

## A Comprehensive Overview of SOX Audit Section 404

The Sarbanes-Oxley Act (SOX) of 2002 was enacted to restore trust in corporate financial reporting after scandals like Enron and WorldCom. One of its most critical sections is Section 404, which focuses on internal controls over financial reporting (ICFR). It applies specifically to publicly traded companies with operations in the United States. These companies are required to ensure the accuracy and reliability of their financial statements by establishing and maintaining effective internal controls.

While Section 404 is centered on financial controls, technology plays a crucial role in compliance. Public companies depend on IT systems to manage financial data, making technology integral to maintaining control over financial reporting. Financial software, databases, and information security systems are key to ensuring the integrity of financial data. For example, systems like Enterprise Resource Planning (ERP) software must have strict access controls, security protocols, and change management procedures in place to safeguard financial information.

To comply with Section 404, companies must design, document, and test their internal controls. Management must also provide an annual report on the effectiveness of these controls, while external auditors conduct independent reviews to ensure the controls are operating effectively. Technology audits are a critical part of this process, as they assess whether IT systems supporting financial reporting are secure and reliable.

The purpose of SOX Section 404 is to promote transparency and accountability, reducing the risk of financial misreporting or fraud. It ensures that investors can trust the financial data presented by public companies. While compliance can be costly, especially for smaller organizations, integrating technology into the control environment enhances long-term value and risk management.

In summary, SOX compliance applies to public companies in the U.S., and technology is essential for maintaining strong internal controls. IT governance, system security, and data integrity are critical for ensuring compliance and upholding the integrity of financial reporting.