this paper focuses on Section 404 which addresses internal controls over financial reporting. Because IT has become pervasive in modern organizations, a well-controlled IT environment is essential for reliable financial reporting.

Section 404 requires that the management of public companies assess the effectiveness of their company's internal controls that relate to financial reporting. Management must report annually the results of their assessment. External auditors are then required to audit and report on management's assessment. In connection with this assessment and audit, SOX requires companies to select and implement an internal control framework suitable to their organization. Concerning such a framework, the Public Company Accounting Oversight Board (PCAOB) that is responsible under SOX for auditing standards, makes reference to a framework for internal control developed by the Committee of Sponsoring Organizations of the Treadway Commission. This framework, "Internal Control – Integrated Framework," [2] is known as COSO because of its sponsoring organization. COSO is widely adopted among US companies. In addition, another framework, developed by the IT Governance Institute that is titled "Control Objectives for Information and Related Technology (COBIT) [4] deals with specific IT issues. The COBIT framework has also received widespread adoption.

There are other documents that may be useful when considering an overall framework. They include the American Institute of Certified Public Accountants' "Consideration of the Internal Control Structure in a Financial Statement Audit" (SAS 55 and 78) [1]; the Institute of Internal Auditors Research Foundation's "Systems Auditability and Control" (SAC) [3]; the Information Technology Infrastructure Library (ITIL); and ISO 17799.

A comparison and mapping among these internal control frameworks and documents, as provided in the extended version of this paper, can be useful to develop, assess, and report on internal control systems that seek to be SOX compliant.

## REFERENCES

- [1] American Institute of Certified Public Accountants. *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55*" (SAS 78), 1995.
- [2] Committee of Sponsoring Organizations of the Treadway Commission. *Internal Control – Integrated Framework*, 1992.
- [3] Institute of Internal Auditors Research Foundation. *Systems Auditability and Control*, 1994.
- [4] IT Governance Institute of the Information Systems Audit and Control Association. *Governance, Control and Audit for Information and Related Technology*, 2000.