

2019 State of the SOX/Internal Controls Market Survey



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Dear Colleagues,

This is the fourth year that the SOX & Internal Controls Professionals Group and Workiva have surveyed the market to assess how companies are managing their Sarbanes-Oxley (SOX) compliance function. Four years ago, our goal was to develop a resource for SOX professionals to benchmark their costs, staffing, and processes. Since then, the State of the SOX/Internal Controls Market Survey has evolved into a leading indicator of best practices and technology trends for the industry.

This year's survey confirms what we see in the marketplace and hear from SOX professionals every day: they spend an excessive amount of time managing information. The SOX function is complex and inefficient, costs continue to increase, and the tools that the majority of SOX professionals use are tethered to their desktops—spreadsheets, documents, and presentations saved locally to individuals' computers.

We are also seeing SOX professionals seek out new business intelligence and visualization tools to make SOX management more efficient, accurate, and agile. The number of professionals who report using data analytics and visualization software has doubled, and a small portion of the market has adopted automated controls monitoring. In companies where internal audit manages SOX activities, there is growing demand for SOX compliance management tools that include audit management capabilities.

Manual processes are still a barrier to efficiency. More and more task-specific technologies are converging on desktop computers, but they are not connected. Any gains in efficiency are lost to the manual labor it takes

to reconcile data and information across the entire SOX process. And, while advanced business technology tools are powerful, the benefits only materialize when data and information are connected.

The alternative to a desktop cluttered with individual business application software programs is a centralized, cloud-based platform that connects data, reporting, and compliance; produces documents, spreadsheets, and presentations; automates repeatable processes; and enables simultaneous collaboration. By consolidating information on a single platform, previously disconnected and siloed SOX teams can share data and move at exponential speed with unparalleled clarity.

For internal auditors who also manage the second line of risk management defense—control monitoring and oversight—centralizing data and reporting on a single platform offers additional benefits. It opens the door to tighter coordination and communication with other vital financial areas around the company, including SEC reporting, management reporting, accounting, and others.

The SOX and internal controls market faces the challenges and opportunities of business process transformation and technology disruption. The SOX professional who can meet these challenges will create new opportunities for efficiency, speed, accuracy, and most of all, value across the entire organization.



Sincerely,
Hillary Eckert
Vice President of Product Marketing
Workiva Inc.

For the fourth consecutive year, the SOX & Internal Controls Professionals Group and Workiva surveyed the market for insights about the costs, execution, challenges and priorities of complying with Sarbanes-Oxley.

More than 475 SOX professionals responded to the survey, which was conducted online in the second quarter of 2019. Survey respondents are primarily located in the United States and represent companies in a wide range of industries and sizes, from less than \$75 million in annual revenue to more than \$5 billion in annual revenue.

This large and diverse group of survey contributors represents various levels of process maturity and complexity and presents a balanced perspective of the current state of SOX and internal controls management.

Key findings from the 2019 State of the SOX/Internal Controls Market Survey

1. SOX professionals continue to rely on desktop software as their primary tool, but it's not the only technology they use to support SOX compliance.

Three-quarters of respondents report that desktop software is the primary technology they use to support the SOX and internal controls process in their organizations. However, more than one-third report the additional use of a SOX-specific tool, which has more than doubled since last year's survey.

2. Interest in and use of advanced technology in the SOX function has increased.

The use of data analytics in the SOX function doubled from last year and more than half of survey respondents are considering the use of continuous controls monitoring (CCM), which automates the monitoring and testing of internal controls.

3. Internal audit's involvement in SOX and internal controls (SOX/IC) has expanded.

In the continuation of a trend, internal audit's ownership of the SOX/IC compliance function increased. One-third of survey respondents

report that internal audit spends more than half its time on SOX processes.

4. The overall cost of SOX/IC compliance continues to increase.

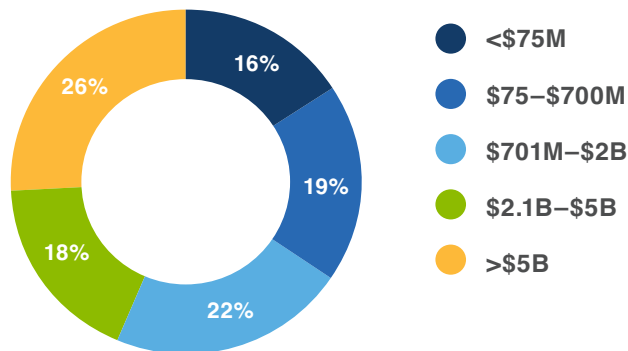
On average, SOX compliance costs rose slightly, and more than half of survey respondents report an increase in external audit fees. Additional PCAOB requirements of public auditors, the adoption of new accounting standards and the demand for internal controls around IT and cybersecurity are among the drivers of external audit fee increases.

5. Cybersecurity and IT controls lead the list of priorities.

Cybersecurity and IT controls now lead the list of challenges and priorities identified by survey respondents.

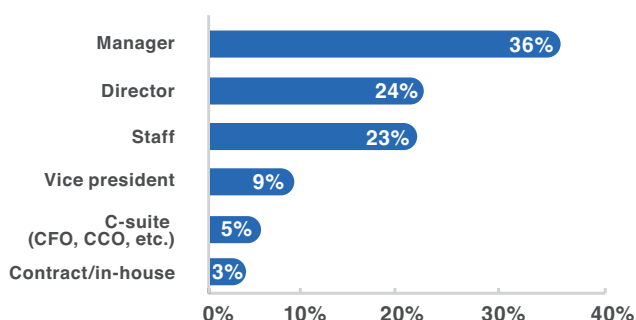
The total number of respondents to the 2019 State of the SOX/Internal Controls Market Survey is 475. The number of respondents who work in organizations that reported more than \$2 billion in annual revenue increased to 44% from 35% last year, while 16% of respondents work in organizations that reported less than \$75 million in revenue, which declined from 21% last year.

What is your organization's last fiscal year revenue?



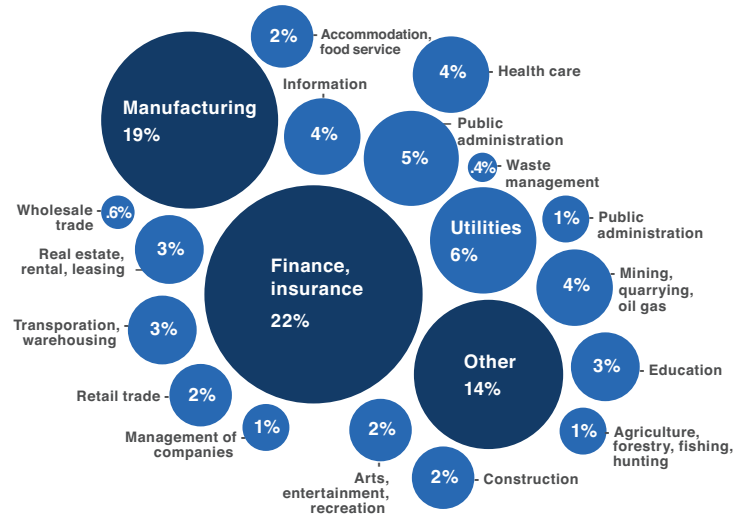
Three-quarters of survey respondents occupy a role that includes the planning and execution of SOX and internal control functions. More than half of the survey respondents identified their title as manager or director, and an additional 14% hold a corporate officer title of vice president or above.

How would you describe your role?

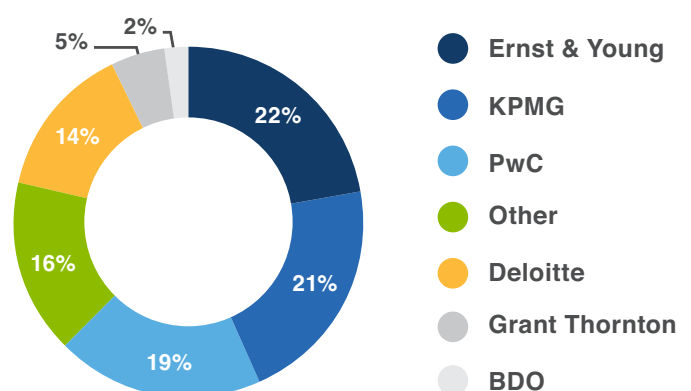


A broad range of industries is represented in the 2019 survey. The most represented industries are financial services and manufacturing.

In which industry does your company best fit?



Survey respondents were polled on which external audit firms their companies use. The Big Four, with their resources, technology, and expertise, dominate this year's list of external auditors. Additionally, 78% of this year's respondents were audited by the Big Four.

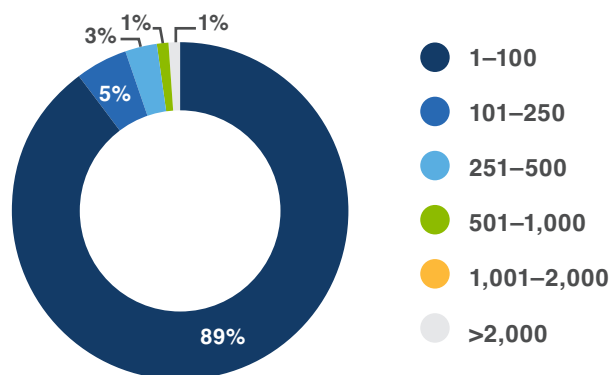


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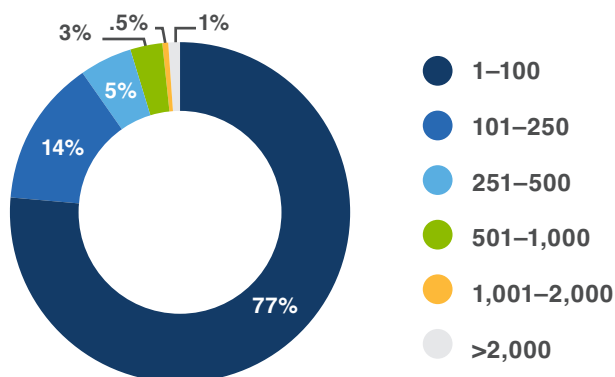
The SOX function is increasingly more complex

A new question in this year's survey focused on the control category. We asked about the number of key controls that fit into the entity level, the ITGC level, and business process controls.

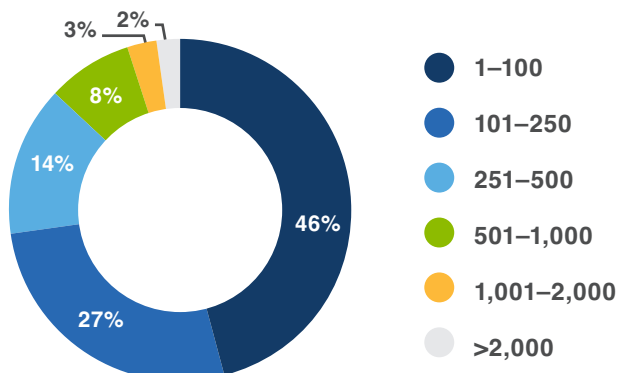
How many key controls fit into the entity level category?



How many key controls fit into the ITGC category?

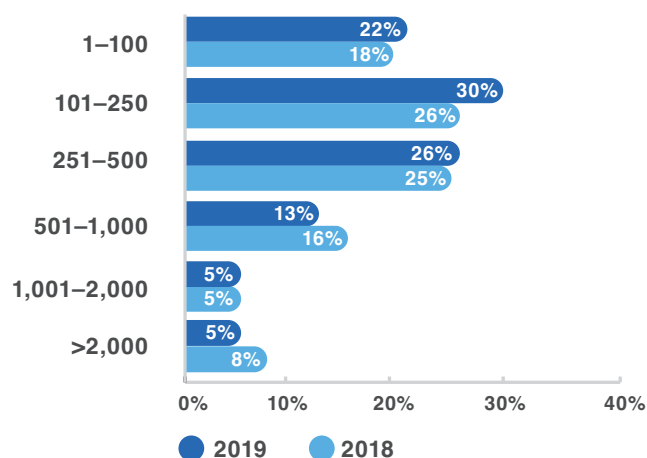


How many key controls fit into the business process category?



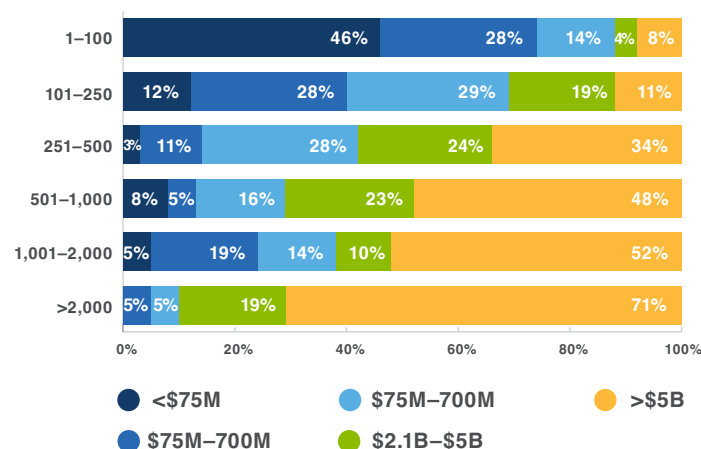
Compared with last year, survey respondents who test fewer than 100 key controls increased from 18% to 22%. Survey respondents who test between 101-250 key controls increased to 30% from 26%. At the opposite end of the spectrum, 10% of survey respondents manage more than 1,000 key/tested controls, which is a slight decrease from 13% reported last year.

What is the total number of key/tested controls annually?



This year's survey finds a correlation between the size of the company and the number of internal controls they manage. 46% of the respondents who report managing up to 100 controls represent companies with less than \$75 million in revenue. 71% of respondents who manage more than 2,000 controls represent organizations with more than \$5 billion in revenue.

Number of internal controls vs. revenue



COMPLEXITY OF THE **PROCESS**

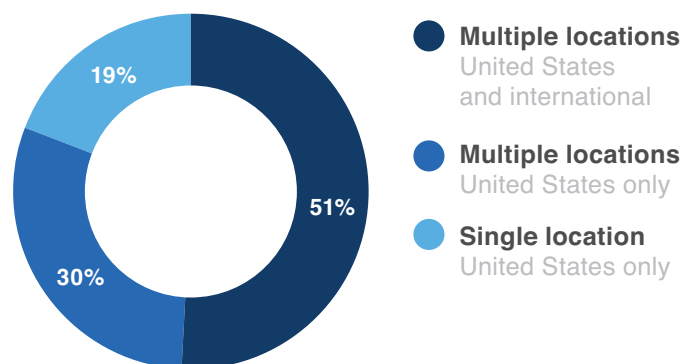
The SOX function is increasingly more complex

New in 2019, this year's survey also focused on control category. We asked respondents about the number of key controls that fit into the entity level, the ITGC level, and business process controls.

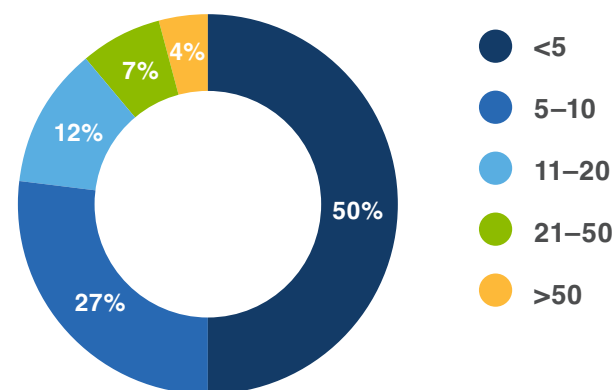
The largest correlation between controls and number of locations is in the 2–10 locations category: 44% of survey respondents manage 1–100 controls in 2–10 locations. 48% of survey respondents manage 101–250 controls in 2–10 locations. 41% of survey respondents manage 251–500 controls in 2–10 locations. 39% of survey respondents manage 501–1,000 controls in 2–10 locations. 35% of survey respondents manage 1,001–2,000 controls in 2–10 locations.

When asked about the in-scope locations, more than half of the respondents reported multiple in-scope locations, both in the United States and internationally. Fewer than 20% of respondents reported a single in-scope location.

What are your in-scope locations?

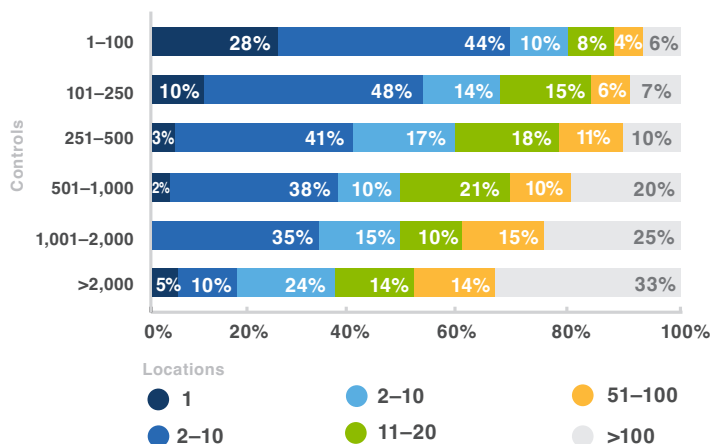


What is the size of your SOX testing/validation team?



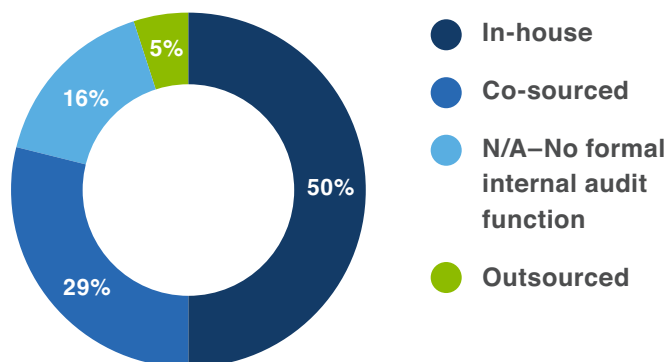
Half of all survey respondents reported fewer than 5 people on their SOX testing and validation team. 27% report between 5 and 10 people and 12% report between 11 and 20. 11% of survey respondents report more than 21 people on their SOX testing and validation team.

Number of internal controls vs. number of locations



Half of survey respondents report an in-house SOX compliance model. 29% of respondents rely on a co-sourced model, and 5% outsource SOX compliance.

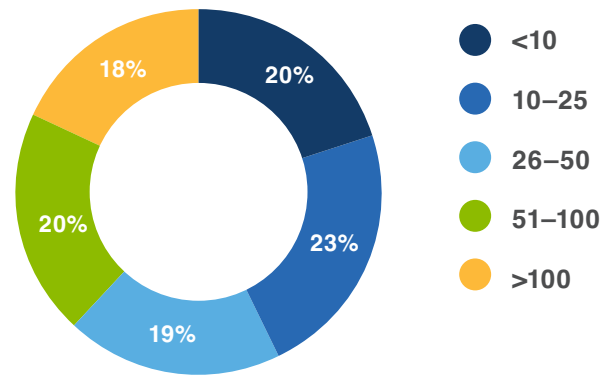
What is your SOX compliance model?



The SOX function is increasingly more complex

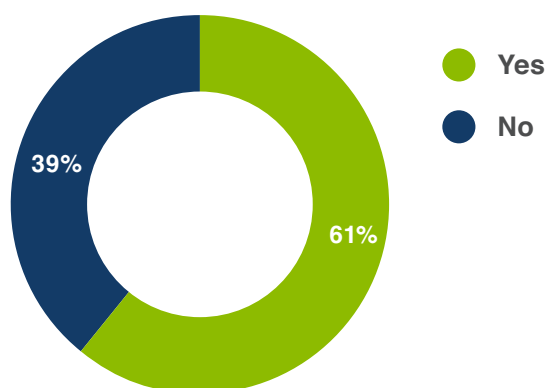
When asked about the number of SOX process and control owners in the organization, there was a fairly even distribution across the ranges provided in the survey. Of those surveyed, 43% report 25 or fewer process and control owners, while 20% report 50–100 process and control owners. 18% report more than 100 process and control owners.

How many process and control owners are in your organization?

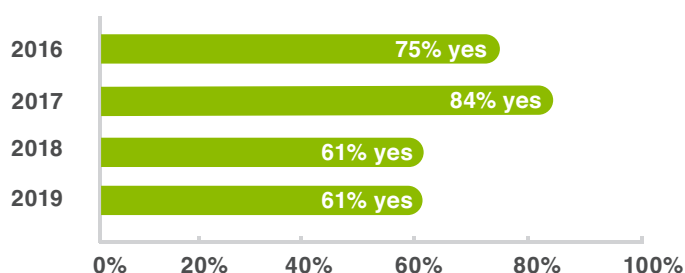


Overall control deficiencies have not changed since the 2018 State of the SOX/Internal Controls Market Survey. 61% of survey respondents experienced control issues that led to deficiencies, significant deficiencies, or material weaknesses.

In the past fiscal year, did you experience any control issues that led to deficiencies, significant deficiencies, or material weaknesses?

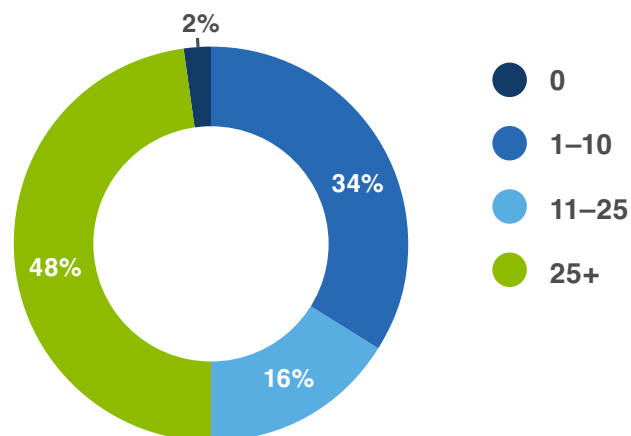


Annual comparison of control deficiencies



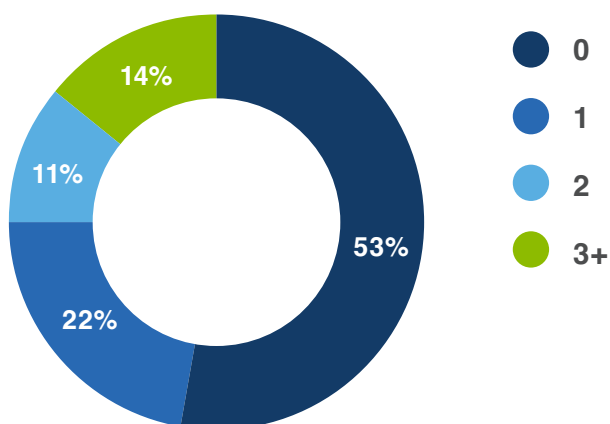
48% of survey respondents report identifying more than 25 control deficiencies compared with 2% who reported zero control deficiencies. 34% of survey respondents report between 1–10 control deficiencies, and 16% report between 11–25 deficiencies.

How many deficiencies were identified?



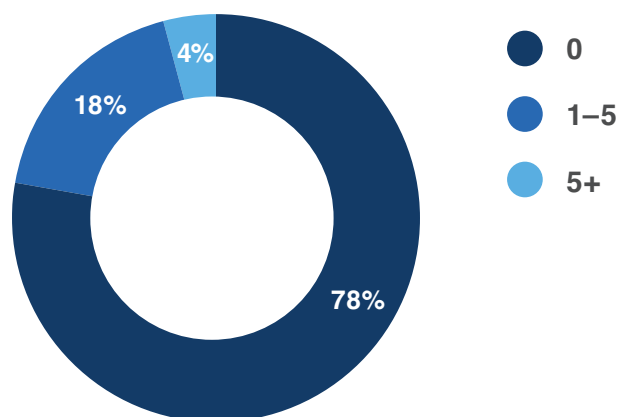
More than half of survey respondents report zero significant deficiencies. 22% report identifying one significant deficiency, 11% report two significant deficiencies, and 14% report three or more significant deficiencies.

How many significant deficiencies were identified?



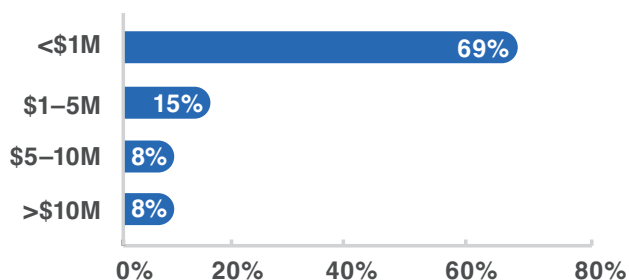
78% of survey respondents report zero material weaknesses. This is in contrast to 18% who report between one and five material weaknesses and 4% who report identifying more than five material weaknesses.

How many material weaknesses were identified?



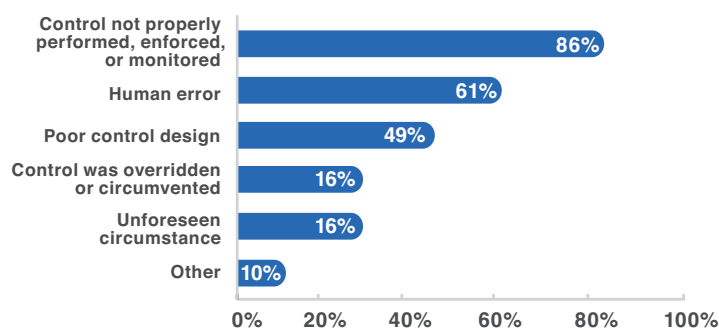
Control deficiencies are costly, both financially and reputationally. Almost one-third of survey respondents report more than \$1 million in cumulative dollar impact as a result of control deficiencies. 69% of total survey respondents reported a cumulative financial impact of less than \$1 million.

What was the cumulative dollar impact of the deficiencies?



The root causes of control failure are unchanged from the results reported in previous surveys. Improperly performed, enforced, or monitored controls is the leading source of control failure according to 86% of survey respondents. Human error is identified by 61% of survey respondents, and poorly designed controls is cited by 49% as the source of control failure.

What were some of the causes for control(s) failure?

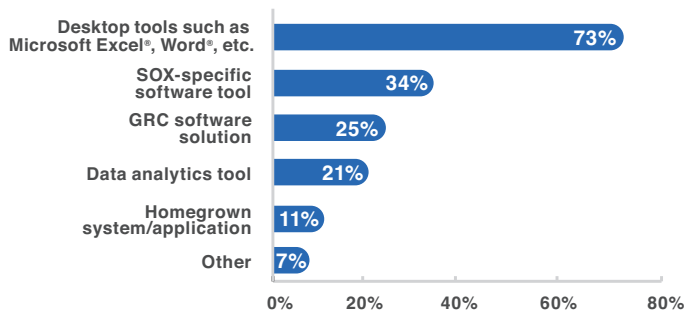


SOX professionals continue to rely on desktop software as their primary tool, but it is not the only technology they use to support SOX compliance.

73% of survey respondents report using desktop software as a primary tool to support their SOX process. Additionally, the use of SOX-specific software doubled to 34% from 17% of last year's survey responses. The use of data analytics also doubled to 21% from 10% last year.

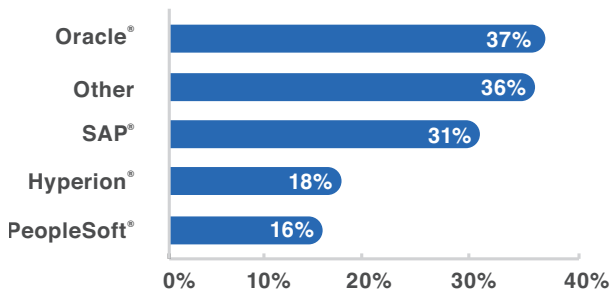
The use of GRC-specific software increased to 25% from 14% a year ago, and homegrown systems increased slightly to 11% from 7% last year.

What is the primary technology tool(s) that you utilize to support your SOX/IC process?



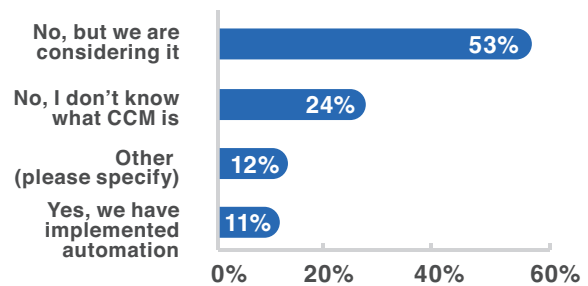
Similarly, some respondents indicated a single ERP system while others use multiple ERP systems. The most common providers are Oracle and SAP.

What ERP system(s) do you currently use?



More than half of survey respondents are considering continuous control monitoring (CCM) for their SOX program to automate compliance and business processes monitoring for errors or fraud. 11% of survey respondents report implementing CCM compared with 5% in last year's survey.

Do you currently use or have you considered using continuous control monitoring (CCM) within your SOX program?



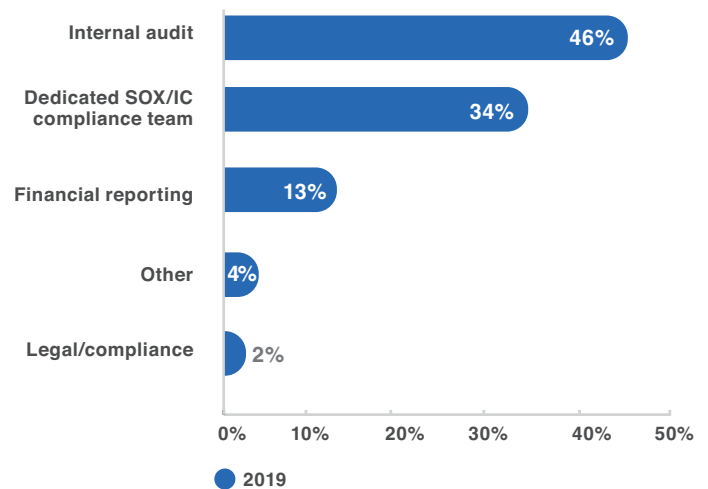
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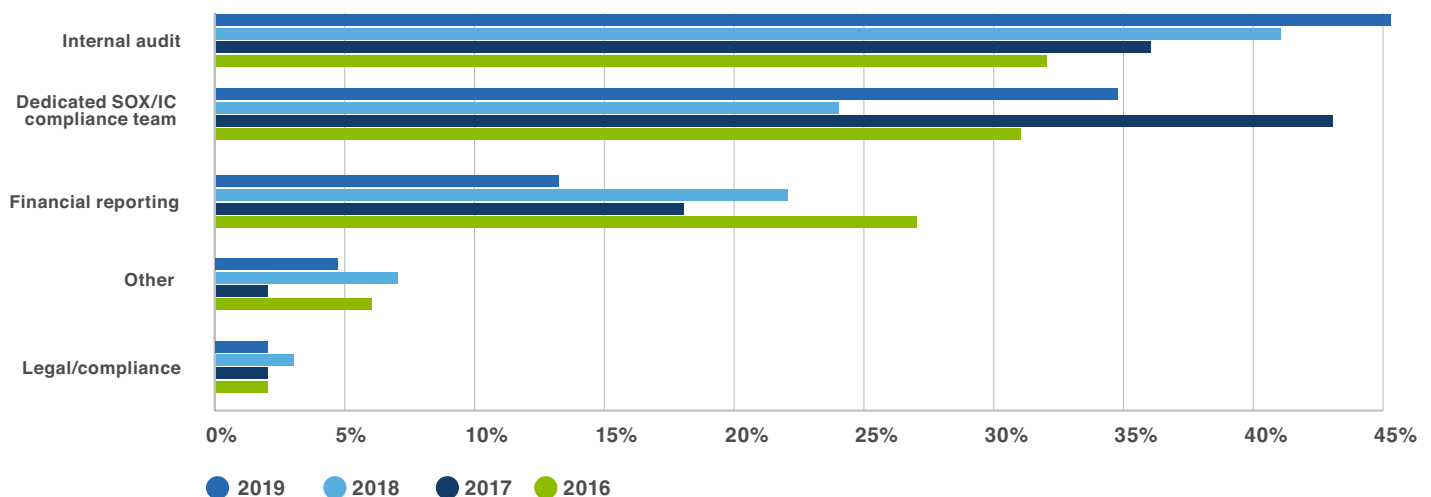
A full 80% of survey respondents report that internal audit or a dedicated SOX/IC compliance team is in charge of the SOX compliance in their organizations. This year, 46% of survey respondents reported that internal audit is in charge of managing SOX/IC compliance, a 5% increase from last year.

Additionally, 34% of survey respondents reported a dedicated SOX team owns the compliance function, up from 25% of respondents a year ago. This year's survey response indicated a decline in the ownership of SOX compliance by financial reporting, legal, and other departments.

What department is in charge of managing SOX/IC compliance in your organization?



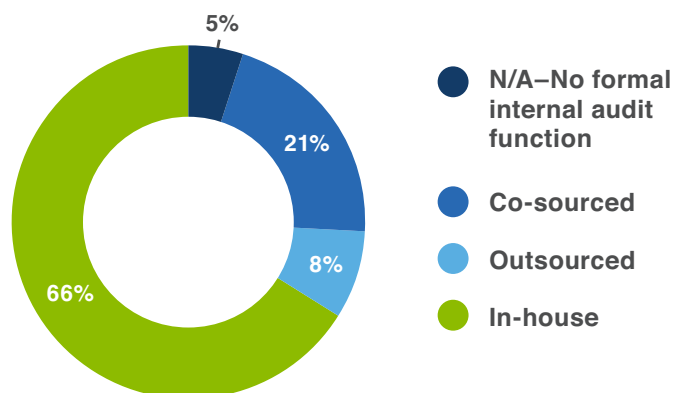
Four-year comparison of who handles SOX/IC compliance



The role of internal audit grows

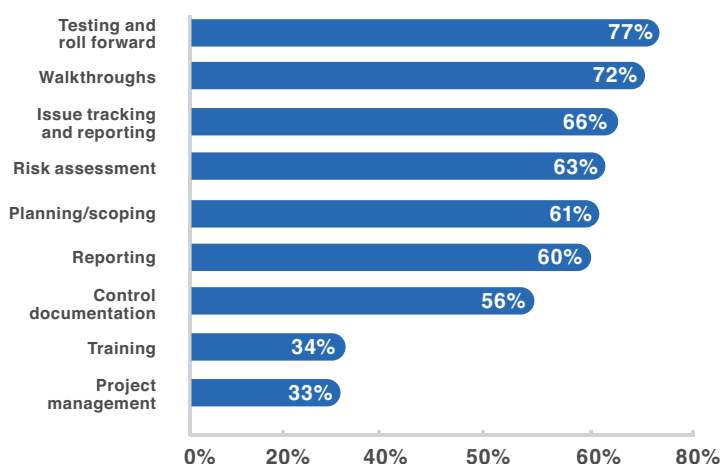
66% of survey respondents report an in-house internal audit model compared with 60% last year. Survey respondents report a slight decrease in the co-sourced to 21% from 22% last year. 8% report an outsourced model compared with 6% last year. 5% of survey respondents reported no formal internal audit function, a decrease from 11% last year.

What is your internal audit model?



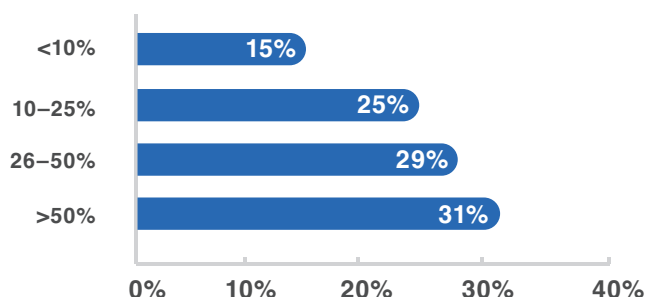
Internal audit has increased its involvement in the SOX/IC function across the board compared with last year's survey. More than three-quarters of survey respondents report a steep increase in internal audit involvement in testing and roll forward to 77% from 52%, walkthroughs to 72% from 47%, and issue tracking and reporting to 66% from 46%. Each of these are primary procedures for measuring how well a company manages its internal controls.

How is your internal audit involved with your SOX/IC program?

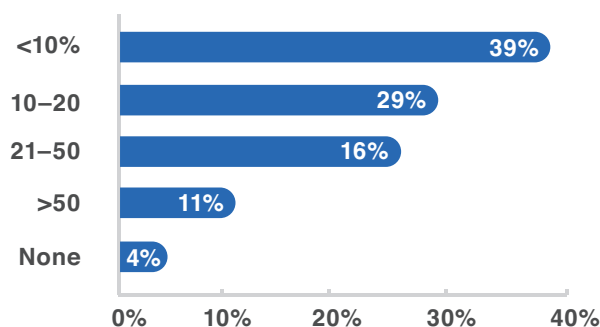


Almost one-third of survey respondents report that internal audit spends more than half its time on SOX. In addition to SOX testing, internal audit is responsible for operational audits. 68% of survey respondents conduct fewer than 20 operational audits in a year.

What percent of time does internal audit spend on SOX?



In addition to SOX testing, how many operational audits does your organization perform each year?



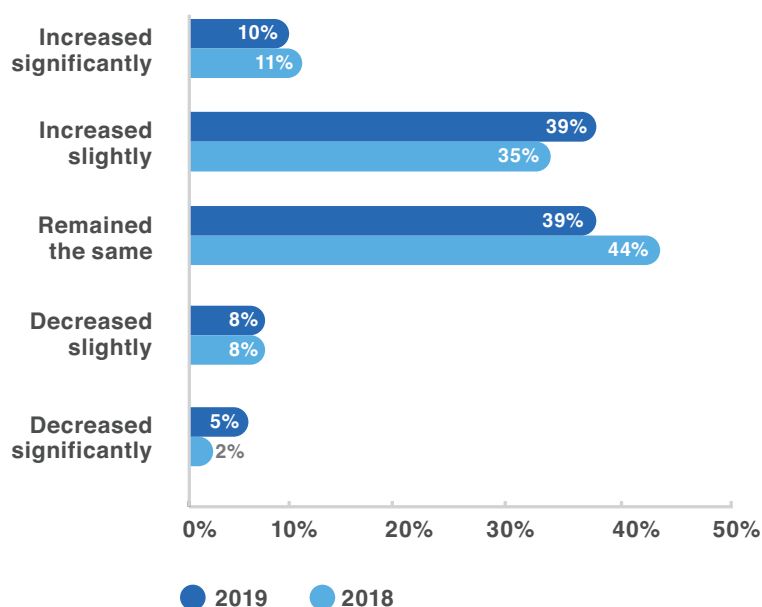
Nearly half experienced increases in the cost of SOX/IC compliance

49% of survey respondents report an increase in SOX/IC compliance costs compared with 13% who report a decrease. 39% of survey respondents report a slight increase in overall SOX/IC compliance costs compared with 35% last year, while 10% report a significant increase compared with 11% last year.

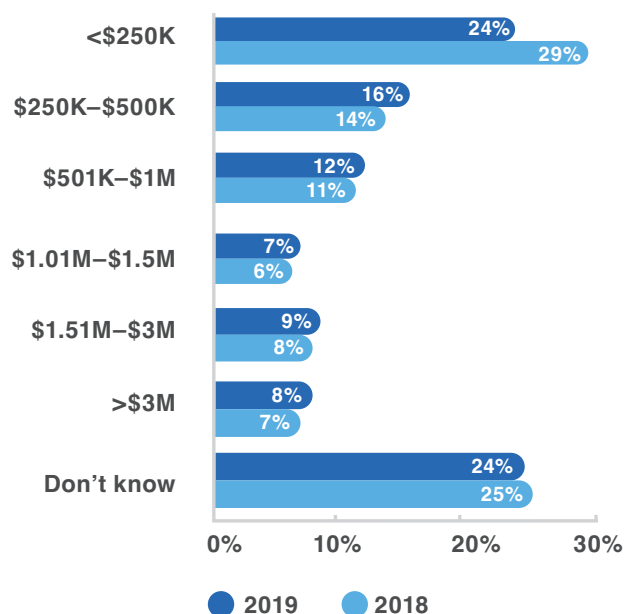
Respondents who report slight decreases in SOX/IC compliance costs remained steady at 8%, and 5% report significantly decreased compliance costs, up from 2% last year.

39% of survey respondents report SOX compliance costs remained the same, down from 44% a year ago.

What change did you experience in your overall SOX/IC compliance assessment costs?



Annual spend for SOX/IC compliance

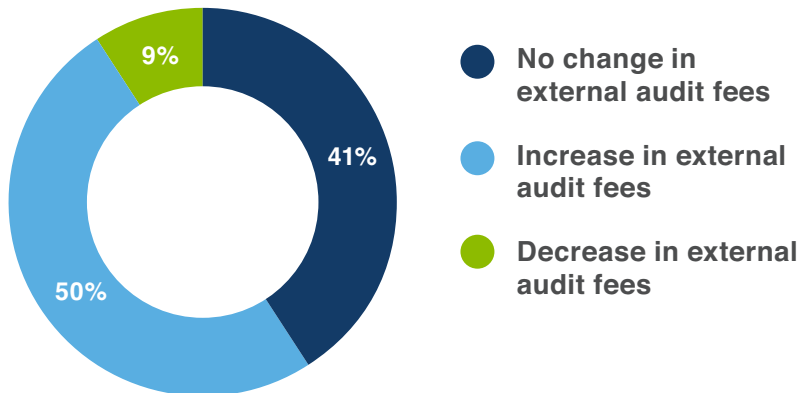


A little more than half of survey respondents spend less than \$1 million annually on SOX compliance.

24% of survey respondents spend less than \$250,000 annually, a decline from 29% a year ago.

16% of survey respondents spend between \$1.01 million and \$3 million on SOX/IC compliance, a 2% increase compared with last year.

What change did you experience in your external audit fees?



Half of survey respondents report an increase in external audit fees. Industry trends that contribute to higher external audit fees include the adoption of new accounting standards and requests from the Public Company Accounting Oversight Board (PCAOB) for additional documentation.

The top three challenges reported by survey respondents in 2019 are unchanged from 2018. The demands of identifying internal controls to address cybersecurity and information technology leads the list of challenges identified by survey respondents, unchanged from a year ago. Managing changes in accounting policy and the meeting the challenging requirements from external audit each rank next in order, though they are separated by a small margin.

What are the most significant SOX/IC compliance challenges that your organization expects for the year ahead? *On a scale of 1–9, with 1 being most important.*

Challenge	Ranking	Average ranking
Focus on cyber and IT controls	1	3.50
Change in accounting policy (revenue recognition, lease accounting, and tax)	2	4.72
Changing requirements from external audit	3	4.74
Increased focus on risk management	4	4.82
Replacement of legacy technology	5	4.84
Shortage of skilled resources	6	4.91
Cost of resources	7	5.09
Control language is dated or obsolete	8	5.87
Insufficient support from management	9	6.5

The top three priorities remain consistent compared with last year's survey, though in a different order. The demands of identifying internal controls to address cybersecurity and information technology leads the list of priorities identified by survey respondents. Complying with SOX and other regulators is ranked second this year from third last year. Improving the efficiency of the SOX function remains a top priority in third place.

What are your organization's top priorities for the year? *On a scale of 1–10, with 1 being most important.*

Priority	Ranking	Average ranking
Increasing focus on cyber security and IT controls	1	4.57
Ensure compliance with SOX and other regulators	2	4.68
Improve efficiency of the SOX function	3	4.75
Perform control optimization	4	4.88
Identify control requirements for new accounting policies (revenue recognition, lease accounting, and tax)	5	5.69
Build on talent and skills	6	5.8
Manage or maintain the cost of compliance	7	5.94
Reduce/enhance organization's risk management capabilities	8	6.15
Strengthen organizational relationships (audit committee, board, external auditors, management, etc.)	9	6.24
Replace legacy technology with new systems	10	6.3

About the SOX & Internal Controls Professionals Group

The SOX & Internal Controls Professional Group is a community of professionals who are actively involved with the SOX, internal control, and internal audit processes. The group's members are involved in documenting, evaluating and testing internal controls and processes.

The SOX group fosters networking, promotes thought leadership, and provides opportunities for members to share best practices. There is no cost to join and membership provides access to a network of like-minded professionals while helping them increase their value and influence across their organizations.

Visit soxprofessionalsgroup.org for more information.

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