SOX Compliance – Changes Abound Amid Drive for Stability and Long-Term Value

Highlights from Protiviti's
2015 Sarbanes-Oxley Compliance Survey

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INTRODUCTION

As the Sarbanes-Oxley Act celebrates lucky birthday number 13 this summer, it's tempting to hold the view that, by now, most public companies have – or should have – mastered the compliance process and achieved a level of stability in the costs and hours required. Unfortunately, this is not the case, largely because of the interestingly dynamic nature of SOX compliance.

Potent external forces continue to exert influence, both direct (e.g., the Committee of Sponsoring Organizations' [COSO] new Internal Control – Integrated Framework) and indirect (e.g., the Public Company Accounting Oversight Board's [PCAOB] external auditor inspection reports), on how SOX compliance is governed, executed, audited and regulated. Companies that are able to respond to these considerable changes most effectively and with the most confidence do not focus on perfecting individual compliance activities. Rather, their target is on driving improvements in upstream business processes affecting financial reporting, as well as achieving higher levels of maturity in their overall compliance efforts.

In our 2015 Sarbanes-Oxley Compliance Survey, we find that more companies continue to concentrate on strengthening their ability to leverage SOX compliance requirements to achieve improvements in their financial reporting and other business processes. And as part of these efforts, they certainly aspire to achieve broader organizational efficiencies and enhancements. But this remains a moving target: Obstacles continue to emerge, and the costs and hours continue to go up.

Our notable findings this year:

- **SOX compliance costs, together with external audit fees and scrutiny, are increasing** – External auditors are enhancing their scrutiny of internal controls and their fees are increasing as a result. Nearly three out of four organizations reported that their external audit firm is placing more focus on evaluation of internal control over financial reporting (ICFR), and external audit fees rose for more than half of companies in the most recent fiscal year. In terms of overall internal SOX compliance costs (excluding external audit fees), 58 percent of large company respondents spent more than $1 million in their most recent fiscal year, while 95 percent of small companies spent less than $500,000. Bottom line: The larger your company, the more you will need to invest in SOX compliance.
- **A strong majority of companies are now using the new COSO framework, and they required only ICFR refinements rather than a rebuilding effort** – The vast majority of organizations moved swiftly to implement COSO's new Internal Control – Integrated Framework in the past year. For these organizations, our findings show that this implementation turned out to be more a matter of refining their internal controls, rather than having to overhaul them and start from scratch.
- **Compliance programs are undergoing substantial changes, especially regarding high-risk processes, IT controls and entity-level controls** – SOX compliance programs are undergoing major modifications in numerous areas; moreover, the level of intensity of these changes is increasing markedly compared to last year's survey results. Automation of controls marks another area of important change. There is a notable year-over-year increase among large organizations with significant or moderate plans to automate more IT processes and controls.

- **While compliance mastery remains an elusive state, more companies are looking to generate value from their compliance activities** – In a growing number of companies, required changes to ICFR – driven in part by the new COSO internal control framework and increased external auditor scrutiny resulting from the PCAOB's inspection reports of external auditors – are being used to drive continuous improvement of business processes related to financial reporting throughout the organization.

This year's report provides 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.

Finally, we want to thank the more than 450 executives and professionals who participated in our survey 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 continue to approach and refine their processes toward achieving SOX compliance in a positive and constructive manner.

Protiviti
May 2015

Notes:

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

Company size:
Large = Companies with revenues of $10 billion or greater
Midsize = Companies with revenues between $100 million and $10 billion
Small = Companies with revenues less than $100 million

Filer status:
Large Accelerated Filer = Company with an aggregate market value held by non-affiliates of $700 million or more as of the last business day of the most recent Q2.

Accelerated Filer = Company with an aggregate market value held by non-affiliates of at least $75 million but less than $700 million as of the last business day of the most recent Q2.

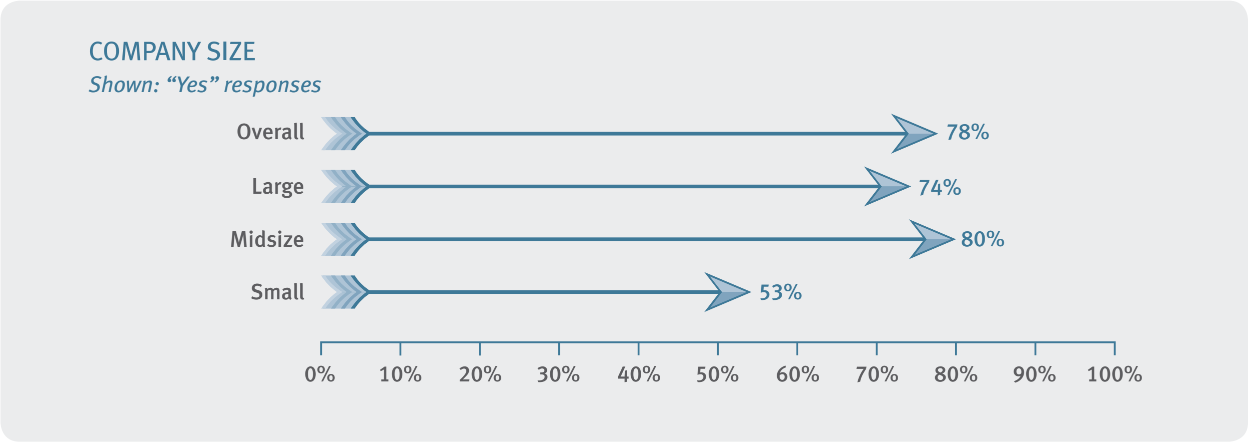
Nonaccelerated Filer = All other public companies that do not meet the definition of a large accelerated filer or accelerated filer.

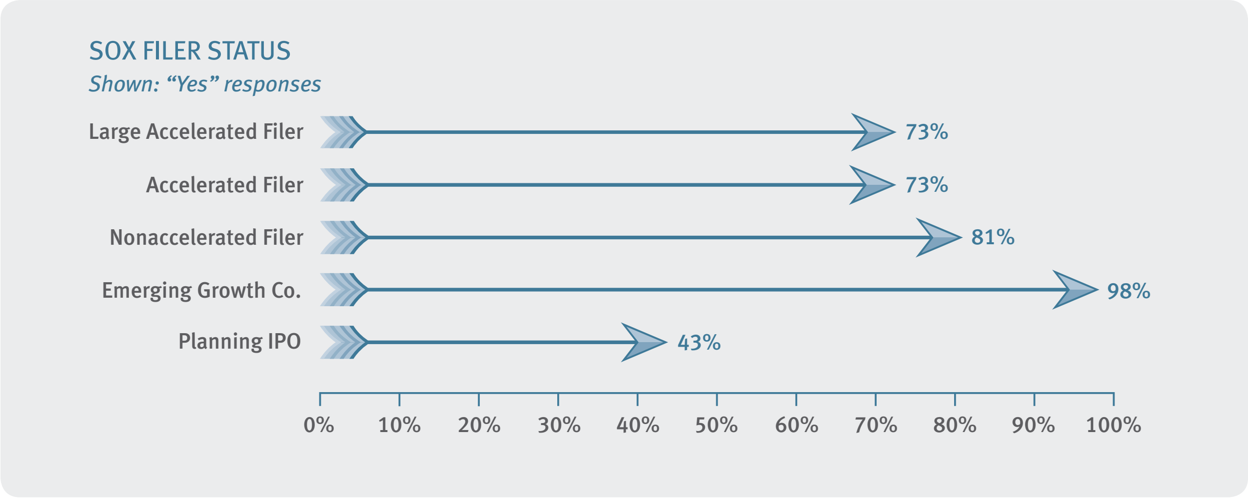
* Upon request, Protiviti can provide additional reporting in these broad categories.

NEW COSO FRAMEWORK SUCCESSFULLY GUIDES SOX DOCUMENTATION

Over the past year, a strong majority of companies have moved swiftly to adopt COSO's 2013 Internal Control – Integrated Framework, the use of which was implied for fiscal year-end dates beginning after December 15, 2014, as a result of COSO's cessation of its support for the original 1992 framework. Perhaps more importantly, most companies have been able to do so without the need for major remediation work. This substantiates our perspective that transitioning to the new framework would, in most cases, only require refinements of existing controls and controls documentation to align the SOX compliance process with the principles-based framework, rather than undertaking a laborious overhaul of the control structure.

Did you use COSO's 2013 Internal Control – Integrated Framework to guide your Sarbanes-Oxley documentation in fiscal year 2014?





Insights

- As expected, most companies made impressive progress in transitioning to COSO's 2013 Internal Control – Integrated Framework in the past 12 months. Overall, nearly 80 percent of responding organizations complying with Section 404(b) of Sarbanes-Oxley used COSO's new framework to guide their SOX documentation efforts in fiscal year 2014. These results are very consistent with our own market observations.[1]
- Of particular note, virtually all emerging growth companies are using the new COSO framework. This is a logical finding – since these organizations are in the initial stages of establishing ICFR as required under SOX Section 404, we would expect them to use the new version of the framework rather than the superseded 1992 version.
- Small companies are lagging a bit behind in adopting the new COSO framework; however, 78 percent of small companies that have not yet made the transition report that they are currently adopting the new framework or have plans to do so in the coming months.
- While less than half of companies planning an initial public offering (IPO) are currently using the new COSO framework, most plan to transition to it within the coming two fiscal years. For these organizations, using the new framework is common sense, as it eliminates the need to transition from the 1992 COSO framework, particularly since the transition is expected to become a requirement at some point. Since these organizations eventually will be required to use the new framework, they may consider adopting it sooner rather than later.

When you mapped the COSO 2013 framework principles and points of focus to your organization's key controls, what did your preliminary assessment indicate?

		COMPANY SIZE		
	Overall	Large	Midsize	Small
We did not have to make significant changes to our key controls.	26%	42%	23%	33%
We needed to make some refinements to our documentation to take credit for controls that were in place but not previously documented or tested.	63%	47%	66%	50%
We identified that gaps existed within our ICFR structure and had some remediation work to do.	10%	11%	10%	17%
We found that our key controls were not sufficient, thus we had to rebuild them from scratch.	1%	0%	1%	0%

[1] As of April 2, 2015, of the more than 3,500 filers with fiscal years ended after December 15, 2014, as reflected on the Audit Analytics® database, only 18 percent reported they continued to use the 1992 framework.

When you mapped the COSO 2013 framework principles and points of focus to your organization's key controls, what did your preliminary assessment indicate?

		SOX FILER STATUS				
	Overall	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Emerging Growth Co.	Planning IPO
We did not have to make significant changes to our key controls.	26%	35%	29%	24%	8%	23%
We needed to make some refinements to our documentation to take credit for controls that were in place but not previously documented or tested.	63%	50%	57%	69%	90%	62%
We identified that gaps existed within our ICFR structure and had some remediation work to do.	10%	15%	14%	6%	1%	7%
We found that our key controls were not sufficient, thus we had to rebuild them from scratch.	1%	0%	0%	1%	1%	8%

Insights

- As expected, the mapping of the new principles-based COSO framework to the vast majority of organizations' existing key controls did not result in the need for major remediation or rebuilding efforts. Overall, 89 percent of respondents reported that they either did not make any significant changes to key controls or made some refinements to documentation (regarding existing controls) as a result of the mapping effort.
- Again, this is very consistent with our own observations in assisting organizations with their SOX compliance efforts. Some changes have been needed, but overall the transition has not resulted in overwhelming efforts for organizations.

"[WE HAD A] PRETTY SMOOTH TRANSITION. OUR INTERNAL AUDIT GROUP TOOK THE FIRST PASS AT MAPPING AND WORKED WITH THE EXTERNAL AUDITORS TO GET ON BOARD. WE THEN WENT TO MANAGEMENT AND WORKED WITH THEM ON CONTROL WORDING. PRIMARILY WE NEEDED TO DOCUMENT AND TAKE CREDIT FOR CONTROLS WITHIN THE CONTROL ENVIRONMENT ARENA."

AUDIT MANAGER, MIDSIZE CONSUMER PRODUCTS COMPANY

COMPLIANCE COSTS: EXTERNAL AUDIT FEES RISE

We focused several of this year's cost-related survey questions specifically on external audit fees. Not surprisingly, fees for fiscal year 2014 increased for a majority of companies (58 percent) compared to the previous fiscal year. For half of the companies that experienced an audit fee increase, the amount was moderate (10 percent or less).

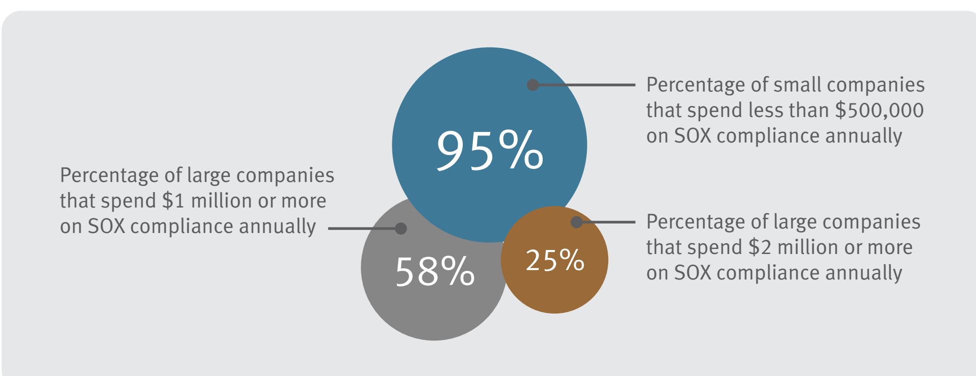
The results confirm that the majority of companies experienced an increase in focus by their external auditors related to ICFR. The auditors are becoming more stringent in applying their audit tests and are spending more time on them, and many of the areas subject to greater scrutiny relate to PCAOB inspection report findings.

Regarding the internal cost of SOX compliance (excluding external audit-related fees), the majority of large companies continue to report an annual spend of more than $1 million. Not surprisingly, nearly all small companies report internal compliance costs of less than $500,000. As expected, this confirms that the larger and more complex the company, the more it should plan to invest in SOX compliance.

A Look at Overall SOX Compliance Costs

We asked our respondents to provide the estimated internal cost for their organization's most recently completed fiscal year of Sarbanes-Oxley compliance, excluding external audit-related fees. Among the notable findings:

- More than half of all large organizations (58 percent) spent $1 million or more on SOX compliance costs (excluding external audit-related fees) in their most recent fiscal year, and 25 percent of all large organizations spent more than $2 million.
- As expected, costs are significantly less for small companies: 95 percent spent less than $500,000.
- Interestingly, a significant number of large accelerated filers appear to be adept at managing compliance costs: 57 percent estimate that they spent less than $1 million on SOX compliance in their most recent fiscal year, while only 14 percent spent more than $2 million.
- Of note, 41 percent of nonaccelerated filers spent more than $2 million on SOX compliance.



For fiscal year 2014, what change, if any, did you experience in your external audit fees?

		COMPANY SIZE		
	Overall	Large	Midsize	Small
Increased	58%	44%	61%	57%
Decreased	12%	5%	14%	10%
Stayed the same	30%	51%	25%	33%

		SOX FILER STATUS				
	Overall	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Emerging Growth Co.	Planning IPO
Increased	58%	57%	50%	45%	83%	33%
Decreased	12%	5%	5%	40%	13%	14%
Stayed the same	30%	38%	45%	15%	4%	53%

"WE WORK CLOSELY WITH OUR EXTERNAL AUDIT TEAM, SO THE TRANSITION TO THE NEW COSO FRAMEWORK DID NOT SIGNIFICANTLY INCREASE [OUR] HOURS OR FEES."

AUDIT MANAGER, MIDSIZE ENERGY COMPANY

If you reported an increase in your external audit fees, please indicate the percentage increase.

		COMPANY SIZE		
	Overall	Large	Midsize	Small
Increased › 20%	6%	8%	6%	6%
Increased 16-19%	33%	8%	38%	0%
Increased 11-15%	10%	4%	10%	18%
Increased 6-10%	28%	42%	26%	47%
Increased 1-5%	23%	38%	20%	29%

		SOX FILER STATUS				
	Overall	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Emerging Growth Co.	Planning IPO
Increased › 20%	6%	6%	12%	6%	3%	14%
Increased 16-19%	33%	5%	9%	33%	90%	14%
Increased 11-15%	10%	9%	18%	12%	3%	43%
Increased 6-10%	28%	48%	27%	27%	2%	14%
Increased 1-5%	23%	32%	34%	22%	2%	15%

Insights

- For a majority of organizations, external audit fees increased for fiscal year 2014. These findings align with expectations given changes in SOX compliance requirements, including the transition to the new COSO framework.
- The percentage of external audit fee increases varied across company sizes and SOX filing statuses. Midsize companies, along with nonaccelerated filers, emerging growth companies and pre-IPO organizations, saw the biggest jumps in external audit fees in fiscal year 2014.
- Overall, just 12 percent of organizations (primarily nonaccelerated filers) reported that external audit fees decreased.
- As these results illustrate, changes in SOX compliance efforts, including but not limited to transitioning to the new COSO framework, are going to require more time and effort, and a commensurate increase in audit fees is to be expected. That said, we view these to be "one-time" investments resulting from transitioning to the new COSO framework – we would not expect these increases to recur in future years, except for those companies that have not yet completed their transitions.

Indicate the impact of the PCAOB's inspection reports of external auditors on your organization's costs for the following Sarbanes-Oxley compliance activities:

Overall

	Extensive/Substantial	Moderate
Risk assessment and scoping	29%	40%
Selecting controls to test	28%	41%
Testing review of controls	51%	29%
Testing system reports and other information produced by entity (IPE)	46%	36%
Addressing IT considerations	23%	54%
Conducting roll-forwards of controls testing from an interim date	19%	48%
Using the work of others	25%	41%
Evaluating identified control deficiencies	31%	26%

Company Size

	LARGE COMPANY		MIDSIZE COMPANY		SMALL COMPANY	
	Extensive/ Substantial	Moderate	Extensive/ Substantial	Moderate	Extensive/ Substantial	Moderate
Risk assessment and scoping	16%	38%	32%	41%	16%	21%
Selecting controls to test	16%	41%	31%	41%	16%	32%
Testing review of controls	32%	47%	56%	25%	26%	32%
Testing system reports and other information produced by entity (IPE)	36%	46%	50%	34%	11%	32%
Addressing IT considerations	32%	43%	22%	57%	5%	42%
Conducting roll-forwards of controls testing from an interim date	21%	41%	20%	50%	5%	26%
Using the work of others	16%	36%	27%	43%	5%	26%
Evaluating identified control deficiencies	22%	39%	32%	24%	21%	26%

Indicate the impact of the PCAOB's inspection reports of external auditors on your organization's costs for the following Sarbanes-Oxley compliance activities:

Filer Status

	LARGE ACCELERATED FILER		ACCELERATED FILER		NONACCELERATED FILER	
	Extensive/ Substantial	Moderate	Extensive/ Substantial	Moderate	Extensive/ Substantial	Moderate
Risk assessment and scoping	20%	34%	20%	32%	65%	14%
Selecting controls to test	18%	37%	21%	32%	66%	15%
Testing review of controls	33%	40%	22%	33%	66%	18%
Testing system reports and other information produced by entity (IPE)	45%	34%	20%	33%	13%	71%
Addressing IT considerations	34%	34%	18%	44%	14%	70%
Conducting roll-forwards of controls testing from an interim date	18%	35%	19%	33%	22%	54%
Using the work of others	13%	39%	25%	33%	66%	9%
Evaluating identified control deficiencies	23%	37%	23%	35%	66%	14%

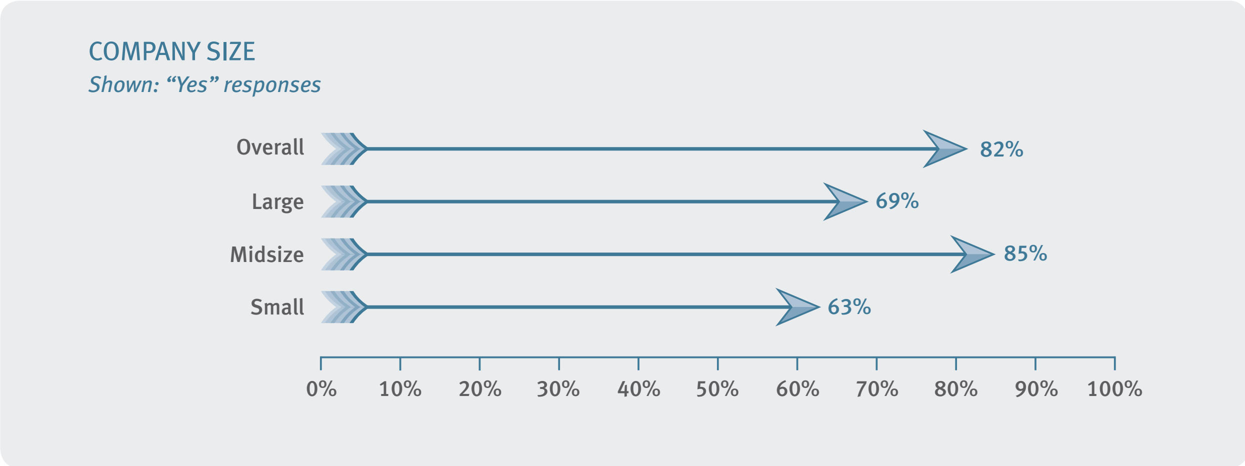
Insights

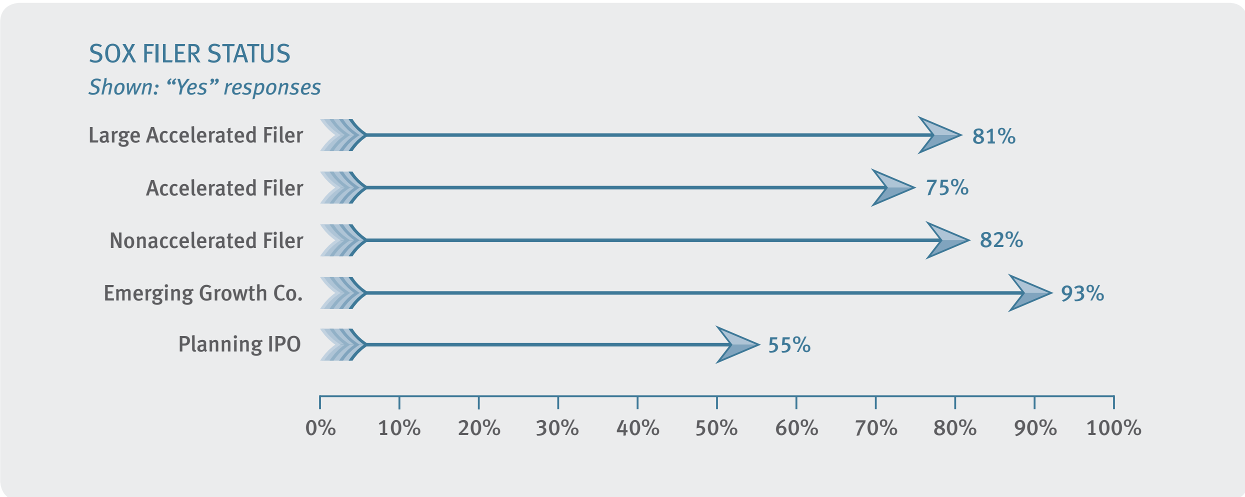
- Our results suggest that external auditors are increasing their focus on several key SOX compliance activities, thereby increasing the costs associated with them.
- Overall, those areas with the greatest impact on cost include testing system reports and other information produced by entity (IPE), testing review of controls and addressing IT considerations.
- The influence of the PCAOB inspection reports on the cost of SOX compliance activities differed according to filer status.

"IPE DOCUMENTATION WAS EXTENSIVE THIS YEAR SINCE IT WAS OUR FIRST TIME LOOKING AT IPE FOR ALL KEY CONTROLS. OUR COSO EFFORT WAS MANAGEABLE."

CHIEF AUDIT EXECUTIVE, SMALL MANUFACTURING COMPANY

Do your external auditors rely on the work of others to the fullest extent possible for medium- and low-risk processes?





Insights

- Overall, more than eight in 10 organizations reported that their external auditors rely on the work of others to the fullest extent possible for medium- and low-risk processes; this dynamic holds relatively steady across all company sizes and filing status groups, with the exception of small companies, whose external auditors are slightly less inclined to rely on the work of others. This is likely due to the fact that auditors rely less on the work of others when auditing companies in their first year of SOX compliance.
- This behavior suggests that external audit fees, despite their recent rise, are not as high as they might be if external auditors were less reliant on the work of others, which is a practice supported by PCAOB Auditing Standard No. 5.

SARBANES-OXLEY CHANGES IN THE CURRENT MARKET

Companies of all sizes and filer status types are contending with – and, in many cases, enacting – extensive changes to their compliance efforts. These changes are the result of external factors, such as the PCAOB and COSO, as well as internal initiatives and shifts, such as the growing commitment to automating more internal controls. We looked at a number of areas and report below the most significant and minimal changes in SOX compliance programs, comparing them to last year's survey responses.

To what degree did you note the following changes in your organization's Sarbanes-Oxley compliance program in 2014?

Top 10 Overall Responses – Extensive/Substantial Changes

	EXTENSIVE/SUBSTANTIAL		MODERATE		MINIMAL/NONE	
	2015	2014	2015	2014	2015	2014
Changes/increase in process control documentation for high-risk processes	30%	21%	24%	37%	46%	42%
Increase in scope to baseline test more IT reports	29%	16%	41%	33%	30%	51%
A fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	27%	15%	26%	27%	47%	58%
Increased scrutiny from external auditors on testing exceptions/deficiencies	27%	21%	27%	27%	46%	52%
Expansion of documentation related to the entity-level control environment (Control Environment, Risk Assessment, Information and Communication, Monitoring)	25%	15%	36%	33%	39%	52%
Increased testing of controls over management judgments and estimates	25%	18%	40%	33%	35%	49%
Expansion of scope related to IT general controls	24%	15%	34%	30%	42%	55%
Shift in external auditor's evaluation of the organization's risk profile	21%	14%	38%	24%	41%	62%
Increase in testing at year-end vs. interim date	21%	9%	36%	21%	43%	70%
Increased use of flowcharts in high-risk areas to facilitate sourcing risks of misstatements	21%	15%	34%	26%	45%	59%

Top 10 Overall Responses – Minimal/No Changes

	MINIMAL/NONE		MODERATE		EXTENSIVE/SUBSTANTIAL	
	2015	2014	2015	2014	2015	2014
Reduction in total control count	73%	79%	21%	16%	6%	5%
Decreased reliance on the work of internal audit by the external audit firm	70%	NA	13%	NA	17%	NA
Increase in testing at interim date vs. year-end	65%	69%	19%	24%	16%	7%
Replacement of review controls with transaction-level controls	64%	NA	24%	NA	12%	NA
Less reliance on work of management by the external audit firm	63%	NA	25%	NA	12%	NA
More reliance on the work of management by the external audit firm	52%	NA	35%	NA	13%	NA
Adjustment in the threshold being applied to determining the level of materiality	50%	69%	37%	23%	13%	8%
Increased testing of entity-level controls	48%	57%	33%	29%	19%	14%
Increased focus from external auditor on the qualifications, independence and objectivity of internal audit	47%	67%	35%	22%	18%	11%
A fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	47%	58%	26%	27%	27%	15%

Insights

- The top 10 responses for extensive/substantial changes reflect many of the issues raised by the PCAOB in its inspection reports.
- The results for reduction in total control count in the summary of the top 10 responses for minimal/no changes likely reflect the maturity of SOX compliance in many organizations, together with years of efforts to prune their controls down to the most efficient levels for the organization to ascertain the key controls to emphasize in evaluating design and operating effectiveness. Most have honed their controls population to the point where it is no longer an issue.
- We also compared the responses of those organizations that have transitioned to the new COSO framework with feedback from companies that have yet to make the transition, but found no significant differences in the data.
- For many companies, the level of change in numerous SOX compliance areas clearly intensified in the latest fiscal year. Each of the compliance areas in the top responses in terms of “Extensive/Substantial” changes shows significant year-over-year growth with regard to the level of change.

- Conversely, year-over-year differences in the top areas in terms of minimal or no changes are less significant. Also, all show lower percentages in the “Minimal/None” category this year compared to last year’s results, suggesting that even these areas are experiencing more changes compared to prior years.
- This jump in intensity is particularly evident in three areas: increase in scope to baseline test more IT reports, a fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations; and expansion of scope related to IT general controls. The PCAOB’s inspection reports on external auditors and the transition to the new COSO framework are affecting these SOX compliance program areas, in particular.

Top 10 Overall Responses – Large Accelerated Filers

	EXTENSIVE/SUBSTANTIAL	MODERATE	MINIMAL/NONE
Expansion of documentation related to the entity-level control environment (Control Environment, Risk Assessment, Information and Communication, Monitoring)	31%	36%	33%
Increase in scope to baseline test more IT reports	29%	30%	41%
Changes/increase in process control documentation for high-risk processes	26%	31%	43%
Expansion of scope related to IT general controls	25%	37%	38%
Increased scrutiny from external auditors on testing exceptions/deficiencies	23%	34%	43%
Increased testing of entity-level controls	23%	30%	47%
Increased testing of controls over management judgments and estimates	17%	32%	51%
Increase in the frequency of “walkthroughs” to gain and document an understanding of key business processes	16%	31%	53%
Increased use of flowcharts in high-risk areas to facilitate sourcing risks of misstatements	14%	20%	66%
Increase in scope related to fraud controls	14%	35%	51%
Shift in external auditor’s evaluation of the organization’s risk profile	14%	30%	56%
Increase in total control count	14%	30%	56%

Top 10 Overall Responses – Accelerated Filers

	EXTENSIVE/SUBSTANTIAL	MODERATE	MINIMAL/NONE
Expansion of documentation related to the entity-level control environment (Control Environment, Risk Assessment, Information and Communication, Monitoring)	29%	38%	33%
Increase in scope to baseline test more IT reports	24%	36%	40%
Changes/increase in process control documentation for high-risk processes	24%	31%	45%
Increased scrutiny from external auditors on testing exceptions/ deficiencies	24%	38%	38%
Expansion of scope related to IT general controls	24%	37%	39%
Shift in external auditor's evaluation of the organization's risk profile	21%	23%	56%
Understanding and documenting the likely sources of misstatements	20%	29%	51%
Increased testing of controls over management judgments and estimates	18%	38%	44%
Increase in the frequency of "walkthroughs" to gain and document an understanding of key business processes	18%	36%	46%
Increased testing of entity-level controls	18%	42%	40%

"INCREASED AWARENESS OF OUR INTERNAL CONTROL FRAMEWORK HAS BEEN A BENEFIT; HOWEVER, DOCUMENTATION HAS INCREASED TO SUPPORT THE NEW COSO FRAMEWORK VIA OUR ENTITY-LEVEL CONTROLS."

CHIEF AUDIT EXECUTIVE, MIDSIZE SERVICES COMPANY

SPONSORSHIP AND EXECUTION RESPONSIBILITIES

Who in your organization has primary responsibility for EXECUTIVE SPONSORSHIP of Sarbanes-Oxley compliance efforts?

	Overall	Large Company	Midsize Company	Small Company
Executive management	26%	32%	25%	42%
Audit committee	25%	29%	24%	37%
Management and/or process owners	6%	12%	5%	16%
Internal audit	14%	12%	15%	0%
All others	29%	15%	31%	5%

Who in your organization has primary responsibility for EXECUTING Sarbanes-Oxley compliance efforts?

	Overall	Large Company	Midsize Company	Small Company
Executive management	8%	3%	9%	21%
Audit committee	2%	3%	2%	0%
Management and/or process owners	16%	29%	13%	37%
Internal audit	52%	38%	55%	26%
All others	22%	27%	21%	16%

Insights

- Among all responding organizations, executive management or the audit committee are most likely to have primary responsibility for executive sponsorship of SOX compliance efforts.
- Internal audit has primary responsibility for executing SOX compliance programs in more than half of all responding companies. In fact, there was a notable year-over-year increase in internal audit's responsibility for SOX compliance execution across all company sizes.[2] This is to be expected, as external auditors seek to increase their reliance on the work of others who are deemed to be independent/objective. In other words, the external auditor may be more likely to rely on the work of internal audit compared to an extension of the management function.

[2] Note: This year we revised this section of the survey, delineating executive sponsorship and execution of SOX compliance efforts. Nevertheless, the "internal audit" responses to last year's survey question, "Who in your organization has primary responsibility for overseeing/organizing SOX compliance efforts?", provide relevant data for year-over-year comparisons.

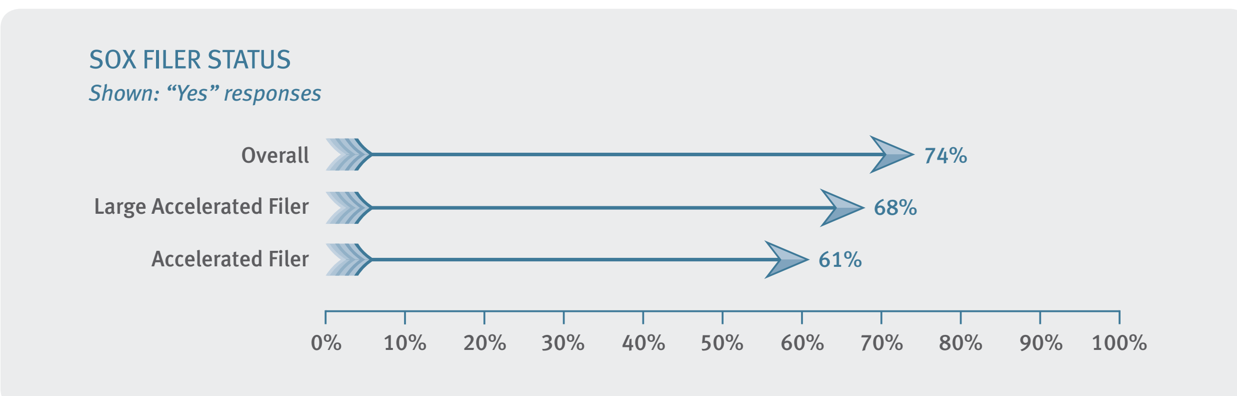
EXTERNAL AUDITING CHANGES

As is evident throughout our results this year, the hours and intensity external auditors devote to their SOX compliance work – and the fees they ultimately charge – are increasing. This year's respondents clearly believe that these changes are related to the PCAOB inspection reports of external auditing firms.

If your external audit firm required significant changes to Sarbanes-Oxley compliance activities in 2014, to what extent do you believe those changes were the result of the inspections of the registered accounting firms by the PCAOB?

	Overall	Large Accelerated Filer	Accelerated Filer
Very much so	31%	52%	38%
Probably	40%	22%	40%
Not very much	18%	11%	10%
Not at all	2%	3%	4%
Don't know	9%	12%	8%

Is your external audit firm placing more focus on evaluating deficiencies?



Insights

- Seventy-one percent of responding organizations whose external audit firms required significant SOX compliance changes said that the PCAOB inspections spurred their audit firm to require these changes ("Very much so" and "Probably" responses).
- Nearly three-quarters of responding organizations reported that external auditors are placing more focus on evaluating deficiencies, though the numbers are slightly lower for large accelerated and accelerated filers.

Indicate the impact of the PCAOB's external auditor inspection reports on your organization's level of effort (in terms of hours) for the following Sarbanes-Oxley compliance activities:

	EXTENSIVE/SUBSTANTIAL		MODERATE		MINIMAL/NONE	
	2015	2014	2015	2014	2015	2014
Testing review of controls	50%	28%	32%	33%	18%	39%
Selecting controls to test	39%	20%	31%	26%	30%	54%
Evaluating identified control deficiencies	32%	NA	43%	NA	25%	NA
Addressing IT considerations	30%	25%	51%	32%	19%	43%
Conducting roll-forwards of controls testing from an interim date	29%	16%	41%	30%	30%	54%
Risk assessment and scoping	27%	17%	45%	29%	28%	54%
Using the work of others	27%	13%	40%	27%	33%	60%

Insights

- Overall, there are three areas where the PCAOB's inspection reports have spurred external auditors to intensify their focus most substantially, and, as a result, increase the amount of time organizations spend on these compliance activities: testing review of controls, selecting controls to test and evaluating identified control deficiencies.

"[WE HAVE INVESTED] SUBSTANTIAL EFFORTS AROUND FLOWCHART DOCUMENTATION AND THE IDENTIFICATION AND EVALUATION OF DEFICIENCIES. CONVERSATIONS WITH OUR EXTERNAL AUDITORS HAVE BECOME ROUTINE MEETINGS AND AGENDA-DRIVEN, WITH PARTICIPATION FROM OUR IT AND AUDIT PARTNERS, AND ROUTINELY OUR CONTROLLER AND ROTATING PARTICIPATION FROM BY THE CFO."

CORPORATE SOX/PMO LEADER, LARGE RETAIL COMPANY

COMPANIES ARE SPENDING MORE TIME ON COMPLIANCE

For fiscal year 2014, how did the total amount of hours your organization devoted to Sarbanes-Oxley compliance change?

	Overall	Large Accelerated Filer	Accelerated Filer	Nonaccelerated Filer	Emerging Growth Co.	Planning IPO
Increased	67%	65%	69%	43%	85%	76%
Decreased	11%	4%	4%	38%	12%	5%
Stayed the same	22%	31%	27%	19%	3%	19%

If you reported an increase in the total amount of hours your organization devoted to Sarbanes-Oxley compliance, please indicate the percentage increase.

	Overall	Large Accelerated Filer	Accelerated Filer	Nonaccelerated Filer	Emerging Growth Co.	Planning IPO
Increased › 20%	22%	27%	22%	24%	5%	69%
Increased 16-19%	32%	7%	20%	22%	91%	13%
Increased 11-15%	16%	24%	20%	11%	3%	6%
Increased 6-10%	22%	31%	25%	39%	1%	12%
Increased 1-5%	8%	11%	13%	4%	0%	0%

Insights

- As expected, most organizations devoted additional hours to SOX compliance during the fiscal year in which they transitioned to the new COSO framework.
- Companies with relatively new compliance programs (e.g., those in the planning stages of an IPO and emerging growth companies) were far more likely to report that their total amount of compliance hours increased.
- This increase in time was significant: Overall, 54 percent of respondents reported that the total time devoted to SOX compliance increased by over 15 percent.
- Among the 11 percent of companies that devoted less time to SOX compliance, 58 percent indicated that these hours decreased by 10 percent or less.
- Of note, organizations should expect to invest additional hours in their initial one to two years of SOX compliance activities, along with the year that they transition from the COSO 1992 framework to the 2013 framework.

CHANGES IN CONTROLS

We often are asked about the number of entity-level controls, process-level controls and key controls that an organization should have, as well as the number of hours that should be spent on each type of control. The answer, of course, depends on the organization itself – its size, organizational structure, number of locations, number of employees, etc. In this year's study, we included questions to gather data and provide a general picture regarding controls and hours invested for each.

For fiscal year 2014, what was your organization's estimated number of entity-level and process-level Sarbanes-Oxley related controls?

	COMPANY SIZE			
	Overall	Large	Midsize	Small
Entity-level controls	48	103	38	47
Process-level controls	241	673	168	101

What percentage of the previously listed entity-level controls would you estimate are classified as "key controls" for purposes of evaluating the effectiveness of internal control over financial reporting?

	COMPANY SIZE			
	Overall	Large	Midsize	Small
Previously listed entity-level controls as "key controls"	63%	67%	62%	63%

What percentage of the previously listed process-level controls are classified as "key controls" for purposes of evaluating the effectiveness of internal control over financial reporting?

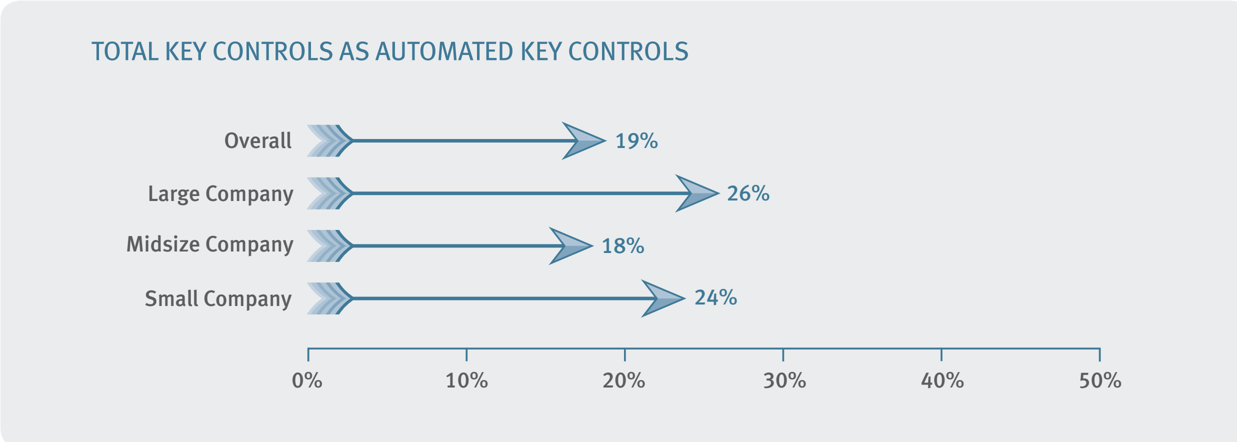
	COMPANY SIZE			
	Overall	Large	Midsize	Small
Previously listed process-level controls as "key controls"	71%	69%	71%	73%

"RISK IDENTIFICATION, EVALUATING THE PRECISION OF CONTROLS, EVALUATING DEFICIENCIES – THESE ARE OUR BIGGEST EFFORT AREAS AS DRIVEN BY OUR EXTERNAL AUDITORS."

CORPORATE SOX/PMO LEADER, LARGE UTILITIES COMPANY

MORE COMPANIES ARE COMMITTED TO AUTOMATING CONTROLS

For fiscal year 2014, what percentage of your organization's total key controls would you estimate are automated key controls?



To what extent does your organization plan to further automate its manual processes and controls within fiscal year 2015?

	OVERALL		LARGE COMPANY		MIDSIZE COMPANY		SMALL COMPANY	
	2015	2014	2015	2014	2015	2014	2015	2014
Significant plans to automate a broad range of IT processes and controls	10%	9%	9%	15%	10%	7%	15%	14%
Moderate plans to automate numerous IT processes and controls	35%	32%	49%	25%	33%	35%	31%	14%
Minimal plans to automate selected IT processes and controls	46%	42%	34%	48%	49%	40%	38%	43%
No plans to automate any further	9%	17%	8%	12%	8%	18%	16%	29%

Insights

- There is a notable year-over-year increase in large organizations with significant or moderate plans to automate more IT processes and controls. In 2014, 40 percent of large company respondents reported having significant or moderate automation plans; this year, 58 percent of large organizations described their automation plans as significant or moderate.
- This represents a promising development: Automated controls are an important part of a strong internal control environment. They increase the efficiency of operations, improve accuracy and help eliminate fraud. Robust automated controls are more reliable than manual controls, because they are not susceptible to human error or failure.

GENERATING VALUE FROM SOX COMPLIANCE

Our results indicate that a majority of companies have significantly or moderately improved their ICFR structure since they were required to begin complying with SOX Section 404(b). Other findings represent even better news: In many cases, ICFR improvements and other compliance work are being used by organizations to drive continuous improvement of business processes related to financial reporting throughout the enterprise.

These benefits, as the following results illustrate, are more frequently achieved by large companies, large accelerated filers and accelerated filers. However, the results also suggest companies of all sizes have an opportunity to strengthen ICFR and leverage SOX efforts for business process improvements related to financial reporting over time.

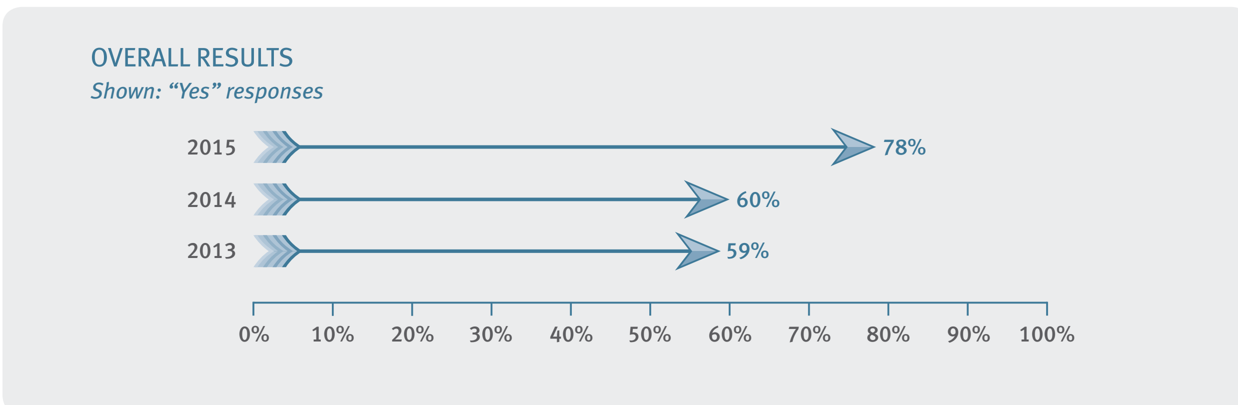
How has the internal control over financial reporting structure changed since Sarbanes-Oxley Section 404(b) was required for your organization?

		SOX FILER STATUS		COMPANY SIZE			SOX YEAR		
	Overall	Large Accelerated Filer	Accelerated Filer	Large	Midsize	Small	Beyond 2nd Yr	2nd Yr	1st Yr
Significantly improved	22%	32%	35%	34%	20%	26%	32%	5%	23%
Moderately improved	30%	41%	41%	36%	29%	26%	41%	20%	27%
Minimally improved	9%	12%	11%	12%	8%	16%	12%	2%	15%
No change	4%	5%	3%	4%	4%	16%	5%	1%	15%
Minimally weakened	2%	1%	1%	1%	2%	5%	2%	5%	8%
Moderately weakened	24%	0%	3%	0%	29%	0%	1%	52%	4%
Greatly weakened	2%	0%	0%	0%	3%	0%	0%	13%	0%
Don't know	7%	9%	6%	13%	5%	11%	7%	2%	8%

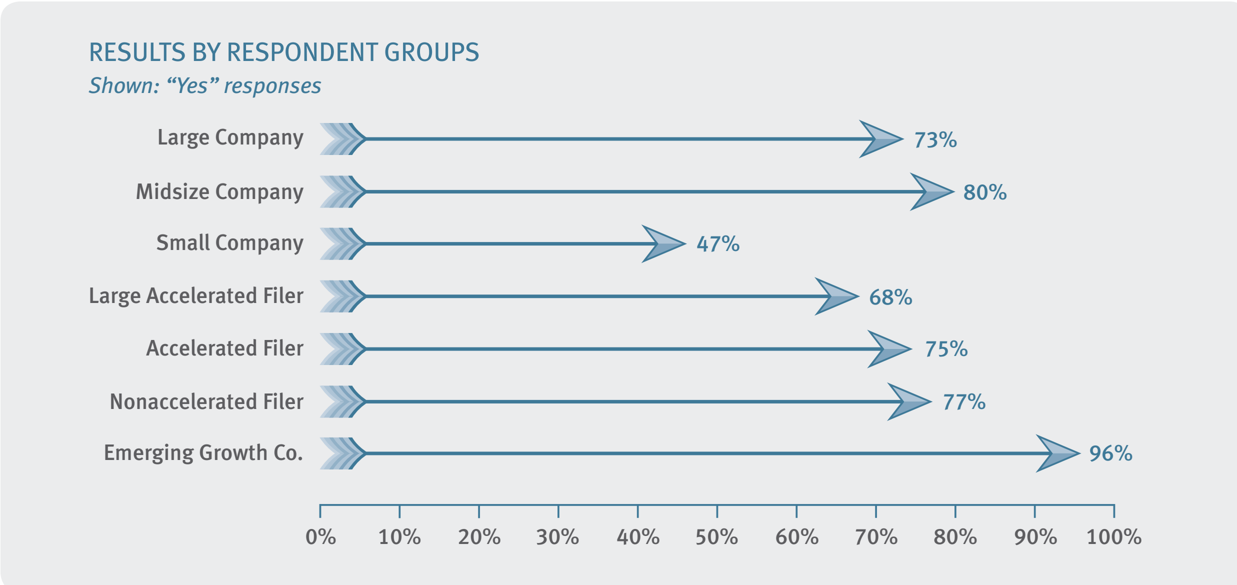
Insights

- SOX Section 404 compliance is clearly benefiting the reliability of financial reporting of larger organizations. On average, in three out of four large companies, large accelerated filers and accelerated filers, the ICFR structure has improved significantly or moderately since compliance with SOX 404 has been required for them.
- Organizations that are beyond their second year of SOX compliance report similar improvements to their ICFR structure.
- By comparison, fewer midsize and smaller organizations report significant improvements to the ICFR structure, as do companies in their second year of SOX. This is a likely indicator that their compliance processes are still maturing, and in some cases are not subject to the rigor of the SOX 404(b) external auditor attestation process, and thus have yet to realize some of the long-term improvements that larger organizations have.

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



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



Insights

- Large and midsize companies are significantly more likely to be deriving value from their SOX compliance activities compared to small companies.
- Of note, nearly all emerging growth companies are leveraging their SOX compliance efforts to drive continuous improvements. This is a good indicator that these organizations are proceeding on the right path with regard to treating SOX work not as a compliance exercise, but as a long-term process to create greater value in the organization. This is one of the outcomes the framers of the SOX legislation intended.

IN CLOSING

As the Sarbanes-Oxley Act moves well into its second decade, there is cause for optimism – albeit tempered. Although the way the law is adhered to, audited and regulated continues to change, most companies are investing in the resources and intelligence necessary to adapt to these changes in an effective and cost-efficient manner. And more and more organizations are focused on driving long-term value out of their SOX compliance efforts. That said, a brief pause is prudent since the numerous drivers that affect the complexity and cost of SOX compliance will continue to change.

METHODOLOGY AND DEMOGRAPHICS

More than 460 respondents (n=464) participated in Protiviti's 2015 Sarbanes-Oxley Compliance Survey, which was conducted online during the first quarter of 2015. 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.

This year, respondents were limited to those from publicly held organizations or organizations planning an IPO within the next 12 months.

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

Position

Chief Audit Executive (CAE)	14%
Chief Financial Officer (CFO)	2%
Chief Compliance Officer (CCO)	1%
Chief Operating Officer (COO)	1%
Audit Director	11%
Corporate Sarbanes-Oxley Leader/PMO Leader	9%
Corporate Controller	2%
Audit Manager	23%
Audit staff	25%
Other	12 %

Industry

Financial Services	22%
Manufacturing	19%
Energy	9%
Technology	9%
Retail	8%
Life Sciences/Biotechnology	5%
Hospitality	4%
Insurance (excluding Healthcare – Payer)	4%
Real Estate	4%
Distribution	3%
Utilities	3%
Healthcare – Provider	1%
Media	1%
Services	1%
Telecommunications	2%
Education	1%
Government	1%
Healthcare – Payer	1%
Other	2%

Size of Organization (by Gross Annual Revenue)

$20 billion or greater	13%
$10 billion - $19.99 billion	11%
$5 billion - $9.99 billion	14%
$1 billion - $4.99 billion	34%
$500 million - $999.99 million	13%
$100 million - $499.99 million	11%
Less than $100 million	4%

SOX Filing Status

Planning an IPO within the next 12 months	1%
Emerging growth company under the JOBS Act of 2012	1%
Nonaccelerated filer (market capitalization of less than $75 million, currently exempt from Section 404(b))	8%
Accelerated filer (market capitalization of at least $75 million, but less than $700 million)	26%
Large accelerated filer (market capitalization of $700 million or more)	64%

Organization Headquarters

North America	95%
Asia Pacific	1%
Europe	3%
Other	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 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. Protiviti and our independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. We also work 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.

Named one of the 2015 *Fortune* 100 Best Companies to Work For®, Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

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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