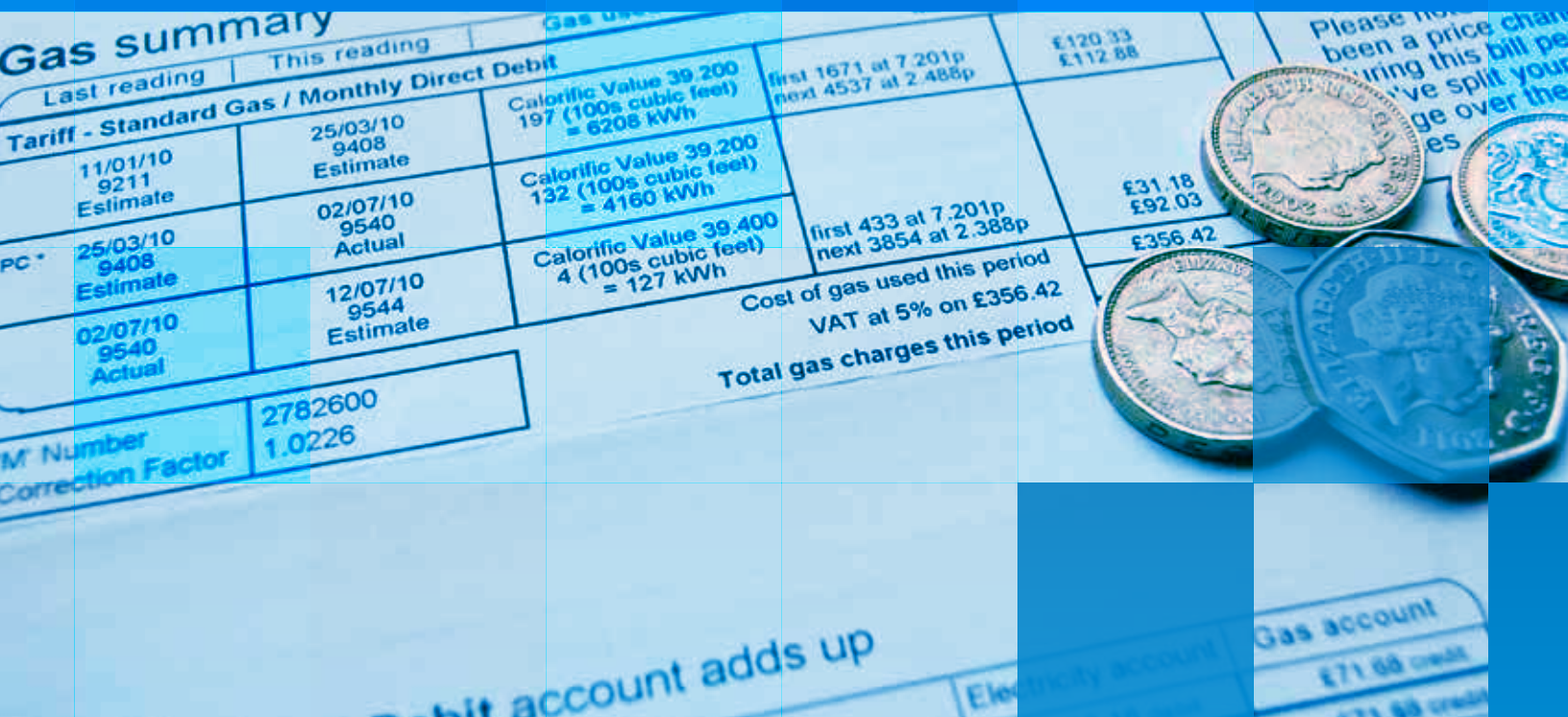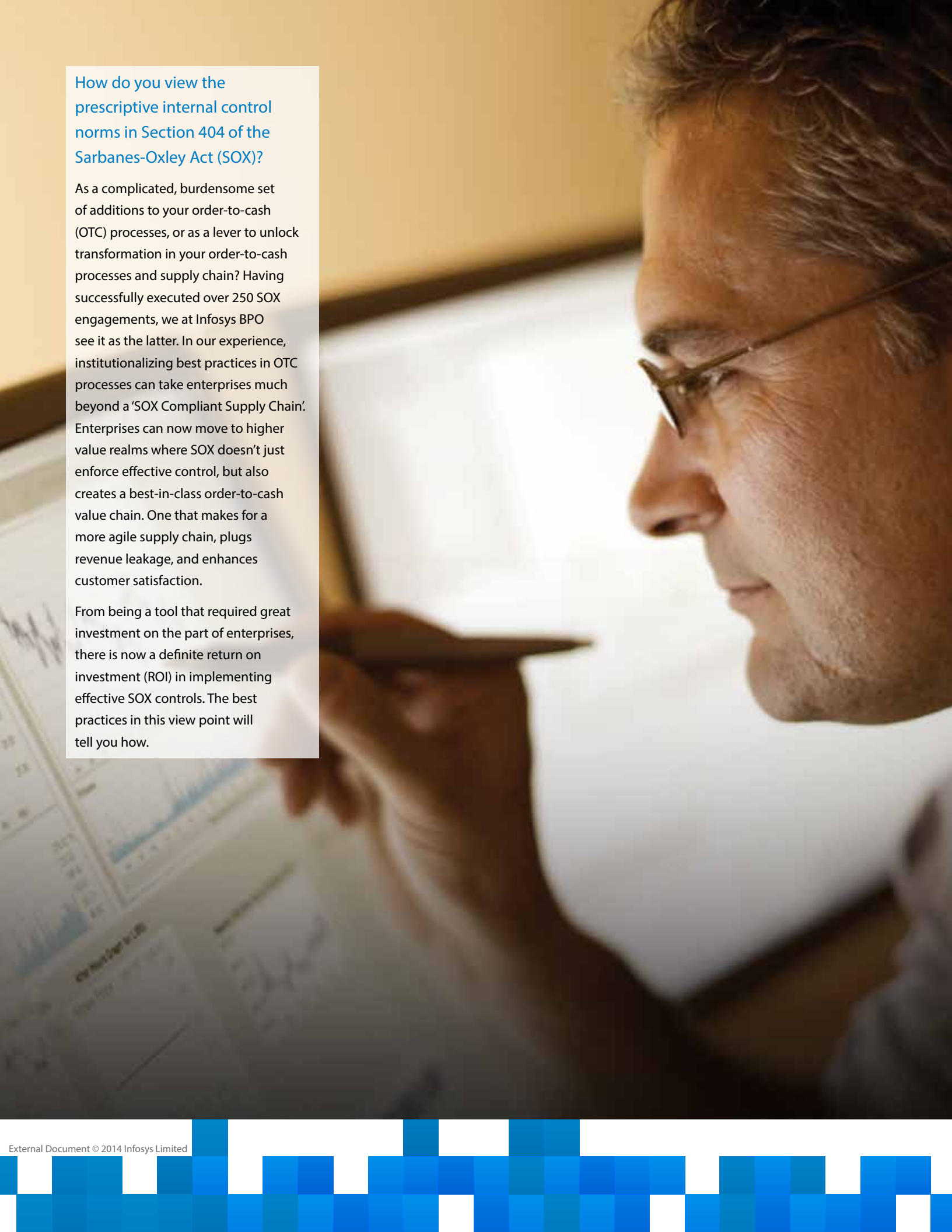# PERSPECTIVE

SOX Controls – Driving Transformation of the Order-to-Cash Value Chain

- Shyam R Rao

How do you view the prescriptive internal control norms in Section 404 of the Sarbanes-Oxley Act (SOX)?

As a complicated, burdensome set of additions to your order-to-cash (OTC) processes, or as a lever to unlock transformation in your order-to-cash processes and supply chain? Having successfully executed over 250 SOX engagements, we at Infosys BPO see it as the latter. In our experience, institutionalizing best practices in OTC processes can take enterprises much beyond a 'SOX Compliant Supply Chain'. Enterprises can now move to higher value realms where SOX doesn't just enforce effective control, but also creates a best-in-class order-to-cash value chain. One that makes for a more agile supply chain, plugs revenue leakage, and enhances customer satisfaction.

From being a tool that required great investment on the part of enterprises, there is now a definite return on investment (ROI) in implementing effective SOX controls. The best practices in this view point will tell you how.

SOX controls — where OTC processes are today

After major accounting scandals plagued large enterprises, the Sarbanes-Oxley (SOX) Act was introduced in 2002, with a mandate for all businesses to implement a set of controls. The main aim was to protect investors. But on the other hand, implementing these controls required large monetary investments from enterprises.

Section 404 of the SOX: Management assessment of internal controls

According to Section 404 of the SOX Act, all financial records were to be presented in a fair manner, and be open to an external audit. This threw up a number of challenges. The external auditor is able to provide the broad guidelines that the company should be working towards. However, it depends on the internal auditor from the company to scope the work. The controls did not make provisions for a disaster recovery or business continuity plan, and the onus lay on COOs and CFOs to include it in their plans. While Section 404 has been criticized in various circles, the benefits that can be accrued depend on the controls enforced by internal auditors, i.e. stakeholders responsible for OTC processes in the finance and accounting (F&A) functions. This flexibility means that stakeholders can customize SOX controls in a manner that not only optimizes processes, but also delivers business value.

Compliant today, but there's room for more

Most F&A functions – across industries – are already tightly regulated by both internal and external auditors. SOX reporting requirements have been put in place to control and ensure compliance to global accounting and reporting norms. However, SOX compliance in operational processes such as procurement, order management, and inventory management is governed by less prescriptive norms. Herein lies the opportunity to do more with SOX controls. The operating functions have a direct bearing on cost of operations and customer satisfaction. Thus designing controls to meet Section 404 requirements – by including industry best practices – can help bring about a transformation in the process, as well as provide a competitive advantage for firms.

Using shared services to enhance SOX controls

When OTC processes operate in a centralized shared services environment, the impact of enhancing SOX controls to enhance organizational value is much larger due to:

- Economies of scale
- Easy replication of best practices in consolidated operations
- Lower costs of establishing and controlling these initiatives
- Standardization is possible across business units, functions and geographies
- The ability to monitor and track initiatives with a common set of SLAs and KPIs

These potential benefits make a compelling business case for using SOX controls as a transformational lever for companies who have created SSCs or outsourced their OTC processes to BPO providers.

Best practices for creating a best-in-class order-to-cash value chain

Many SOX controls have been introduced to address challenges in the order-to-cash value chain. However, these controls often do not produce the desired results. In spite of these controls, OTC processes are still weighed down by inefficiencies — which include frequent errors, high manual dependencies, effort duplication, delays in approvals and shipping of goods. And these controls do little else than getting organizations closer to compliance — missing out potential opportunities that can make real business impact.

This section details common process challenges, typical controls put in place, and the best practices that be introduced as a part of these SOX controls. These practices will make OTC processes more efficient and help organizations gain greater control of their supply chain.

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01 Order Receipt

The challenge

The OTC value chain starts with the receipt of an order — its capture and resolution is key to the efficiency of the cash-to-cash cycle. The presence of a large percentage of orders on hold clearly indicates an inefficient order receipt process. Generally, companies try to control these errors or incomplete orders by automating the process of order capture to indicate mandatory fields and auto-populating data wherever possible.

The transformative solution

However, the key to transforming the process lies elsewhere — in master data management. A well-maintained customer, product and price master database can be linked to the order-management system to avoid errors or delays in the order receipt process.

challenges	typical control activity	best practices
Incomplete or inaccurate order entry.	Sale orders have fields for all pertinent order information. The data is researched on, corrected and re-entered on a timely basis.	The order management system interlinked with the customer master, price master and product master. The order entry form should have mandatory fields to be filled without which it will not be processed. Customer's expectation regarding lead time should be set at order entry. No order to be processed without a valid Purchase Order number.
Recording of duplicate sales orders.	The system will show a default warning message to prevent duplicate creation of sales order.	Sales order numbers are sequentially numbered and a manual/system check is performed to identify orders falling outside a specified range or duplicate orders.
Processing orders that are above approved customer credit limit — leading to higher accounts receivable and write-offs.	Orders are automatically blocked by the system if the customer's credit limit is exceeded. Approval limits for releasing block orders are established and are enforced through manual discipline.	Validate and process orders based on rules for minimum order policy, credit, product and service entitlement, sourcing and stock availability, lead-time and pricing, based on client policy. In case of orders from new customers, first it should be added to the master and then orders should be accepted.
Higher discounts are applied to orders based on ad-hoc requests from sales teams.	Data in respect of price drops that is updated in the system is independently verified.	Standard discount applicable for different customer / product segments should be updated in the system. Any discount over and above the standard rate should be approved.

02 Customer Invoicing

The challenge

Delays in invoicing directly leads to delayed revenue recognition and in case of errors in invoices, a loss of revenue as well. To avoid this, organizations tend to introduce control procedures that trigger an invoice in the system the moment the order leaves the warehouse (or inventory) vide a dispatch (or goods issue) note.

The transformative solution

Build a workflow solution to ensure speedy resolution of any disputes / claims from customers on the invoice.

challenges	typical control activity	best practices
Sales invoice is not generated or delayed for every shipment.	On the approved release of a shipment from the warehouse, the system automatically produces invoices with the same date. Shipping dates cannot be modified without approval by the appropriate levels of management.	Send Advanced Shipping Note (ASN) to customer or site specifying order-lines by container by pallet by load. Scan and archive delivery confirmation documentation. Manual invoices are created based on proper approvals. Replace low-value cash transactions with sales on company credit cards or direct debit. Consolidated billing for customers – provide facility for customer group payment consolidation with automated allocation of payment where possible.
Incorrect price, amount, and other information on the invoice.	System edits validate invoice data input against the standing data and the sales order system. Invalid data is rejected for re-entry or stored in a suspense file and corrected at a later date.	Workflow to support speedy resolution of customer short or net payments, including handling customers' debit memoranda, e.g. claims from customers for reimbursement of extra handling resultant.

03 Collections and Customer Receipts

The challenge

A common situation in the OTC process is the lack of follow-up activity on past due accounts. To address this, a control activity introduced is making collection calls and sending demand letters to all the past due accounts.

The transformative solution

However, this 'one-size-fits-all' approach may not produce results. Instead, companies should establish a value-driven proactive collection strategy. Focus on telephone calls for major value debtors and use automated dunning letters for low value debts, thus increasing the probability of timely payments.

challenges	typical control activity	best practices
No follow-up is done on past due accounts.	The supervisor reviews the ageing report and compares the collections made during the period with the amount outstanding at the beginning of the period.	Call details, including details of payment promises should be recorded on the accounts receivable (AR) system and followed up in a timely manner. Partner with high-value customers to encourage them to make payment on receipt of goods on the basis of a two match with the PO rather than to wait for invoice. Short payment is promptly referred to account management for resolution and / or authorization for any write-off. Electronic payments with electronic remittance advices uploaded into the sales ledger enabling automatic matching.
Cash receipts do not relate to sales made, or are posted to the incorrect customer account.	Receipts are applied to the customer accounts based on matching of customer name, customer number and invoicing number. Matching is done only against open invoices in the customer account.	A / R manager will review all unidentified checks. If manager cannot determine whom the check is for, the check will be temporarily applied against unapplied / unallocated cash amount. Collections will be responsible for clearing the unapplied / unallocated cash account.

04 Returns

The challenge

The returns process is seen as an afterthought to the sales process and is given less focus in meeting common challenges in the process such as returns not being acted upon on time. This leads to delays in processing claims and ultimately an irate customer.

The transformative solution

A quick way to improve customer satisfaction (CSAT) levels is to institutionalize best practices in prioritizing high value returns, automating low-value claims and an escalation procedure for unresolved claims.

challenges	typical control activity	best practices
Returns are not authorized or are not as per company returns policy.	Returns from customers must be physically verified, reviewed and RMA are approved by appropriate personnel.	The process of returns approval should be accelerated by providing approvers real-time inputs on adherence to established and updated return policies. Only approved refund requests are processed – approval of high value claims from authorized client management personnel, automatic approval of low value claims.
Cash receipts do not relate to sales made, or are posted to the incorrect customer account.	Receipts are applied to the customer accounts based on matching of customer name, customer number and invoicing number. Matching is done only against open invoices in the customer account.	Establish a system for recording and tracking claims and deductions (query management system), with the following attributes: • Claim types including resolution service standards • Routing of claims • Escalation of unresolved claims

Benefits of a transformed OTC value chain

By implementing the best practices outlined in the previous section, enterprises can:

- Lower cash-to-cash cycle time and realize better performance in working capital management — by reducing the occurrences of inaccurate orders, wrong shipments, manual order management, errors in invoicing and collections which increase the cash cycle times

- Reduce revenue leakage — by prevention of wrong pricing, discounts and credit limits being applied and resultant shorter cash cycles

- Achieve greater customer satisfaction — accompanied by faster response/electronic tracking of orders, more efficient returns and refunds process, better response to changes in orders

The above are results that can be found in a supply chain that is not only SOX compliant, but also in a more agile and flexible supply chain — a definite return on one's investment in SOX compliance.

| The way forward | The best practices for SOX controls reflects Infosys BPO's vision on how to use this tool for driving transformation in the order-to-cash (OTC) value chain in particular, and in an enterprise, in a holistic manner. Any organization who has consolidated in a SSC or outsourced their OTC processes to a BPO provider must now arrive at a shared services strategy for SOX controls. This strategy should address the limitations of the typical controls and implement more evolved controls to create a function that is not merely SOX compliant, but one that has transformed their OTC value chain and delivers greater business value. |

About the Author

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Shyam has over 17 years of professional experience in supply chain, inventory optimization and after sales operations. He is responsible for conceptualizing and implementing shared service and outsourcing solutions and has led several solutions and consulting efforts for clients across the supply chain and sales operations domains. Prior to Infosys, Shyam worked in the procurement and supply chain functions in the hi-tech manufacturing and financial services industries. Shyam is an alumnus of the London School of Economics.

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