

2016 State of the SOX/Internal Controls Market Survey



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The **SOX & Internal Controls Professionals Group** conducted a survey in June of 2016 of SOX and internal controls professionals from companies representing a wide range of sizes and SOX process complexity. The survey asked questions to capture their views on the state of their SOX and internal control processes and their greatest challenges for the year ahead. The results reflect various levels of current process maturity and evolving process discipline as practitioners aspire to modernize and make SOX and internal controls processes more efficient.

Those surveyed were primarily based in the United States and represented firms ranging from \$75 million to over \$5 billion in market capitalization. Feedback was received from departments of all sizes, ranging from those whose departments were composed of less than five professionals to those that have hundreds involved in the process.

Some of this year's key findings include:

- **External audit fees are increasing**

While the cost of compliance varies across industries and company sizes, external audit costs are increasing due to heightened focus by the Public Company Accounting and Oversight Board (PCAOB) on inspections and continued organizational control failures.

- **Changing requirements from external auditors is a significant challenge**

Increased scrutiny and inspections from the PCAOB and continuous development of the COSO internal control framework has forced external audit to evolve its expectations and asks of clients.

- **Organizations' SOX/IC processes vary in complexity**

There is clearly no one-size-fits-all process for SOX and internal controls. Survey respondents show a wide range of complexity in number of controls and time spent on the process.

- **Improving efficiency of the SOX function is the top priority**

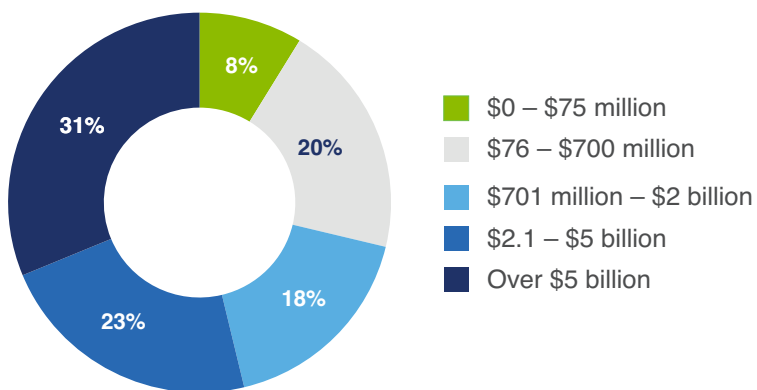
80 percent of survey respondents reported improving the efficiency of the SOX function as their top priority for the coming year—but many still struggle to figure out how best to do this.

We would like to thank all of the respondents who participated in the survey. We hope the findings provide useful insights, and we look forward to your continued participation in this annual survey.

SURVEY DEMOGRAPHICS

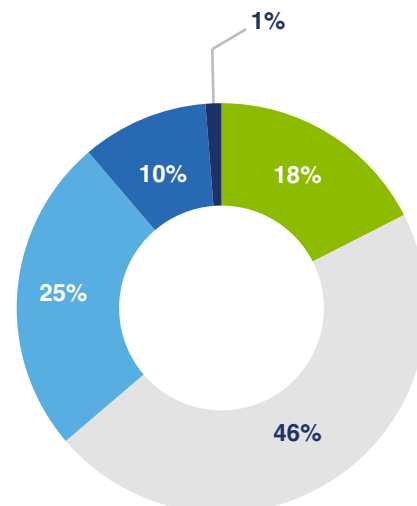
The broad demographics of company size, department size, and job title offered by survey respondents provides a good perspective of the current state of the SOX and internal control profession. Of those surveyed, 31 percent of respondents worked in organizations that were over \$5 billion in market capitalization, while 28 percent of respondents worked in organizations that had less than \$700 million in market capitalization.

What is your organization's current market capitalization?



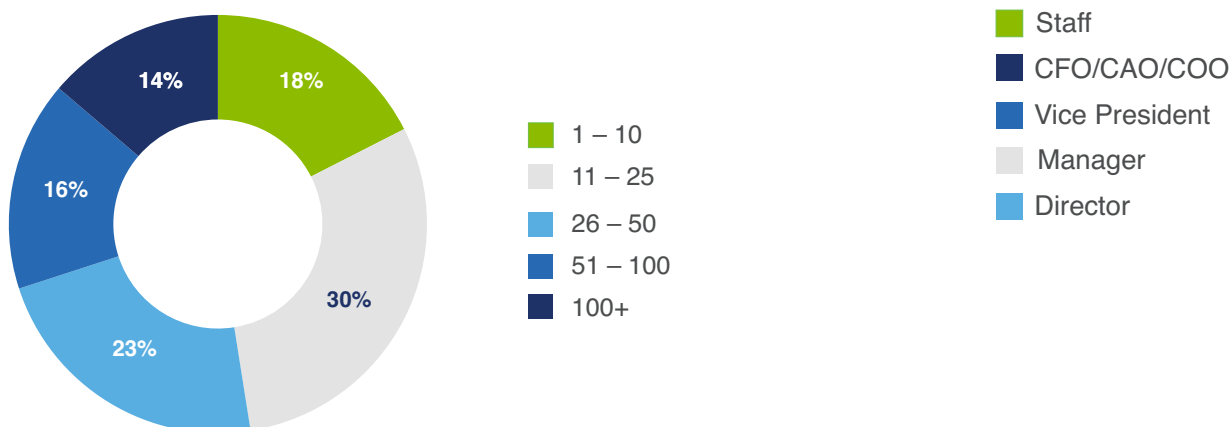
The survey also asked questions about job/role. Survey respondents represent all levels of the organization with 82 percent holding the title of manager or above. Of these, 36 percent were at the title of director or higher, including 11 percent of the most senior respondents holding the title of vice president or C-level executive.

How would you describe your job/role?



When asked about the amount of process and control owner involvement, there was a fairly even distribution of the ranges provided in the survey. 48 percent of those surveyed have 25 or fewer process and control owners involved in the SOX and internal control testing process, while 30 percent have over 50 process owners involved in the process. When managing SOX processes, it is clear that there is a disparity in complexity across organizations.

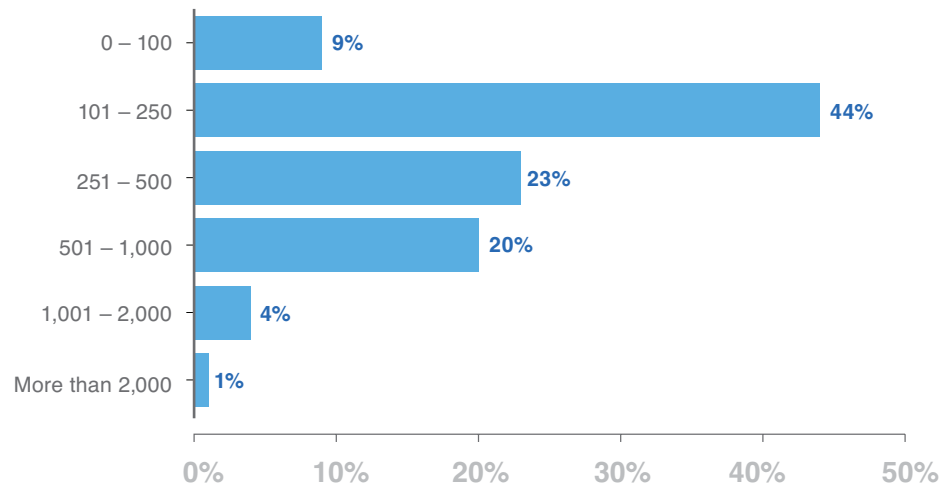
How many process/control owners are involved in your SOX/IC testing process?



COMPLEXITY OF THE PROCESS

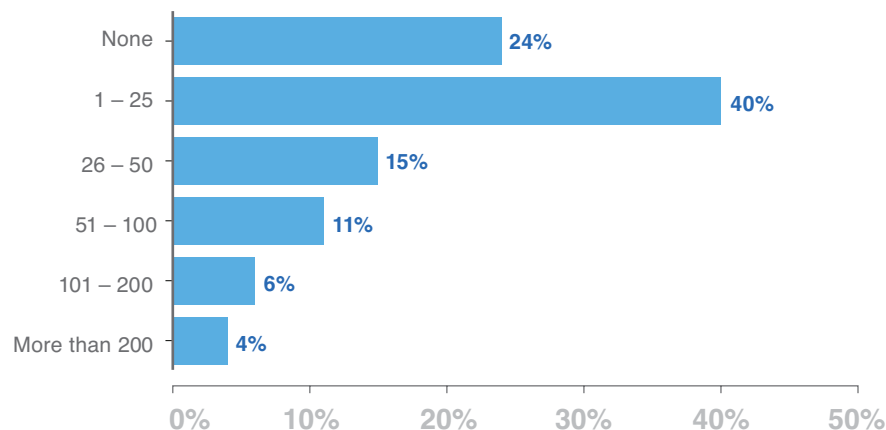
A little less than half of the respondents, 44 percent, reported that their organizations manage between 101–250 controls. 25 percent of the respondents reported that they manage 500 or more controls, with 5 percent managing over 1,000 controls.

What are the total number of controls in your environment?



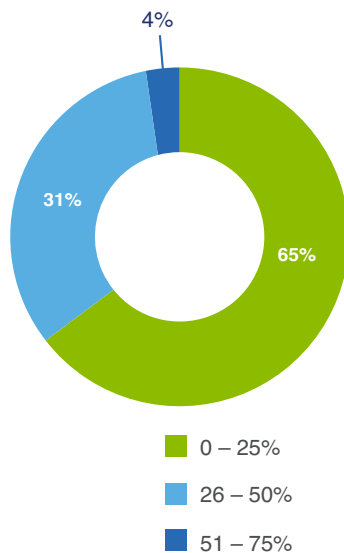
A similar question on quantity was asked in terms of how many process flowcharts are documented and managed as part of the process. In light of the number of controls that each of these organizations manage, the results came in lower than expected. 40 percent of those surveyed manage 1–25 flowcharts, while 24 percent do not manage any flowcharts. On the other end of the scale, 21 percent of organizations reported that they manage 50 or more flowcharts.

How many process flowcharts do you document and manage as part of your SOX/IC compliance process?



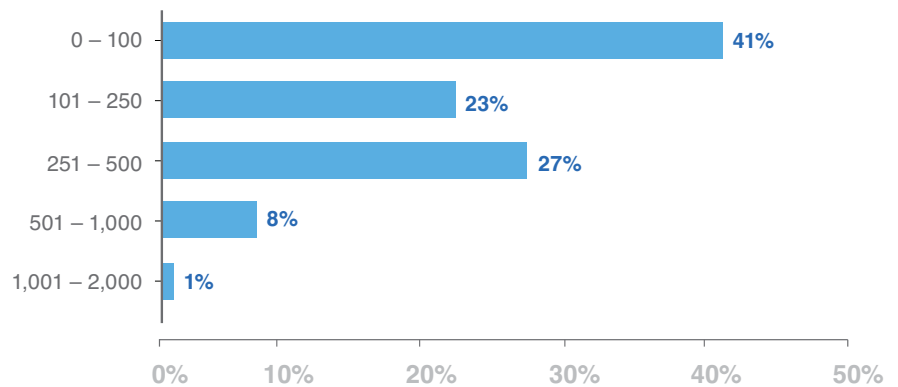
When asked what percentage of those controls related to information technology (IT), over half of respondents selected 0–25 percent.

What percentage of your control tests are related to IT processes or cyber/information systems?



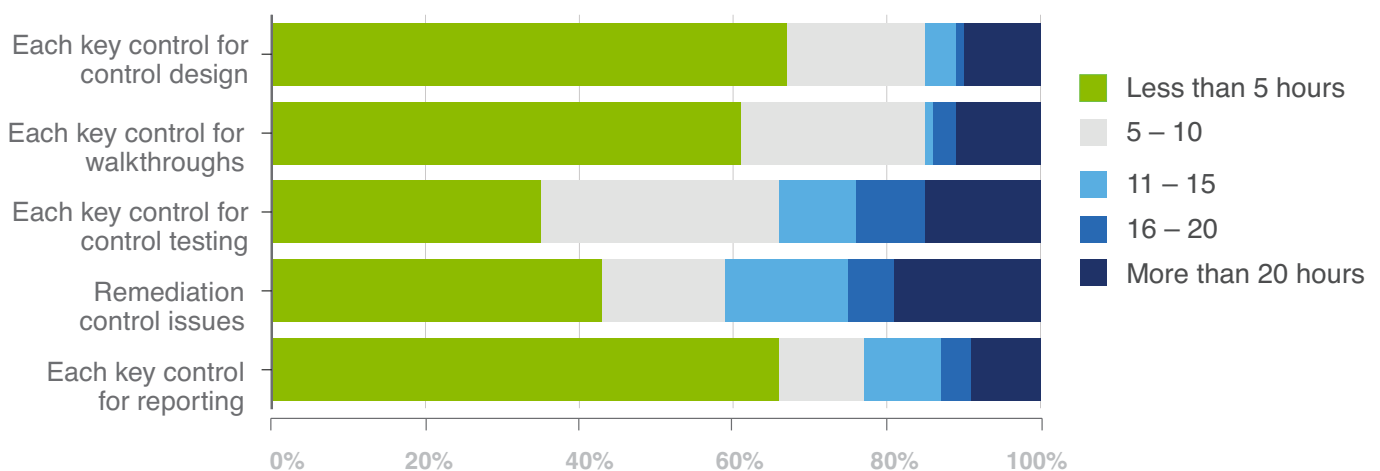
41 percent of survey respondents reported that they test between 0–100 controls, 27 percent test 251–500 controls, and 23 percent test 101–250 controls internally.

What is the total number of controls that are tested internally (i.e., without external third-party assistance)?



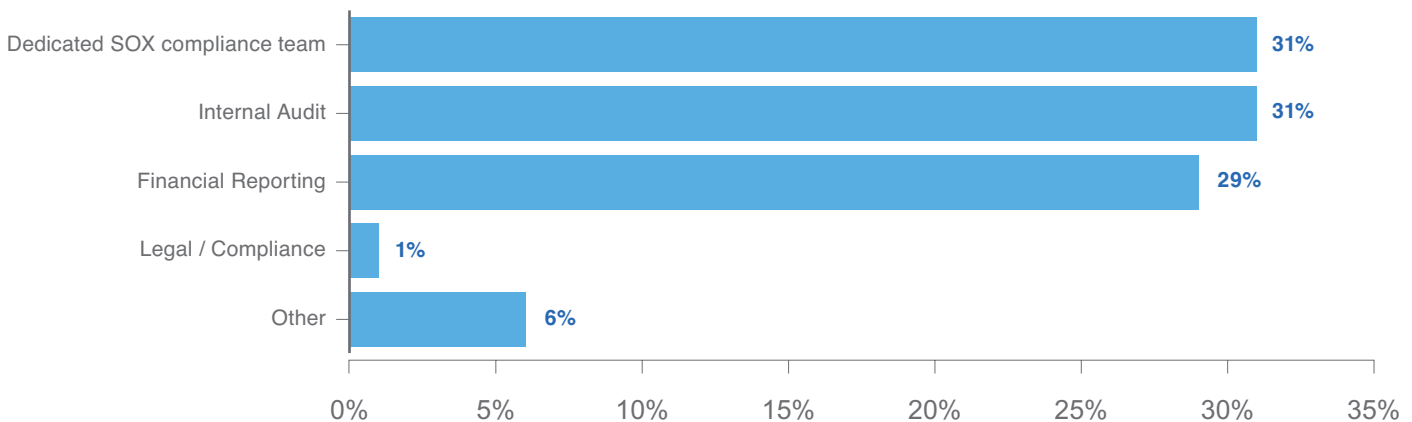
The survey also included a question on the number of hours spent on managing 5 separate SOX/internal control related processes. The results show that the time spent per control for these processes ranges from less than 5 hours to more than 20 hours per control. The most time spent on these processes is in the area of control testing and remediation of control issues. More than 40 percent of those surveyed reported that they spend 11 hours or more per control on the remediation of control issues. 65 percent reported that they spend 5 hours or more per control on control testing. The least amount of time spent per control in the process was in the areas of control design and control reporting.

On average, how many hours do you spend annually on:



Based on survey responses, there is a fairly equal distribution of functional ownership of the SOX and internal controls process between internal audit (31 percent), SOX compliance (31 percent), and financial reporting teams (29 percent). Roughly 7 percent of organizations manage the process outside of these functions, including legal, risk management, accounting, or a dedicated internal process and control team.

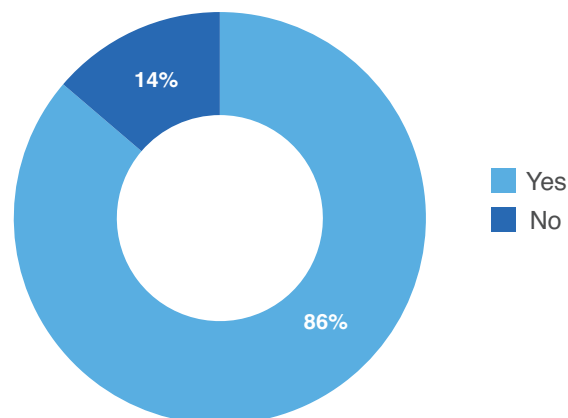
What department is in charge of managing SOX/IC compliance at your organization?



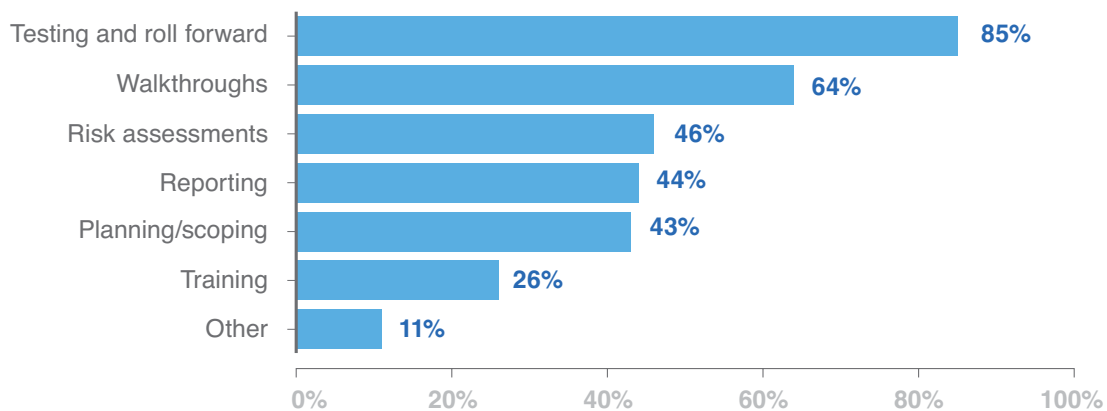
Roughly 86 percent of survey respondents indicated the involvement of internal audit throughout the SOX compliance process. When internal audit is involved, respondents were asked to list the processes in which internal audit is involved. 85% percent recorded involvement in the testing and roll forward processes, followed by 64 percent in walkthroughs. These areas align well with internal audit's strengths. Other areas of involvement include coverage of testing through operational audits, Service Organization Controls (SOC) report testing, and overall program management and methodology.

However, the data suggests that internal audit is less involved in the areas of risk assessments, reporting, and planning/scoping. Given the earlier data point above that an estimated 31 percent of organizations manage compliance through the internal audit department, these percentages were expected to be higher. This suggests an opportunity for greater collaboration with internal auditors throughout the SOX and internal controls compliance process.

Is internal audit involved in the SOX/IC program?



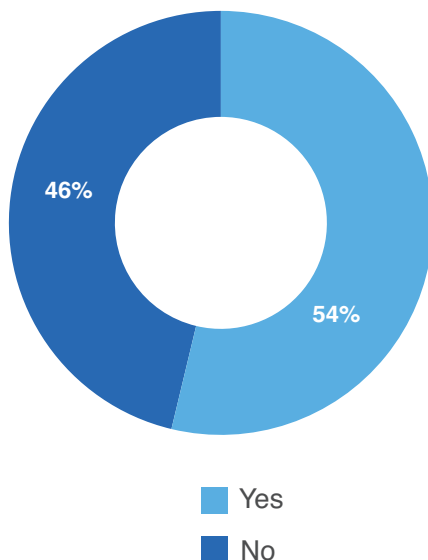
If yes, how is internal audit involved with your SOX/IC program? *Please select all that apply.*



ROLE OF CO-SOURCE AND OUTSOURCE

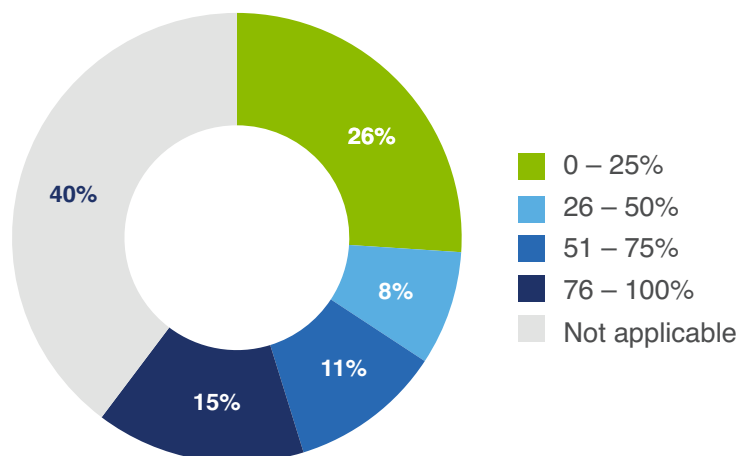
Approximately 54 percent of organizations surveyed indicated the use of a co-sourcing model for the testing or reporting of SOX and internal controls compliance. Of that 54 percent, the distribution in the amount of activities ranges by organization.

Does your organization co-source or outsource a percentage or all of your SOX/IC testing or reporting work?



Additionally, the survey asked of organizations that do co-source or outsource any part of the SOX or internal controls testing or reporting work, what percentage of work it was. 40 percent of respondents declined to answer with a specific percentage. Of the remaining respondents, 34 percent recorded co-sourcing or outsourcing up to 50 percent of the work, while the remaining 26 percent co-source or outsource 50–100 percent.

If yes, what percentage?



CHALLENGES AND PRIORITIES

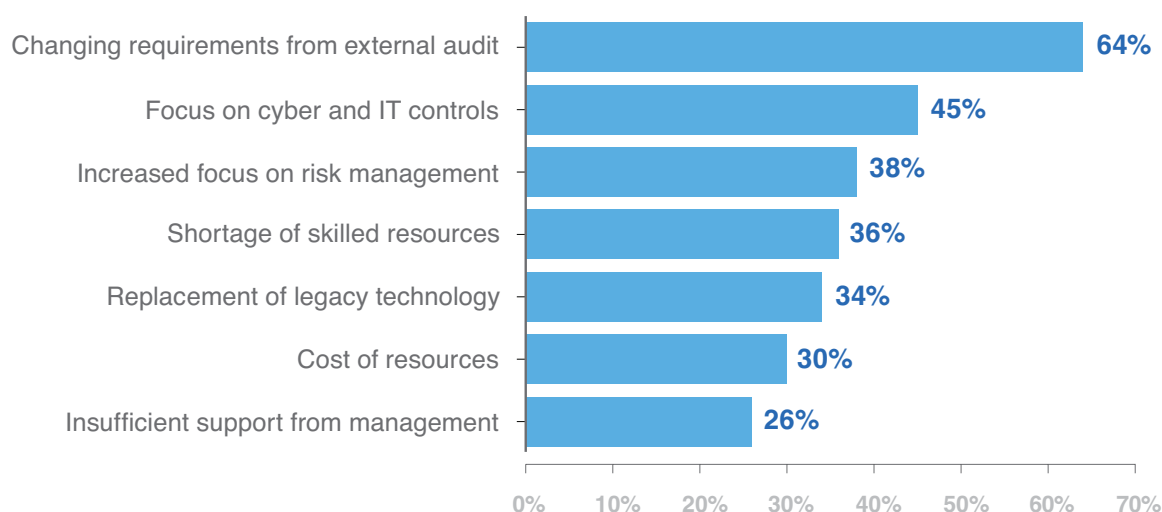
Survey respondents reported their top three compliance challenges to be:

- Changing requirements from external audit
- Increased focus on cyber and IT controls
- Increased focus on risk management

With increased scrutiny and inspections from the Public Company Accounting and Oversight Board (PCAOB) and continuous development of the COSO internal control framework, it is no surprise to see an evolvement in external audit's expectations in their clients. These changing expectations can cause an increase in audit fees.

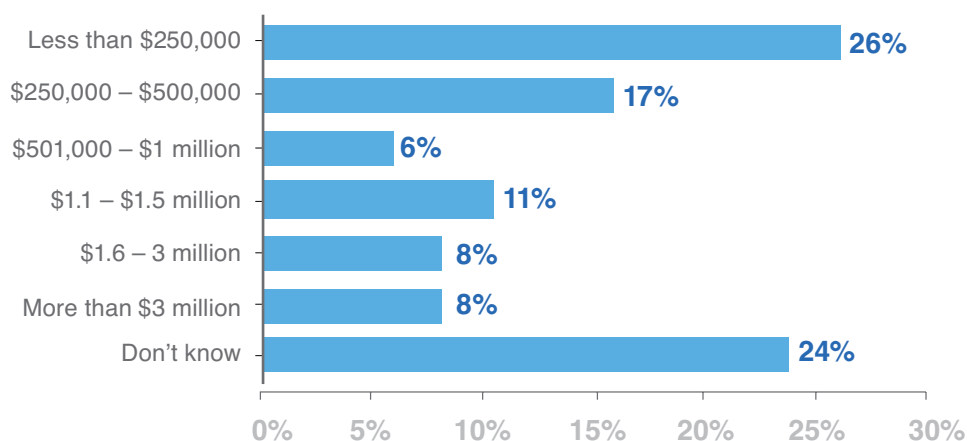
What are the most significant SOX/IC compliance challenge that you see for the year ahead?

Please select the top 3 that apply.



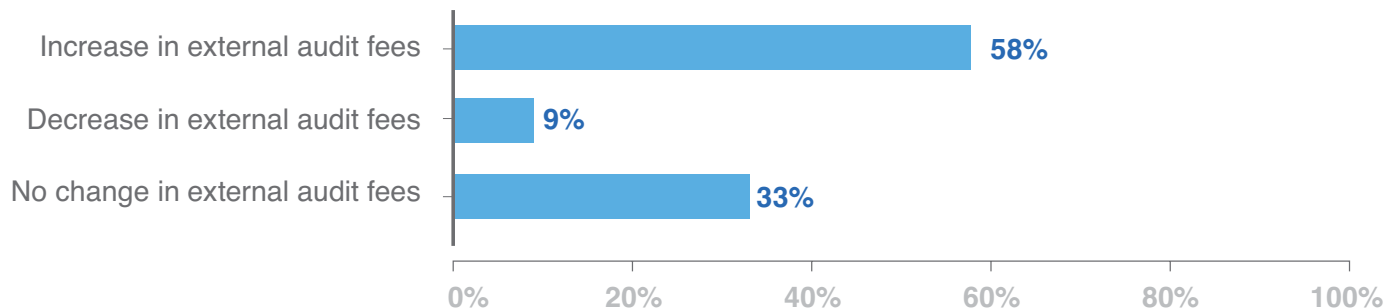
A series of questions were posed to survey respondents targeting the cost of compliance in their organizations. Respondents recorded that one of the largest associated costs is the amount spent on compliance, including external resources such as consultants and external auditing fees. Over 61 percent of respondents reported spending \$1.5 million or less annually, while another 15 percent spends over \$1.6 million. The remaining 24 percent of respondents do not know their organization's annual spend.

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



When asked about changes in external audit fees, 58 percent of organizations reported an increase from the previous fiscal year, 9 percent indicated in a decrease in fees, and the remaining 33 percent noted no change in external audit fees. The increases or decreases in external audit fees ranged from 1–15 percent. Increases in external audit fees could be caused by several things, including control failures and changing requirements from external audit as a result of increasing regulatory pressure from PCAOB inspections.

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



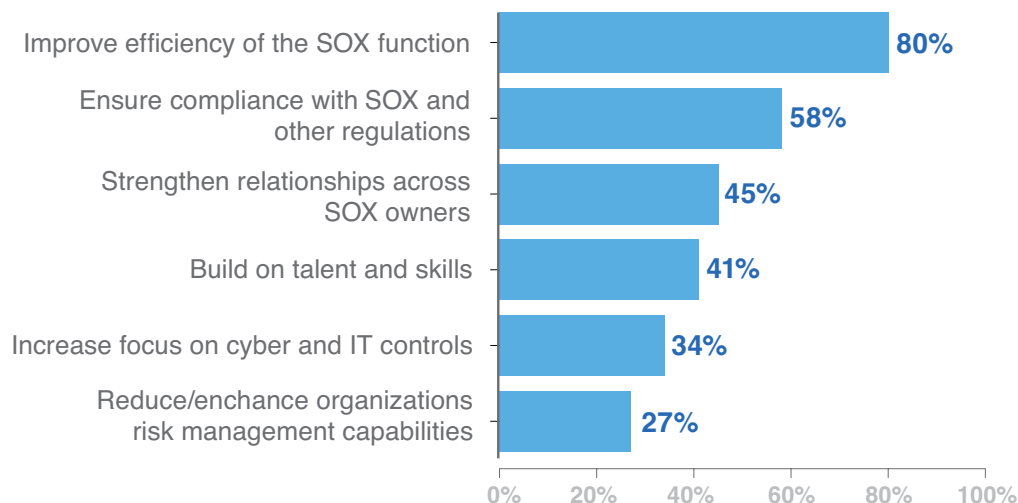
80 percent of survey respondents placed improving the efficiency of the SOX function over all else as the top priority for the coming year. This is followed by:

- Ensuring compliance with SOX and other regulators
- Strengthening organizational relationships across SOX owners
- Building on talent and skills

What's most interesting about this information is how it aligns to the aforementioned challenges that the SOX and internal controls market faces today. Ensuring compliance is a top objective and a challenge, which inherently includes cyber/IT security and risk management efforts.

Efficiency gains in a mature function are, by nature, difficult to achieve. The benefits of these efficiency gains are both tangible and intangible, resulting in improved controls and lower cost structures. Yet the means of attaining such efficiencies remains the challenge. Many organizations are starting to pursue new technology as a means of increased efficiency and productivity.

What are your top priorities for the year? *Please select the top 3 that apply.*



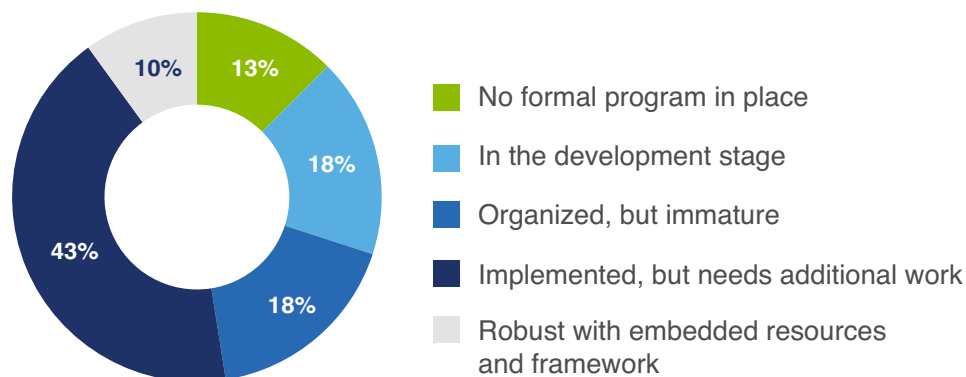
MATURITY OF RISK MANAGEMENT

With increased focus on risk management driven by many management teams and the implementation of the 2013 COSO enterprise risk management framework, it comes as a surprise that many organizations do not yet have robust processes and resources.

Of those surveyed, only 10 percent of respondents claim to have a robust and embedded risk management framework and resources in place. Furthermore, 43 percent have some form of a program implemented, but require additional work and resources to advance the maturity of their risk functions.

With a majority of organizations still maturing their risk management processes, SOX and internal control teams are presented an opportunity to lead the charge in risk maturity and driving to standardized processes. By embracing a robust risk function, SOX and internal control teams may benefit from reducing efforts on controls with minimal risk and demonstrate a performance-oriented approach that may drive business value.

How would you rate the maturity of your organization's risk management function?

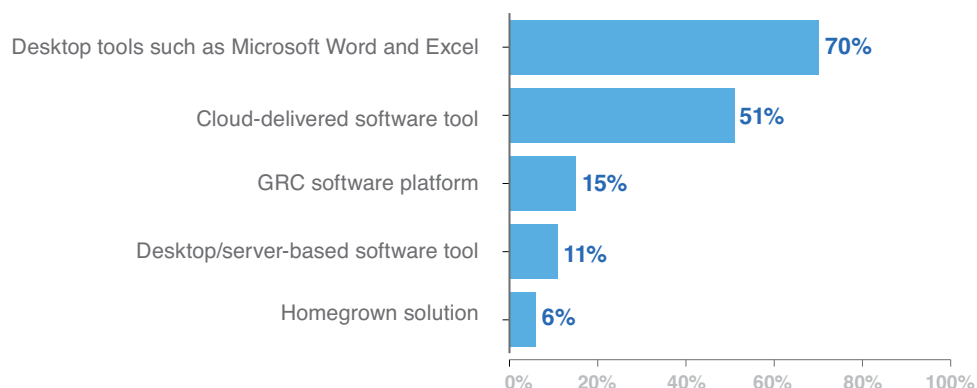


ROLE OF TECHNOLOGY

As expected, 100 percent of the survey respondents indicated the use of some sort of technology to support their compliance processes. A high number of organizations (70 percent) still rely on desktop applications, such as Microsoft Word® and Excel®, to support the process. More than half have modernized their SOX/IC process and use cloud-based software (51 percent), and only 15 percent use a GRC platform.

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

Please select all that apply.



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CONCLUSION

As highlighted by these survey results, there is no one-size-fits-all answer to the question *What is the standard approach to managing SOX and internal control compliance?* Organizations are unique in their SOX and internal control compliance practices. The state of the SOX market is one of evolution as increased regulatory scrutiny on inspections and development of frameworks continues.

Compliance efforts require a significant investment for many organizations in terms of resources, both in hours, and where possible, dollars. Across the board, organizations are seeing a consistent increase in external audit fees driven by changing requirements from external auditors. These changes are placing additional pressure and asks on SOX and controls management practitioners and are forcing them to do more with less resources.

Sarbanes-Oxley was created to improve the quality and reliability of the processes and controls over financial reporting functions within each organization. As pressure continues to build, organizations look to optimize the efficiency of the SOX function and see that as the top priority for the coming year.

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 controls, and internal audit processes. As a member of the SOX & Internal Controls Professionals Group, you will:

- Gain industry knowledge and practical application of best practices
- Grow your network of SOX, internal controls, and internal audit professionals with fellow community members
- Garner the resources you need to help you excel at your position
- Increase your value and influence across the organization

There is no charge to become a member. Join today!

If you are an individual actively involved with SOX, internal controls, or internal audit processes, this group is for you. Visit soxprofessionalsgroup.org for more information.