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2017 **State of the SOX/Internal Controls Market** Survey



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EXECUTIVE SUMMARY

The SOX & Internal Controls Professionals Group, Moss Adams LLP, and Workiva sponsored a survey in April 2017 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 the respondents.

This is the second annual survey, with the first version being published in 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.

Those surveyed were primarily based in the United States and represented firms ranging from $20 million to more than $100 billion in annual revenue. Feedback was received from departments of all sizes, ranging from departments comprised of less than five professionals to those that have hundreds involved in the process.

The key findings from this year's survey include:

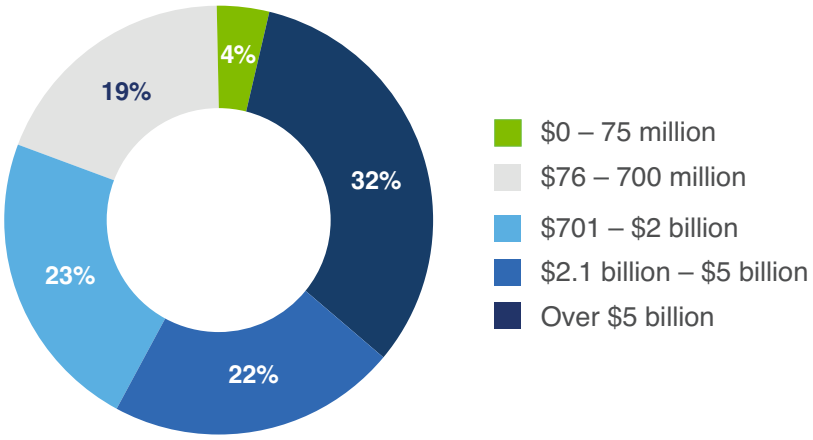
- **Overall SOX compliance costs remained relatively flat from the previous year.**
  A little more than half of survey respondents reported that overall spending on SOX/IC compliance efforts remained unchanged from the previous year.
- **More organizations are bringing SOX compliance functions in-house.**
  Across multiple process areas, over 65 percent of respondents reported that ICFR activities were performed in-house. Furthermore, 66 percent of this year's respondents reported performing testing activities in-house, up 12 percent from last year.
- **The total number of internal control failures increased from the previous year.**
  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.
- **Changing requirements from external auditors remained the largest challenge.**
  Increased scrutiny and inspections from the PCOAB, as well as changes in certain accounting regulations, has led to continued changes to what practitioners need to prepare and provide to external auditors.
- **Ensuring compliance with SOX and other regulations is the top priority.**
  40 percent of survey respondents listed complying with SOX and other regulations as their top priority for the coming year, a departure from the last year's priority of streamlining the SOX process for efficiency.

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SURVEY DEMOGRAPHICS

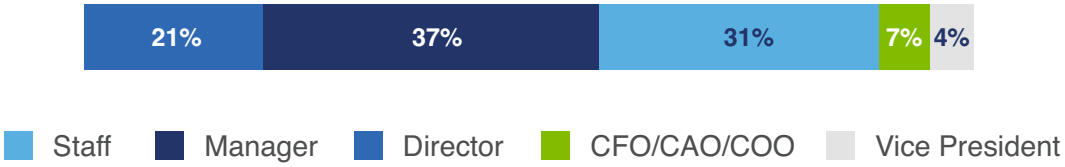
The broad demographics of company size, job title, organization type, and industry type offered by survey respondents provide a good perspective of the current state of the SOX and internal control profession. Of those surveyed, 33 percent of respondents worked in organizations that were over $5 billion in annual revenue, while only 4 percent of respondents worked in organizations that had less than $75 million in annual revenue.

What is your organization's annual revenue?



The survey also asked questions about job/role. Survey respondents represented all levels of the organization, with 79 percent holding the title of manager or above. Of these, 43 percent were at the title of director or higher, including 12 percent of the most senior respondents holding the title of vice president or C-level executive.

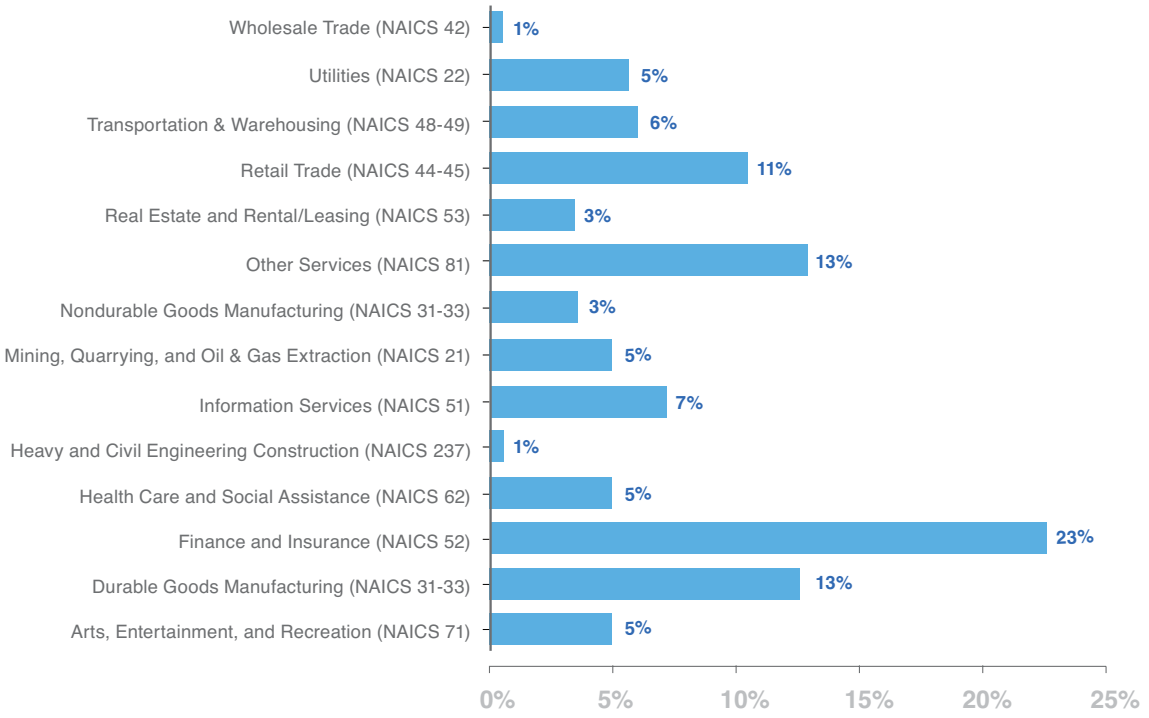
How would you describe your job/role?



When asked about the type of organization and what industry best describes it, there was a wide distribution of industries represented. The most represented industries are financial services, durable goods manufacturing, other services, retail trade, and information services. Of the respondents, 87 percent represented publicly traded organizations.

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In which industry does your company best fit?



Survey respondents were polled on which external audit firms their companies use. The top three external audit firms used by survey respondents are: PwC at 38 percent, KPMG at 18 percent, and Ernest & Young at 18 percent.

Who is your external auditor?

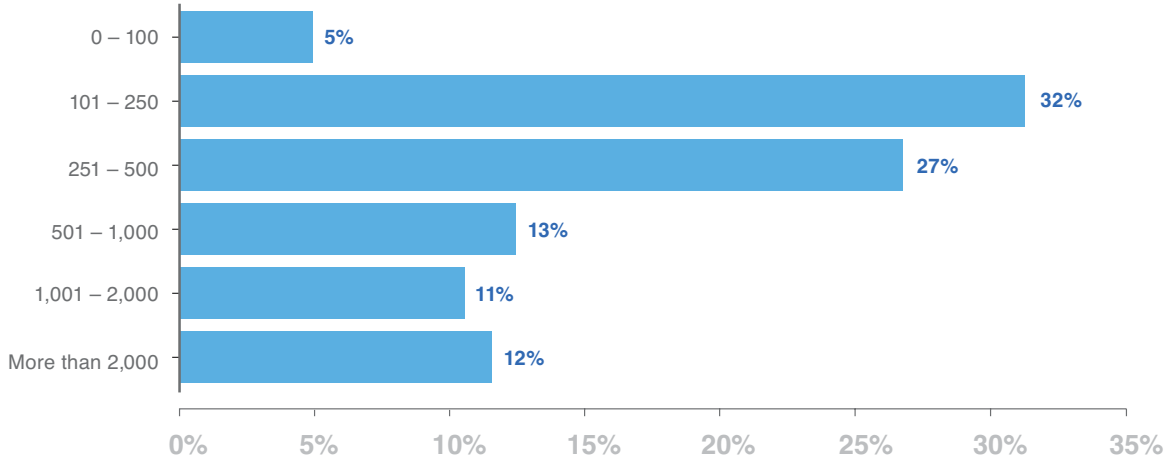
External auditor	Percentage of respondents
PwC U.S.	38%
KPMG LLP	18%
Ernst & Young LLP	18%
Deloitte LLP	13%
Moss Adams LLP	3%
Grant Thornton LLP	3%
BDO USA LLP	3%
Plante Moran	1%
Other	1%

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COMPLEXITY OF PROCESS

Less than half of respondents, 32 percent, reported that their organizations manage 101–250 controls. 27 percent manage 251-500 controls, 13 percent manage 501-1,000 controls, 11 percent manage 1,001-2,000 controls, with 12 percent managing over 2,000 controls.

What are the total number of controls in your environment?



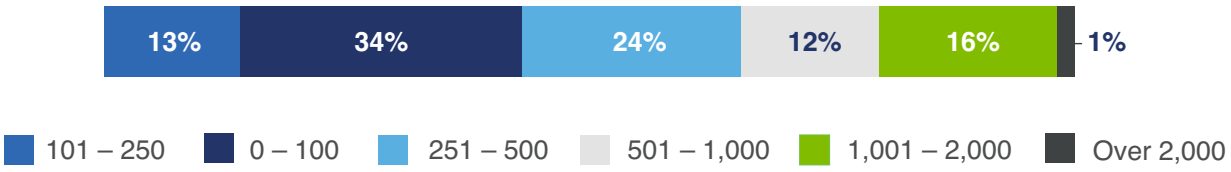
The table below showcases the number of controls by respondents' revenue size. Generally, as a company's annual revenue increased, the total number of controls increased.

Revenue size	Total controls 0 – 100	Total controls 101 – 250	Total controls 251 – 500	Total controls 501 – 1,000	Total controls 1,001 – 2,000	Total controls more than 2,000
$0 – $75 million	33%	33%	33%	0%	0%	0%
$76 – $700 million	13%	69%	13%	0%	6%	0%
$701 million – $2 billion	0%	47%	42%	11%	0%	0%
2.1 – $5 billion	0%	6%	50%	17%	11%	17%
Over $5.1 billion	0%	16%	12%	24%	24%	24%
Grand total	**4%**	**32%**	**28%**	**14%**	**11%**	**11%**

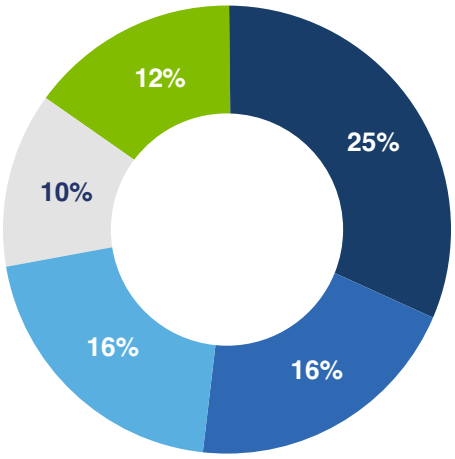
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For this year's survey, we wanted to further understand the composition of the control environment by quantifying the types of controls managed. We gathered data related to the following types of controls: key controls, management review controls, and automated (IT) controls.

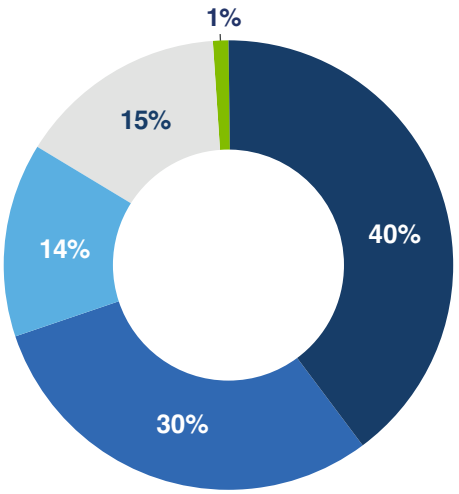
What are the total number of key controls in your environment?



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



What are the total number of automated (IT) controls in your environment?



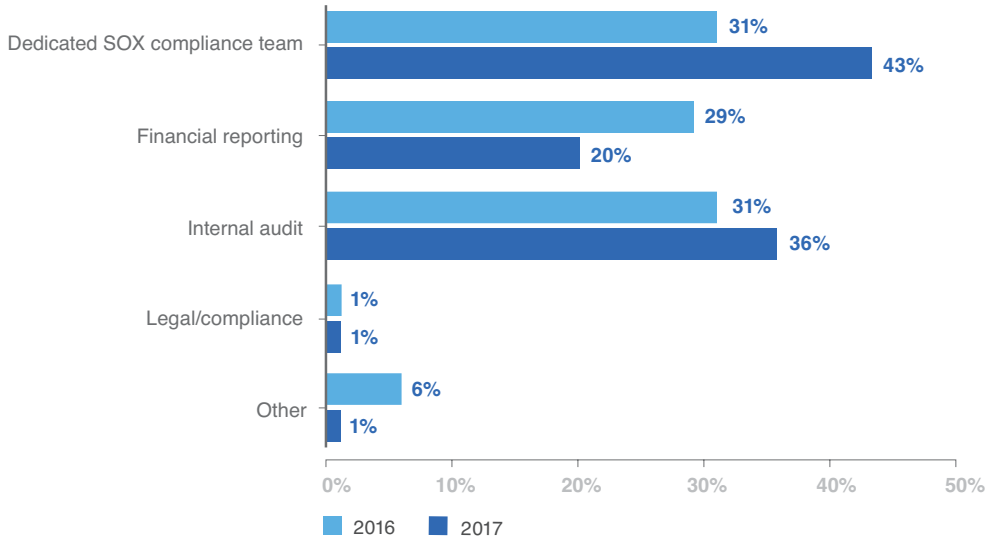
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INVOLVEMENT OF INTERNAL AUDIT

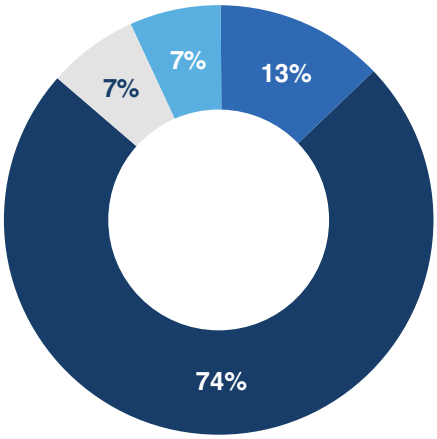
For 79 percent of survey respondents, distribution of functional ownership of the SOX and internal control process is assigned to the SOX compliance or internal audit teams. This is up from 62 percent the previous year. Only 20 percent of respondents reported ownership with the financial reporting team, down 9 percent from 2016. This suggests that companies are creating dedicated SOX and internal controls compliance teams to help align organizational goals with risk and control activities.

Two percent of this year's survey respondents manage the process outside of these functions, down 5 percent from the 2016 survey. Additional functions that manage the process include legal, risk management, or accounting.

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



Roughly 74 percent of survey respondents indicated an in-house internal audit model. An additional 13 percent of respondents reported a co-sourced model, and the remaining 14 percent were evenly split between an outsourced model and no formal internal audit function.



What is your internal audit model?

- Not applicable
- Outsourced
- Co-sourced
- In-house

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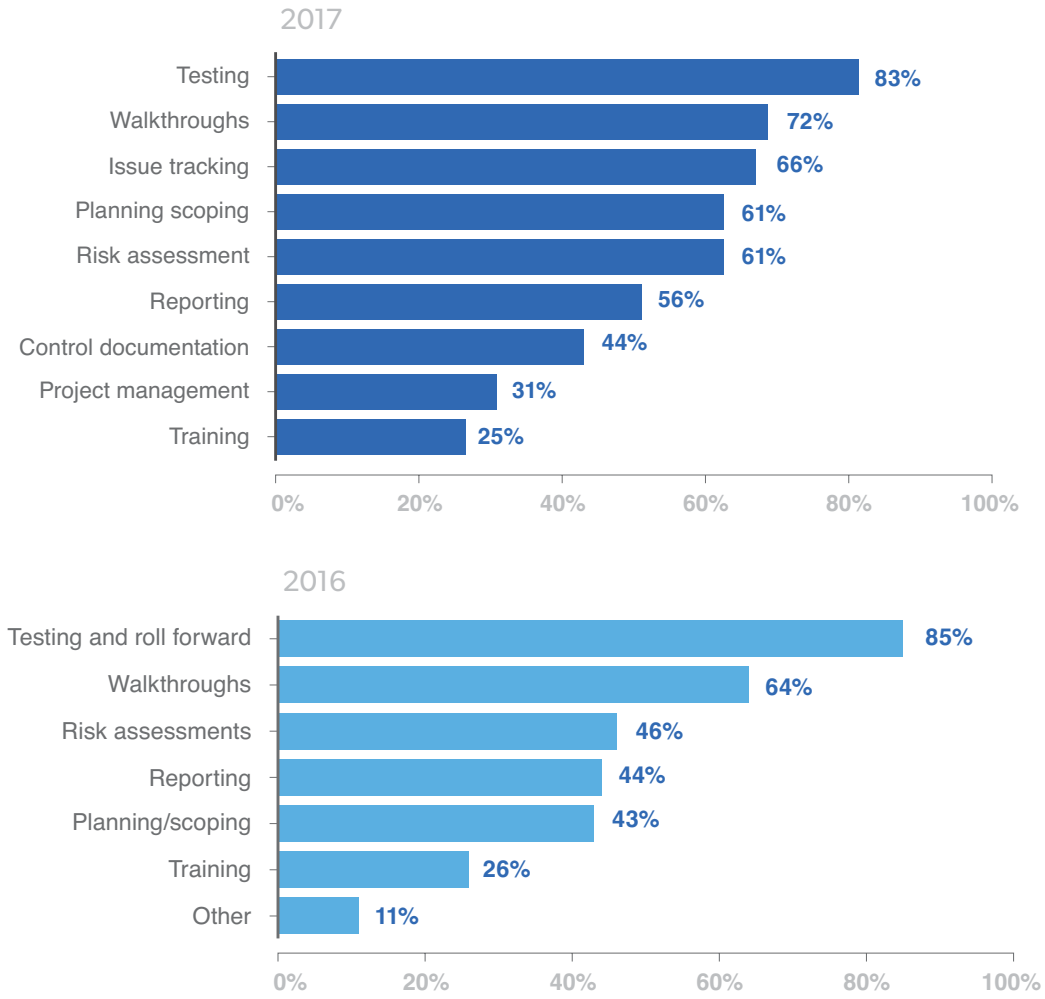
The overall level of internal audit involvement in SOX and internal control activities increased over last year.

The 2016 survey suggested that internal audit was less involved in the areas of risk assessments, reporting, and planning/scoping. This came as a surprise because of the number of organizations that reported managing compliance through the internal audit department—suggesting an opportunity for greater collaboration with internal auditors throughout the SOX and internal control compliance process.

For 2017, several categories increased year over year, including planning/scoping by 18 percent, risk assessment by 15 percent, and reporting by 12 percent. Respondents also noted involvement in issue tracking, control documentation, and project management.

Of those that manage the internal audit process in-house, testing remains the top area of involvement at 83 percent. The next four areas of internal audit involvement align well with internal audit's strengths and include walkthroughs at 72 percent, issue tracking at 66 percent, and both planning/scoping and risk assessments at 61 percent each.

How is internal audit involved with your SOX/IC program? *Please select all that apply.*

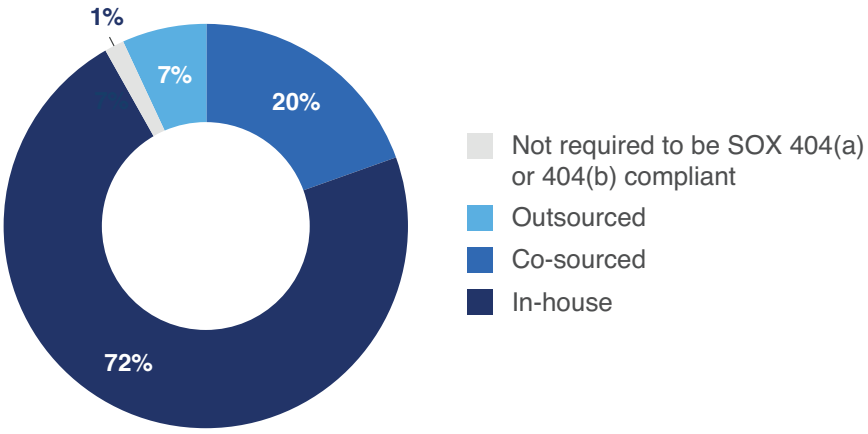


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ROLE OF CO-SOURCE AND OUTSOURCE PROVIDERS

When asked about who performed the work for SOX compliance activities, 72 percent of respondents reported the work being done in-house, compared to co-sourced at 20 percent and outsourced at 7 percent. The remaining 1 percent of respondents were not required to be SOX 404(a) or 404(b) compliant.

What is your SOX compliance model?

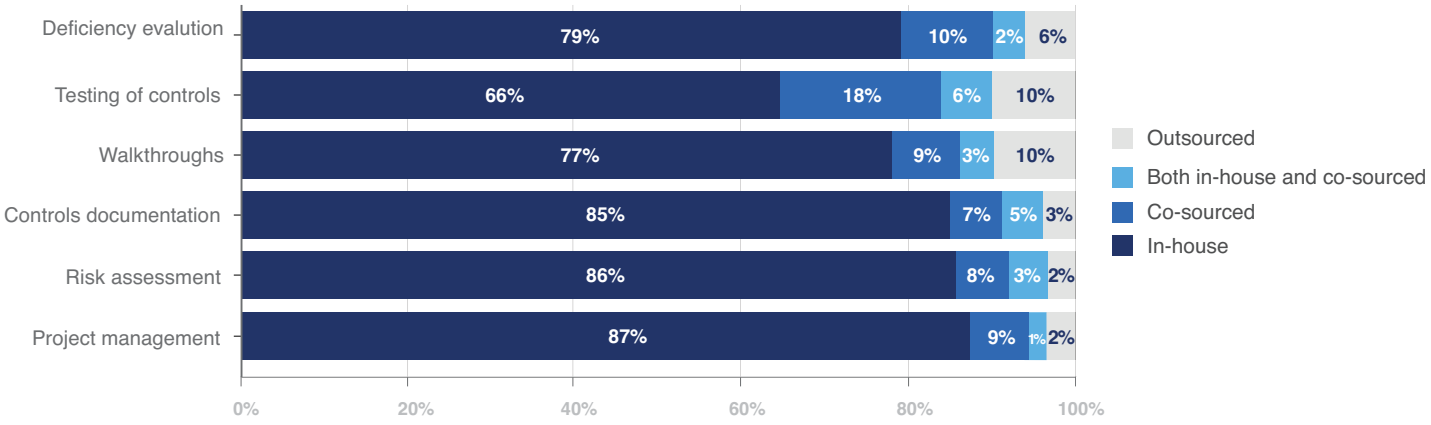


Respondents were asked what specific SOX compliance activities were performed in-house, co-sourced, or outsourced. For each function, over 65 percent of survey respondents reported in-house.

For testing specifically, more respondents have brought the function in-house. 54 percent of respondents to last year's survey reported that they co-sourced or outsourced a percentage or all of their SOX/IC testing or reporting work, whereas 66 percent of this year's respondents reported performing testing activities in-house. For the remainder, only 10 percent of respondents outsourced, 18 percent co-sourced, and just 6 percent do a combination of both in-house and co-sourcing for testing.

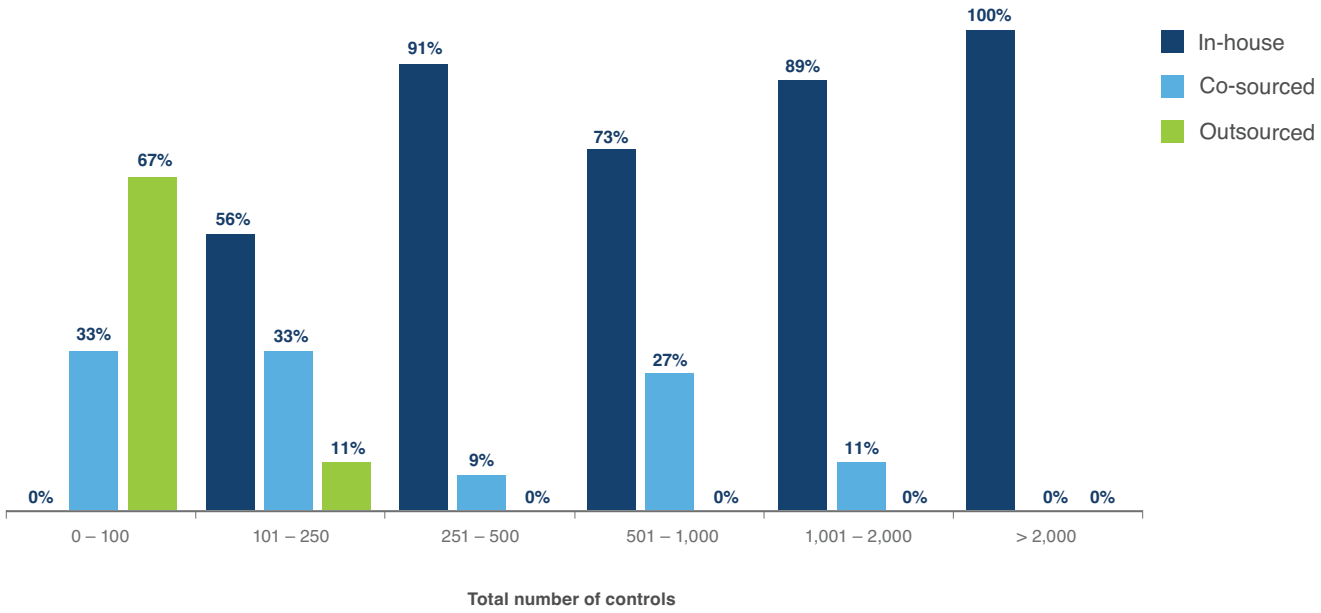
For your SOX compliance, please select where the following functions are performed:

Select all that apply.



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When broken down by total number of controls, as the total number of controls increases, the amount of activities performed in-house increases. For respondents with 100 controls or less, none of the SOX compliance activities were performed in-house. Respondents with 101 to 250 controls reported 56 percent in-house, and those with more than 2,000 controls reported 100 percent in-house.



CHALLENGES AND PRIORITIES

Survey respondents reported that their top three compliance challenges are:

- Changing requirements from external audit
- Increased focus on risk management
- Replacement of legacy technology

A consistent increase in scrutiny and inspections from the Public Company Accounting and Oversight Board (PCAOB) over several years, continuous development of the COSO internal control framework, and introduction of new accounting standards, such as revenue recognition and lease accounting, have ensured external audit requirements are the top challenge year over year.

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

Please rank in order of importance, with number 1 being most important and 7 being least important.

	2017	2016	Year-over-year comparison
Changing requirements from external audit	1	1	No change
Increased focus on risk management	2	3	▲
Replacement of legacy technology	3	5	▲
Focus on cyber and IT controls	4	2	▼
Shortage of skilled resources	5	4	▼
Cost of resources	6	6	No change
Insufficient support from management	7	7	No change

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40 percent of survey respondents placed ensuring compliance with SOX and other regulators as the top priority for the coming year. This is followed by:

- Improving efficiency of the SOX function
- Increasing focus on cybersecurity and IT controls
- Replacing legacy technology with new systems

Efficiency gains in mature functions 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.

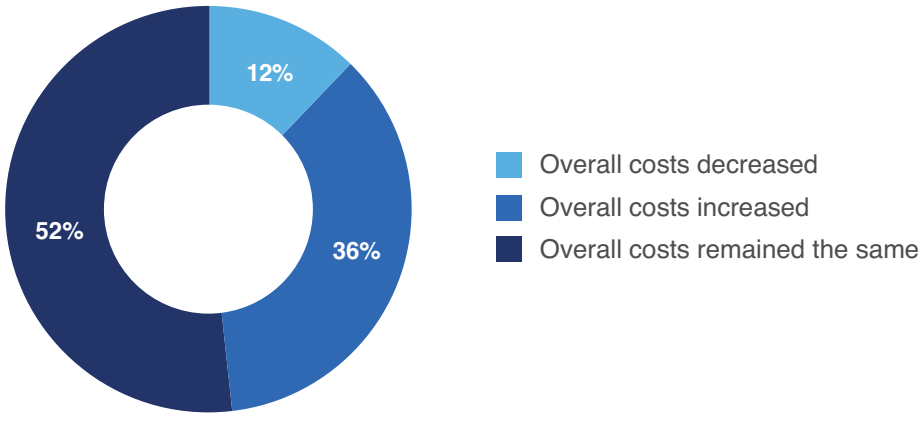
What are your organization's top priorities for the year? *Please rank in order of importance, with number 1 being most important and 7 being least important.*

	2017	2016	Year-over-year comparison
Ensure compliance with SOX and other regulators	1	2	▲
Improve efficiency of the SOX function	2	1	▼
Increasing focus on cybersecurity and IT controls	3	5	▲
Replace legacy technology with new systems	4	-	Not applicable
Strengthen organizational relationships across SOX owners	5	3	▼
Build on talent and skills	6	4	▼
Reduce/enhance organization's risk management capabilities	7	6	▼

COST OF COMPLIANCE

A series of questions were posed to survey respondents targeting the cost of compliance in their organizations. Despite the demands of new accounting standards, such as revenue recognition and lease accounting, on the controls environment, 52 percent of respondents reported that overall costs remained roughly the same. Another 36 percent reported a cost increase, and the remaining 12 percent reported a decrease in overall costs.

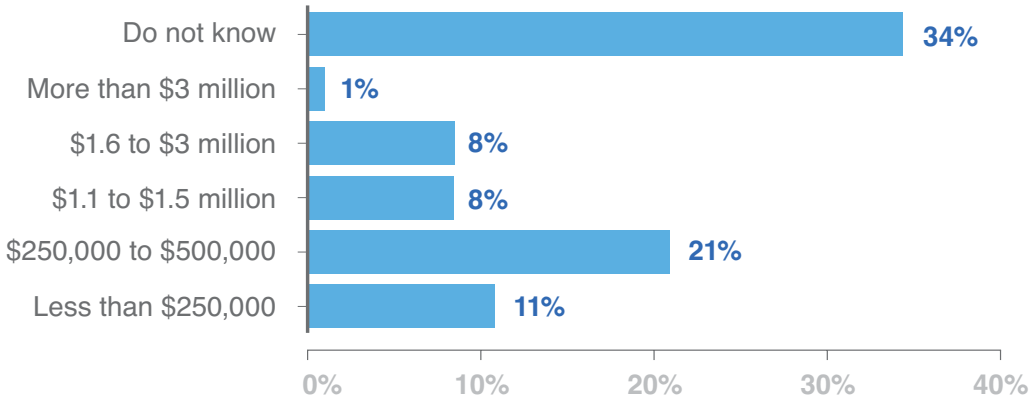
For your previous fiscal year, what change (if any) did you experience in your overall SOX/IC compliance assessment costs?



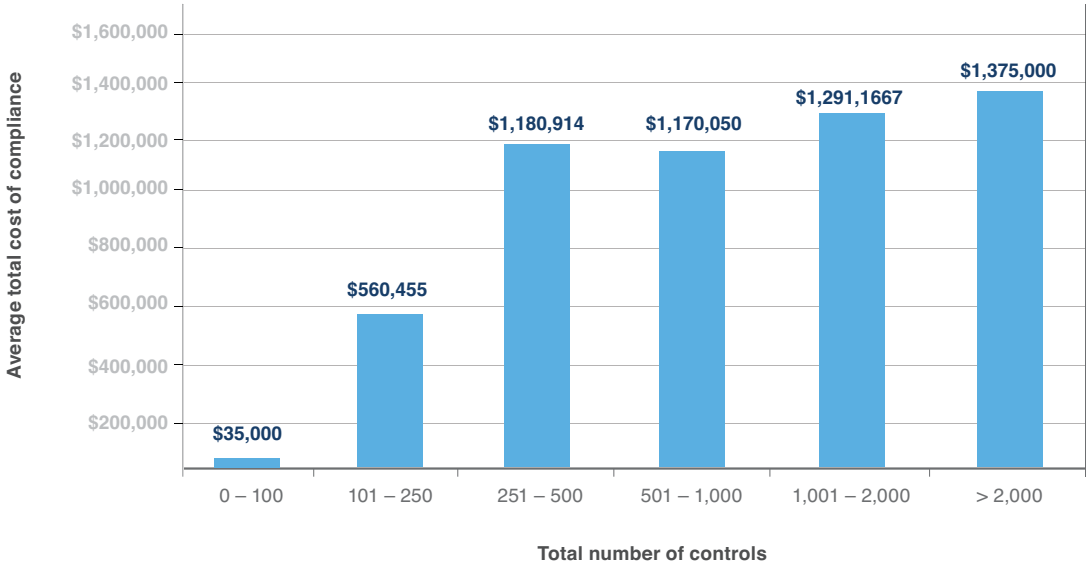
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For annual spending, 56 percent of respondents reported $1.5 million or less, while another 8 percent spent $1.6 million to $3 million. Only 1 percent spent more than $3 million. The remaining 34 percent of respondents did not know their organizations' annual spend.

What is the company's annual spending related to your SOX/IC compliance assessment?



As the total number of controls increased, the average cost of total compliance, including both internal and external costs, also increased.

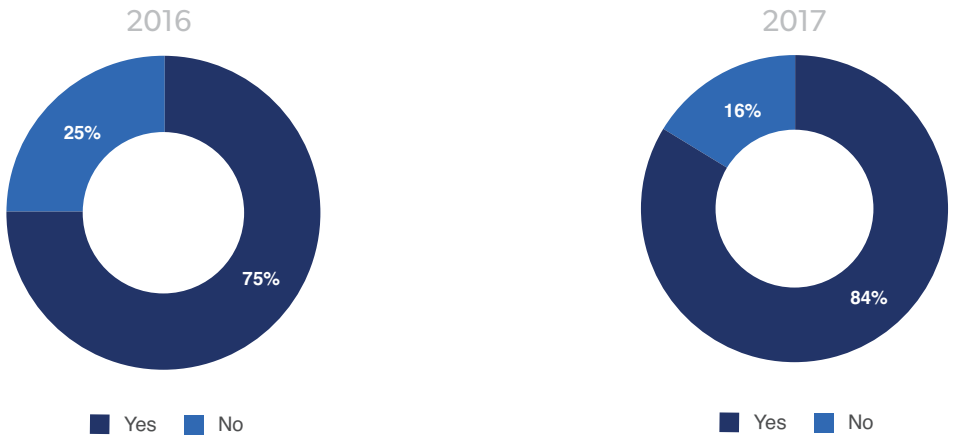


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CONTROL FAILURES

Compared to the previous year, there was a 9 percent increase in the number of respondents that reported control failures.

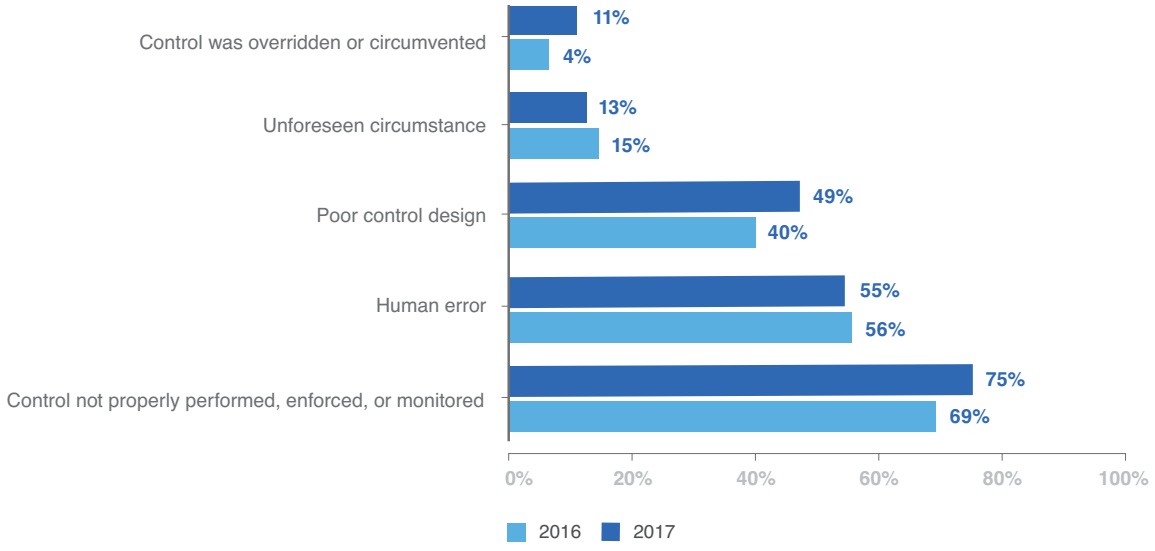
In the past year, did you experience any control issues that lead to deficiencies, significant deficiencies, or material weaknesses?



Year over year, the root causes cited for control failures were the same:

1. Control not properly performed, enforced, or monitored (increased by 5 percent)
2. Human error (decreased by 1 percent)
3. Poor control design (increased by 9 percent)

11 percent of survey respondents reported that a control was overridden or circumvented, up 7 percent from last year, suggesting that work-arounds were prevalent and could have caused deficiencies. Although incremental, human errors and unforeseen circumstances decreased by 1 percent and 2 percent respectively.

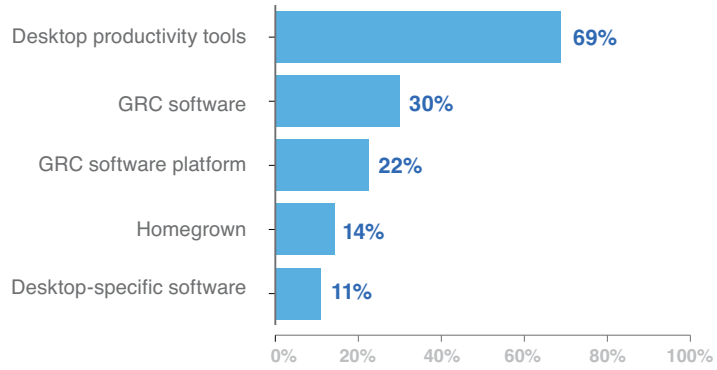


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ROLE OF TECHNOLOGY

All survey respondents indicated the use of some sort of dedicated technology to support their compliance processes. While 52 percent of respondents indicated they use GRC or cloud-specific software, 69 percent still rely on desktop tools as part of the process.

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



CONCLUSION

As highlighted by these survey results, there is no one 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 continues to evolve as regulatory scrutiny on inspections and regulatory uncertainty grows.

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 more functions brought in-house. These changes are placing additional pressure and requirements on SOX and internal control management practitioners, forcing them to do more with fewer resources.

Sarbanes-Oxley was created to improve the quality and reliability of the processes and controls over financial reporting functions within each organization. As regulatory pressure continues to build, organizations look to ensure compliance with SOX and other regulators, making that the top priority for the coming year.

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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 an individual 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 for more information.

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