



Keeping Pace with SOX Compliance: COSO, Costs and the PCAOB

Highlights from Protiviti's
2014 Sarbanes-Oxley Compliance Survey

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INTRODUCTION

It's been 12 years since passage of the Sarbanes-Oxley Act and, depending on the organization, approximately a decade that companies have been required to comply with the internal control over financial reporting standards as set forth in SOX Section 404.

In many respects, companies have made notable strides in automating and standardizing their controls and processes to make the SOX compliance effort as effective and efficient as possible. Yet, different hurdles continue to emerge. As revealed in the results of our 2014 Sarbanes-Oxley Compliance Survey, the Public Company Accounting Oversight Board's (PCAOB) Staff Audit Practice Alert 11, "Considerations for Audits of Internal Control over Financial Reporting" (which reports on the board's inspections of 2012, 2011 and 2010 audits of internal control over financial reporting as performed by external audit firms)¹, together with the introduction of COSO's new 2013 Internal Control – Integrated Framework, are introducing new dynamics that organizations are continuing to address.

Our key findings this year include:

- **Companies are getting started, albeit slowly, with implementing the new COSO framework** – A somewhat surprising number of organizations have yet to begin work in earnest on gaining a clear understanding of and implementing COSO's new Internal Control – Integrated Framework. Organizations need to get this process going sooner rather than later so that they can understand what precisely will be involved in transitioning to the updated framework and how to undertake the transition process successfully.²
- **There is measurable fallout from the PCAOB's inspection reports** – External auditors are making notable changes to their auditing processes – including with respect to addressing various IT considerations, requiring more precision and testing of management reviews of controls, and evaluating identified control deficiencies – that are driving up efforts and overall costs for organizations.
- **Compliance costs are going up but are still manageable for many** – The PCAOB's inspection reports are affecting compliance costs for companies: Nearly half of the organizations responding to our survey report these costs are rising, with 41 percent noting increases of 20 percent or more – a big year-over-year jump in our study. Yet 61 percent of organizations still spend \$500,000 or less annually on SOX compliance.
- **Organizations continue to automate more processes and controls** – In fact, they are making progress. While 83 percent have plans in place to automate certain, or many, IT processes and controls in the coming year, this represents a 7 percent year-over-year decrease. Our view continues to be that increasing effective automated controls represents a substantial opportunity for all organizations.

¹ Staff Audit Practice Alert No. 11, "Considerations for Audits of Internal Control over Financial Reporting," October 24, 2013, PCAOB, www.pcaobus.org/standards/qanda/10-24-2013_sapa_11.pdf.

² For more information, read Protiviti's *The Updated COSO Internal Control Framework: Frequently Asked Questions* (Third Edition), available at www.protiviti.com/en-US/Documents/Resource-Guides/Updated-COSO-Internal-Control-Framework-FAQs-Third-Edition-Protiviti.pdf.

In our report, we offer detailed breakdowns of numerous findings by filer status and company size. As always, upon request, we would be pleased to provide customized reports based on the results of respondents from specific groups represented in our survey. For additional information or to request a customized report, please contact us. We also welcome any feedback on this study and the issues we cover.

Lastly, we want to thank the more than 600 executives and professionals who participated in our study this year. It is their valuable input that, more than anything else, makes this study possible. In addition, we remain grateful for the continued positive response that this research project receives in the market. We look forward to the conversations generated by our study, as well as developments in the marketplace that will affect how companies will continue to approach and refine their processes toward achieving SOX compliance in a positive and constructive manner.

Protiviti
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Notes:

This report includes numerous breakdowns of the survey findings by company size, defined as follows:

Large = Companies with revenues of \$10 billion or greater

Midsized = Companies with revenues between \$100 million and \$10 billion*

Small = Companies with revenues less than \$100 million

* Upon request, Protiviti can provide additional reporting in this broad category.

IMPLEMENTING THE NEW COSO FRAMEWORK

Interestingly, many companies – at least one in five, or more when considering “unsure” responses – appear to be moving rather slowly to adopt the new COSO framework, even though it is recommended for fiscal year-end dates beginning on or after December 15, 2014. Of note, the Securities and Exchange Commission has specifically pointed out that it is monitoring the transition by issuers to the new framework as part of their documenting internal control over financial reporting.

Do you plan to use COSO’s 2013 Internal Control – Integrated Framework to guide your SOX documentation in the current fiscal year?

Base: All respondents

Yes	61%
No	19%
Unsure	20%

Have you started to map the COSO 2013 Framework principles and points of focus to your organization’s key controls? If so, what does your preliminary assessment indicate?

Base: All respondents

Yes - We were early adopters of COSO 2013 and we have mapped the principles and relevant points of focus in our existing ICFR documentation.	8%
Yes - We have reviewed our current ICFR documentation and mapped the principles and points of focus, and need to make more refinements to our documentation. We are generally in good shape.	29%
Yes - Gaps exist within our ICFR structure and we have some remediation work to do.	13%
Yes - Our key controls are not sufficient, thus we need to rebuild them from scratch.	2%
No, we haven’t started yet.	48%

It is possible there is some ambiguity in these results – perhaps a significant number of respondents were from organizations for which the new framework will not apply until 2015 (in other words, fiscal year ending before December 15, 2014). Still other respondents may be confused as to whether the December 15, 2014, date – the point at which COSO will consider the 1992 framework obsolete – constitutes a real deadline for transitioning to the updated framework. This is something we will monitor closely for change in next year’s study.³

If yes, how will this effort impact the total amount of hours your organization devotes to SOX compliance in the current fiscal year?

	All Respondents	Chief Audit Executive (CAE), Audit Director or Corporate SOX Leader
Increase (in terms of hours)	52%	58%
Decrease (in terms of hours)	2%	2%
No change	46%	40%

Insights

- Notably, nearly half of all organizations have yet to begin mapping the new COSO framework principles and points of focus to their key controls. Again, this may be a reflection of timing in that this exercise will begin later in the spring or summer of this year. Or it may be due to confusion over the required transition timing. Still, this shows that a substantial number of companies are not heeding the advice to start early.
- Nearly half of organizations that have begun mapping the 2013 framework to their key controls do not foresee this effort to impact the total amount of hours for SOX compliance in the current fiscal year. It is possible these results arose as a result of a lack of a full understanding of the effort that will be required to address the principles and points of focus using a top-down, risk-based approach. In time, these organizations may find that this transition will require some effort and could result in a higher number of hours dedicated to SOX compliance this fiscal year.

How much progress has your organization achieved in mapping the COSO 2013 Framework principles to your SOX-related processes and controls?

Base: All respondents

75-100% complete; we're in the home stretch	16%
50-75% complete; we've made significant progress	12%
25-50% complete; we're gathering momentum	13%
0-25% complete; we've just started	23%
0% complete; we haven't started yet	36%

³ This year’s survey was conducted in the first quarter of 2014. It is possible that with many companies immersed in their 2013 year-end filings, use of the 2013 COSO framework was not under consideration at that time but is planned for their next fiscal year.

When do you expect to complete the 2013 COSO Framework mapping exercise?

	All Respondents	Large Accelerated Filers/ Accelerated Filers	Nonaccelerated Filers; EGCs; Pre-IPOs
Completed	8%	11%	7%
Target completion Q1 fiscal 2014	17%	18%	15%
Target completion Q2 fiscal 2014	26%	31%	20%
Target completion Q3 fiscal 2014	11%	11%	11%
Target completion Q4 fiscal 2014	18%	17%	26%
No plans to transition to COSO 2013	12%	3%	13%
Other	8%	9%	8%

Insights

- Regardless of whether the mapping exercise is completed, in process or just getting started, it is important to be aligned closely with your external auditor's views and expectations.

For fiscal year 2014, what change do you anticipate in your external audit fees due to transitioning to the 2013 COSO Framework?

	All Respondents	Large Accelerated Filer	Accelerated Filer	Nonaccelerated Filer
Fees will increase	41%	45%	45%	56%
Fees will decrease	4%	3%	7%	0%
Fees will stay the same	55%	52%	48%	44%

Insights

- With such a significant change in the essential framework for internal control over financial reporting (this is the first major update to COSO's framework since it was first introduced in 1992), an increase in audit fees is to be expected as part of the transition (of note, the focus areas in the PCAOB inspection reports are also expected to result in cost increases for organizations). The key question becomes: Is this a one-year cost increase, or will an increase in external audit fees tied to the new framework remain in subsequent years?
- With regard to the level of cost increases expected:
 - Overall, 62 percent of organizations who indicated their fees will rise expect a cost increase of 10 percent or more.
 - More accelerated filers (71 percent) anticipate costs to rise 10 percent or more, while 55 percent of large accelerated filers expect their audit fees to do so.

NOTABLE CHANGES IN SOX COMPLIANCE PROCESSES

To what degree are you noting the following changes to your organization's Sarbanes-Oxley compliance program?

Top 10 Responses – Extensive/Substantial Changes

Base: All respondents

	Extensive/Substantial		Moderate		Minimal/None	
	2014	2013	2014	2013	2014	2013
Changes/increase in process and control documentation for high-risk processes	21%	35%	37%	31%	42%	34%
Increased scrutiny from external auditors on testing exceptions/deficiencies	21%	NA	27%	NA	52%	NA
Testing of controls over management judgments and estimates	18%	19%	33%	23%	49%	58%
Increase in the frequency of "walkthroughs" to gain and document an understanding of key business processes	16%	30%	32%	30%	52%	40%
Increase in scope of baseline testing of IT reports	16%	19%	33%	26%	51%	55%
Expansion of documentation related to the entity-level control environment	15%	12%	33%	24%	52%	64%
Expansion of scope related to IT general controls	15%	21%	30%	24%	55%	55%
A fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	15%	22%	27%	22%	58%	56%
Increased testing of entity-level controls designed to monitor results of operations	14%	13%	29%	22%	57%	65%
Shift in external auditor's evaluation of the organization's risk profile	14%	NA	24%	NA	62%	NA

Insights

- It is interesting to see that many of the areas showing the most significant SOX compliance program changes for 2014 also show notable drops from the previous year. “Changes/increase in process and control documentation for high-risk processes” and “Increase in the frequency of walkthroughs to gain and document an understanding of key business processes” are two examples. This likely reflects efforts by many organizations over the past year to address these areas.
- Other areas showing a drop, such as “expansion of scope related to IT general controls,” indicate that companies are stabilizing their compliance processes using the experience and lessons learned from complying with SOX.

- Many of the areas in which there have been extensive or substantial changes in the SOX compliance program are being driven largely by the effects from the PCAOB inspection reports and resulting response from the external auditors (see following section, “Effects of the PCAOB Inspection Reports”).
- Organizations also continue to focus on increasing the scope of baseline testing of IT reports.
- In the coming year, organizations should expect auditors to probe more deeply into the internal control structure. For example, auditors will likely ask for more evidence that management’s review was actually performed, and seek evidence that there was appropriate follow-up action in response to identified deficiencies and other issues. Auditors also may ask more detailed questions about the origin and reliability of the data or reports that management relies on as part of its review or with respect to executing specific control activities. A good practice is to start the planning conversations with external auditors now to understand their expectations and minimize the number of surprises at year-end.

Top 10 Responses – Minimal/No Changes

Base: All respondents

	Minimal/None		Moderate		Extensive/Substantial	
	2014	2013	2014	2013	2014	2013
Reduction of total control count	79%	78%	16%	12%	5%	10%
More reliance on the work of others by the external audit firm	72%	66%	20%	20%	8%	14%
Increase in testing at year-end vs. interim date	70%	59%	21%	24%	9%	17%
Adjustment in the threshold being applied to determining level of materiality	69%	NA	23%	NA	8%	NA
Increase in testing at interim date vs. year-end	69%	67%	24%	19%	7%	14%
Less reliance on work of others by the external audit firm	69%	78%	23%	12%	8%	10%
Expansion of testing sample sizes	68%	58%	25%	26%	7%	16%
Increase in total control count	68%	68%	26%	21%	6%	11%
Additional testing to justify using the work of others	67%	68%	25%	20%	8%	12%
Increased focus from external auditor on the qualifications, independence and objectivity of internal audit	67%	NA	22%	NA	11%	NA

Insights

- There appear to be minimal or no changes forthcoming with regard to reducing the total population of controls, indicating that organizations have made significant progress in stabilizing this area.
- Of note, more organizations see minimal or no changes in the reliance on the work of others by their external audit firms, as well as increases in year-end testing compared to the interim date. These results are a sign

that the external audit process has stabilized in these areas. However, it is possible that the transition to the updated COSO internal control framework could have an effect in these areas in 2014 and 2015, especially related to the 17 internal control principles of the revised COSO framework.

Top 10 Responses – Extensive/Substantial Changes

Base: Large accelerated filers

	Extensive/Substantial	Moderate	Minimal/None
	2014	2014	2014
Increased scrutiny from external auditors on testing exceptions/deficiencies	23%	33%	44%
Changes/increase in process and control documentation for high-risk processes	21%	39%	40%
Expansion of scope related to IT general controls	18%	32%	50%
Increase in scope of baseline testing of IT reports	18%	38%	44%
Increased testing of entity-level controls designed to monitor results of operations	17%	29%	54%
Testing of controls over management judgments and estimates	17%	41%	42%
Expansion of documentation related to the entity-level control environment	16%	31%	53%
Increase in the frequency of "walkthroughs" to gain and document an understanding of key business processes	15%	35%	50%
Increased use of flowcharts in high-risk areas to facilitate sourcing risks of misstatements	15%	26%	59%
A fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	13%	31%	56%

Insights

- Based on the results above and on the following page, large accelerated filers show signs of a maturing SOX compliance process.

Top 10 Responses – Minimal/No Changes

Base: Large accelerated filers

	Minimal/None	Moderate	Extensive/Substantial
	2014	2014	2014
Reduction of total control count	79%	17%	4%
More reliance on the work of others by the external audit firm	70%	23%	7%
Increase in total control count	69%	27%	4%
Expansion of testing sample sizes	68%	26%	6%
Less reliance on work of others by the external audit firm	67%	25%	8%
Replaced review controls with transaction-level controls	67%	25%	8%
Increased focus from external auditor on the qualifications, independence and objectivity of internal audit	67%	26%	7%
Adjustment in the threshold being applied to determining level of materiality	67%	26%	7%
Increase in testing at year-end vs. interim date	66%	25%	9%
Additional testing to justify using the work of others	66%	27%	7%

Insights

- Per the results below, a majority of respondents report they are leveraging their SOX compliance to drive improvements in their upstream processes that provide data and information to the financial reporting process.

Does your organization currently leverage Sarbanes-Oxley compliance efforts to drive continuous improvement of business processes that affect financial reporting?

Base: All respondents

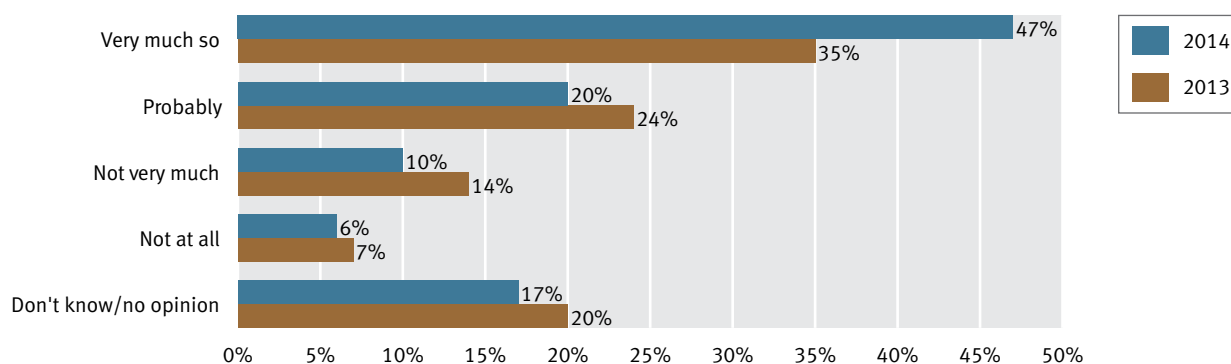
	2014	2013
Yes	60%	59%
No	40%	41%

EFFECTS OF THE PCAOB INSPECTION REPORTS

Our results show that changes to SOX compliance activities within organizations that are being called for by external auditors are likely a result of the PCAOB's inspection reports that found certain deficiencies in audits of internal control over financial reporting, as noted in PCAOB Staff Audit Practice Alert No. 11, issued October 24, 2013.

If your external audit firm required significant changes to Sarbanes-Oxley compliance activities in 2013, to what extent do you believe those changes are a result of the inspections of the registered accounting firms by the PCAOB?

Base: All respondents



	All Respondents	Large Accelerated Filer	Accelerated Filer
Very much so	47%	59%	57%
Probably	20%	20%	17%
Not very much	10%	7%	14%
Not at all	6%	4%	6%
Don't know/no opinion	17%	10%	6%

Insights

- These results are not surprising and are in sync with what we continue to hear in the marketplace, as auditors continue to respond to deficiencies in their work identified by the PCAOB in the board's inspections of audits of internal control over financial reporting.
- The results indicate that a strong majority of large accelerated filers and accelerated filers perceive changes in their SOX compliance activities, as required by their external audit firms, to be a direct result of the PCAOB inspections.

- Our flash report issued in late 2012 on the PCAOB inspections illustrates the types of issues the accounting firms faced during 2013 and which may have impacted our survey results:⁴

The PCAOB inspections staff performed analyses and procedures to identify root causes of the deficiencies in the audit of internal control over financial reporting and identified several factors that may have contributed to these deficiencies:

- Improper application of the top-down approach to the audit of internal control as required by Auditing Standard No. 5;
 - Decreases in audit firm staffing through attrition or other reductions, and related workload pressures;
 - Insufficient firm training and guidance, including examples of how to apply PCAOB standards and the firm’s methodology; and
 - Ineffective communication with information system specialists on the firm’s engagement team.
- The PCAOB’s October 2013 Practice Alert mentioned earlier highlights certain requirements of the auditing standards of the PCAOB pertaining to audits of internal control over financial reporting in which significant auditing deficiencies have been cited frequently in PCAOB inspection reports. Specifically, the alert discusses the following topics, which we address in this survey:
 - Risk assessment and the audit of internal control
 - Selecting controls to test
 - Testing management review controls
 - IT considerations, including system-generated data and reports
 - Roll-forward of controls tested at an interim date
 - Using the work of others
 - Evaluating identified control deficiencies
 - Issuers should gain a clear understanding of the areas noted above, regardless of whether they are subject to the requirements of SOX Section 404(b). Specifically, they need to ensure these issues are addressed adequately by their internal reviews of internal control over financial reporting to support the assertions in their internal control report. For companies subject to Section 404(b), deficiencies in an external auditor’s approach to auditing the effectiveness of internal control over financial reporting may mirror deficiencies in the audit client’s approach to supporting the internal control report. How much is uncertain, but it remains a possibility.

⁴ *PCAOB Flash Report*, “PCAOB Issues Inspection Report Summarizing Deficiencies in Audits of Internal Control over Financial Reporting,” December 14, 2012, Protiviti: www.protiviti.com/en-US/Documents/Regulatory-Reports/PCAOB/PCAOB-Flash-Report-Inspections-Report-121412-Protiviti.pdf.

Indicate the impact of the PCAOB's external auditor inspection reports on SOX compliance activities relating to:
COST

	Extensive/Substantial	Moderate	Minimal/None
Testing review of controls	26%	32%	42%
IT considerations	25%	30%	45%
Evaluating identified control deficiencies	17%	28%	55%
Risk assessment and scoping	16%	28%	56%
Roll-forward of controls testing at an interim date	16%	27%	57%
Selecting controls to test	15%	32%	53%
Using the work of others	14%	26%	60%

LEVEL OF EFFORT (HOURS)

	Extensive/Substantial	Moderate	Minimal/None
Testing review of controls	28%	33%	39%
IT considerations	25%	32%	43%
Selecting controls to test	20%	26%	54%
Risk assessment and scoping	17%	29%	54%
Roll-forward of controls testing at an interim date	16%	30%	54%
Using the work of others	13%	27%	60%

Insights

- Clearly, there are increases related to both the cost and level of effort for SOX compliance as a result of the PCAOB's inspection reports on the work of external auditors in evaluating the effectiveness of internal control over financial reporting. On average, more than half of organizations see some sort of impact in these areas, from extensive to moderate.
- For both cost and effort, testing reviews of controls along with IT considerations are viewed to have the most significant impact in these areas. Review control precision has received significant focus and will continue to receive attention as auditors look to better understand what management does to support its assessment.

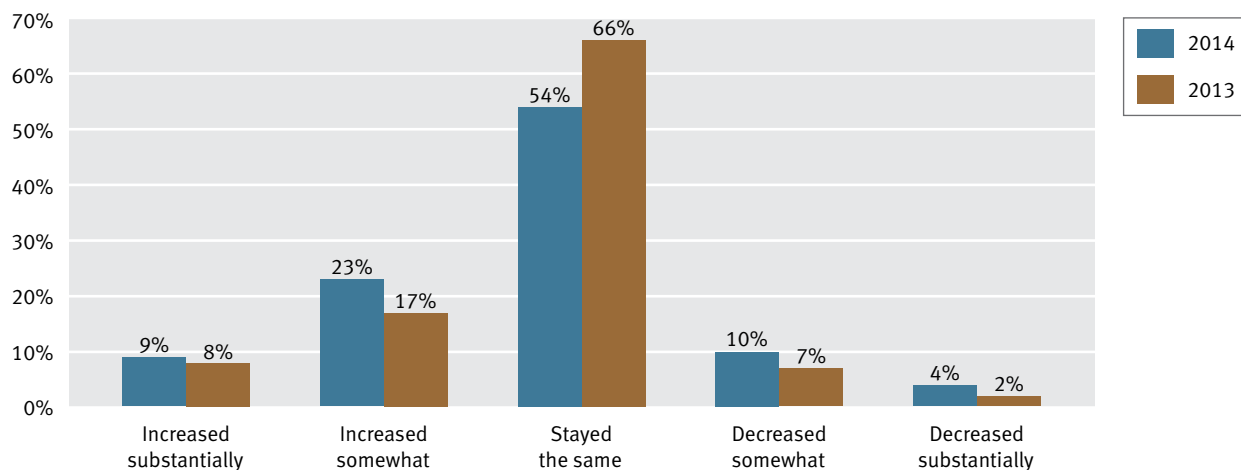
EXTERNAL AUDITOR RELIANCE ON WORK OF OTHERS

The PCAOB continues to issue guidance to external auditors that is affecting how auditors rely on the work of others in areas including, but not limited to, documentation, walkthroughs and testing. Our survey results reflect these changes.

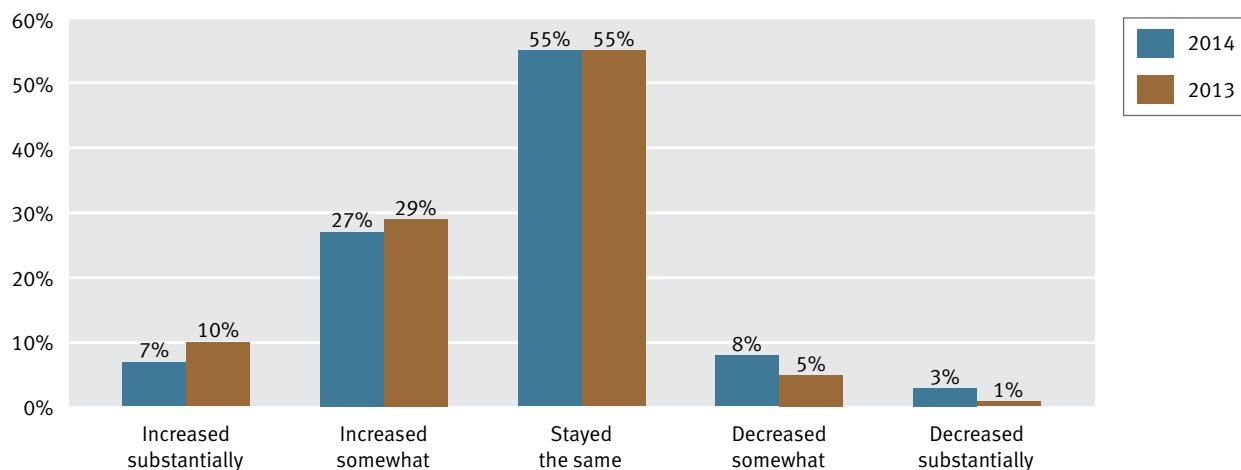
As compared to the prior year, how has the reliance your external auditor places on documentation, walkthroughs and testing changed when performed by the following?

Base: All respondents

MANAGEMENT



INTERNAL AUDIT



Insights

- There is a notable year-over-year increase in the reliance by external auditors on management's documentation, testing and walkthroughs – 32 percent report this reliance increased substantially or somewhat in the current fiscal year, compared to 25 percent last year. However, we see a slight decrease in reliance on the work of internal audit (34 percent this year versus 39 percent a year ago).

- External auditors increasingly are recognizing that there are higher risk areas within organizations that require their exclusive focus – these are areas for which auditors may not be able to rely on the work of others to audit effectively. We expect to see this reliance increase in some areas, but decrease in others, based on guidance the auditors are receiving from the PCAOB and how auditors assess the relative risk in specific areas from company to company.
- Staff Audit Practice Alert No. 11 from the PCAOB offers relevant guidance for external auditors on using the work of others:

When the auditor uses the work of others, the auditor also should test and evaluate that work, including evaluating the quality and effectiveness of the others’ work. The necessary extent of testing of that work depends on the risk associated with the control and the competence and objectivity of the others. More extensive testing of the others’ work is needed as the risk increases or the others’ level of competence or objectivity decreases.

MANAGEMENT

	All Respondents		Large Company		Midsize Company		Small Company	
	2014	2013	2014	2013	2014	2013	2014	2013
Increased substantially	9%	8%	14%	17%	8%	7%	11%	8%
Increased somewhat	23%	17%	14%	7%	25%	20%	29%	8%
Stayed the same	54%	66%	65%	69%	53%	64%	43%	67%
Decreased somewhat	10%	7%	6%	7%	10%	6%	14%	17%
Decreased substantially	4%	2%	1%	0%	4%	3%	3%	0%

INTERNAL AUDIT

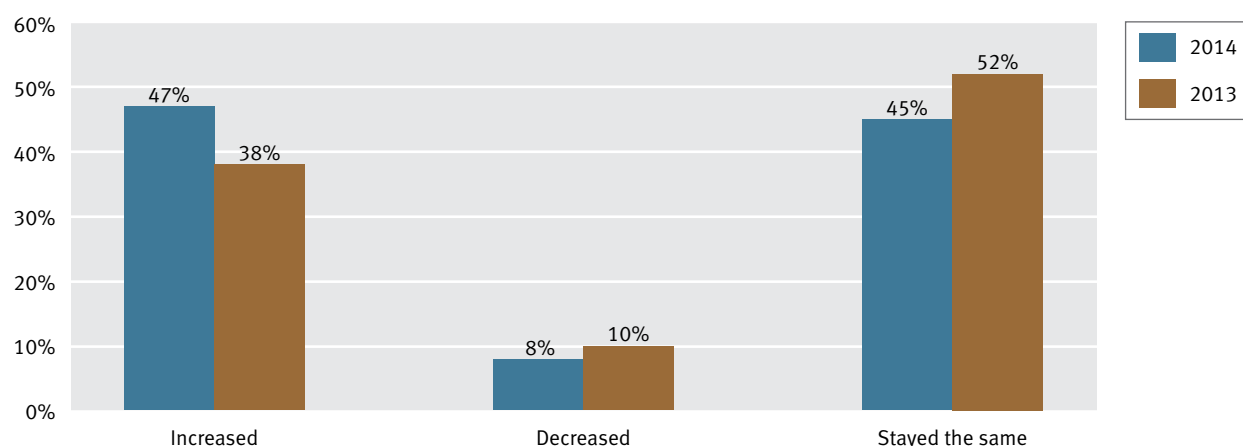
	All Respondents		Large Company		Midsize Company		Small Company	
	2014	2013	2014	2013	2014	2013	2014	2013
Increased substantially	7%	10%	6%	10%	7%	11%	11%	8%
Increased somewhat	27%	29%	18%	21%	30%	32%	18%	17%
Stayed the same	55%	55%	66%	66%	52%	52%	61%	50%
Decreased somewhat	8%	5%	10%	0%	8%	4%	7%	25%
Decreased substantially	3%	1%	0%	3%	3%	1%	3%	0%

SOX COMPLIANCE COSTS ARE GOING UP ...

Our results this year indicate that SOX compliance costs are rising more sharply than in the past, which likely is an outcome, at least in part, of the PCAOB inspection reports and subsequent need for external auditors to be more stringent, and hence invest more time, in their respective audits of internal control over financial reporting. As shown below, the effects are more pronounced for large accelerated filers (which makes sense, as increased complexity is more likely to result in increased costs).

Changes in SOX-related costs (excluding integrated audit fees and any associated fees charged by the external audit firm)

Base: All respondents



Base: Large accelerated filers, accelerated filers, nonaccelerated filers

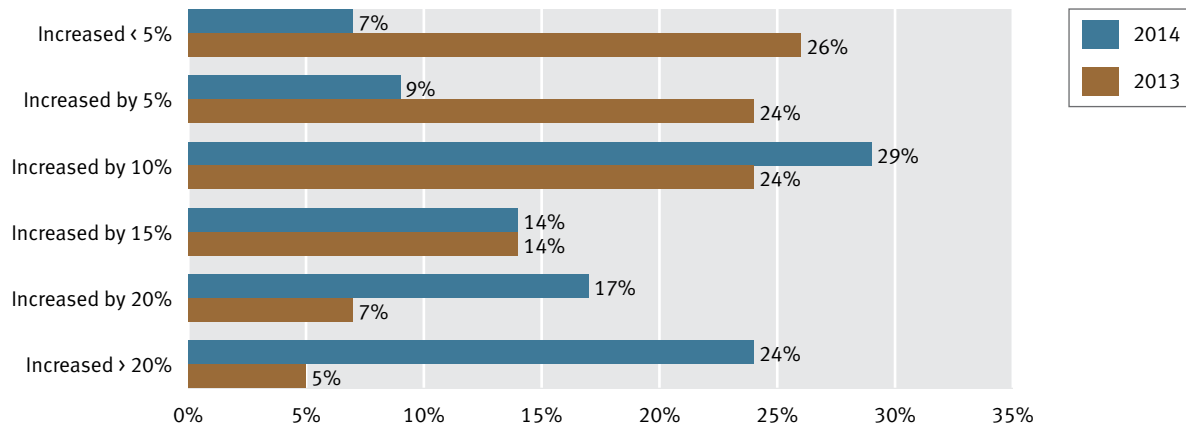
	Large Accelerated Filer		Accelerated Filer		Nonaccelerated Filer	
	2014	2013	2014	2013	2014	2013
Increased	59%	42%	41%	45%	39%	32%
Decreased	9%	10%	11%	15%	6%	7%
Stayed the same	32%	48%	48%	40%	55%	61%

Insights

- There are notable jumps in the number of large accelerated filers reporting an increase in their SOX-related costs, as well as a smaller but still significant increase for nonaccelerated filers.
- These findings are very likely a direct reflection of the results of the PCAOB's inspection processes. The board identified deficiencies in audits of internal control over financial reporting that indicated external auditors were not doing enough work and thus needed to invest more time in these audits. Therefore, it is not surprising to find auditors spending more time in these areas, resulting in higher costs for organizations undergoing these audits.

Percentage increase in SOX-related costs (excluding integrated audit fees and any associated fees charged by the external audit firm)

Base: Respondents reporting an increase in SOX-related costs



Insights

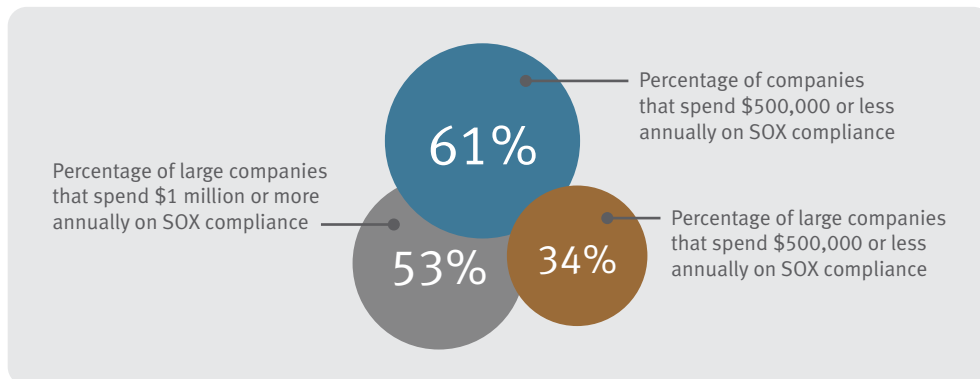
- Not only are SOX-related costs rising, but they are doing so at a more significant rate. Note that 41 percent of respondents reported an increase of 20 percent or more in their costs, compared to 13 percent in 2013.
- The results are just as pronounced for specific groups of respondents, including large accelerated filers (41 percent indicating costs rising by 20 percent or greater) and accelerated filers (35 percent).

... BUT SOX COSTS REMAIN AT MANAGEABLE LEVELS

For many organizations, SOX compliance costs are still at relatively manageable levels. For 61 percent of companies, annual costs are \$500,000 or less (compared to 68 percent in our 2013 survey), while 28 percent spend \$1 million or more (similar to what was reported in last year's survey).

As expected, these percentages change for large companies (\$10 billion or greater in annual revenue) – 53% of these organizations spend \$1 million or more, and 30 percent spend \$2 million or more annually. Interestingly, though, more than one in three spend \$500,000 or less on their SOX compliance efforts.

Among mid-sized companies, 23 percent spend \$1 million or more annually and 64 percent spend less than \$500,000, while just 4 percent of small companies spend greater than \$1 million on SOX compliance every year, with 96 percent spending \$500,000 or less.



SHIFTS IN SOX COMPLIANCE OVERSIGHT RESPONSIBILITY

Internal audit continues to hold primary responsibility for the oversight and organization of SOX compliance efforts in organizations. This has been consistent in multiple years of our study. This year there is a notable jump in the number of companies that have placed this responsibility with the audit committee.

Who in your organization has primary responsibility for overseeing/organizing Sarbanes-Oxley compliance efforts?

Base: All respondents

	2014	2013
Internal audit	43%	45%
Audit committee	18%	11%
Project management office	5%	10%
All others	34%	34%

COMPANY SIZE

	Large Company		Midsize Company		Small Company	
	2014	2013	2014	2013	2014	2013
Internal audit	30%	45%	49%	45%	21%	8%
Audit committee	15%	7%	18%	10%	25%	33%
Project management office	15%	10%	2%	11%	4%	0%
All others	40%	38%	31%	34%	50%	59%

Insights

- Internal audit continues to be viewed as an independent expert that is best positioned to oversee and organize the company's SOX compliance activities. This has become especially important given the PCAOB's inspection reports and resulting actions by external auditors to address deficiencies documented by the board.
- The audit committee appears to be taking on more SOX compliance oversight responsibilities, particularly with respect to large and midsize companies. While midsize companies appear to be moving away from a PMO structure, large companies have increased their use of PMOs.

STRATEGIES TO IMPROVE THE CONTROL STRUCTURE

How has the internal control over financial reporting structure changed since Sarbanes-Oxley Section 404(b) was required for your organization?

	All Respondents	Large Accelerated Filer	Accelerated Filer
Significantly improved	25%	30%	28%
Moderately improved	37%	40%	46%
Minimally improved	16%	17%	16%
No change	21%	12%	10%
Minimally weakened	1%	1%	0%

Three-Year Comparison – Overall Results

	2014	2013	2012
Significantly improved	25%	26%	31%
Moderately improved	37%	38%	38%
Minimally improved	16%	16%	18%
No change	21%	19%	13%
Minimally weakened	1%	1%	0%

Insights

- Looking at our survey results over the past three years, a majority of organizations consistently report significant or moderate improvements to their internal control structure as a result of complying with SOX Section 404.

Do you baseline test reports used in key IT SOX controls?⁵

	All Respondents	Large Accelerated Filer	Accelerated Filer
Yes, all reports for key controls annually	15%	20%	13%
Yes, all reports for key controls on a rotational basis	14%	17%	13%
Yes, for some but not all reports	31%	32%	43%
Yes, but only for new reports as they are developed (we rely on ITGCs in subsequent years)	12%	12%	7%
No	28%	19%	24%

Insights

- A majority of organizations are performing some type of baseline testing of reports used in key IT SOX controls. This likely is a result of a combination of management's ongoing support of its SOX certification and an increased focus on the PCAOB's inspections of audits of internal control over financial reporting, as well as subsequent changes being made by external auditors to address deficiencies the board identified.
- Still, the number of "No" responses – 28 percent – is surprisingly high. We would expect this number to drop significantly in next year's survey results as organizations implement more baseline testing of reports used in key controls – an outcome of the PCAOB inspection reports. Without attestation of these reports, companies may not be doing enough work in this area to support management's assertion regarding the effectiveness of internal control over financial reporting in the annual internal control report.
- Existing SOX filers most likely already have key controls around IT general controls documented and tested. Additionally, there has been an increased focus on Information Produced by Entity (IPE) or Electronic Audit Evidence (EAE) by the public accounting firms as a result of the PCAOB inspection reports. We expect there to be continued focus on how management verifies the accuracy of IPE/EAE used in key manual controls.

⁵ We define baselining as the process of determining whether an application's programmed functions and automated application controls are operating as intended. After the initial baseline is conducted, reliance can be placed on the general IT controls to ensure effectiveness in subsequent years.

AUTOMATING CONTROLS

To what extent does your organization plan to further automate its manual processes and controls within the next year?

	All Respondents		Large Company		Midsize Company		Small Company	
	2014	2013	2014	2013	2014	2013	2014	2013
Significant plans to automate a broad range of IT processes and controls	9%	16%	15%	19%	7%	15%	14%	0%
Moderate plans to automate numerous IT processes and controls	32%	31%	25%	21%	35%	34%	14%	34%
Minimal plans to automate selected IT processes and controls	42%	43%	48%	41%	40%	43%	43%	31%
No plans to automate any further	17%	10%	12%	19%	18%	8%	29%	35%

Insights

- The overall results suggest that more companies may be making progress in automating their controls – there is a 7 percent year-over-year drop in the overall results among organizations with significant plans to automate IT processes and controls, with a commensurate 7 percent increase in companies stating they have no plans to automate any further. However, nearly one-third of our respondents indicated their companies have moderate plans to automate IT processes and controls.
- Automated controls remain powerful tools to ensuring a strong internal control environment, and over time prove not only highly effective, but efficient as well. Thus it is understandable to find that 83 percent of organizations have plans in place to automate IT processes and controls, whether a broad range of processes and controls or numerous or selected processes and controls.

IN CLOSING

For all of the automation and standardization that organizations have employed successfully in their SOX compliance processes, the landscape remains dynamic. Many have yet to begin work in earnest on implementing the updated COSO framework into their SOX compliance processes. Furthermore, next year the PCAOB will begin auditing year-end reports on audits of internal control over financial reporting – audits that should be based on the new COSO framework. Depending on the results of the board's inspections, which will be conducted with the view that organizations and auditors have already implemented the new COSO framework, there could be a need for further changes and, as a result, increasing efforts and costs.

We will be monitoring these issues closely over the course of 2014 and addressing them in our 2015 Sarbanes-Oxley Compliance Survey.

METHODOLOGY AND DEMOGRAPHICS

Nearly 650 respondents (n=644) participated in Protiviti's 2014 Sarbanes-Oxley Compliance Survey, which was conducted during the first quarter of 2014. Survey participants also were asked to provide demographic information about the nature, size and location of their businesses, and their titles or positions. We are very appreciative and grateful for the time invested in our study by these individuals.

All demographic information was provided voluntarily by our respondents, and not all participants provided data for every demographic question.

Position

Chief Audit Executive	13%
Chief Financial Officer	2%
Other C-level Executive	3%
Corporate Sarbanes-Oxley Leader/PMO Leader	11%
Audit Director	12%
Audit Manager	20%
Audit Staff	21%
Corporate Controller	3%
Business Unit Control Leader	1%
Other	14%

Size of Organization (by Gross Annual Revenue)

\$20 billion or greater	11%
\$10 billion - \$19.99 billion	11%
\$5 billion - \$9.99 billion	11%
\$1 billion - \$4.99 billion	31%
\$500 million - \$999.99 million	13%
\$100 million - \$499.99 million	15%
Less than \$100 million	8%

Industry

Financial Services	20%
Manufacturing	11%
Energy	8%
Healthcare Provider	6%
Technology	6%
Government/Education/Not-for-profit	5%
Insurance (excluding healthcare-payer)	5%
Retail	5%
Services	4%
Healthcare Payer	3%
Hospitality	3%
Life Sciences/Bio-tech	3%
Telecommunications	3%
Utilities	3%
CPA/Public Accounting/Consulting Firm	2%
Distribution	2%
Media	2%
Real Estate	2%
Other	7%

Type of Organization

Public	71%
Private	18%
Not-for-profit	7%
Government	2%
Other	2%

Organization Headquarters

North America	94%
Asia Pacific	2%
Europe	2%
Africa	1%
Latin America	1%

ABOUT PROTIVITI

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 40 percent of FORTUNE 1000® and FORTUNE Global 500® companies. Protiviti and its independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies.

Protiviti is proud to be a Principal Partner of The IIA. More than 700 Protiviti professionals are members of The IIA and are actively involved with local, national and international IIA leaders to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.



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About Our Internal Audit and Financial Advisory Solution

We work with audit executives, management and audit committees at companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills. Protiviti professionals have assisted hundreds of companies in establishing first-year Sarbanes-Oxley compliance programs as well as ongoing compliance. We help organizations transition to a process-based approach for financial control compliance, identifying effective ways to appropriately reduce effort through better risk assessment, scoping and use of technology, thus reducing the cost of compliance. Reporting directly to the board, audit committee or management, as desired, we have completed hundreds of discrete, focused financial and internal control reviews and control investigations, either as part of a formal internal audit activity or apart from it.

One of the key features about Protiviti is that we are not an audit/accounting firm, thus there is never an independence issue in the work we do for clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas. In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services we provide are:

- Internal Audit Outsourcing and Co-Sourcing
- Financial Control and Sarbanes-Oxley Compliance
- Internal Audit Quality Assurance Reviews and Transformation
- Audit Committee Advisory

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