The background is a blue-tinted collage of business-related images. It includes hands pointing at various documents, some labeled 'FINANCIAL REPORT' and 'NEWS'. There are also line graphs, bar charts, and a smartphone visible. The overall theme is professional and data-driven.

# 2020

# State of the SOX/Internal Controls Market Survey

**workiva**

**SOX** **PRO**

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# Introduction

## Dear Colleagues,

What a difference a year makes. This is the fifth year that the SOX & Internal Controls Professionals Group and Workiva have surveyed the market to assess how companies are managing their Sarbanes-Oxley (SOX) function. Our goal has always been to generate hard data for SOX/IC professionals to use in benchmarking their risk and compliance programs.

The 2020 SOX/Internal Controls Market Survey was conducted as the COVID-19 pandemic began. While the crisis upended the world, the biggest news in accounting controls and compliance was the recent collapse of Wirecard, a German fintech company.

The company's five-year saga is a story of risk management, compliance, and audit failure on a global scale.

Both the COVID-19 crisis and the Wirecard story underscore the value of the SOX function and the commitment of the professionals who keep their organizations informed and protected from financial reporting risk. This sentiment also is reflected in the survey results: two-thirds of respondents indicate organizational leadership highly values the SOX and internal controls program.

Against this backdrop, monitoring and analyzing SOX market trends has never been more relevant.

Improving efficiency in the SOX function was the strongest theme throughout this year's market survey—through survey questions and write-in comments, it broke out as the top priority for SOX/IC practitioners in 2020.

That said, improving efficiency in any business process takes the right combination of people, process design, and technology. Generally, over time, repeated processes become more efficient, but this hasn't always been the case for SOX and internal controls. For example, one-third of survey respondents report that they spend more than half their time on SOX.

Survey responses indicate that practitioners will focus on reducing the complexity of internal controls processes in the upcoming year. Optimizing control scoping, testing, and deploying automated control monitoring can contribute to improving the accuracy and quality of internal controls, which, in turn, could help to reduce the amount of time spent on manual testing.

The technology that practitioners use also plays a role in efficiency. More than half of the market uses a SOX-specific software technology tool to execute their SOX compliance program. More than half also are considering adopting continuous controls monitoring (CCM). Yet, for one-third of the market, spreadsheets and desktop publishing tools anchor the SOX compliance program.

The high-risk landscape created by COVID-19 and the emphasis on efficiency makes this the right time to consider the benefits of connected reporting and compliance through a centralized, cloud-based platform. Automating repeatable, reliable processes that gather data reduces risk. Risk analysis is transformed by stronger, more trustworthy, and more accurate data. Teams can collaborate on documents, spreadsheets, and presentations to create high-quality reporting that creates clarity and value for the audit committee, board of directors, and other stakeholders.

Connected data improves accuracy, saves time, and creates value for the entire organization. Seeing past the immediacy of remote readiness and creating an agile and resilient internal controls and compliance function necessitates this.

The SOX/IC professional who can meet these challenges will create new opportunities for high-performance risk management, which in turn, creates value across the entire organization and enables accurate financial reporting, strong corporate governance, and adherence with regulatory compliance.

**Sincerely,**

**Hillary Eckert**

*Vice President of Product Marketing*  
Workiva





## II.

# Executive Summary

For the fifth consecutive year, the SOX & Internal Controls Professional Group and Workiva surveyed the market for insights about the costs, execution, and challenges of complying with Sarbanes-Oxley (SOX).

The survey was conducted online between March and April of 2020, just as the impact of the COVID-19 pandemic began to unfold across the United States. Despite the timing and the circumstances, 428 SOX professionals responded to the survey, a decline from 475 respondents in 2019.

The 2020 State of the SOX/IC Market Survey findings reflect the experience of SOX professionals over time. Survey contributors represent various levels of process maturity and process complexity, and reflect a balanced perspective of the current state of SOX and internal controls management.

### Key Findings from the 2020 State of the SOX/IC Market Survey

#### **C-suite places a high value on SOX program.**

For the first time, the survey probed for perceptions about organizational leadership's view of their company's SOX program. Two-thirds of survey respondents believe that their organization's leadership views the SOX program as of high or very high value. In an environment where risk is increasing due to process complexities and increasing organizational scale, a congruent view of the SOX program by both corporate leadership and SOX practitioners ensures that SOX has the institutional capital to thrive and be effective.

#### **Efficiency, cybersecurity, and regulatory compliance reign.**

The top three priorities for SOX professionals in the coming year are to improve the efficiency of the SOX program, increase the focus on cybersecurity and IT controls, and ensure compliance with SOX. The amount of time SOX professionals spend managing disconnected pieces of data is a driver for prioritizing the efficiency of the SOX function.

#### **Professionals are optimizing SOX to add value.**

SOX/IC professionals intend to focus on optimizing SOX control processes as a strategy to add value to their programs in the year ahead. The top three areas of value-add focus are: improving control selection and related testing strategies, control rationalization to reassess and reduce the number of SOX controls, and control automation. Combined, these areas of focus can contribute to the goal of increasing efficiency in SOX execution, which in turn would free up valuable staff time to work on analysis and value-add activities.

#### **No single technology stands out.**

On the whole, the adoption of advanced technology tools is a mixed bag. The survey reflects widespread use of software tools designed specifically to manage SOX and GRC. Many of these tools include advanced features like data visualization and some automation. By contrast, one-third of the market continues to use spreadsheets and desktop tools to manage SOX. Despite the fact that SOX compliance has been required for more than 15 years, professionals may never unanimously adopt SOX compliance software—spreadsheets and desktop tools will be the default for smaller public companies that need to meet SOX compliance.

### III.

## Survey Demographics

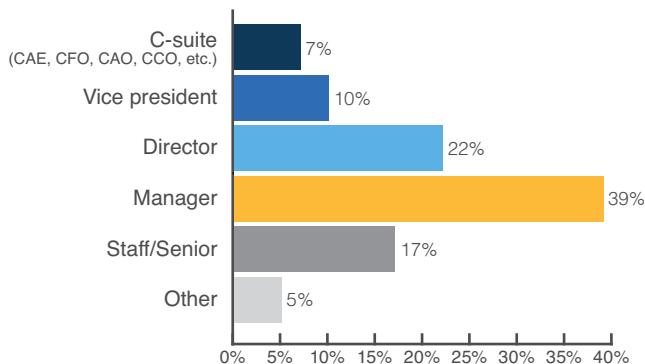
Survey respondents are in roles that include planning and executing SOX and internal controls programs. They represent a diverse range of industries and company size, from \$75 million to \$5+ billion in annual revenue.

The views of senior management are represented by C-suite- and vice president-level contributors, who account for 17% of this year's survey respondents compared to 14% in 2019.

The survey also documents the prevalence of SOX compliance in the private sector: one-quarter of survey respondents identify themselves as non-public companies, and 22% of these identify as private companies. There are two key reasons for private companies that are non-SEC registrants and thus not required to comply with SOX regulations to have SOX compliance programs: (i) they issue publicly traded debt, which requires the issuer to have controls over financial reporting; (ii) they are pre-IPO or have aspirations to go public and hence have implemented SOX programs in anticipation of a public listing.

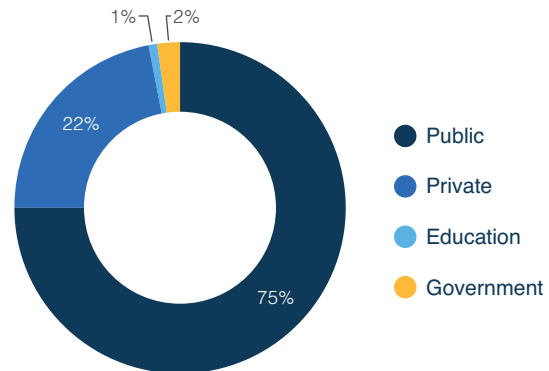
Private capital investors, bank lenders, and nonfinancial regulators take into consideration private companies' risk management practices as part of their due diligence process. For the private company, SOX risk management—particularly related to technology, cybersecurity, and privacy compliance—offers some assurance to these stakeholders.

#### How would you describe your role?

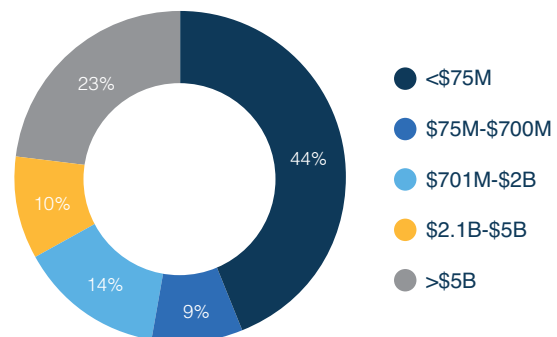


The number of respondents from organizations that generated less than \$75 million in revenue increased from 16% to 44% in 2020. The number of respondents who work in organizations that reported more than \$5 billion in annual revenue declined from 26% to 23%.

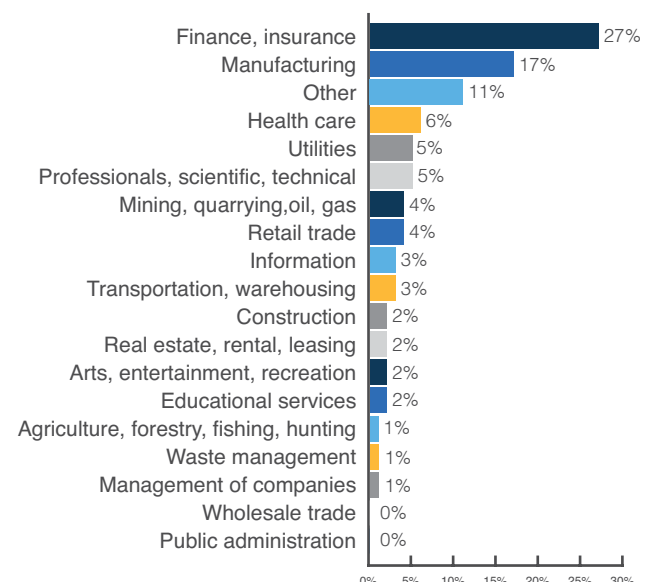
#### What best describes your type of organization?



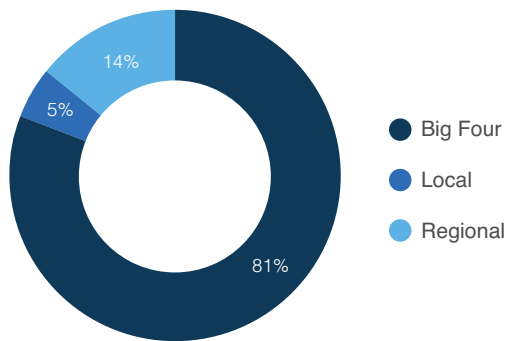
#### What is your organization's last fiscal year revenue?



#### In what industry does your company best fit?



**Select the category that best fits your external auditor.**



The two most represented industries are finance and insurance and manufacturing, which is unchanged from the 2019 survey.

The Big Four audit firms continue to dominate the field of external auditors used by the companies in which survey respondents are employed. More than 80% of respondents report using the Big Four, while 14% use regional auditors and 5% use local auditors.

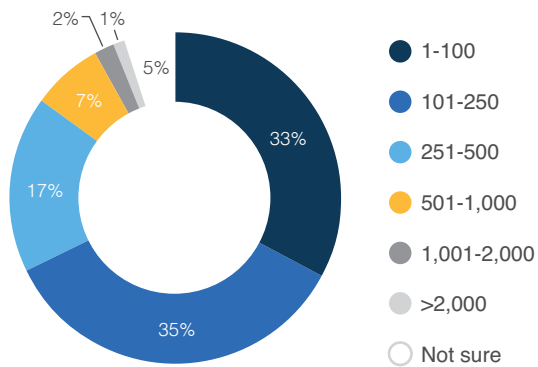
## IV.

# Quantifying Processes, Controls, and Compliance

## SOX/IC MANAGEMENT IS DOMINATED BY BUSINESS PROCESS CONTROLS

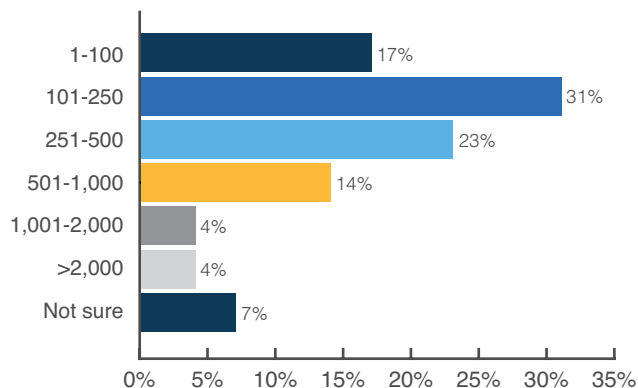
In 2019, our survey focused on the control category, and we continued that same focus in 2020. We asked respondents to break down their controls into entity-level controls, information technology general controls, and business process controls. A dominant portion of controls were business process controls.

### Of your key controls, how many fit into the business process category?

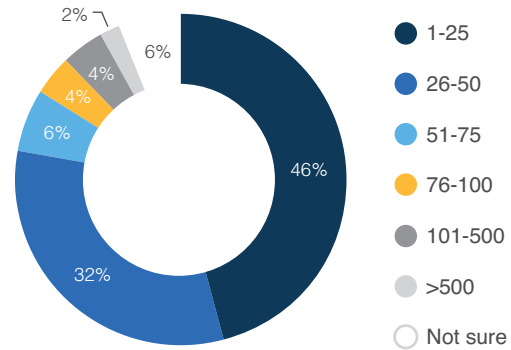


Almost half of respondents report that their organizations manage fewer than 250 key controls. 17% manage fewer than 100 controls compared with 22% in 2019. 31% report managing between 101 and 250 key controls, an increase from 26% in 2019. Only 4% of respondents report that their organizations manage more than 2,000 controls, a slight decrease from 5% in 2019.

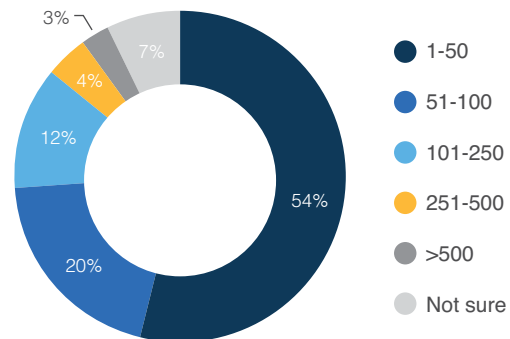
### What is the total number of key/tested controls annually?



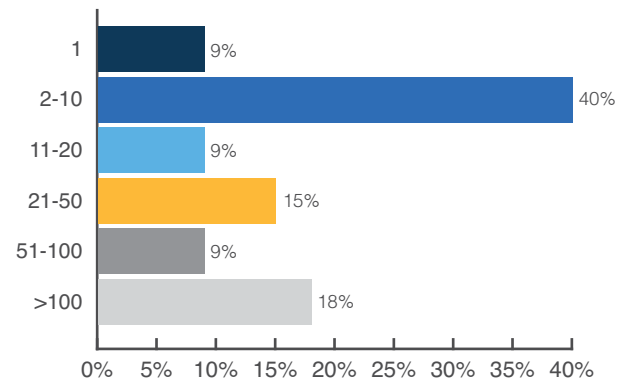
### Of your key controls, how many fit into the entity-level category?



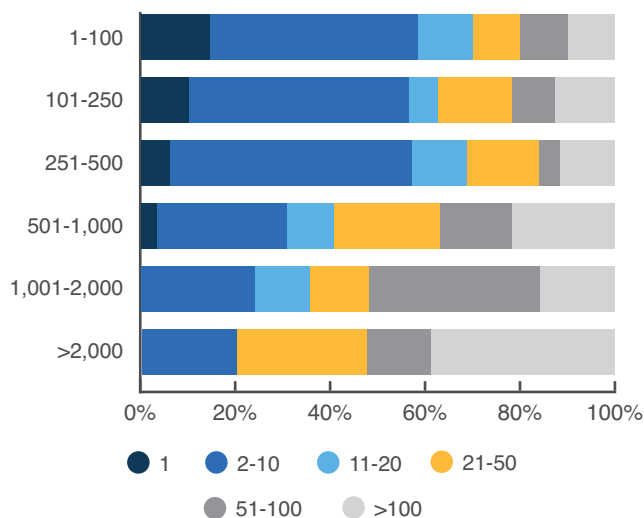
### Of your key controls, how many fit into the ITGC category?



### How many total locations does your organization have?

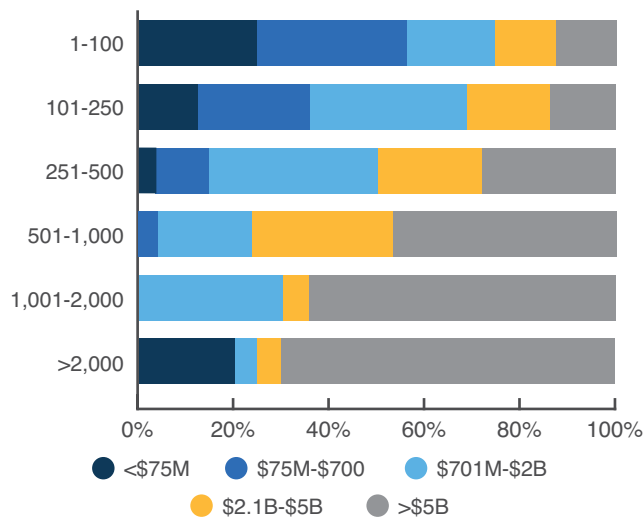


## Number of internal controls vs. number of locations

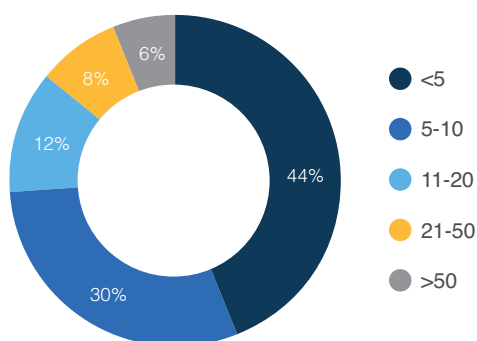


There is a correlation between the number of controls and the size of the company's revenue. Half of the respondents who reported 1–100 internal controls are from organizations with less than \$700 million in revenue. Conversely, almost 70% of the respondents who reported more than 2,000 controls come from organizations with more than \$5 billion in revenue.

## Number of internal controls vs. revenue

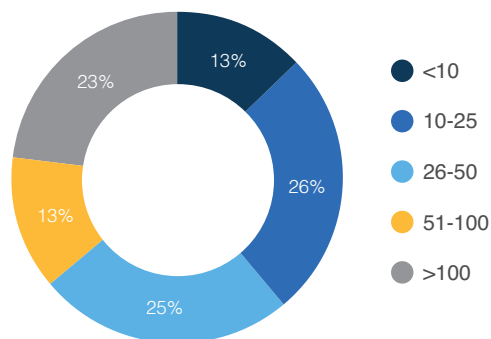


## How many people are on your SOX testing and validation team?

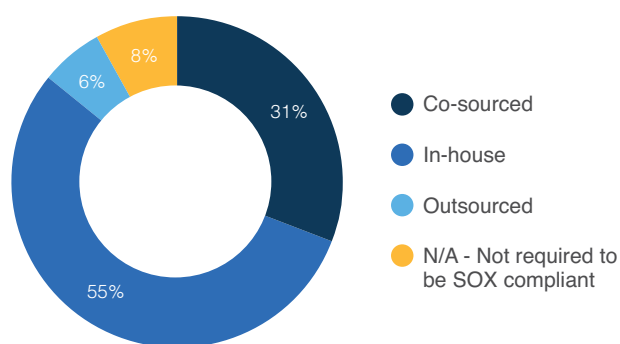


Overall, internal testing and validation teams grew compared to last year's survey. The number of survey respondents with five or fewer people on their SOX testing and validation team declined to 44% from 50% in last year's survey results. Respondents who reported teams between 5 and 10 people increased to 30% from 27% last year, teams of 11 to 20 people stayed the same at 12%, and teams between 21 and 50 people increased to 8% from 7% last year. Teams of 50 or more increased to 6% from 4% in 2019.

## How many process/control owners are in your organization?



## What is your SOX compliance model?



The in-house compliance model increased to 55% from 50% in 2019. 31% reported a co-sourcing model, up from 29% in 2019. 6% of the respondents outsource SOX compliance, up from 5% in 2019. Combined with an increase in the size of testing teams, the results suggest that companies are investing in in-house staff.

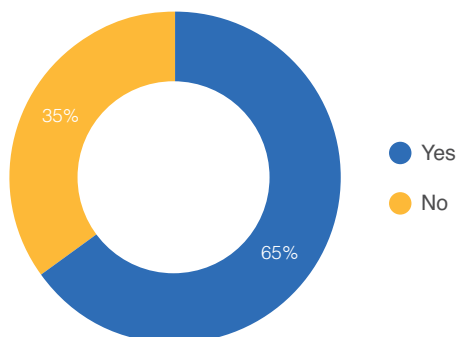


# V.

## Control Failures

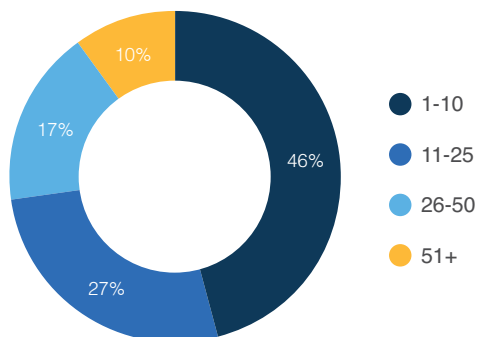
### CONTROL DEFICIENCIES PERSIST

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



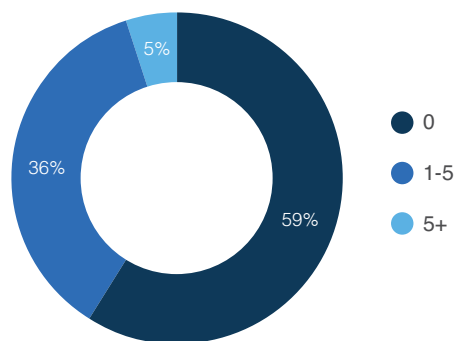
In 2020, 65% of respondents reported control issues compared to 61% in both 2019 and 2018.

**How many deficiencies were identified?**



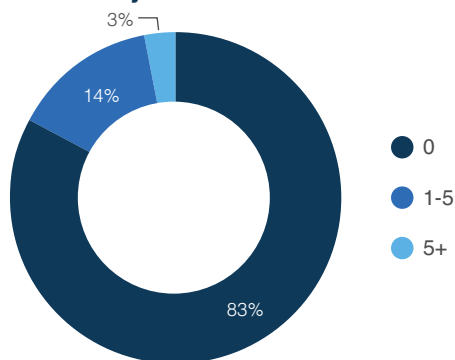
Survey respondents reported sharp increases in the number of deficiencies identified between 1 and 25. 46% of survey respondents report identifying between 1 and 10 control deficiencies, an increase from 34% last year, and 27% report between 11 and 25 control deficiencies, an increase from 16% last year.

**How many significant deficiencies were identified?**



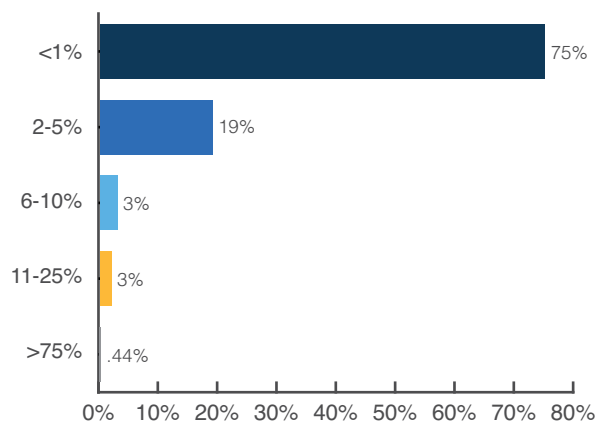
The number of survey respondents who report zero significant deficiencies is 59%, a slight increase from 53% reported in 2019. 36% reported between 1 and 5 significant deficiencies, and 5% reported 5 or more significant deficiencies.

**How many material weaknesses were identified?**



The number of survey respondents who report zero material weaknesses is 83%, an increase from 78% reported in last year's survey. 14% of respondents report between 1 and 5 material weaknesses, a decrease from 18% reported in last year's survey. 3% of survey respondents report identifying more than 5 material weaknesses, a slight decrease from the 4% who reported more than 5 material weaknesses in last year's survey.

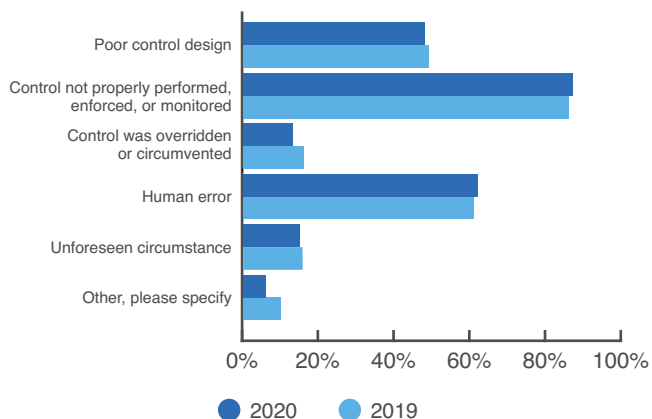
### What was the impact of the deficiencies as an absolute percentage of revenue?



Three quarters of survey respondents report that the impact of control deficiencies was less than 1% of company revenue. Almost 20% of respondents reported an impact between 2% and 5% of revenue. At the opposite end of the range, fewer than 9 respondents reported control deficiencies whose impact was greater than 75% of company revenue.

Similar to previous surveys, respondents identify the same root cause leading to control failures: the control was not properly performed, enforced, or monitored; human error; and poor control design.

### What were some of the causes for control failures?



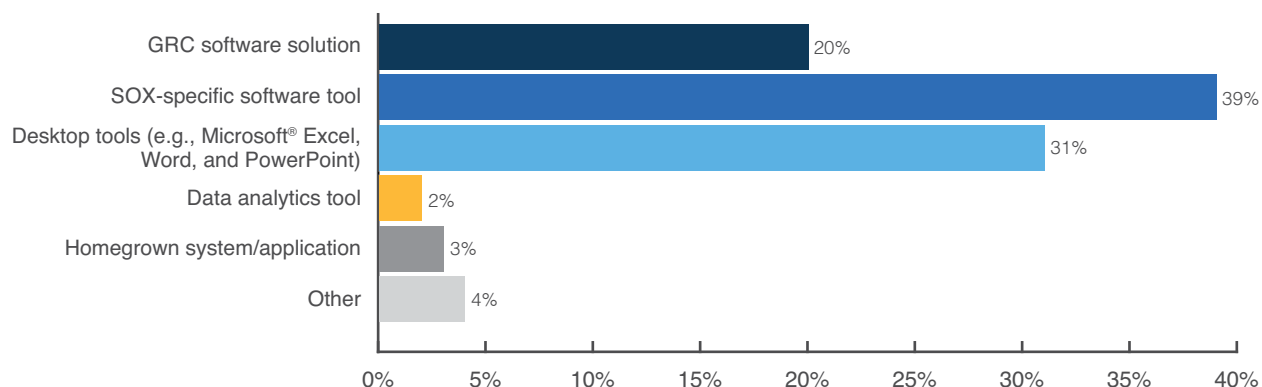
## VI. Role of Technology

### THE MARKET'S USE OF ADVANCED TECHNOLOGIES IS LOW

While the majority of the SOX market uses specialty software to execute and document SOX compliance testing, adoption of analytical tools that help SOX professionals improve their efficiency in the identification of test samples or anomalies within the control processes is less prevalent.

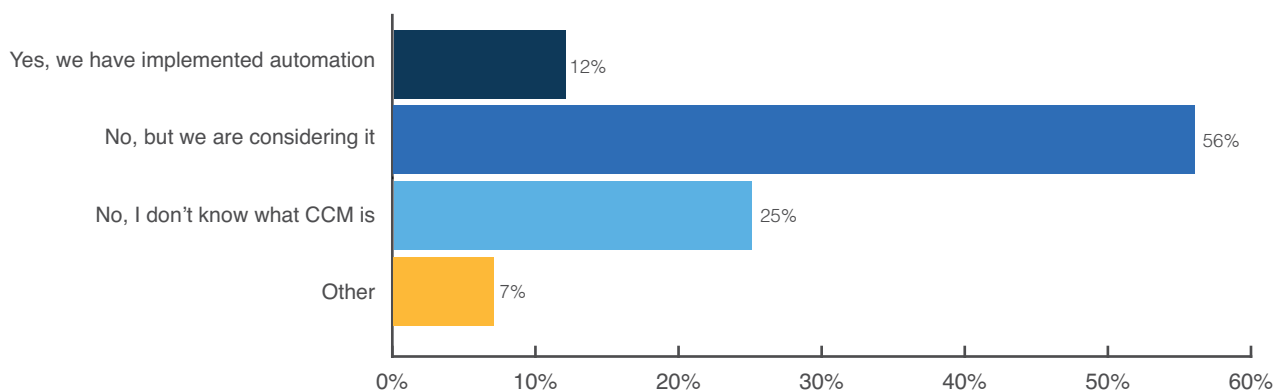
SOX professionals registered a strong interest in using continuous controls monitoring (CCM) in their SOX programs. CCM is typically the initial advent in automation of control testing, and it complements SOX compliance programs by reducing manual controls testing, which in turn, improves overall program efficiency by deploying SOX resources to analyses of findings.

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



Testing management solution software, either GRC broadly or SOX compliance, specifically, is used by close to 60% of the respondents. Almost one-third of the respondents use desktop tools to complete SOX compliance. Spreadsheets and desktop tools are largely the default for smaller public companies that need to meet SOX compliance.

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

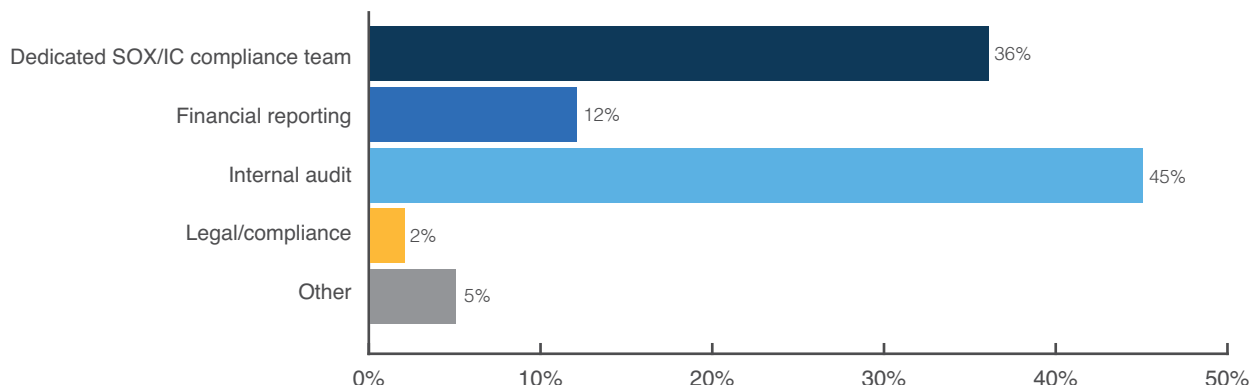


More than half of this year's survey respondents report they are considering adopting CCM, which is a slight increase from 53% reported last year. The number of CCM implementations reported by survey respondents remains unchanged from last year.

## VII. Involvement of Internal Audit

### SOX/IC COMPLIANCE ABSORBS MORE THAN HALF OF INTERNAL AUDIT'S TIME

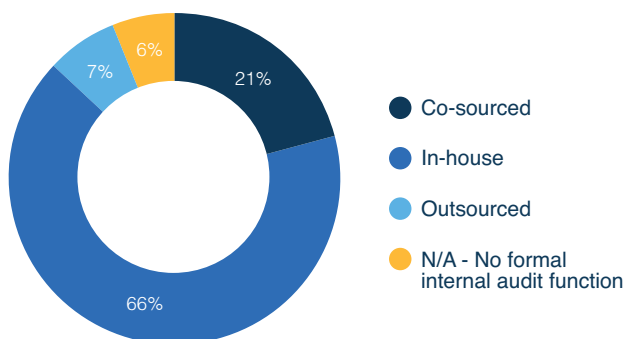
#### What department is in charge of managing SOX/IC compliance in your organization?



45% of respondents identify internal audit as the owner of SOX compliance, which is a slight decline from 46% last year. Additionally, 36% of survey respondents report that financial reporting teams own compliance, which is an increase from 34% last year. This reflects a longer term trend of separating financial reporting from compliance management.

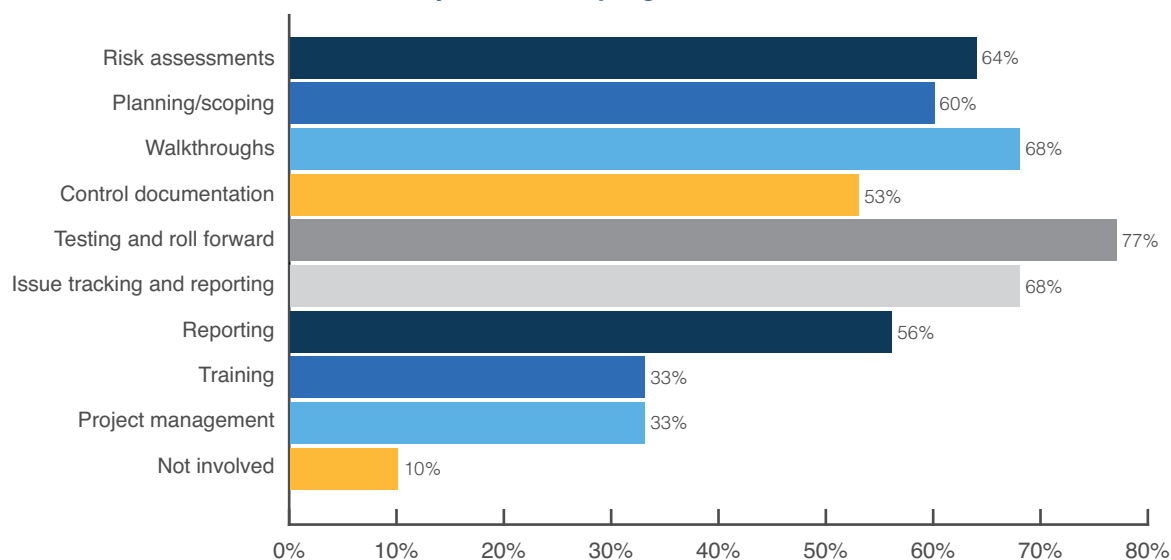
Survey respondents who report an in-house internal audit model is 66%, unchanged from last year. Likewise, those respondents who report a co-sourced model is unchanged at 21%. 7% of survey respondents report that they outsource internal audit, down from 8% in 2019, and 6% of survey respondents have no formal internal audit function compared with 5% last year.

#### What is your internal audit model?



Internal audit (IA) continues to maintain a high level of involvement in the SOX/IC function across the board. 77% of respondents report that IA is involved in testing and roll forward processes, which is the same as in 2019. 68% are involved in walkthroughs, issue tracking and reporting, down from 72% last year. 64% are involved in risk assessment, up from 63% in 2019. Each of these are primary procedures for measuring how well a company manages its internal controls.

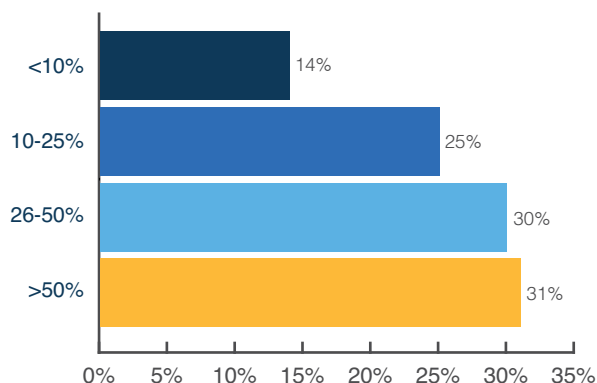
## How is internal audit involved with your SOX/IC program?



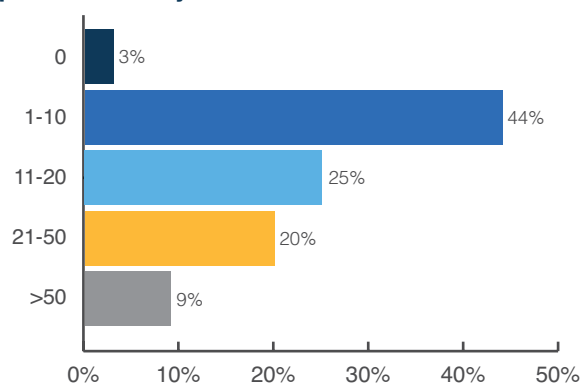
31% of IA teams with SOX responsibility were spending more than 50% of their time on SOX, no change from 2019. Coupled with the data that 44% of these IA teams are only managing 1 to 10 operational audits in addition to SOX indicates that the burden of SOX on IA teams is impinging on assurance reviews.

44% of respondents perform between 1 and 10 audits, compared with 39% in 2019. 25% of respondents perform between 11 and 20 audits compared with 29% last year. 20% report performing between 21 and 50 audits compared with 16% last year, and 9% report more than 50 audits compared with 11% last 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?



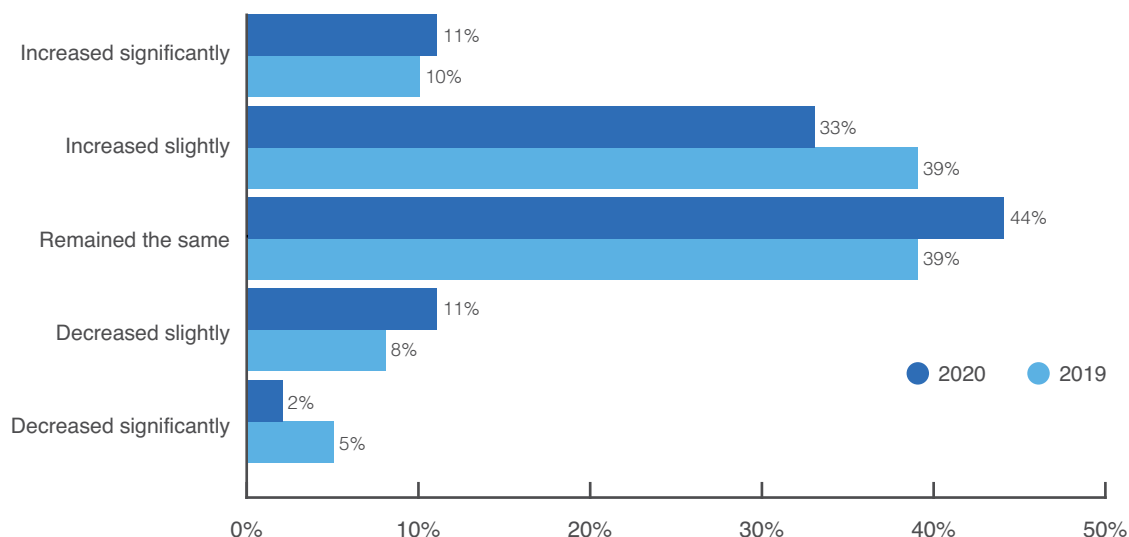


## VIII.

# Cost of Compliance

ALMOST HALF EXPERIENCED AN INCREASE IN THE COST OF COMPLIANCE

**For your previous fiscal year, what change (if any) did you experience in your overall SOX/IC assessment costs?**



A total of 44% of survey respondents report an increase in SOX/IC costs compared with 13% who report a decrease in costs. 44% of survey respondents report SOX/IC compliance costs remained the same.

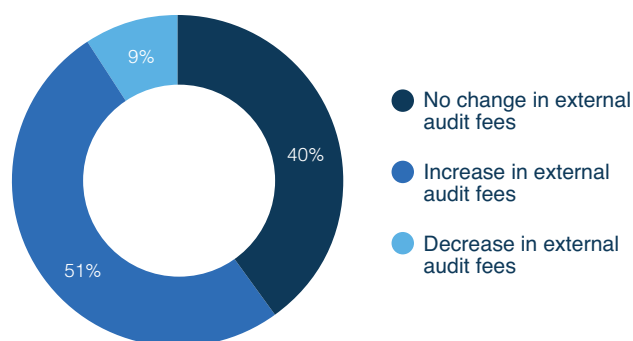
33% of survey respondents report a slight increase in SOX/IC compliance costs compared to 39% last year, while 11% report a significant increase compared to 10% last year.

11% of survey respondents report a slight decrease in SOX/IC compliance costs compared to 8% last year, while 2% report a significant decrease in compared to 5% last year.

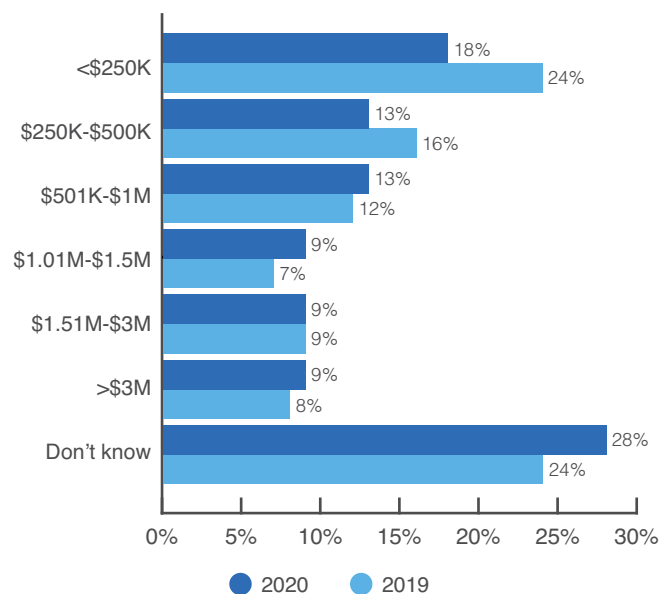
44% of survey respondents report spending less than \$1 million on SOX compliance compared with 52% in 2019. 18% spend less than \$250,000, a decline from 24% in last year's survey. 27% of survey respondents report spending between \$1 million and \$3 million on SOX compliance, an increase from 24% compared with last year.

More than half of survey respondents report an increase in external audit fees, a slight increase from 50% in 2019. 9% report a decrease, unchanged from 2019, and 40% report no change in external audit fees, down from 41% compared with last year.

### For your previous fiscal year, what change (if any) did you experience in your external audit fees?



### What is the company's annual spend for SOX/IC compliance, including any consulting and external audit fees?

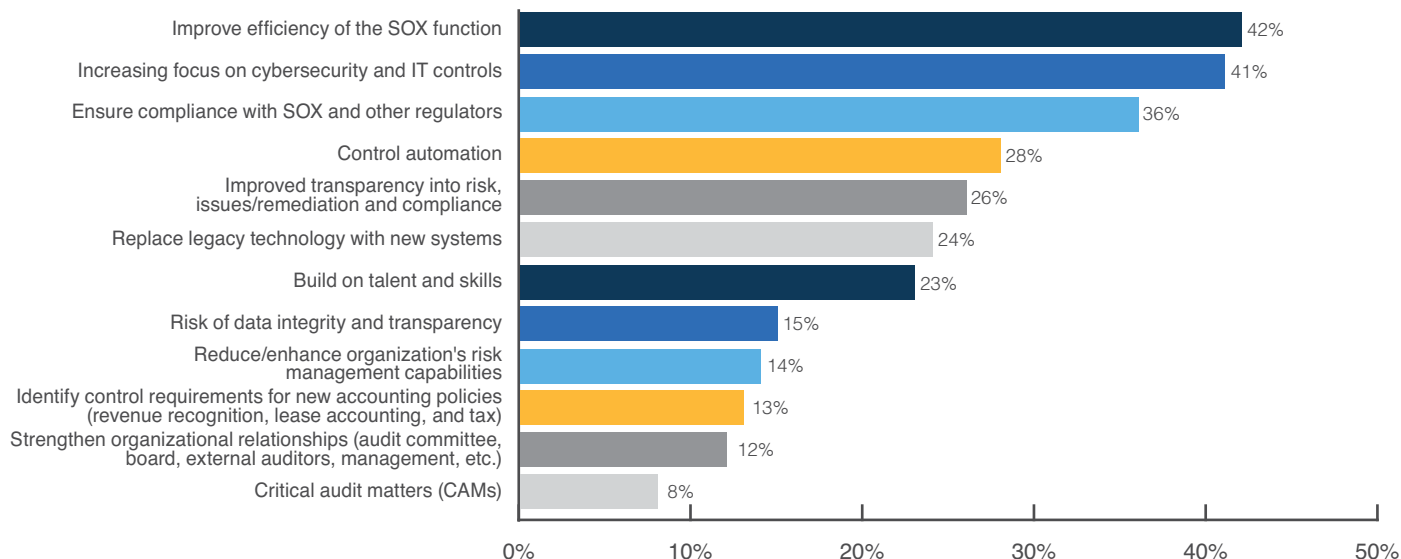


# IX.

## Priorities and Focus for the Year Ahead

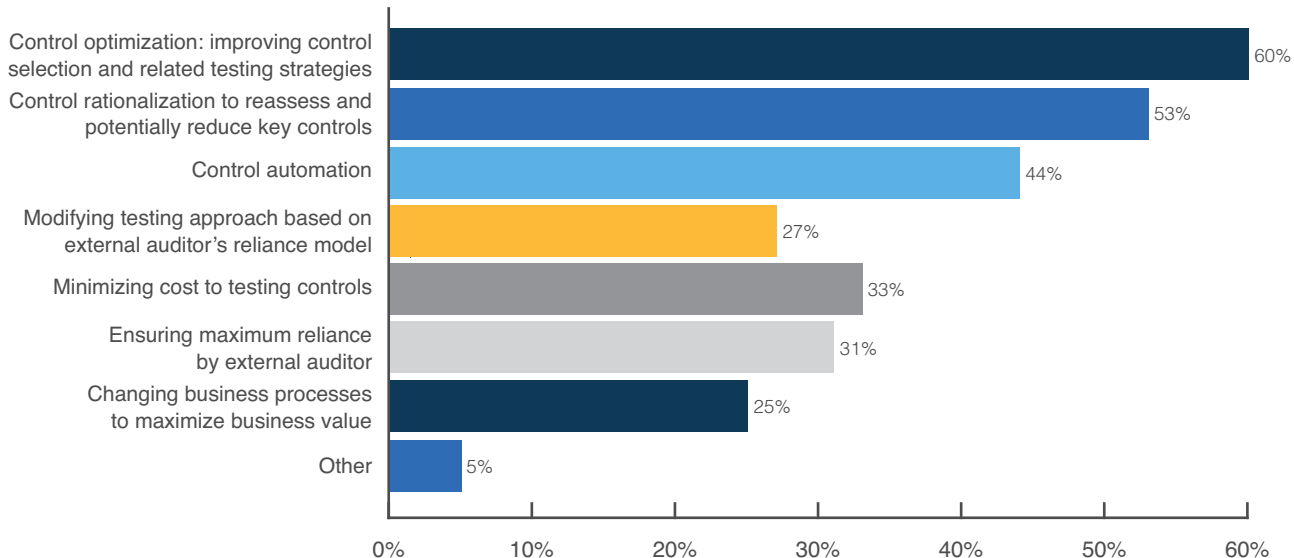
IMPROVING EFFICIENCY AND CREATING VALUE FOR THE ORGANIZATION ARE HIGH PRIORITIES

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



The top three priorities for SOX professionals in the coming year are improving the efficiency of the SOX program, increasing the focus on cybersecurity and IT controls, and ensuring compliance with SOX. The amount of time SOX professionals spend managing disconnected pieces of data is a driver for prioritizing the efficiency of the SOX function.

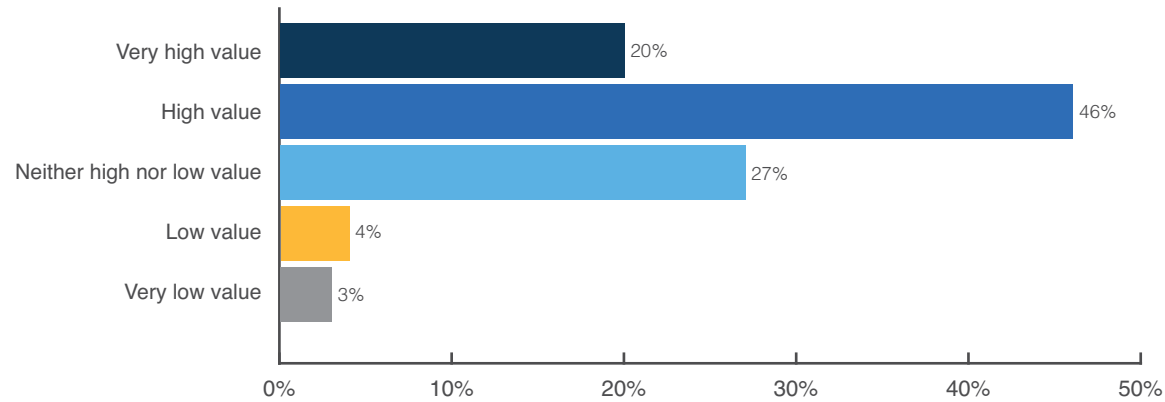
### Which of the following areas are you focusing on to add value to your SOX program?



The top three areas of value-add focus are improving control selection and related testing strategies, control rationalization to reassess and reduce the number of SOX controls, and control automation. Combined, these areas of focus can contribute to the goal of increasing efficiency in SOX execution, which in turn, would free up valuable staff time to work on analysis and value-add activities.

Two-thirds of survey respondents believe that their organization’s leadership views the SOX program as of high or very high value. In an environment where risk is increasing due to process complexities and increasing organizational scale, a congruent view of the SOX program by both corporate leadership and SOX practitioners ensures that SOX has the institutional capital to thrive and be effective.

**How is the SOX program in your organization viewed by leadership?**



# X.

## About Our Survey Sponsors

### ABOUT THE SOX & INTERNAL CONTROLS PROFESSIONALS GROUP

Members of the SOX & Internal Controls Professionals Group are actively involved with SOX, internal controls, and internal audit processes for public and private companies, including documenting, evaluating and testing internal controls, and processes.

The SOX Pro Group fosters networking and industry thought leadership and provides unique opportunities for members to share best practices.

There is no cost to join, and membership provides access to a broad network of other like-minded professionals while helping them increase their value and influence across their organizations.

Visit [soxprofessionalsgroup.org](https://soxprofessionalsgroup.org) for more information.

### ABOUT WORKIVA

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