

# 2018 State of the SOX/Internal Controls Market Survey



**workiva**

**EISNERAMPER**



**SOX** **PRO**  
SOX & Internal Controls Professionals Group



## TABLE OF CONTENTS

Executive Summary.....	<a href="#"><u>3</u></a>
Survey Demographics.....	<a href="#"><u>4</u></a>
Complexity of the Process.....	<a href="#"><u>6</u></a>
Control Failures.....	<a href="#"><u>9</u></a>
Role of Technology .....	<a href="#"><u>10</u></a>
Involvement of Internal Audit .....	<a href="#"><u>11</u></a>
Role of Co-Source and Outsource Provider.....	<a href="#"><u>13</u></a>
Internal Audit Model .....	<a href="#"><u>14</u></a>
Cost of Compliance.....	<a href="#"><u>16</u></a>
Challenges and Priorities .....	<a href="#"><u>19</u></a>
Conclusion.....	<a href="#"><u>21</u></a>
About Survey Sponsors.....	<a href="#"><u>22</u></a>

## EXECUTIVE SUMMARY

The SOX & Internal Controls Professional Group, EisnerAmper, and Workiva sponsored a survey in May and June 2018 that polled SOX and internal control professionals from companies representing a wide range of industries, sizes, and SOX process complexity. The survey questions focused on the state of SOX and internal control processes, costs associated with compliance, and the top challenges as ranked by respondents.

This is the third annual survey, following surveys published in September 2017 and September 2016. The survey results reflect various levels of current process maturity and evolving discipline as practitioners aspire to modernize processes and make them more efficient.

More than 500 SOX professionals participated in the 2018 State of the SOX/Internal Controls Market Survey, a significant increase in respondents from the two previous surveys. Regardless of the differences in sample size, we can reliably follow trends and draw conclusions by asking the same questions each year to a group of respondents who share the same challenges and opportunities.

The survey respondents were primarily located in the United States and represented companies from less than \$75 million to more \$5 billion in annual revenue. The survey results represent departments of all sizes, ranging from fewer than five professionals to hundreds of people involved in the compliance process.

### Key findings from the 2018 survey:

**1. The overall cost of SOX/IC compliance was flat or has increased.**

Almost half of survey respondents reported an increase in the costs of their compliance efforts, while 44 percent reported that compliance costs did not change.

**2. Co-sourcing of compliance functions has increased.**

The 2018 survey reveals an increase in co-sourcing and a decrease in overall internal SOX/IC compliance functions. This growth in outsourcing could explain some of the rising costs of compliance, as well as the implementation of ASC 606.

**3. Changes in accounting policy are the most significant challenge for SOX/IC professionals.**

Survey respondents are implementing three significant policy changes simultaneously: FASB updates ASC 606 revenue from contracts with customers, ASC 842 for lease accounting, and the Tax Cuts and Jobs Act.

**4. Manual processes are responsible for the majority of internal control failures.**

The leading causes of deficiencies are human error and improperly performed, enforced, or monitored controls. Survey respondents that experienced control issues declined by 20 percent.

**5. The use of desktop tools for compliance is on the decline.**

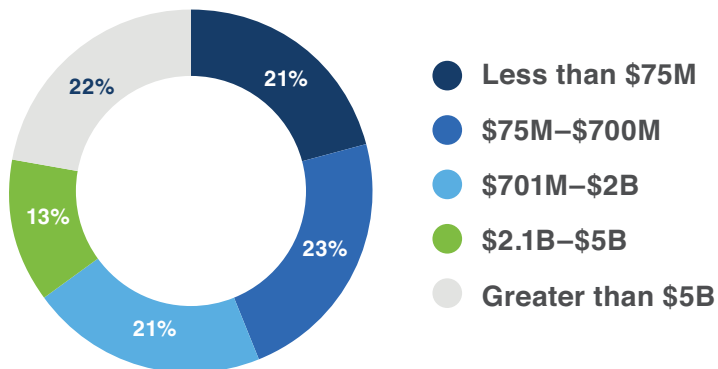
The use of manual desktop tools to gather, analyze, and present data has declined 20 percent from the 2017 State of the SOX/Internal Controls Market Survey, which reflects the continued trend toward purpose-built tools for SOX and internal controls.

## SURVEY DEMOGRAPHICS

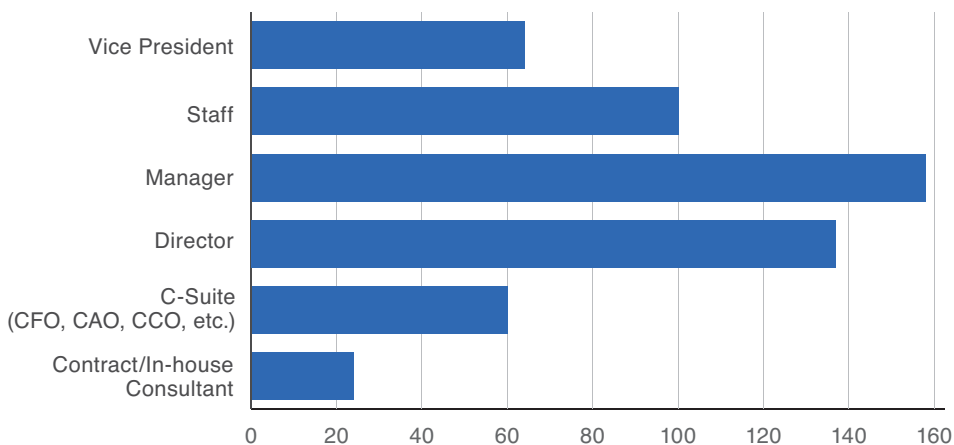
The broad demographics of company size, job title, organization type, and industry provided by survey respondents offer a good perspective of the current state of the SOX and internal control profession.

Of those surveyed, 22 percent of respondents work in organizations that reported more than \$5 billion in annual revenue, while only 21 percent of respondents work in organizations that had less than \$75 million in annual revenue.

### What is your organization's last fiscal year revenue?



### How would you describe your role?



The survey also asked about the respondent's role. Survey respondents represented all levels of the organization, with 77 percent holding the title of manager or above. Of these, 62 percent were at the title of director or higher, including 23 percent of the most senior respondents who hold C-level executive titles.

A wide distribution of industries is represented in the 2018 survey. The most represented industries are manufacturing, financial services, other services and professions, and scientific and technical services. Of these survey respondents, 66 percent represent publicly traded companies.

The top two industries represented in this survey were insurance and manufacturing, which also had the largest number of controls. This is related to the demographics of the survey, as the highest number of participants from each industry also had the highest number of controls per industry (see chart titled "Total number of controls by industry").

## In which industry does your company best fit?

Name of industry	Number of respondents
Finance, insurance	136
Manufacturing	95
Other	61
Professionals, scientific, tech	39
Healthcare	30
Utilities	23
Information	20
Real estate, rental, leasing	20
Mining, quarrying, oil, gas	19
Retail trade	18
Arts, entertainment, recreation	11
Educational services	10
Construction	9
Transportation, warehousing	9
Accommodation, food service	7
Public administration	6
Wholesale trade	4
Management of companies	2
Waste management	2
Agriculture, forestry, fishing, hunting	1

Survey respondents were polled on which external audit firms their companies use. The four external audit firms most used by survey respondents are Ernst & Young (22 percent), Deloitte (17 percent), KPMG (16 percent), and PwC (16 percent).

## Who is your external auditor?

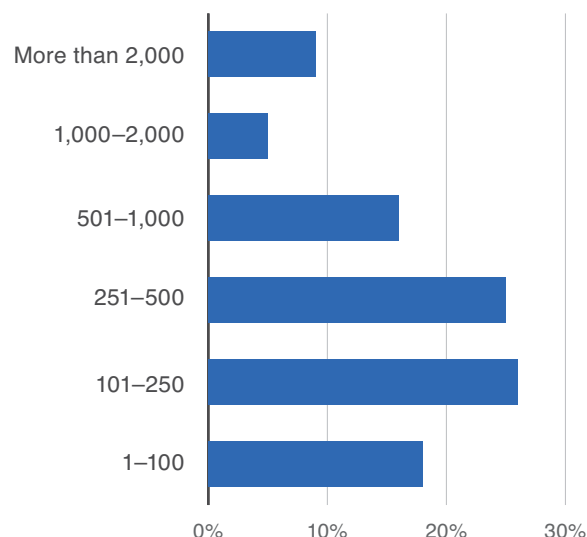
External auditor	Number of respondents	Percent of respondents
Ernst & Young	116	22%
Deloitte	89	17%
KPMG	82	16%
PwC	85	16%
Other	77	15%
BDO	13	2%
EisnerAmper	10	2%
Grant Thornton	13	2%
Moss Adams	8	2%

## COMPLEXITY OF THE PROCESS

Close to 50 percent of survey respondents reported that their organizations manage fewer than 500 controls. Of these respondents, 20 percent manage fewer than 100 controls. Fewer than 15 percent of the respondents manage more than 1,000 controls.

The table below illustrates the number of controls by respondents' revenue size. Slightly more than half of all survey respondents manage between 101 and 500 controls. Of the companies with less than \$700 million in revenue, 40 percent manage fewer than 500 controls. For companies with revenue of more than \$5 billion, 14 percent manage more than 500 controls.

### What are the total number of controls in your environment?



### Number of internal controls compared with annual revenue

Annual revenue	Number of controls						Total
	1–100	101–250	251–500	501–1,000	1,001–2,000	More than 2,000	
Less than \$75M	11%	6%	2%	1%	0%	0%	20%
\$75M–\$700M	3%	11%	7%	2%	0%	0%	24%
\$701M–\$2B	1%	6%	7%	6%	1%	1%	21%
\$2.1B–\$5B	0%	2%	5%	3%	1%	1%	13%
Greater than \$5B	2%	1%	4%	5%	3%	6%	21%
No response	1%	0%	0%	0%	0%	0%	1%
Total	18%	26%	25%	16%	5%	9%	100%

For this year's survey, we wanted to further understand the composition of the control environment by quantifying the types of controls managed. We gathered data related to testing key controls, the number of controls by industry, management review controls, entity-level controls, and IT controls.

From the total number of controls they manage, 65 percent of all survey respondents test fewer than 250 key controls each year.

## How many key controls do you test on an annual basis?

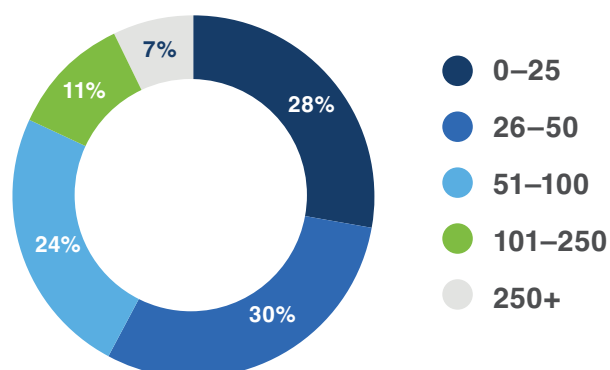
Total number of controls	1–100	101–250	251–500	501–1,000	1,001–2,000	More than 2,000	Total
1–100	74						74
101–250	33	74					108
251–500	12	55	38				105
501–1,000	4	14	32	18			68
1,001–2,000			6	10	5		21
More than 2,000		3	5	10	11	8	37
Total	123	146	81	38	17	8	413

The industries with the greatest number of total controls in their compliance environment were finance and insurance, manufacturing, and professional, scientific and technical services. As indicated in a previous chart, this is related to the demographics of the survey, as the highest number of participants from each industry also had the highest number of controls per industry.

## Total number of controls by industry (top four industries for each segment)

Industry	Total number of respondents
<b>1–100 Controls</b>	
Manufacturing	15
Finance, insurance	12
Other	12
Professionals, scientific, technical services	10
<b>101–250 controls</b>	
Manufacturing	24
Finance, insurance	21
Other	16
Healthcare	7
<b>251–500 controls</b>	
Finance, insurance	24
Manufacturing	17
Other	11
Information	8
<b>500–1,000 controls</b>	
Finance, insurance	22
Manufacturing	12
Other	6
Information	6
<b>1,000+ controls</b>	
Finance, insurance	26
Manufacturing	11
Healthcare	5
Professionals, scientific, technical services	4

## What are the total number of management review controls in your environment?



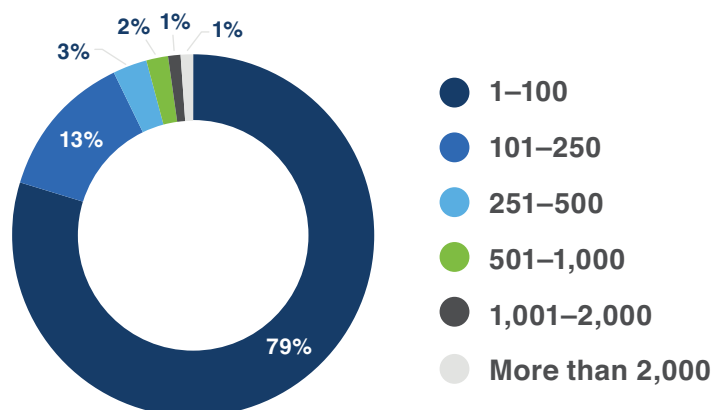
2018 survey respondents reported that the number of management review controls has increased across the board compared to 2017. The exception is a decline in the total number of management review controls for those companies that manage more than 250 management review controls.

82 percent of survey respondents reported that they manage fewer than 100 entity-level controls, and 17 percent reported managing between 101 and 500 entity-level controls.

## What are the total number of entity-level controls in your environment?

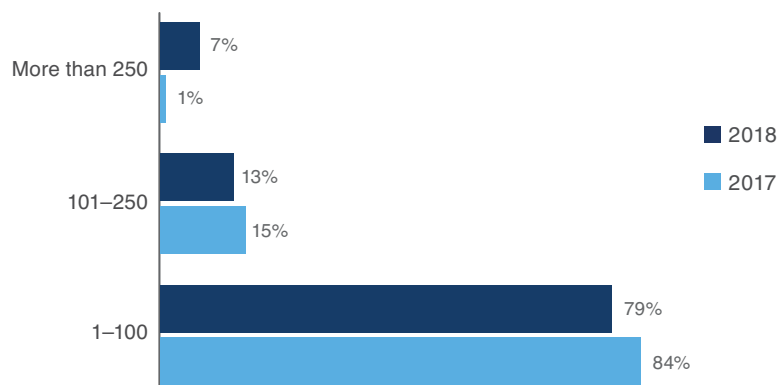
Total number of entity-level controls in environment	Number of survey respondents
0–25	114
26–50	124
51–100	96
101–250	45
250+	28

## What are the total number of IT controls in your environment?



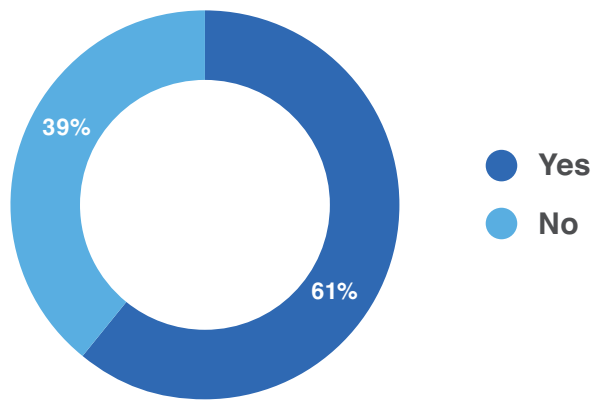
The number of survey respondents who manage fewer than 100 IT controls has slightly declined to 79 percent, compared to 84 percent from the 2017 State of the SOX/Internal Controls Market Survey. However, the number of companies that manage more than 250 IT controls is increasing.

## Comparison of IT controls — 2017 vs. 2018



## CONTROL FAILURES

Survey respondents reported a 20 percent decline in overall control deficiencies compared with the 2017 State of the SOX/Internal Controls Market Survey.



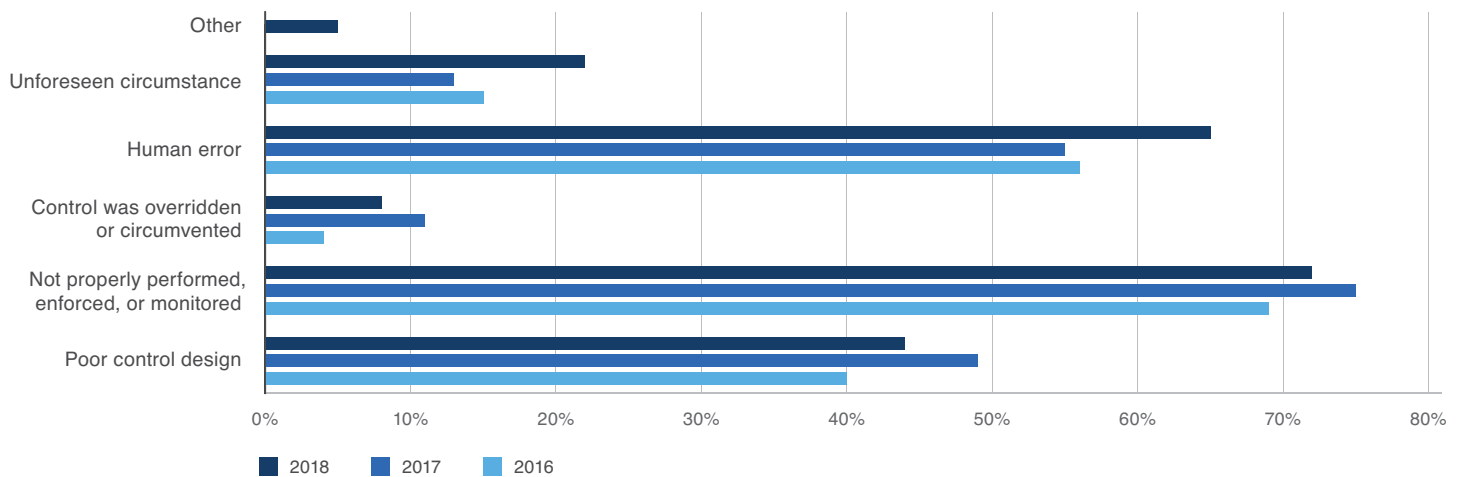
### In the past year did you experience any control issues that lead to deficiencies, significant deficiencies, or material weaknesses?

At the same time, 61 percent of survey respondents experienced control issues that led to deficiencies, significant deficiencies, or material weaknesses.

The root causes of control failure are the same compared with the 2016 and 2017 State of the SOX/Internal Controls Market Survey results: the control was not properly performed, enforced, or monitored; human error occurred; or controls were poorly designed.

Unforeseen circumstance and human error were on the rise over the 2017 survey, rising 8 percent and 10 percent, respectively. Poor control design dropped 5 percent from the 2017 survey as well.

### Reasons for control failures 2016–2018

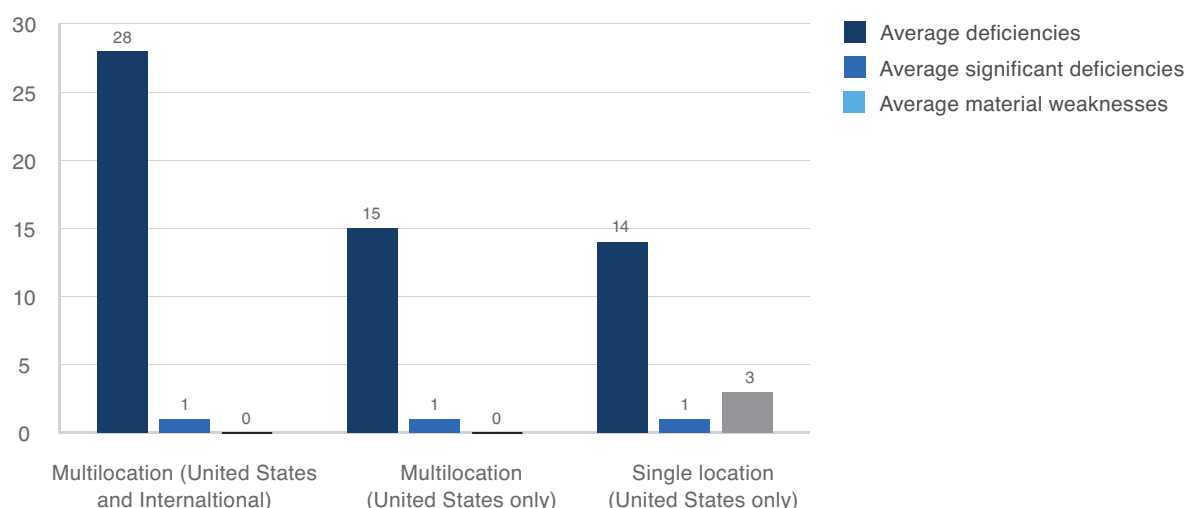


Note: the 2016 and 2017 surveys did not include an "other" response.

Companies with multiple locations operating exclusively in the United States reported nearly the same number of control deficiencies on average as companies with only one U.S. location. International companies reported more control deficiencies on average than U.S.-based companies.

Single-location companies in the United States reported the highest average number of material weaknesses. However, multiple and single location U.S. companies on average reported the same number of significant deficiencies.

## Average number of multilocation internal control failures



Survey respondents that perform their internal audit function in-house or co-sourced reported that they had more deficiencies but fewer significant deficiencies and material weaknesses on average. Companies that outsource their internal audit function reported fewer, but more significant deficiencies and material weaknesses.

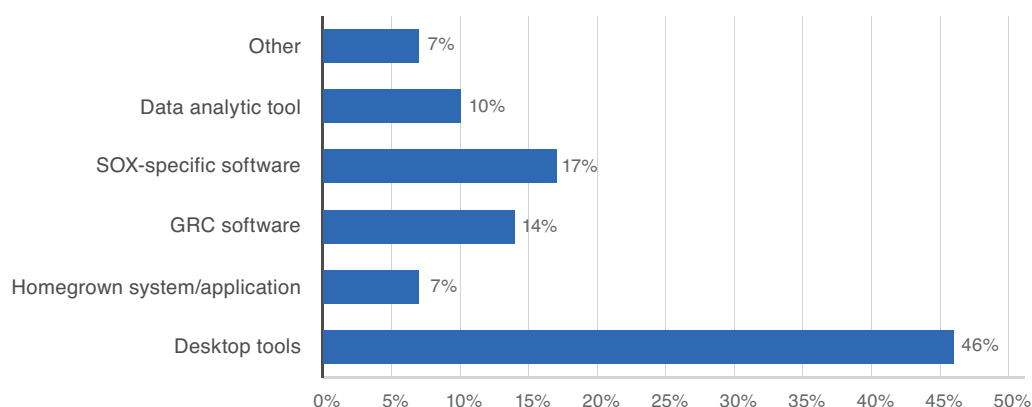
## Number of internal control failure by internal audit model

Internal audit model	Average deficiencies	Average significant deficiencies	Average material weaknesses
Co-sourced	21	1	0
In-house	22	1	0
N/A, not required to be SOX compliant	21	3	2
Outsourced	14	4	9

## ROLE OF TECHNOLOGY

The complexity of the technology used by survey respondents to support their compliance processes varies from purpose-built tools to legacy document and spreadsheet software. Nearly half of survey respondents use desktop productivity tools, and 7 percent use homegrown applications. SOX-specific software applications are used by 17 percent of survey respondents, and 14 percent report using GRC software.

**What is the primary technology tool you utilize to support your company's SOX/IC process?**  
(Please select all that apply.)



For the first time, 2018 survey respondents were asked about their use of Continuous Control Monitoring (CCM). 63 percent of respondents are not familiar with CCM, responded “other,” or did not respond to the question, while only five percent have implemented CCM.

**Do you currently use or have you considered using Continuous Control Monitoring (CCM) within your SOX program?**

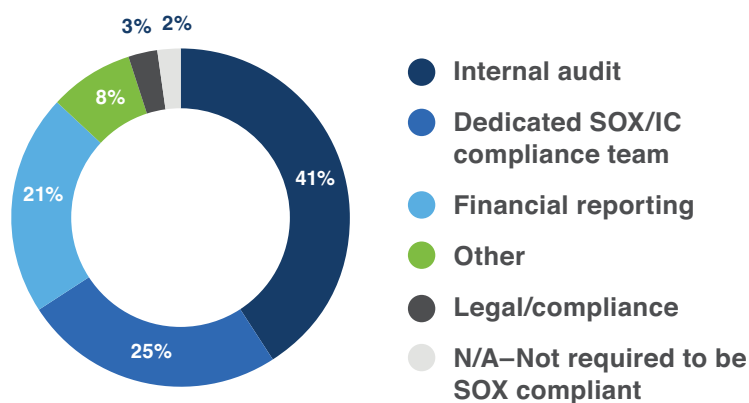
Use or consideration of CCM in SOX program	Number of survey respondents
Implemented CCM	26
Considering CCM	174
Not familiar with CCM	102
Other/no response	237

## INVOLVEMENT OF INTERNAL AUDIT

For 87 percent of survey respondents, distribution of functional ownership of the SOX and internal control process is assigned to the internal audit, SOX compliance, or financial reporting teams. This is an increase from 70 percent reported in the 2017 State of the SOX/Internal Controls Market Survey.

More than 40 percent of 2018 survey respondents reported that SOX/IC compliance is handled by their internal audit team, which is an increase from 36 percent in 2017 and 31 percent in 2016. Financial reporting handles SOX/IC compliance in 21 percent of respondent companies, which is a slight increase compared with 20 percent in 2017 and 29 percent in 2016. Legal handles 3 percent of SOX/IC compliance, which also represents a slight increase compared with 2017 and 2016 results.

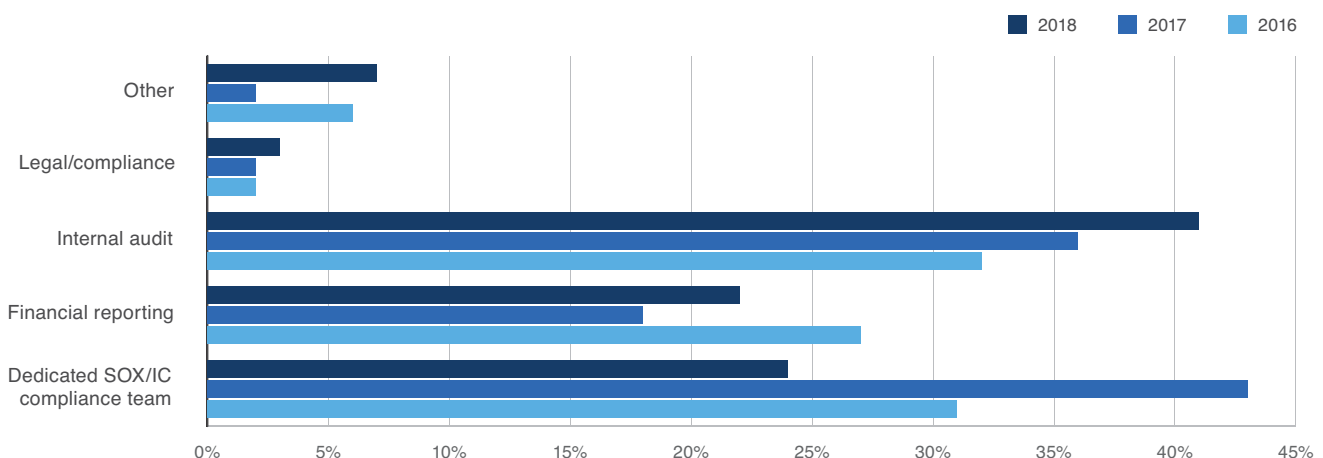
## Who handles SOX/IC compliance in your organization?



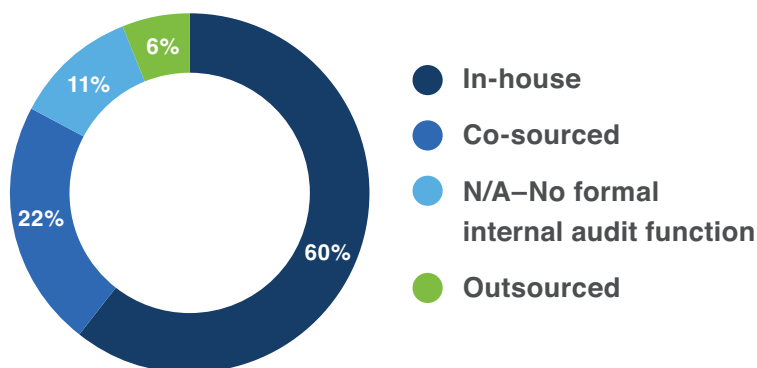
About 25 percent of respondents report a dedicated SOX/IC compliance team, which is a decrease compared with 43 percent in 2017 and 31 percent in 2016.

The remaining survey respondents either didn't know who in their organization is responsible for SOX/IC compliance or they are exempt from SOX compliance.

## Three-year comparison of who handles SOX/IC compliance



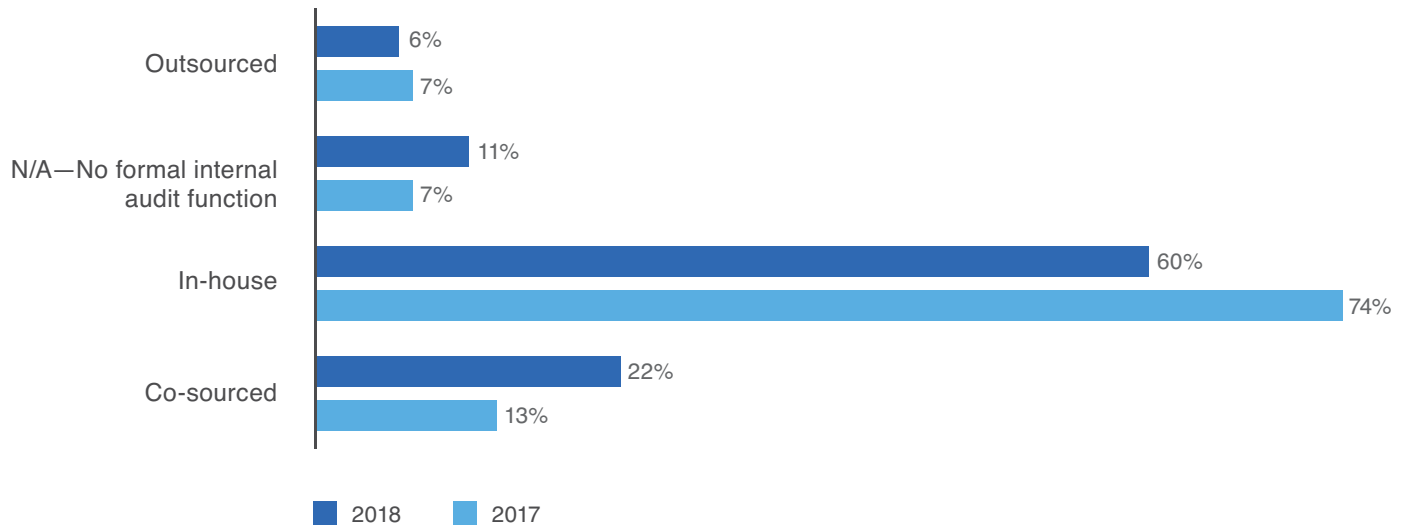
## What is your internal audit model?



60 percent of survey respondents reported an in-house internal audit model, which is a decrease of more than 10 percent compared with the 2017 State of the SOX/Internal Controls Market Survey survey results.

Survey respondents with a co-sourced internal audit model increased about 10 percent compared with 2017 survey results. Six percent of respondents outsource the internal audit function, and 11 percent report no formal internal audit function.

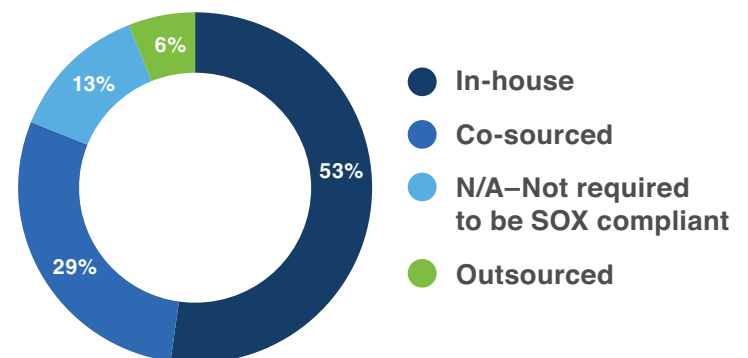
## Internal audit model — 2017 vs. 2018



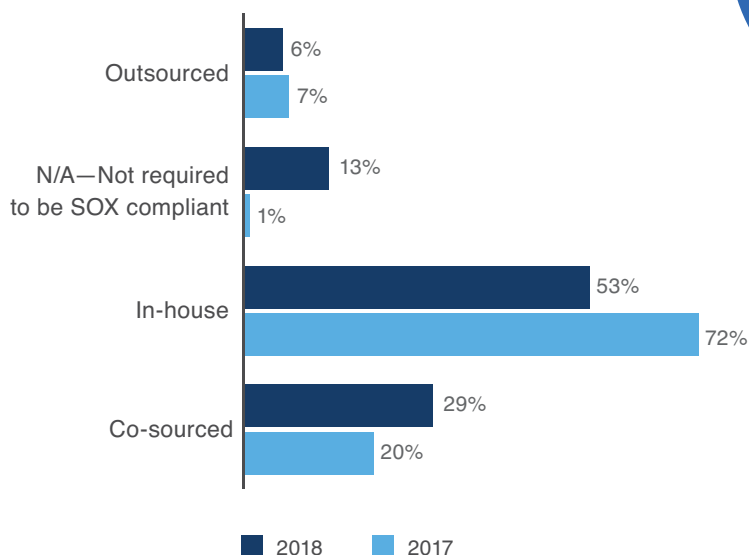
## ROLE OF CO-SOURCE AND OUTSOURCE PROVIDERS

When asked who performed SOX compliance functions, 53 percent of survey respondents reported that the work is done in-house. This is a decline from 70 percent reported in the 2017 State of the SOX/Internal Controls Market Survey. Those reporting a co-sourcing model increased to 29 percent in 2018, from 20 percent in 2017. 6 percent of respondents outsourced SOX compliance in 2018, which is a slight decrease from 2017. The remaining 13 percent of respondents are exempt from SOX compliance.

### What is your SOX compliance model?

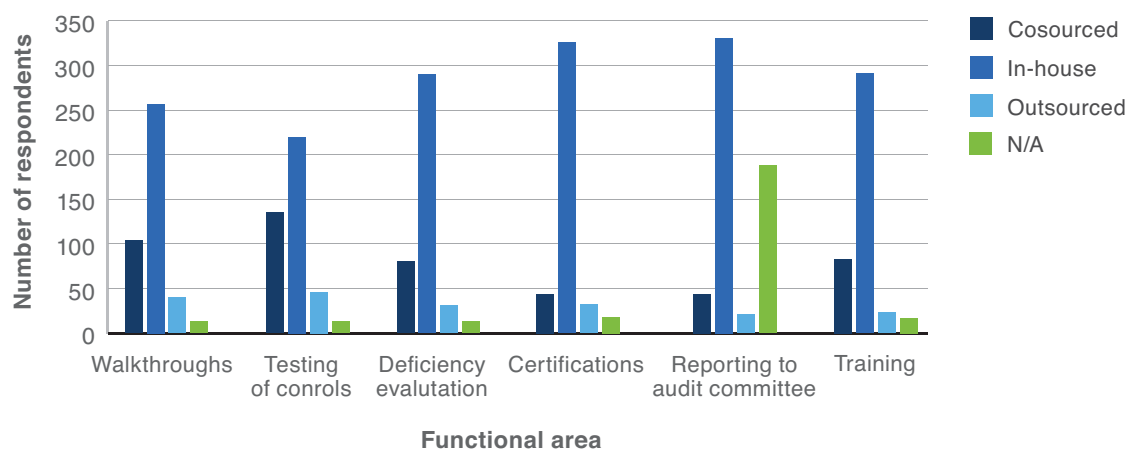


## SOX compliance model — 2017 vs. 2018



Respondents were asked what specific SOX compliance activities were performed in-house co-sourced, or outsourced. The top in-house function was reporting to the audit committee, while the top co-sourced function was the testing of controls.

## How are the following functions performed for SOX/IC compliance?



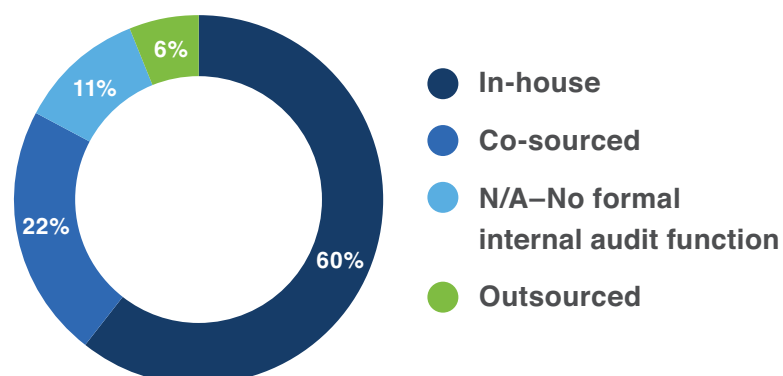
## INTERNAL AUDIT MODEL

Survey respondents who performed internal audit in house in 2018 reported an average number of 23 full-time internal audit employees on staff, compared with 6 for companies that co-source their internal audit function.

## How many full-time employees are on your internal audit team?

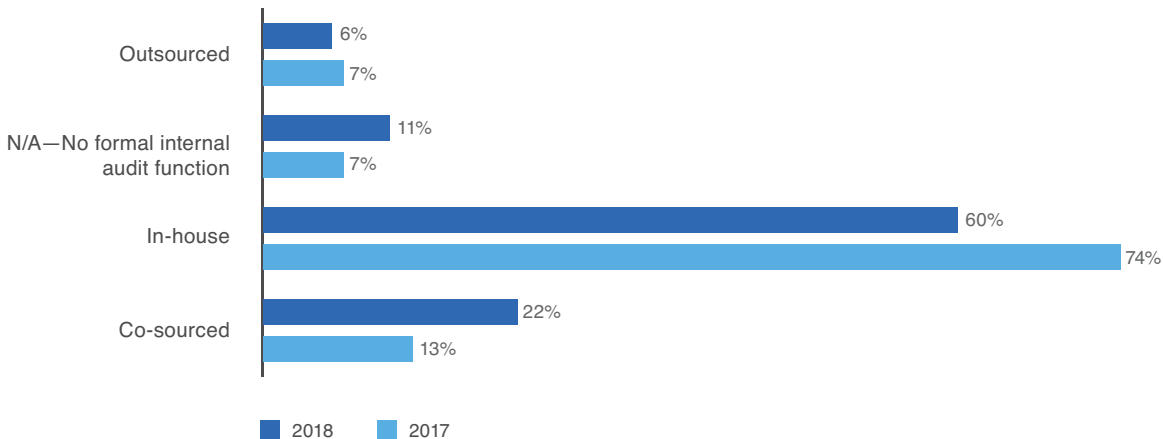
Internal audit model	On average, how many full-time employees are on your internal audit team?
In-house	23
Co-sourced	6
Outsourced	2

## What is your internal audit model?



60 percent of survey respondents reported an in-house internal audit model, which is a decrease of more than 10 percent compared with results from the 2017 survey. Respondents with a co-sourced internal audit model increased about 10 percent compared with 2017 survey results.

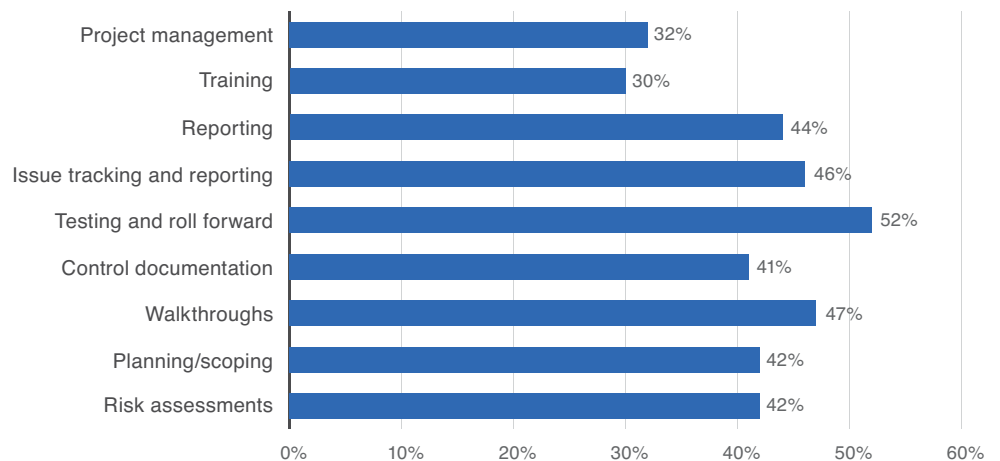
## Internal audit model: 2017 vs. 2018



The level of overall involvement on the part of internal audit in SOX and internal control functions generally increased compared with results from the 2017 survey.

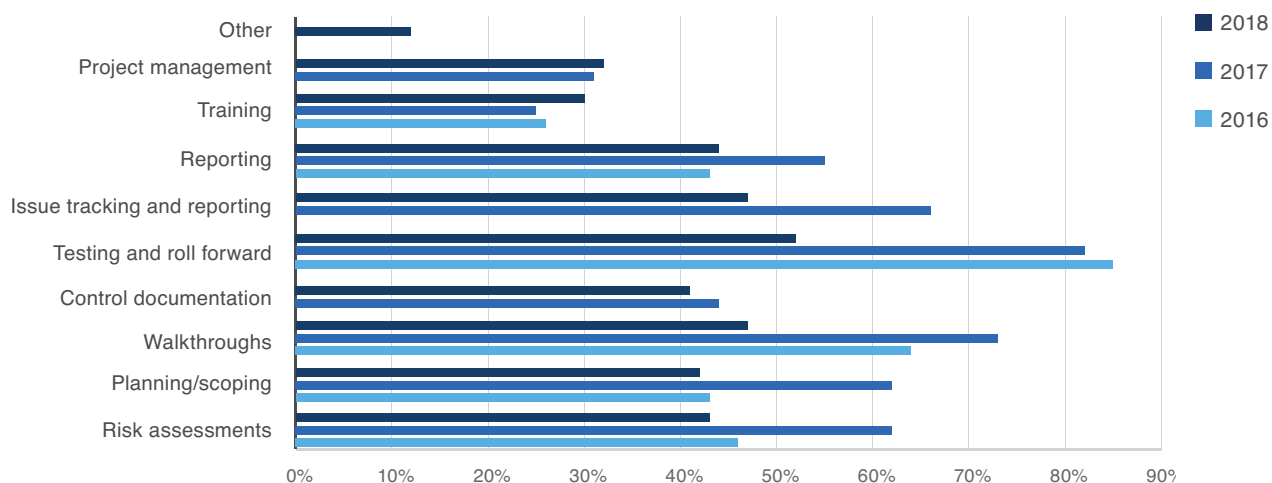
Internal audit is less involved in planning and scoping and risk assessment, seemingly contrary to the increase in the number of companies that reported internal audit handles SOX/IC compliance.

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



Survey respondents reported that the areas of most involvement by internal audit in SOX/IC activities were 52 percent in testing and roll forwards, 47 percent in walkthroughs, and 46 percent in issue tracking and reporting.

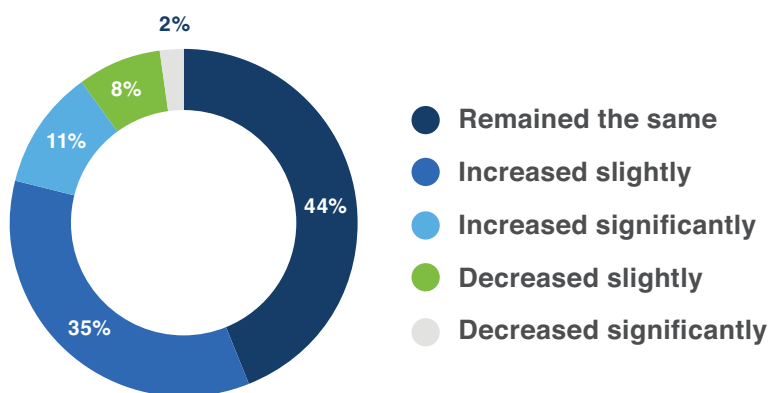
## Internal audit involvement with SOX/IC compliance: three-year comparison



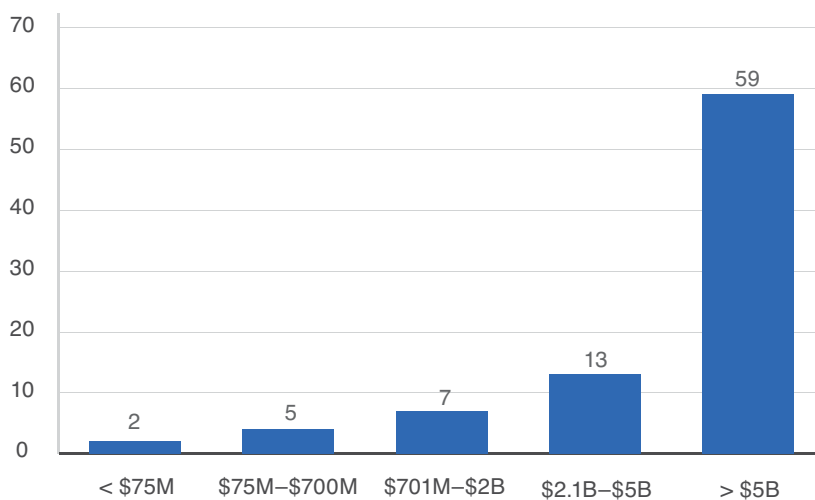
## COST OF COMPLIANCE

A series of questions were posed to survey respondents targeting the cost of compliance in their organizations over the past year. 44 percent of survey respondents reported overall compliance costs remained the same. This is despite the demands created on the internal control environment by new accounting standards for revenue recognition and lease accounting, and the Tax Cuts and Jobs Act in late 2017. Another 35 percent of respondents reported only slight increases in the costs of compliance. Of the remaining survey respondents, 10 percent reported decreases in compliance costs, and 11 percent reported a significant increase.

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



### Average number of auditors on staff by annual revenue



The average and median number of full-time audit staff reported by survey respondents correlates with company revenue. Survey respondents from companies larger than \$5 billion in revenue reported an average of full-time audit staff of nearly 60, with a median of 35. Survey respondents from companies with less than \$2 billion in revenue reported an average full-time audit staff of five, with a median of three full-time audit team members.

### Median number of auditors on staff by annual revenue

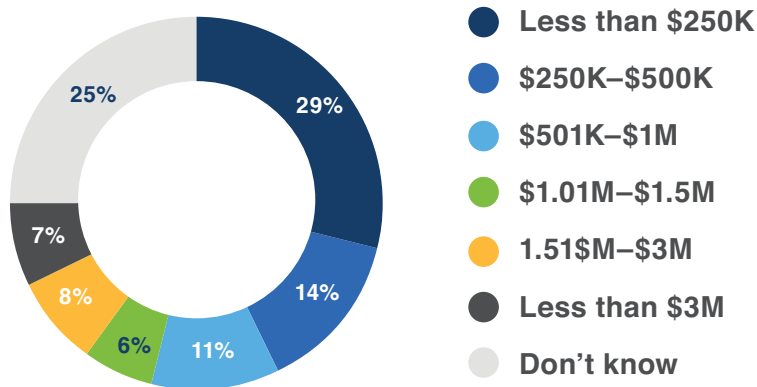
Revenue	Median number of auditors on staff
Less than \$75M	1
\$75M–\$700M	3
\$701M–\$2B	5
\$2.1B–\$5B	9
Greater than \$5B	35

Broken down by industry, the average number of full-time audit staff members varies. The retail trade industry has the highest average number of auditors on staff, followed by public administration, finance, accommodation, and health care.

### Average number of auditors by industry

Industry	Average number of auditors
Retail trade	24.1
Public administration	18.7
Finance, insurance	16.6
Accommodation, food service	15.1
Health care	14.5
Other	11.9
Wholesale trade	11.8
Waste management	7.5
Transportation, warehousing	6.2
Information	6.1
Manufacturing	5.8
Mining, quarrying, oil, gas	5.2
Utilities	4.8
Arts, entertainment, recreation	3.7
Management of companies	3
Professionals, scientific, technical services	2.5
Construction	2.4
Educational services	2.3
Real estate, rental, leasing	1.7
Agriculture, forestry, fishing, hunting	0

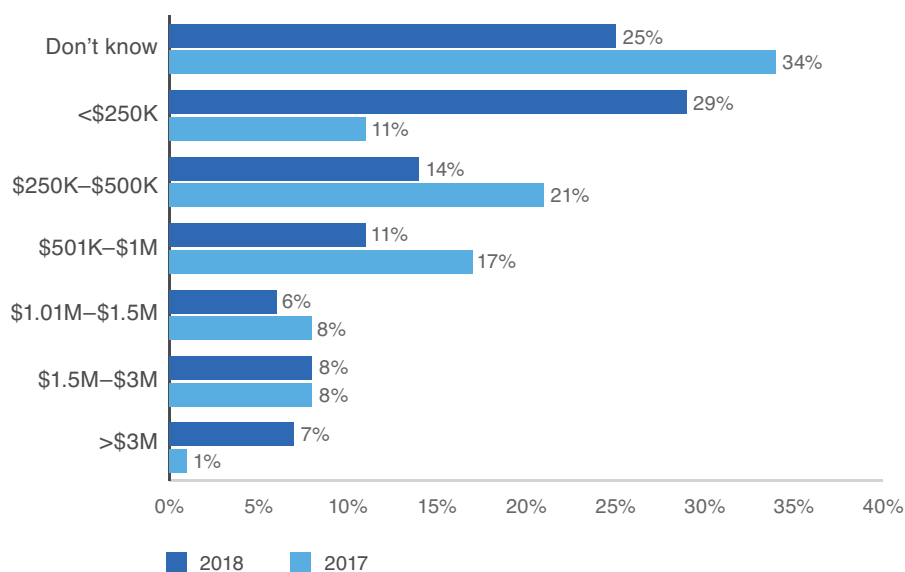
## Amount spent annually on SOX/IC compliance



In response to questions about annual spending on SOX/IC compliance, 29 percent of survey respondents reported spending less than \$250,000 annually. Another 14 percent of respondents reported spending between \$250,000 and \$500,000, and 11 percent reported spending between \$501,000 to \$1 million. Another 14 percent report spending between \$1 million and \$3 million. Only 7 percent of respondents spent more than \$3 million on compliance costs, while the remaining 25 percent reported they did not know their organizations' annual compliance expenses.

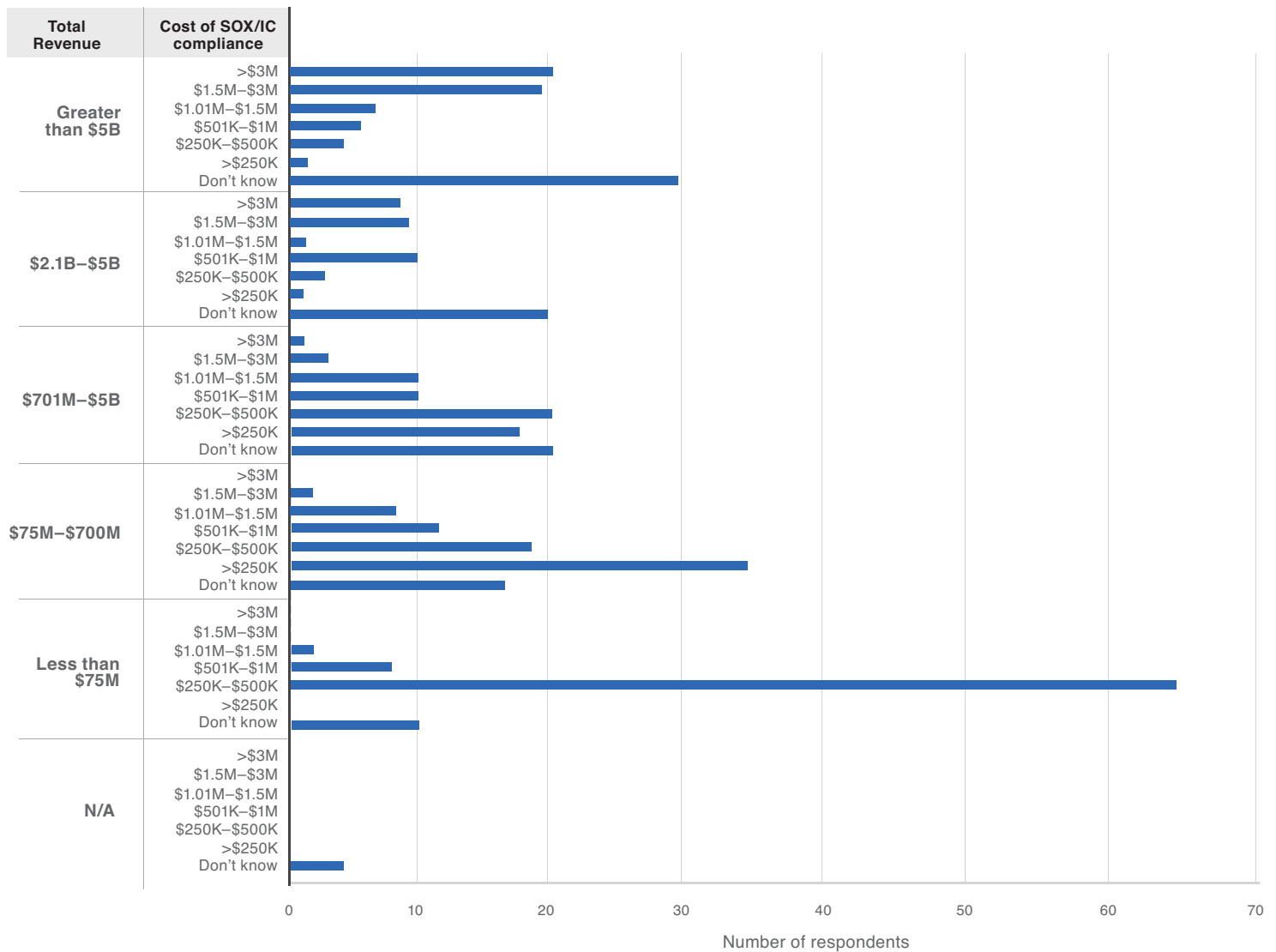
The 2018 survey results indicate a significant increase in respondents who reported spending less than \$250,000 on SOX/IC compliance.

## Amount spent on SOX/IC compliance: 2017 vs. 2018



In general, the amount a company spends on SOX/IC compliance correlates with its annual revenue.

## Amount spent annually on SOX/IC compliance, organized by annual revenue



## CHALLENGES AND PRIORITIES

Survey respondents in 2018 reported their top two priorities, on average, are to improve the efficiency of the SOX function and to identify control requirements for new accounting policies related to revenue recognition, lease accounting, and corporate taxes.

Similar to averages, cyber and IT controls, changing requirements from external audit, and changes in accounting policy were the top three challenges listed as the number one concern by survey respondents.

## What are the most significant SOX/IC compliance challenges that your organization expects for the year ahead?

Challenge	Average score On scale of 1–10, with 1 being most important	Number of companies that listed challenge as their top concern
Focus on cyber and IT controls	3.7	61
Change in accounting policy (revenue recognition, lease accounting, and tax)	3.7	54
Changing requirements from external audit	4.6	56
Replacement of legacy technology	4.8	45
Cost of resources	5.0	24
Increased focus on risk management	5.1	28
Shortage of skilled resources	5.3	25
Control language is dated or obsolete	5.8	18
Insufficient support from management	6.7	16

On average—with a small margin extending across the top five responses—the most important priorities for the year ahead for survey respondents are improving the efficiency of the SOX function in their organizations and increasing the focus on cybersecurity and IT controls. The two least important priorities are enhancing risk management capabilities and strengthening organizational relationships.

In a divergence from the average, ensuring compliance with SOX, improving efficiency of the SOX function, and replacing legacy technology were the top three challenges listed as the number one priority by survey respondents.

## What are your organization's top priorities for the year?

Priority	Average Score On scale of 1-10, with 1 being most important	Number of companies that listed item as their top priority
Improve efficiency of the SOX function	4.2	50
Increasing focus on cyber security and IT controls	4.4	37
Ensure compliance with SOX and other regulators	4.5	71
Perform control optimization	4.6	28
Identify control requirements for new accounting policies (revenue recognition, lease accounting, and tax)	4.7	39
Replace legacy technology with new systems	5.4	44
Build on talent and skills	5.6	21
Reduce/enhance organization's risk management capabilities	5.6	12
Strengthen organizational relationships (audit committee, board, external auditors, management, etc.)	6.0	17

## CONCLUSION

Our third consecutive State of the SOX & Internal Controls Market survey indicates that the compliance process continues to evolve and be shaped by technology and regulation.

There is no standard, one-size-fits-all approach for managing SOX compliance or internal controls. Compliance demands vary by industry, size, revenue, and the number and location of business operations. Yet three years of survey results reveal that companies are evolving their compliance and internal control processes and maintaining some measure of control over compliance costs and headcount while remaining responsive to regulatory change.

Compliance functions require a significant investment in staff and budget. Many companies are gaining greater efficiency and control over their compliance function through smart, purpose-built technology, supplementing in-house staff with co-sourcing partners, and simplifying their compliance processes.

Sarbanes-Oxley was created to improve the quality and reliability of the processes and controls over financial reporting. The risks associated with compliance and control failures are too costly in this age of regulatory scrutiny, transparency, and activism from all quarters of society.

## ABOUT THE SOX & INTERNAL CONTROLS PROFESSIONALS GROUP

The SOX & Internal Controls Professionals Group is a community of professionals who are actively involved with SOX, internal control, and internal audit processes. By joining, members of the SOX & Internal Controls Professionals Group:

- Gain industry knowledge and practical application of best practices
- Grow their network of SOX, internal control, and internal audit professionals with fellow community members
- Garner the resources they need to help them excel at their positions
- Increase their value and influence across their organizations

If you are actively involved with SOX, internal control, or internal audit processes, this group is for you. There is no charge to become a member. Visit [soxprofessionalsgroup.org](http://soxprofessionalsgroup.org) for more information.

## ABOUT EISNERAMPER

EisnerAmper LLP is one of the largest accounting firms in the U.S., with nearly 1,500 employees and 180 partners across the country. Its services include comprehensive audit, accounting, advisory, consulting, and tax services and smart, analytical insight delivered in an approachable style.

## ABOUT WORKIVA

Workiva is a leading provider of enterprise cloud solutions for data collaboration, reporting, and compliance. More than 3,000 organizations worldwide, including companies of all sizes, government agencies, and educational institutions, trust our cloud platform to improve productivity, connect data, and gain confidence in their data-driven decisions. For more information about Workiva (NYSE:WK), please visit [workiva.com](http://workiva.com).