

Procurify and Financial Compliance Standards: The Guide



Introduction

Business growth is great but what happens when that growth results in **requirements to meet compliance standards** from Sarbanes-Oxley (SOX), financial regulations, or other industry governance standards? Whether you're planning for an eventual IPO, leveling up internal control policies, or just preparing for an audit, you'll need to start looking for reliable and scalable ways to monitor your controls and risk assessment practices. Don't sweat. This guide will help you understand how **procurement software** can help you meet all the criteria required to satisfy any auditor's eyes.

Let's start with a bit of history.



What is Sarbanes-Oxley or SOX?

The Sarbanes-Oxley Act (or also popularly known in the abbreviated form of SOX) was a law enacted in 2002 by U.S. Congress and the Securities and Exchange Commission (SEC) to protect investors from fraudulent financial reporting by public companies. Do the names Enron, Arthur Andersen, and WorldCom ring a bell? These companies were busy making headlines in the early 2000s... and not in a good way. Cue financial scandals.

And so, Sarbanes-Oxley was born. The origins of Sarbanes-Oxley was a regulatory response to the scandals involving publicly traded corporations like these. Unsurprisingly, these scandals created investor skepticism over the reliability of financial statements and processes and thus, led to the creation of new financial regulations in the U.S., including Sarbanes-Oxley.

Ok got it. It's like a rulebook. How are companies evaluated under Sarbanes-Oxley?

Section 404 of the Sarbanes-Oxley Act requires public companies' annual financial reports to include an assessment of their own internal controls over financial reporting processes,

alongside an external auditor's report over these controls. And just how serious is compliance? Well, **non-compliance with SOX** can result in financial penalties, negative public reputation, and even (gulp), jail time.

So SOX requires assessment of internal controls. What are internal controls?

Internal controls are processes, systems, and activities that mitigate risks that could prevent a company from achieving its objectives, related to three things:

1. Reliability of the financial reports
2. Effectiveness and efficiency of company operations
3. Compliance with laws and regulations.

Got it. Processes need to be set up to mitigate risk.

What do internal controls have to do with Sarbanes-Oxley?

To comply with SOX, board members, senior leadership, and managers are required to maintain internal control processes as defined above to ensure that financial reports are reliable, accurate, and not misrepresented to stakeholders.

The SEC does not provide specific controls and processes that must be adhered to, but thankfully, guidance is provided by other professional associations.

For instance, internal control frameworks are established by a private organization called the Committee of Sponsoring Organizations (COSO) and most companies use these recommendations to create their own internal control processes.

Under COSO, there are five pillars of an effective internal control system:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring activities



And how does procurement software help with internal controls and audits?

A range of different systems, infrastructures, and software platforms are usually involved in a company's daily business operations. Business operations generally lead to transactions being recorded in the accounting general ledger. These transactions are the foundation of financial statements and stakeholder reporting.

Procurement software is involved in the recording of daily transactions by **helping organizations efficiently centralize, control, and approve purchase requests**, which are ultimately recorded in the general ledger.

While procurement software doesn't address all of the required aspects under SOX, procurement software is **one piece of the fintech stack** that helps with the process, recordkeeping, and documentation around spend and expenses.

Procurement software makes preparing for audits so much easier as the software itself is essentially an internal control. Procurement software provides:



Financial oversight and risk management tools. Monitor real-time actuals against budgets, track trends, and analyze outliers. Prevent issues and identify risk before it happens.



Digital audit trails. Procurement software automatically logs every single request, approval, inquiry, purchase, and change. Everything. You'll always be audit ready to show proof to the auditors.



Accurate and reliable record keeping documentation over spend and expense transactions. Rely on one source of truth for all purchase information. No more reliance on paper files.



Centralized approvals over purchase requests. Eliminate the risk of unauthorized transactions through customizable controls and multi-level approval workflows based on function, location, or project.

Ultimately, the SEC Interpretive Guidance states that “management is responsible for maintaining evidential matter, including documentation, to provide reasonable support for its assessment.”

Procurement software systems thereby gives companies a trustworthy system of record that maintains this documentation of all steps involved in the purchasing process, from initial purchase request, to approver, and all comments regarding the purchase.

Can auditors rely on procurement software?

Auditors rely on external systems during their audit by looking at that specific system’s general IT controls (also known as ITGCs or GITCs). These controls are crucial in a company’s internal control framework as they ensure potential risks are mitigated so that systems and IT infrastructures can be relied on.

General IT controls are the processes and activities that ensure data, reports, automated controls, and other system functionalities underlying business processes can be relied on. The security, integrity, and reliability of financial information relies on proper access controls, change management, and operational controls.

To assess the reliability of IT general controls, many organizations offer trust, transparency, and assurance through SOC-2, an audit procedure that ensures specific service providers (such as procurement software vendors) have the controls in place to securely manage the data in the software so that the information can be trusted and relied upon.

SOC-2 was developed by the American Institute of CPAs (AICPA), and provides the criteria required to reliably manage data based on five trust service principles: security, availability, processing integrity, confidentiality and privacy.





How Procurify meets SOC 2 standards

While we cannot speak for any other procurement software that exists, we can speak for ourselves. **Procurify has aligned to SOC 2 controls and is working on an audit.** We have a robust and reliable set of general IT controls to help our customers and their auditors rely on our system to pass SOC 2 and other information security compliance standards.

Procurify's organizational IT controls are rooted in operations, engineering, IT, and people management practices.

Procurify has controls to address:

- IT security policies and change request approvals including communication of such policies and changes to team members
- Core engineering practices such as Version Control, CI/CD (PR Processes), and using practices to secure our AWS
- Training the teams on common security practices
- Segregation of duties regarding user access and segregated environments
- Appropriate people management processes
- Processes to address control changes in user access
- Policies to ensure systems are password protected
- The appropriate storage of backup data
- Incident management systems and update of critical vulnerabilities

To learn how Procurify can help your organization with Sarbanes-Oxley (SOX), financial regulations, or other industry governance standards, book a demo and we'll be happy to answer your questions.

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