

# Fine-Tuning SOX Costs, Hours and Controls

*Assessing the Results of Protiviti's 2017  
Sarbanes-Oxley Compliance Survey*

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# Executive Summary

It has been 15 years since the Sarbanes-Oxley Act became law, and while many organizations have settled into complying with its requirements, the compliance process continues to not only be dynamic, but also a subject of ongoing interest. Chief audit executives, chief financial officers, and other finance and internal audit leaders eagerly seek benchmarking data on costs, hours, control counts, and much more, as they determine how and where to streamline compliance activities while addressing numerous regulatory and market changes.

These data points, and much more, can be found in the results of Protiviti's latest Sarbanes-Oxley Compliance Survey.\*

## Key Findings

**Compliance costs appear to be trending down ... or are they?** — For some companies, SOX compliance costs show some decrease compared to last year's survey results. This likely is attributable to organizations completing their work to implement the updated COSO Internal Control — Integrated Framework. However, costs are still on the rise for many companies — the percentage of those annually spending \$2 million or more rose compared to last year. In addition, the data reflects the direct relationship between annual costs and the number of unique locations, as well as the complexity of the organization.

**Hours continue to go up** — Time devoted to SOX compliance activities increased for a majority of organizations last year, and for two out of three of these companies, hours increased by more than 10 percent, underscoring that compliance remains a time-consuming exercise.

**Use of outside resources is on the rise** — Significantly more organizations are relying on outside providers

for SOX compliance activities, both on an outsourced and co-sourced basis. For some companies, this may be a factor in stabilizing compliance costs coupled with the fact that hours dedicated to compliance activities continue to rise.

**Control counts are up** — Similar to costs, control counts have a direct relationship to the number of unique locations within the organization. We also see that, compared to our prior year results, the percentage of entity-level controls classified as key controls has increased — a trend likely resulting from implementation of the updated COSO Internal Control — Integrated Framework.

**Revenue recognition, cyber security and the PCAOB are influencing forces** — SOX compliance efforts continue to be shaped by new and emerging influences, from the new revenue recognition standard and cyber security concerns to the PCAOB's inspection reports on external auditors and the resulting effects on audits of internal control over financial reporting.

**SOX work continues to be viewed as having a positive effect** — Overall, three out of four organizations report that their internal control over financial reporting structure has improved since they began complying with the Sarbanes-Oxley Section 404 requirement.

\* All results presented in this report are from publicly held organizations.



## A Look at SOX Compliance Costs

Within some organizations, there is an interesting development in that there appears to be a slight downward trend in annual SOX compliance costs compared to the prior year. While this is far from an across-the-board trend, this may be explained, at least in part, by the fact that most organizations have now completed implementation work in connection with the updated COSO Internal Control — Integrated Framework. Typically, this was a \$50,000 to \$100,000 exercise.

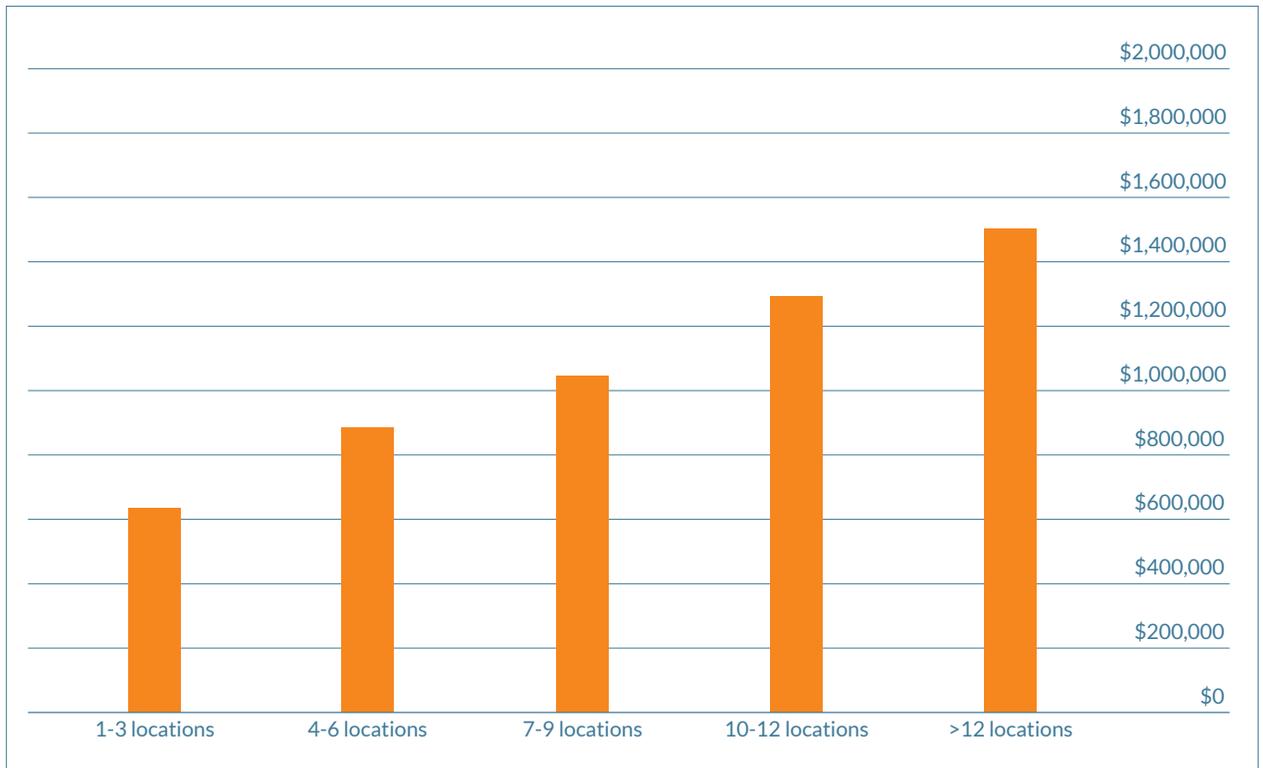
Also of note, in assessing the SOX compliance costs for fiscal year 2014 as reported in our 2015 report, we see that compliance costs today are significantly above where they were two years ago. Thus, any decreases last fiscal year likely reflect, at least in part, the completed implementation of the updated COSO 2013 Internal Control — Integrated Framework.

Yet any decrease in compliance costs is far from universal. While more organizations are able to spend \$500,000 or less annually on SOX compliance, many are spending more than \$2 million — in some cases, a greater percentage than were doing so last year.

Another factor in decreasing SOX costs could be the greater use of outside resources, which has increased significantly compared to last year's findings (see page 20).

Finally, the level of compliance costs closely correlates to the number of unique locations the organization has (a new data point in our survey this year). As expected, the greater the number of unique locations an organization has, the higher its annual SOX compliance costs are, with a nearly \$1 million average swing between the least and most complex organizations (based on number of unique locations).

- • • Annual SOX Compliance Costs (Internal) by Number of Unique Locations



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*“We had issues related to the complexity of IT controls and marketing/advertising costs (in 2015). By remediating those issues, our time and effort dedicated to SOX was significantly reduced.”*

– Chief audit executive, large public technology company

• • • Average Annual SOX Compliance Costs (Internal)

SOX filer status	
Large accelerated filer	\$1,142,000
Accelerated filer	\$802,000
Nonaccelerated filer	\$700,000
Emerging growth company	\$1,222,000

SOX compliance year	
Beyond 2nd year of SOX compliance	\$1,033,000
2nd year of SOX compliance	\$1,117,000
1st year of SOX compliance	\$982,000
Pre-1st year of SOX compliance	\$1,514,000

Industry	
Financial Services	\$1,292,000
Insurance	\$1,200,000
Healthcare Provider	\$1,190,000
Manufacturing	\$1,023,000
Energy/Utilities	\$1,009,000
Technology/Telecommunications	\$966,000
Consumer Products/Retail	\$960,500

Size of organization	
\$20 billion or greater	\$1,983,000
\$10 billion to \$19.99 billion	\$1,158,000
\$5 billion to \$9.99 billion	\$1,174,000
\$1 billion to \$4.99 billion	\$933,000
\$500 million to \$999.99 million	\$684,000
\$100 million to \$499.99 million	\$656,000
Less than \$100 million	\$785,000



## Who Spent \$2 Million or More?

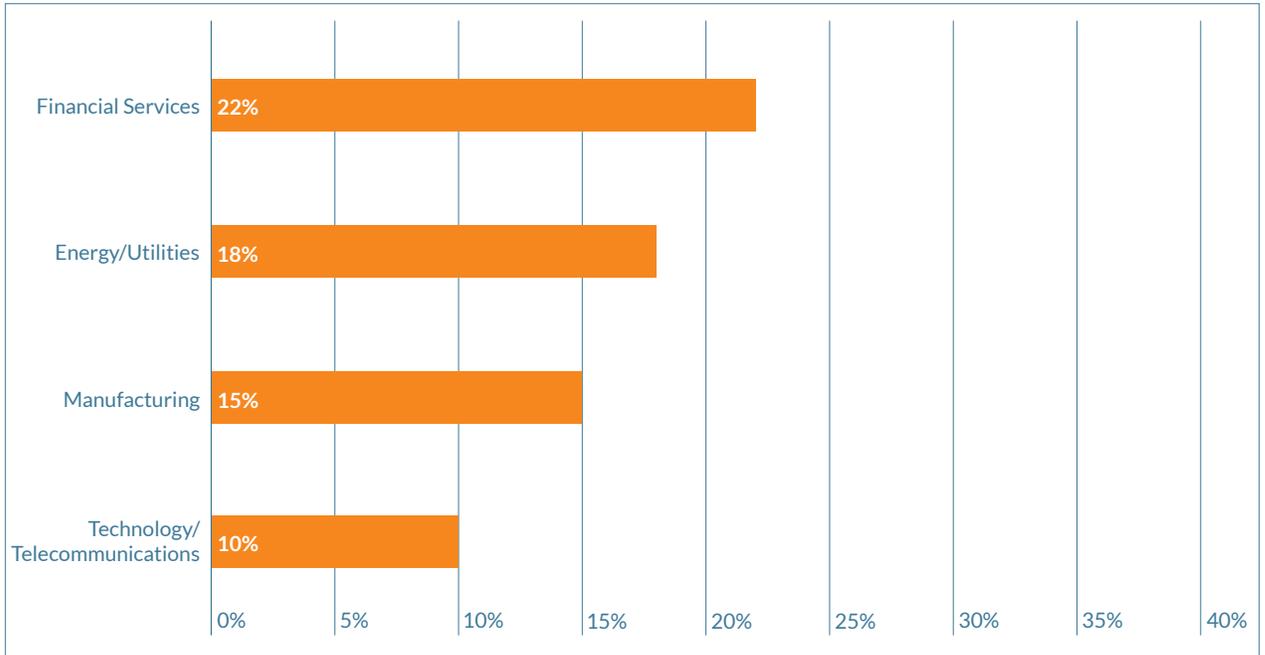
	SOX filer status		
	2017	2016	Year-over-year trend
Large accelerated filer	18%	28%	↓
Accelerated filer	10%	14%	↓
Nonaccelerated filer	5%	2%	↑
Emerging growth company	18%	4%	↑

	Size of organization		
	2017	2016	Year-over-year trend
\$20 billion or greater	53%	54%	↓
\$10 billion to \$19.99 billion	15%	35%	↓
\$5 billion to \$9.99 billion	18%	21%	↓
\$1 billion to \$4.99 billion	9%	6%	↑
\$500 million to \$999.99 million	4%	11%	↓
\$100 million to \$499.99 million	7%	3%	↑
Less than \$100 million	20%	5%	↑

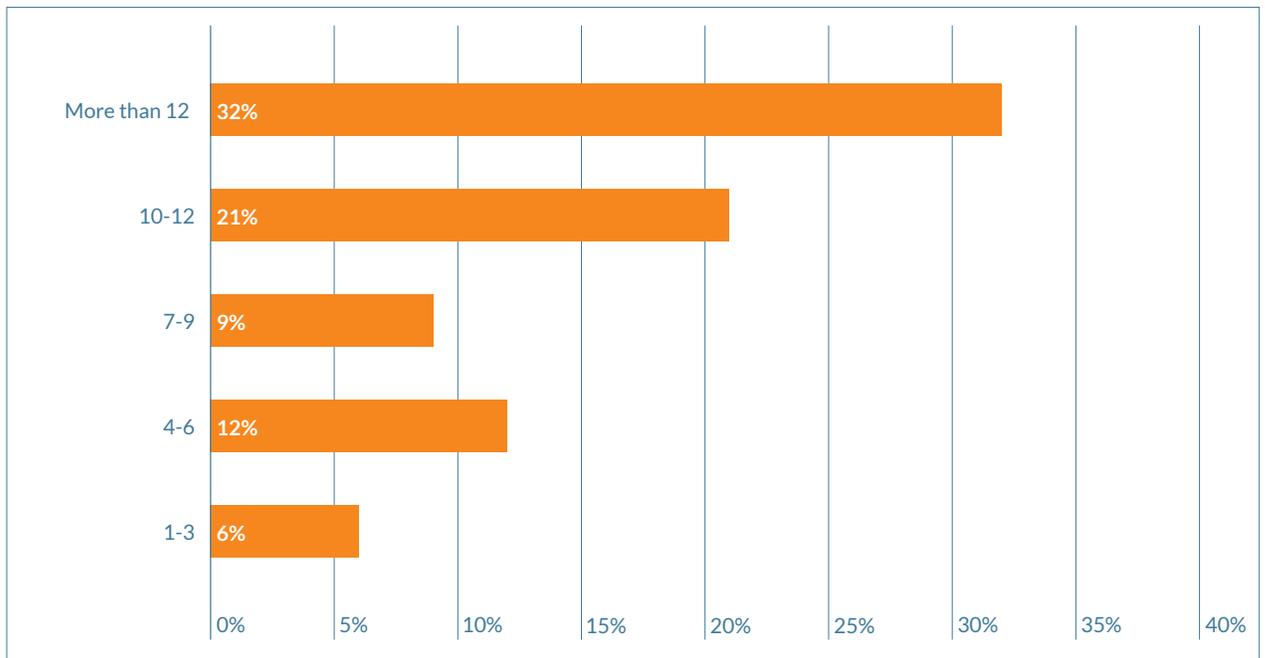
	SOX compliance year		
	2017	2016	Year-over-year trend
Beyond 2nd year of SOX compliance	16%	21%	↓
2nd year of SOX compliance	17%	3%	↑
1st year of SOX compliance	9%	3%	↑
Pre-1st year of SOX compliance	29%	18%	↑

## Who Spent \$2 Million or More? (continued)

- • • *Industry*



- • • *Number of Unique Locations*



## Who Spent \$500,000 or Less?

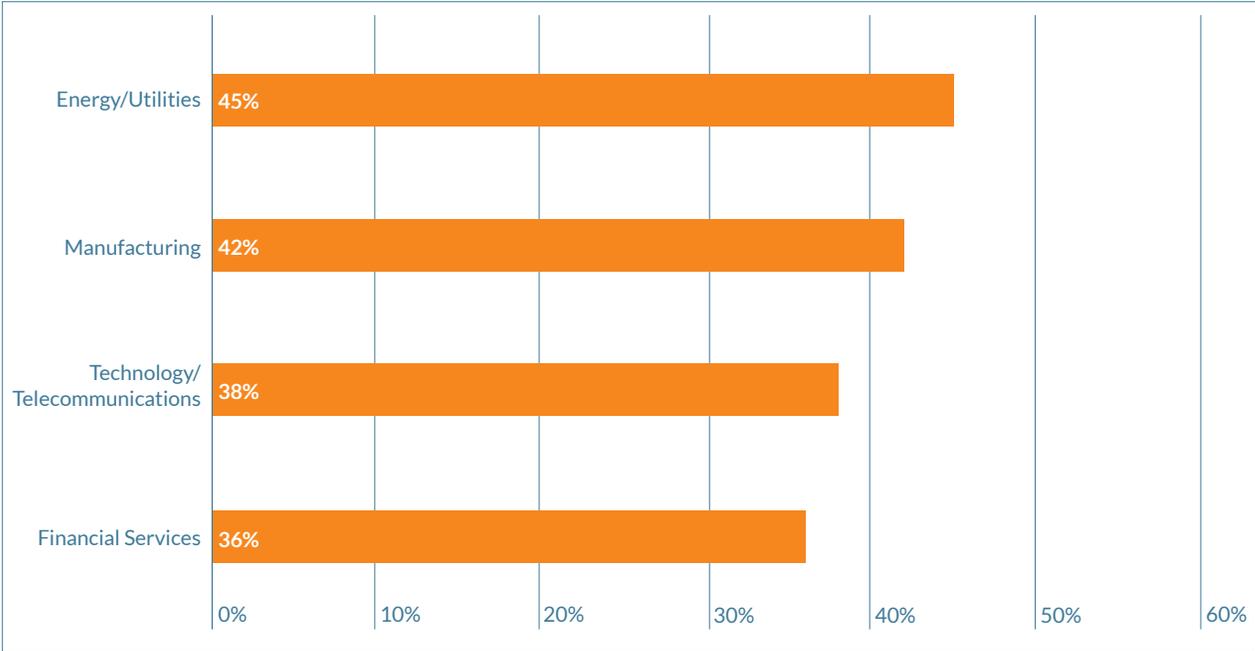
	SOX filer status		
	2017	2016	Year-over-year trend
Large accelerated filer	33%	32%	
Accelerated filer	56%	49%	
Nonaccelerated filer	57%	11%	
Emerging growth company	35%	16%	

	Size of organization		
	2017	2016	Year-over-year trend
\$20 billion or greater	20%	16%	
\$10 billion to \$19.99 billion	27%	30%	
\$5 billion to \$9.99 billion	34%	26%	
\$1 billion to \$4.99 billion	39%	18%	
\$500 million to \$999.99 million	54%	22%	
\$100 million to \$499.99 million	63%	73%	
Less than \$100 million	80%	86%	

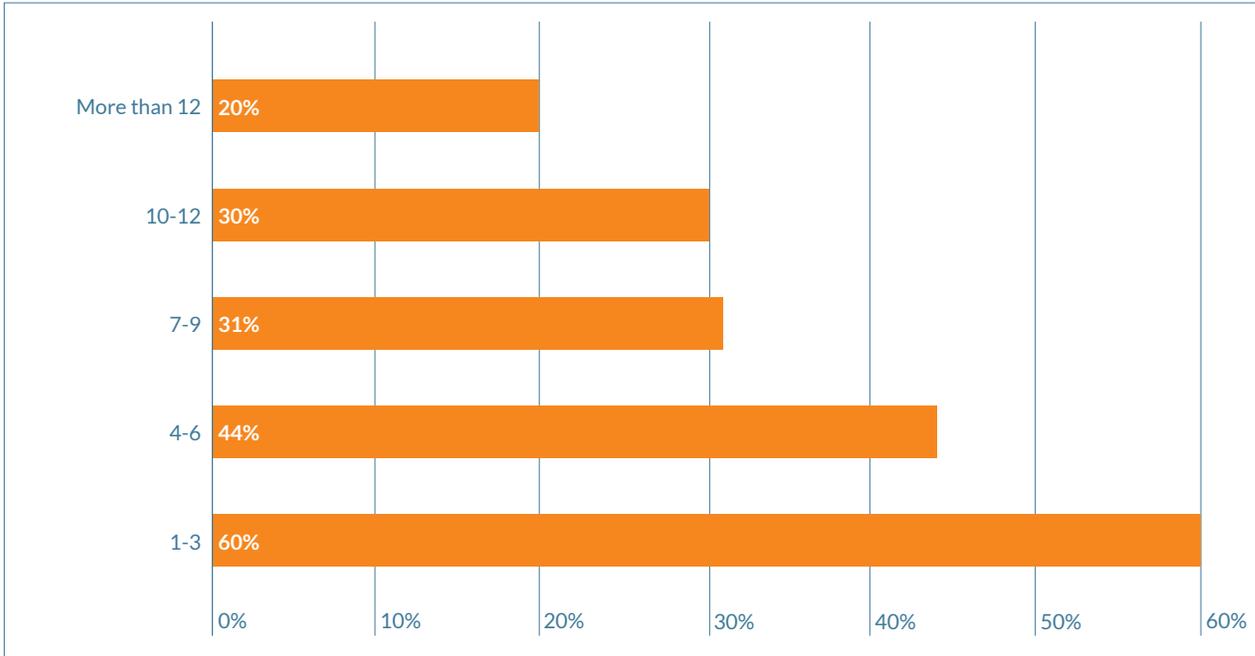
	SOX compliance year		
	2017	2016	Year-over-year trend
Beyond 2nd year of SOX compliance	43%	27%	
2nd year of SOX compliance	21%	8%	
1st year of SOX compliance	41%	12%	
Pre-1st year of SOX compliance	36%	47%	

Who Spent \$500,000 or Less? (continued)

- • • *Industry*



- • • *Number of Unique Locations*



## SOX Compliance and External Audit Costs

For many organization groupings (as assessed by filer status and size), a majority saw increases in their external audit fees, and for significant numbers, the increases were 10 percent or greater.

Note that with regard to external auditor reliance on medium- and low-risk processes, there is a general downward year-over-year trend, with relatively consistent drops in percentages among different company groupings. This trend may have been influenced by the PCAOB's ongoing inspection reports and their focus on external auditors' need to support

their conclusions, as well as an increasing scrutiny of the reliance on the work of others. This also correlates with an increase in external audit fees.

New focal areas for the 2016 audit which had an impact on audit fee increases include the related party Audit Standard AS.18 (recodified as AS.2410), the going concern assessment, non-GAAP disclosures and the associated disclosure controls, increased inquiries around cyber security, and increased intensity in the focus on outsourced Service Organization Control (SOC) reports.

- • • *For fiscal year 2016, what change, if any, did you experience in your external audit fees?*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
Our external audit fees increased	50%	50%	33%	55%
Our external audit fees decreased	6%	8%	19%	12%
Our external audit fees stayed the same	44%	42%	48%	33%

	Size of organization						
	\$20 billion or greater	\$10 billion - \$19.99 billion	\$5 billion - \$9.99 billion	\$1 billion - \$4.99 billion	\$500 million - \$999.99 million	\$100 million - \$499.99 million	Less than \$100 million
Our external audit fees increased	45%	58%	48%	54%	42%	51%	40%
Our external audit fees decreased	4%	4%	5%	9%	16%	11%	10%
Our external audit fees stayed the same	51%	38%	47%	37%	42%	39%	50%

- • • *Do your external auditors rely on work that you do to the fullest extent possible for medium- and low-risk processes?*

	Large accelerated filer		Accelerated filer		Nonaccelerated filer		Emerging growth company	
	2017	2016	2017	2016	2017	2016	2017	2016
Yes	79%	81%	78%	82%	71%	95%	82%	86%

	\$20 billion or greater		\$10 billion – \$19.99 billion		\$5 billion – \$9.99 billion		\$1 billion – \$4.99 billion		\$500 million – \$999.99 million		\$100 million – \$499.99 million		Less than \$100 million	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Yes	84%	84%	73%	79%	79%	81%	79%	88%	84%	90%	77%	82%	60%	77%

*“More emphasis on internal controls from the PCAOB is causing (our) external auditor to test more and ask for more documentation of controls, such as management review controls.”*

– Chief audit executive, midsize public manufacturing company

- • • *If you reported an increase in your external audit fees, please indicate the percentage increase.*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
Increased > 20%	14%	11%	29%	17%
Increased by 16-20%	8%	21%	14%	25%
Increased by 11-15%	13%	19%	0%	25%
Increased by 6-10%	28%	26%	14%	25%
Increased by 1-5%	37%	23%	43%	8%

	Size of organization						
	\$20 billion or greater	\$10 billion – \$19.99 billion	\$5 billion – \$9.99 billion	\$1 billion – \$4.99 billion	\$500 million – \$999.99 million	\$100 million – \$499.99 million	Less than \$100 million
Increased > 20%	18%	14%	10%	15%	21%	7%	25%
Increased by 16-20%	9%	14%	17%	14%	21%	10%	0%
Increased by 11-15%	18%	14%	17%	11%	13%	31%	25%
Increased by 6-10%	23%	36%	26%	24%	25%	28%	50%
Increased by 1-5%	32%	22%	31%	36%	20%	24%	0%

*“Increased scrutiny by the PCAOB on the external auditors has increased the level of effort to satisfy the auditors. Additionally, recent observations from the PCAOB on completeness and accuracy of information produced by the company and management review controls has been a focus.”*

– Chief audit executive, large public manufacturing company

# SOX Compliance Hours on the Rise

The key takeaway from the survey results is that hours required for compliance continue to go up — in many cases, markedly so.

Time devoted to SOX compliance activities increased for a majority of organizations, and for two out of three of these companies, hours increased by more than 10 percent, underscoring that compliance remains a time-consuming exercise. Even for organizations beyond their second year of compliance, while hours required for SOX compliance level off compared with pre-IPO and first-year filers, a majority in this category still saw their hours increase last year.

Note that the trend line for SOX compliance hours is moving up, while for many organizations the trend line for SOX compliance costs is moving down (at least on a year-over-year basis). A possible explanation relates to the growing use of third-party providers, where the business has outsourced business processes and corresponding controls to outside (third-party) providers (see “Outsourcing Practices” section on page 20). Often, third-party providers that replace control activities performed within the business are not captured under the SOX compliance budget, but rather under the business unit budget, because internal transaction controls shift to controls that are reviewed through providers. Thus costs are dispersed and not necessarily captured as part of SOX compliance activities. Nevertheless, management should understand how and where these compliance costs are being incurred in the organization.

New focal areas for the 2016 audit which had an impact on the increase in hours include the related



party Audit Standard AS.18 (recodified as AS.2410), the going concern assessment, non-GAAP disclosures and the associated disclosure controls, increased documentation around cyber security, and increased intensity in the focus on outsourced SOC reports. In addition, the focus to increase control precision has resulted in higher-level controls being broken down into more granular controls around management review controls, adding to overall SOX compliance efforts.

- • • How did the total amount of hours your organization devoted to SOX compliance change in fiscal year 2016?

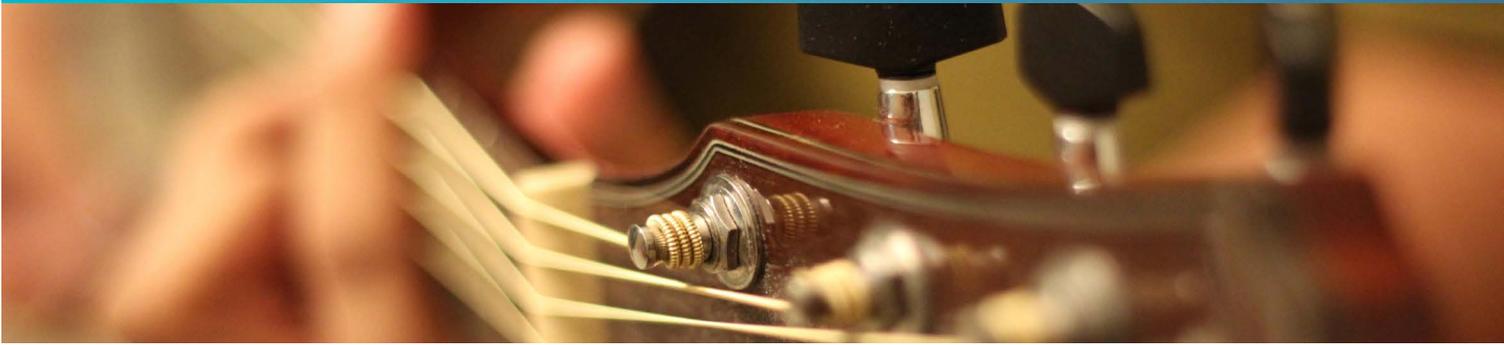
SOX filer status	Hours devoted to SOX compliance increased	Hours devoted to SOX compliance increased more than 10 percent*
Large accelerated filer	50%	59%
Accelerated filer	63%	73%
Nonaccelerated filer	48%	60%
Emerging growth company	63%	68%

Number of unique locations	Hours devoted to SOX compliance increased	Hours devoted to SOX compliance increased more than 10 percent*
More than 12	49%	57%
10-12	67%	82%
7-9	55%	69%
4-6	58%	62%
1-3	55%	65%

Size of organization	Hours devoted to SOX compliance increased	Hours devoted to SOX compliance increased more than 10 percent*
\$20 billion or greater	55%	63%
\$10 billion to \$19.99 billion	60%	67%
\$5 billion to \$9.99 billion	56%	65%
\$1 billion to \$4.99 billion	51%	62%
\$500 million to \$999.99 million	54%	65%
\$100 million to \$499.99 million	61%	66%
Less than \$100 million	60%	67%

SOX compliance year	Hours devoted to SOX compliance increased	Hours devoted to SOX compliance increased more than 10 percent*
Beyond 2nd year of SOX compliance	51%	61%
2nd year of SOX compliance	60%	50%
1st year of SOX compliance	72%	82%
Pre-1st year of SOX compliance	79%	100%

\* Among organizations in which SOX compliance hours increased.



# Benchmarking the SOX Control Environment

There are notable changes in the number of controls organizations are managing, including entity-level controls, process-level controls and IT general controls. Not surprisingly, those organizations with a higher number of locations also have a larger number of overall key controls, including more entity-level controls.

In addition, we see that, in a year-over-year comparison depicted on the following page, the percentage of

entity-level controls classified as key controls increased for the most recent SOX reporting year.

Also of note, an overall majority of organizations are relying on third-party resources (on either an outsourced or co-sourced basis) for compliance activities related to process and IT controls.

One of the sources for the increase in entity-level controls is the addition and expansion of controls around related party transaction identification.

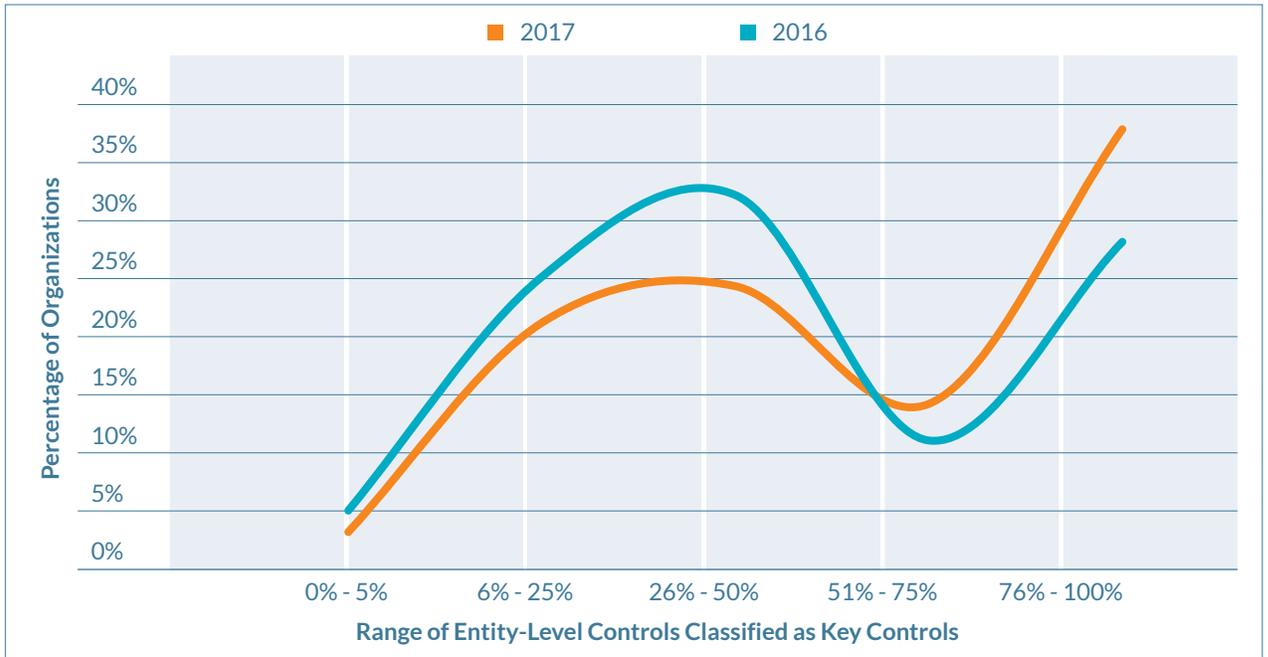
## Entity-Level Controls

- • • *Number of Entity-Level Controls – By Number of Unique Locations\**

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
Less than 15	14%	9%	8%	16%	5%
16 to 25	22%	26%	26%	16%	18%
26 to 35	17%	19%	16%	13%	15%
36 to 45	15%	19%	19%	13%	9%
46 to 55	10%	8%	15%	25%	11%
56 to 75	7%	6%	5%	3%	3%
76 to 95	3%	1%	5%	6%	4%
96 to 115	1%	3%	2%	3%	5%
More than 115	8%	5%	3%	3%	19%

\* Not shown: "Don't know" responses

- Percentage of Entity-Level Controls Classified as Key Controls



- Percentage of Entity-Level Controls Classified as Key Controls – By Number of Unique Locations\*

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
0% to 5%	4%	4%	3%	6%	1%
6% to 25%	17%	29%	27%	31%	12%
26% to 50%	15%	32%	31%	31%	23%
51% to 75%	11%	10%	16%	13%	21%
76% to 100%	53%	25%	23%	19%	43%

\* More detailed breakdowns of this data are available upon request.

## Process-Level Controls

- • • *Number of Process-Level Controls – By Number of Unique Locations\**

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
Less than 35	9%	6%	11%	6%	4%
35 to 55	7%	13%	11%	6%	3%
56 to 75	7%	12%	11%	29%	4%
76 to 95	4%	4%	11%	6%	2%
96 to 115	7%	4%	5%	13%	7%
116 to 135	5%	2%	11%	0%	9%
136 to 155	6%	5%	0%	3%	4%
156 to 175	9%	4%	7%	3%	1%
176 to 195	5%	2%	2%	10%	4%
196 to 215	9%	6%	5%	3%	6%
216 to 235	1%	3%	0%	3%	3%
236 to 255	4%	2%	2%	3%	5%
256 to 300	10%	3%	3%	0%	3%
More than 300	18%	29%	20%	10%	37%

\* Not shown: "Don't know" responses

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*"The design of existing controls has prevented fraud in some parts of the business. Dedicated SOX team involvement in providing advice on process improvement and system implementation have contributed in enhancing existing processes."*

– Audit director, large public financial services company

- Percentage of Process-Level Controls Classified as Key Controls – By Number of Unique Locations\*

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
0% to 5%	1%	2%	2%	3%	2%
6% to 25%	9%	22%	21%	23%	18%
26% to 50%	19%	26%	38%	39%	22%
51% to 75%	24%	24%	13%	10%	20%
76% to 100%	47%	26%	26%	25%	38%

\* More detailed breakdowns of this data are available upon request.

- Percentage of Process-Level Controls Classified as IT General Controls – By Number of Unique Locations\*

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
0% to 5%	6%	10%	2%	3%	7%
6% to 25%	59%	46%	58%	45%	55%
26% to 50%	25%	26%	30%	35%	23%
51% to 75%	4%	13%	5%	10%	7%
76% to 100%	6%	5%	5%	7%	8%

\* More detailed breakdowns of this data are available upon request.

## Time Invested in Key Controls

- • • *During fiscal year 2016, how many hours, on average, would you estimate your organization spent on each key control as it relates to the following activities?\**

	Average no. of hours	Less than 1 hour	1-2 hours	3-4 hours	5-6 hours	7-8 hours	9-10 hours	More than 10 hours
Creating or updating control documentation	4.7	16%	26%	16%	9%	6%	4%	17%
Evaluating or reevaluating control design	4.3	18%	25%	16%	12%	7%	4%	12%
Remediating control design	4.4	26%	16%	15%	11%	7%	4%	14%
Testing for control operating effectiveness	6.4	1%	13%	19%	17%	16%	9%	18%
Retesting if control operating effectiveness is not initially achieved	5.0	9%	24%	19%	13%	9%	6%	14%
Testing management review controls	5.7	6%	20%	19%	14%	12%	5%	18%
Testing other information produced by entity (IPE) for data used to execute key controls	5.4	8%	20%	19%	13%	9%	6%	17%

\* Not shown: "Don't know" responses.

*"Our SOX process is evolving and 2017 will include a renewed look at our SOX documentation (its completeness and inclusion of both key and non-key controls) and the overall adequacy of our identified key controls to ensure that all financial statement assertions are covered for all material classes of transactions."*

– Chief audit executive, large public manufacturing company

## Automating Controls

- • • *For fiscal year 2016, what percentage of your organization's total key controls would you estimate are automated key controls?*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
0%-5%	14%	18%	20%	3%
6%-10%	23%	17%	10%	8%
11%-25%	36%	36%	40%	24%
26%-50%	19%	18%	30%	37%
51%-75%	8%	11%	0%	28%

- • • *To what extent does your organization plan to further automate its manual processes and controls within fiscal year 2017?*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
We have significant plans to automate a broad range of IT processes and controls	14%	14%	30%	52%
We have moderate plans to automate numerous IT processes and controls	37%	38%	30%	34%
We have minimal plans to automate selected IT processes and controls	39%	34%	15%	13%
We have no plans to automate any further	11%	14%	25%	1%

## Outsourcing Practices

- • • *Does your organization use outside resources for SOX compliance activities related to process controls?*

	SOX compliance year				
	All respondents (public companies)	Beyond 2nd year of SOX compliance	2nd year of SOX compliance	1st year of SOX compliance	Pre-1st year SOX compliance
Yes, we use co-source providers	41%	38%	59%	43%	43%
Yes, we outsource our SOX activities	11%	7%	22%	28%	36%
No, we do not use outside resources	48%	55%	19%	29%	21%

- • • *Does your organization use outside resources for SOX compliance activities related to IT controls?*

	SOX compliance year				
	All respondents (public companies)	Beyond 2nd year of SOX compliance	2nd year of SOX compliance	1st year of SOX compliance	Pre-1st year SOX compliance
Yes, we use co-source providers	42%	41%	52%	42%	36%
Yes, we outsource our SOX activities	19%	16%	28%	29%	43%
No, we do not use outside resources	39%	43%	20%	29%	21%



## SOX Trends and Hot Topics

Within the realm of SOX compliance, there are a number of hot topics and trends that organizations are focusing on as part of the surprisingly dynamic nature of the compliance process. In this section, we take a look at relevant survey results and provide commentary that sheds light on the following SOX compliance trends:

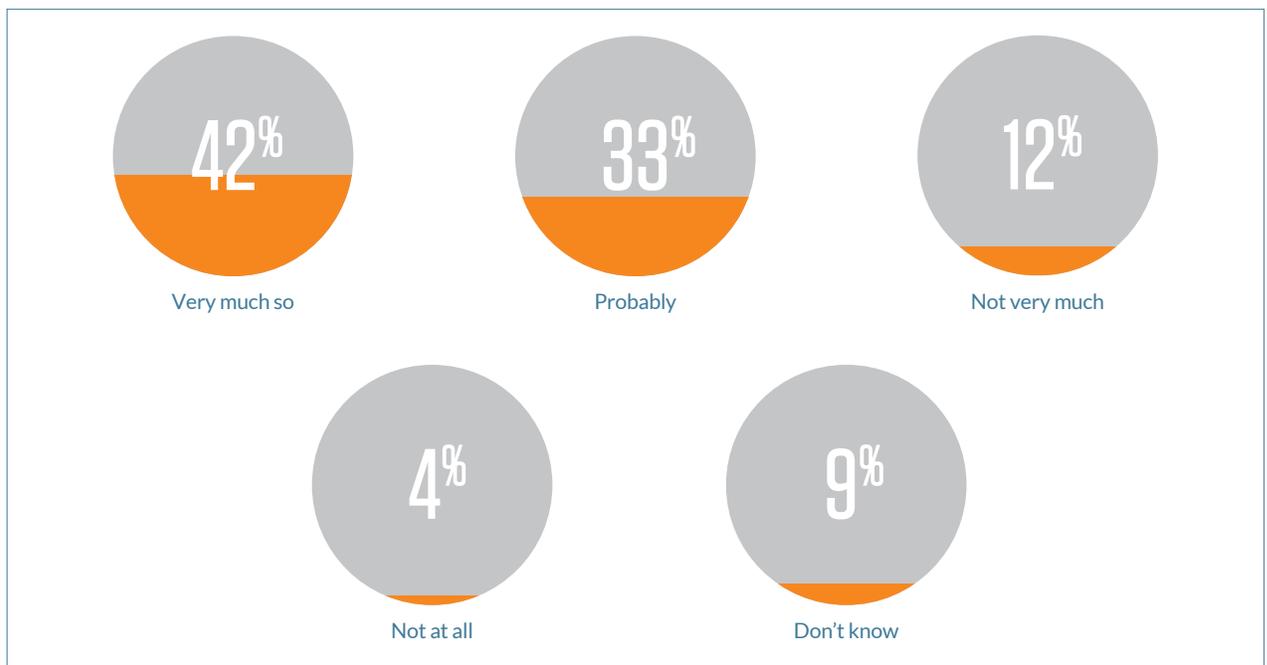
- Effects of PCAOB inspection reports on external auditors
- Testing information produced by entity (IPE)
- New revenue recognition standard
- Cyber security
- SOC 1 reports
- SOX compliance changes and benefits

## Effects of PCAOB Inspection Reports of External Auditors

The PCAOB has commented that the inspection results for the global network audit firms have been improving.<sup>1</sup> The 2015 inspection reports that were released in 2016 and early 2017 show across-the-board improvement in inspection results at the 10 annually inspected audit firms. Companies are seeing this reflected in the increased intensity of focus on

a variety of topical areas in the internal control over financial reporting (ICFR) program by their auditors. As the audit firms increase their training efforts and internal quality programs, the “hot topic” messages are spread around. The results for SEC filers are more time and cost from the auditor to shore up common ICFR inspection deficiency areas.

- • • *If your external audit firm required significant changes to SOX compliance activities in 2016, to what extent do you believe those changes are the result of the inspections of the registered accounting firms by the PCAOB?*

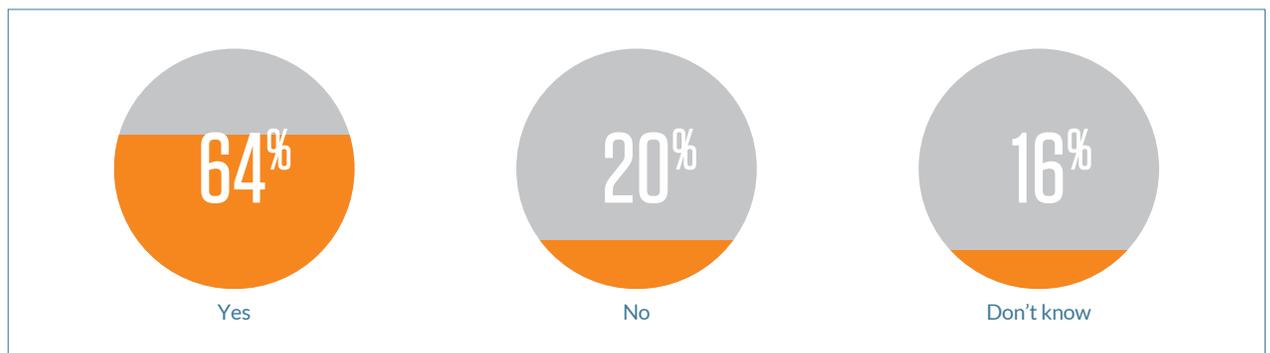


<sup>1</sup> The Global Network firms (BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited) audited 99 percent of the total market capitalization of issuers during the 2011-2014 inspection cycles. <https://pcaobus.org/Inspections/Documents/Inspection-Brief-2015-2-2015-Inspections.pdf>.

- • • *Indicate the impact of the PCAOB's inspection reports on external auditors on your organization's costs for the following SOX compliance activities.*

	Extensive/Substantial		Moderate		Minimal/None	
	2017	2016	2017	2016	2017	2016
Risk assessment and scoping	38%	29%	34%	40%	28%	31%
Selecting controls to test	37%	30%	36%	40%	27%	30%
Testing review of controls	50%	46%	33%	34%	17%	20%
Testing system reports and other IPE	56%	50%	29%	32%	15%	18%
IT considerations	35%	41%	33%	39%	32%	20%
Roll-forward of controls testing from an interim date	37%	29%	36%	38%	27%	33%
Using the work of others	49%	30%	35%	36%	16%	34%
Evaluating identified control deficiencies	36%	36%	34%	39%	30%	25%

- • • *Is your external audit firm placing more focus on evaluating deficiencies?*



## Testing IPE

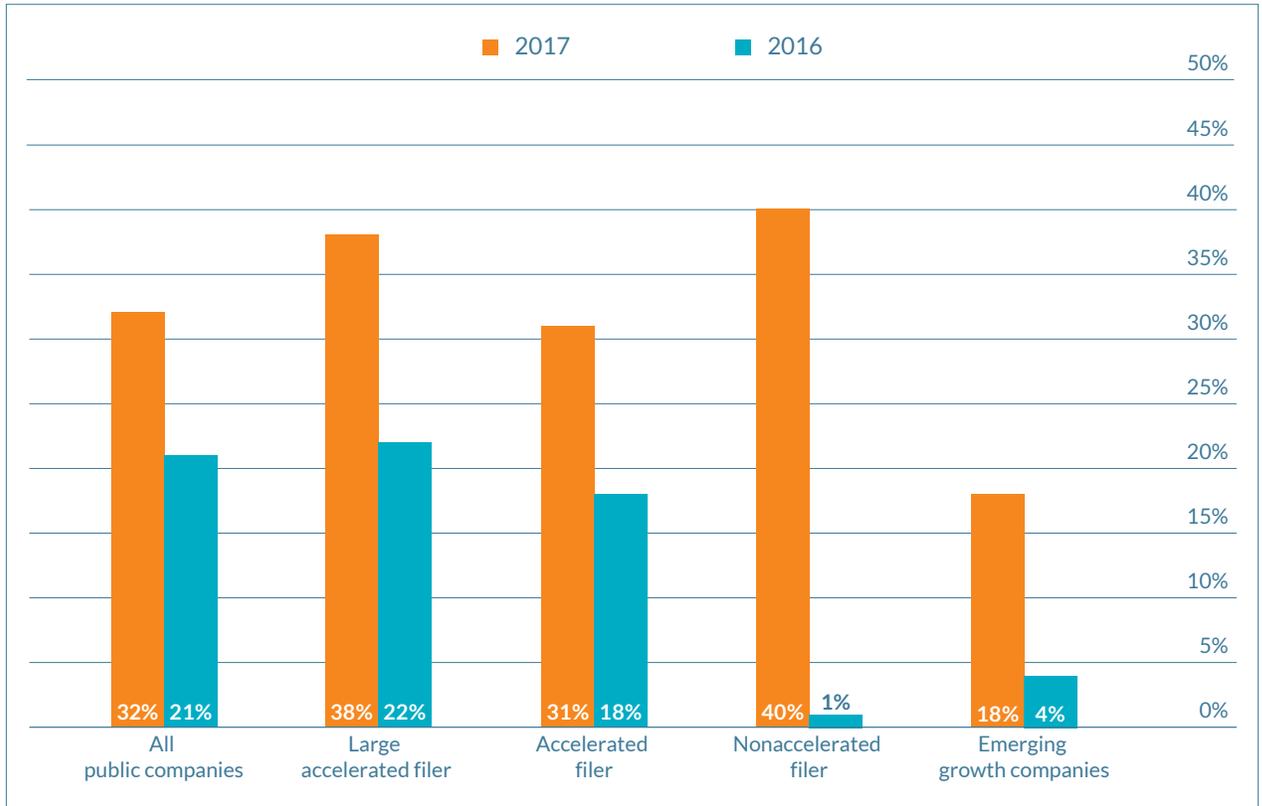
Information produced by entity is one of the PCAOB inspection hot topic areas in which the PCAOB has found deficiencies across most audit firms. As a result, with the auditors shoring up the ICFR audit around IPE, organizations are increasing their testing of IPE significantly. IPE is a critical area of focus once the auditor attestation requirements of SOX become

effective for an individual company. Note that for fiscal year 2015, approximately one in five public companies reported testing IPE every time a control that uses it was tested. For 2016, that figure increased to 29 percent. Similar jumps are evident among different organizational groupings based on SOX filer status.

- • • *To what extent do you test other information produced by entity (IPE) for data used to execute key controls?*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
We test IPE every time we test a control that uses it	38%	31%	40%	18%
We test IPE once a year for each key control, and do not test it again if its source has not had any changes made to it	38%	38%	35%	34%
We test IPE on a rotational basis with coverage every 2-3 years	10%	16%	15%	42%
Not sure	14%	15%	10%	6%

- • • Organizations that test IPE every time a control using IPE is tested



*“(We) would like to move in the direction where the SOX process can be used as the basis for continuous improvement throughout the organization.”*

– Chief audit executive, large public manufacturing company

## New Revenue Recognition Standard

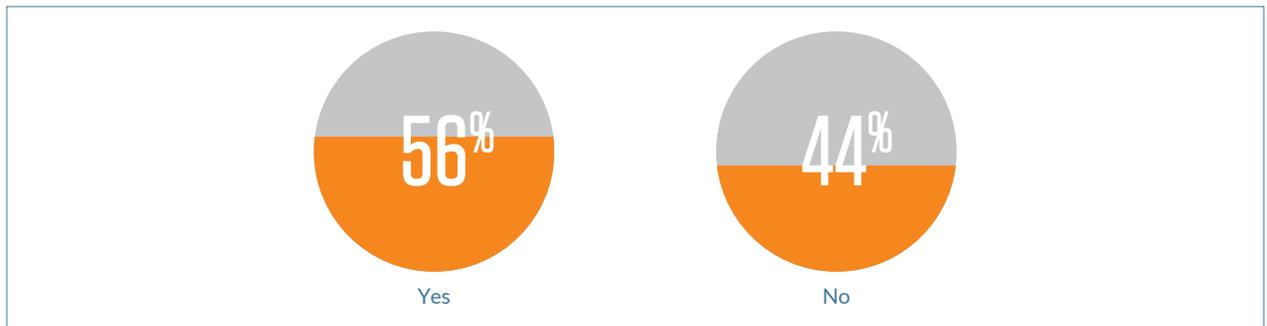
As expected, a majority of public companies have started the process of updating their controls documentation as part of their broader efforts to prepare for the new revenue recognition accounting standard that, for most, goes into effect next fiscal year. This suggests that these organizations are already well along in their preparation, as they have performed much of the antecedent work necessary to update their controls in the transition to the new revenue recognition standard, including identifying gaps and updating critical accounting policies, among other key steps.

With respect to SOX compliance activities, the most significant changes stemming from the new revenue

recognition standard will happen during the next fiscal year, when the new standard is formally in effect. Thus, we expect to see these changes apparent in next year's survey results. Furthermore, organizations should expect another round of significant accounting preparation and SOX compliance program changes in the following fiscal year (i.e., two years from now), when the new lease accounting standard goes into effect.<sup>2</sup>

For more information on the new revenue recognition standard and how organizations should be preparing, see the accompanying sidebar on page 28.

- • • *Has your organization started updating its controls documentation to reflect the implementation of the revenue recognition accounting standard?*



<sup>2</sup> In February 2016, the Financial Accounting Standards Board (FASB) released a new standard on accounting for leases. This standard will revolutionize lease accounting for lessees, affecting all companies and organizations — whether public, private or not-for-profit — that lease assets such as real estate, airplanes, ships, and construction, office or manufacturing equipment. For public companies, the new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (thus, calendar year reporting companies must adopt the standard in 2019). For more information, read Protiviti's Flash Report, "Here We Go Again — Transitioning to the New Leases Standard," March 1, 2016, available at [protiviti.com](http://protiviti.com).

### Notable Effects of Revenue Recognition on SOX Compliance

- • • To what degree did you note the following changes in your organization's SOX compliance program in 2016?\*

	Extensive/Substantial		Moderate		Minimal/None	
	2017	2016	2017	2016	2017	2016
Changes/increase in process control documentation for high-risk processes	35%	31%	34%	36%	31%	33%
Increased scrutiny from external auditors on testing exceptions/deficiencies	34%	28%	34%	32%	32%	40%
Increase in testing at year-end vs. interim date	30%	22%	23%	28%	47%	50%

\* These are three areas of SOX compliance that will be affected by the new revenue recognition standard. These findings are excerpted from a question posed in a broader context about changes in the SOX compliance program in 2016 (see page 33 for more detailed results).

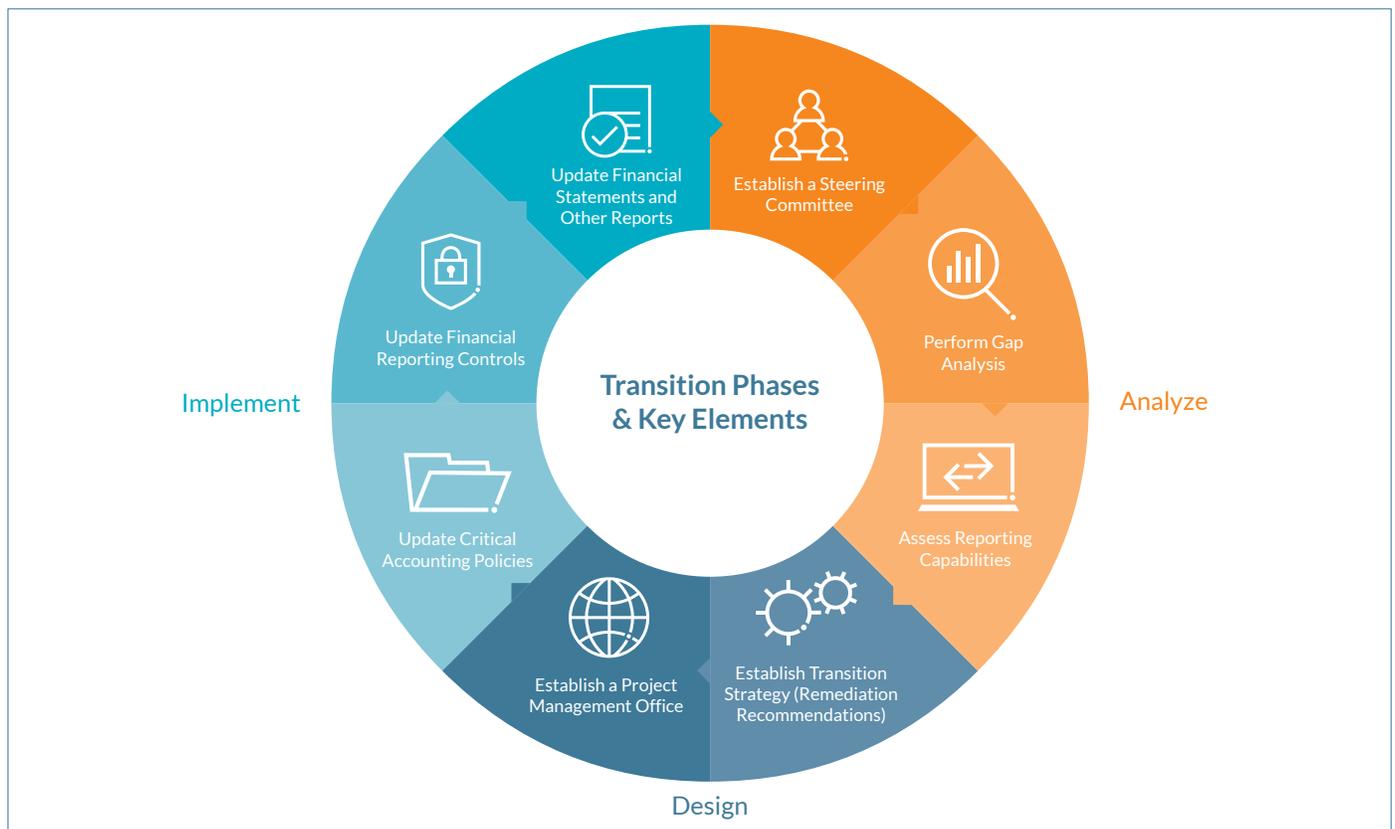


## Preparing to Apply the New Revenue Recognition Standard

The Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, was issued on May 28, 2014. This guidance was the result of a collaborative effort by the FASB and the International Accounting Standards Board (IASB) to agree on a global standard based on common principles that can be applied across industries and regions. After a subsequent announcement of a deferral, the new revenue recognition standard becomes effective no later than annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. For example, a calendar year reporting company will be required to apply the new standard during 2018, including the interim periods, beginning in the first quarter.<sup>3</sup>

Well beyond SOX compliance issues, many companies are seeking guidance with the transition efforts to the new standard – specifically, they want to define and implement an approach that results in a smooth transition and sustainable processes. A structured transition plan, as illustrated below, will help to evaluate the critical work streams, align the organization and provide transparency through a defined PMO.

### • • • A Structured Approach – Transitioning to the New Revenue Recognition Standard



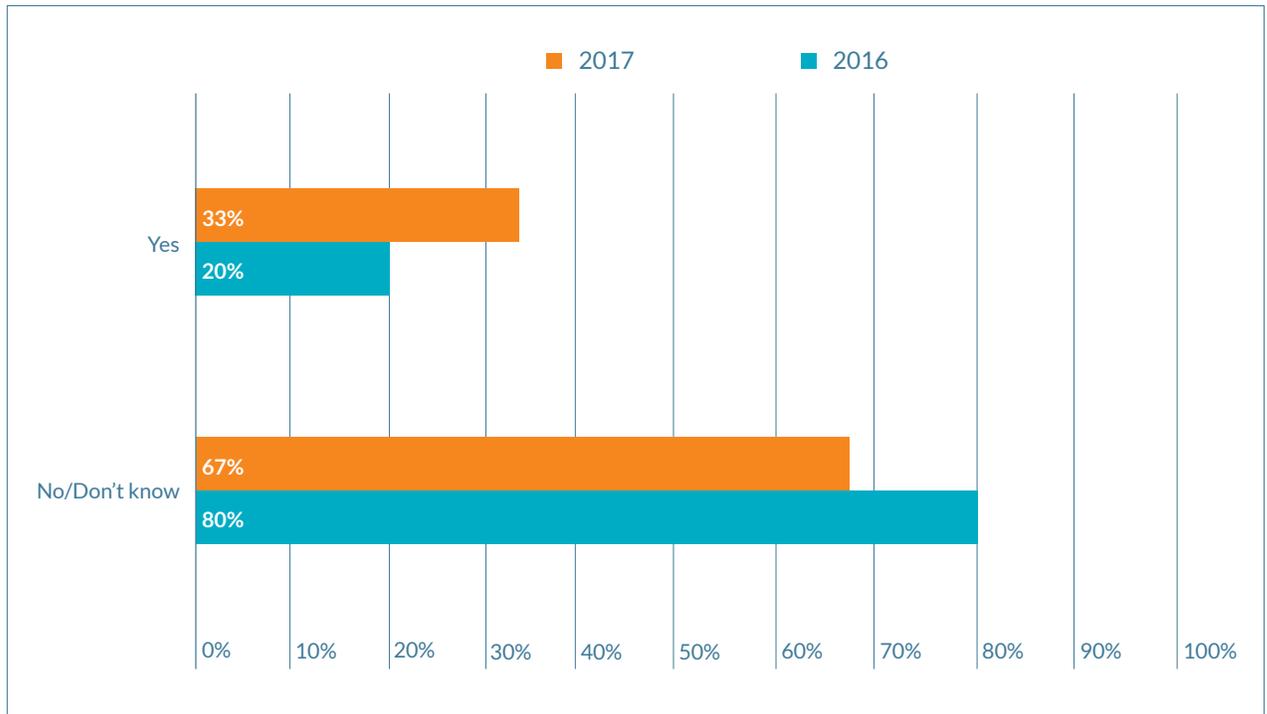
<sup>3</sup> For more information, read Protiviti's Flash Report, "It's Here, Are You Ready? – Transitioning to the New Revenue Recognition Standard," June 2, 2014, available at [protiviti.com](http://protiviti.com).

## Cyber Security

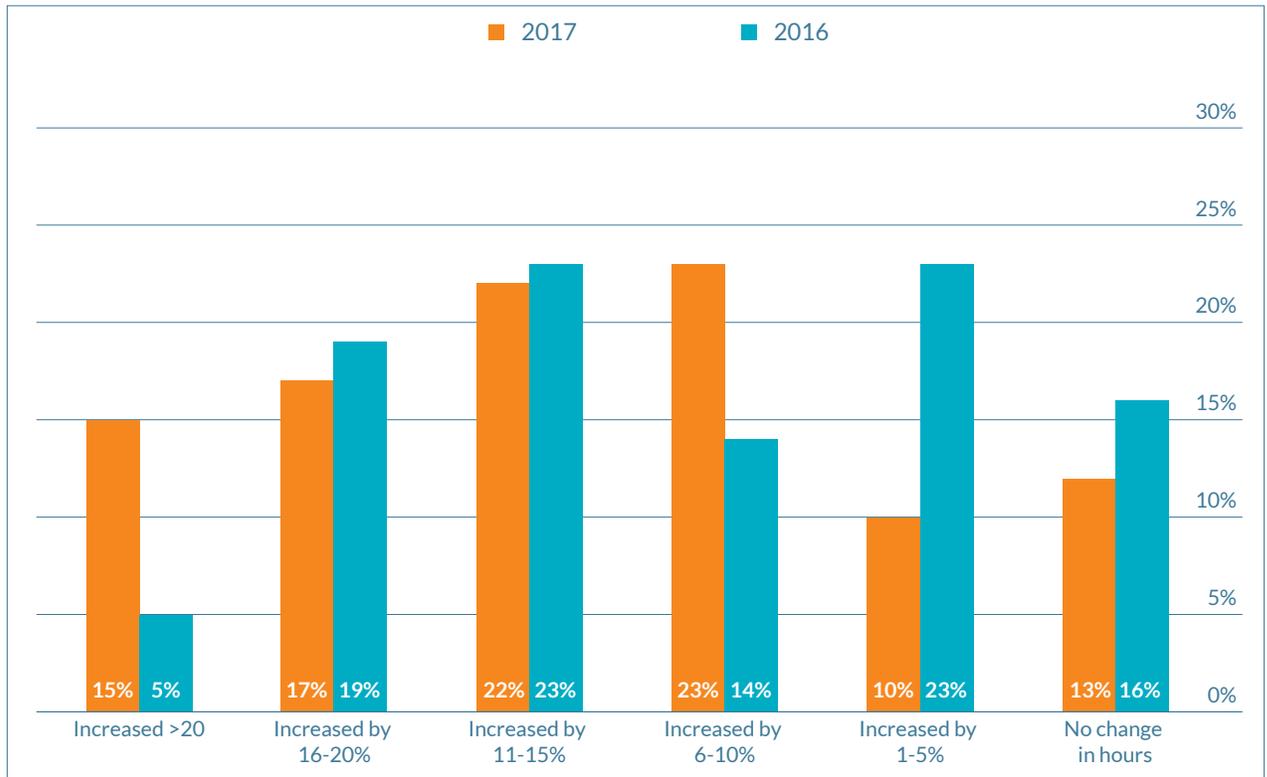
There was a significant jump in cyber security disclosures in 2016 compared to the prior year – not a surprise considering the prevalence of cyber attacks and breaches over the past 12 months, coupled with scrutiny from external auditors, management and the board of directors with regard to these issues.

We are seeing all of the external audit firms come forward with their own unique cyber security control questionnaires to understand the company’s process for identifying any possible breaches. We anticipate that there will be increased discussion and scrutiny around the related cyber security internal controls in fiscal year 2017.

- • • *Was your organization required to issue a cyber security disclosure (according to CF Disclosure Guidance: Topic No. 2)?*



- • • *IF YES: What was the impact on the total number of hours your organization devoted to SOX compliance during the fiscal year?*



*“Our company has an enhanced focus on internal controls – when new processes are implemented, management is proactive in ensuring proper internal controls are built in.”*

– Audit director, large public food and beverage company

## SOC 1 Reports

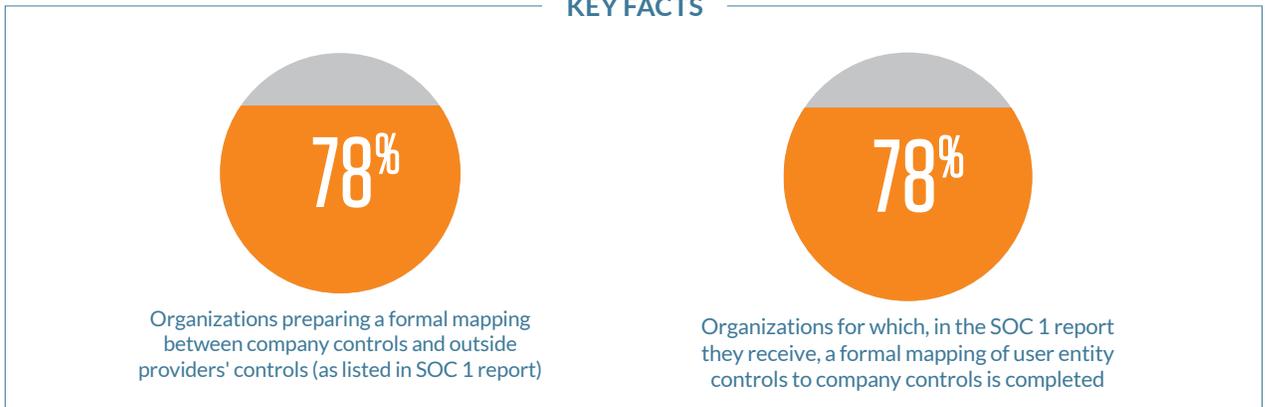
As companies outsource more processes and systems, they cannot outsource the responsibility for the controls over those areas. We see in our survey results that companies are becoming more sophisticated in their analysis of the Service Organization Control

(SOC) 1 reports. They are addressing input and output controls where SOC reports do not exist and are performing on-site audits where necessary. We expect to see this remain a focal area for the external auditors in 2017.

- • • *For processes that your company outsources, are you receiving SOC 1 reports?*



### KEY FACTS



- • • *For processes that your company outsources, how often are they able to rely solely on management review controls for testing outsourced provider controls?*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
0%-5%	17%	17%	25%	5%
6%-10%	7%	4%	10%	5%
11%-25%	13%	19%	0%	19%
26%-50%	24%	27%	25%	37%
51%-100%	39%	33%	40%	34%

- • • *For processes that your company outsources, have you had to audit the supplier on site to gain sufficient comfort around the control environment?*

	SOX filer status			
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
Yes	30%	33%	40%	60%

## SOX Compliance Changes and Benefits

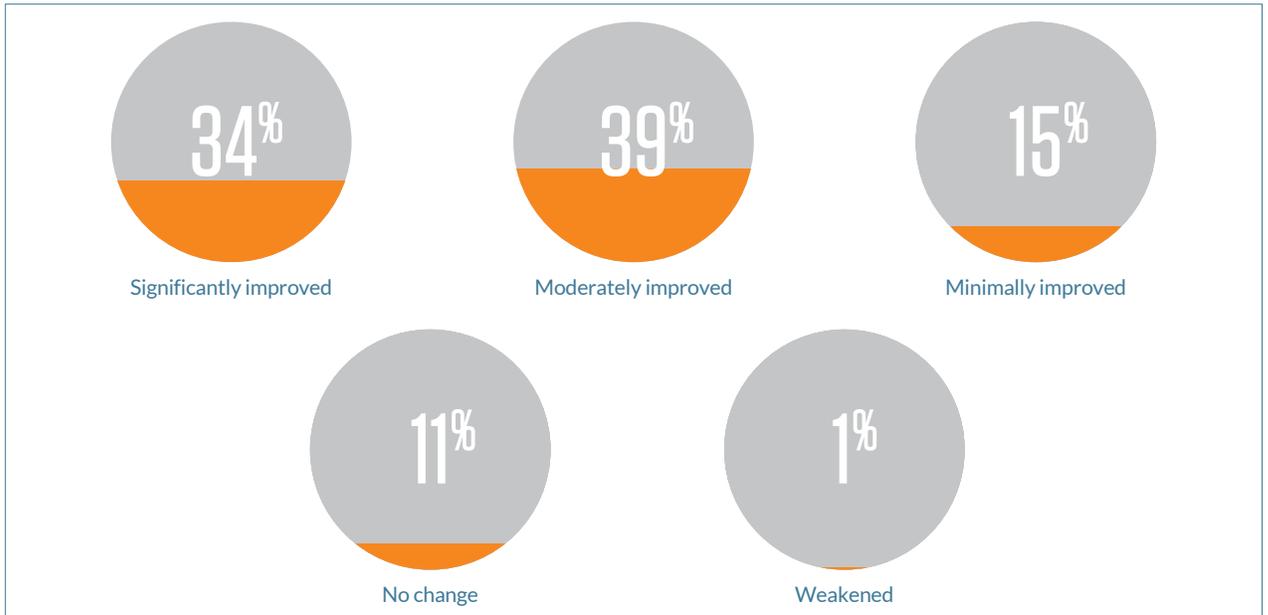
While Sarbanes-Oxley is a regulatory compliance requirement, if this requirement was removed, many companies very likely would continue to perform a certain level of this internal assurance work because of

the value that it generates. The capital markets show that there is a lower cost of capital to companies that have an ICFR external audit opinion.

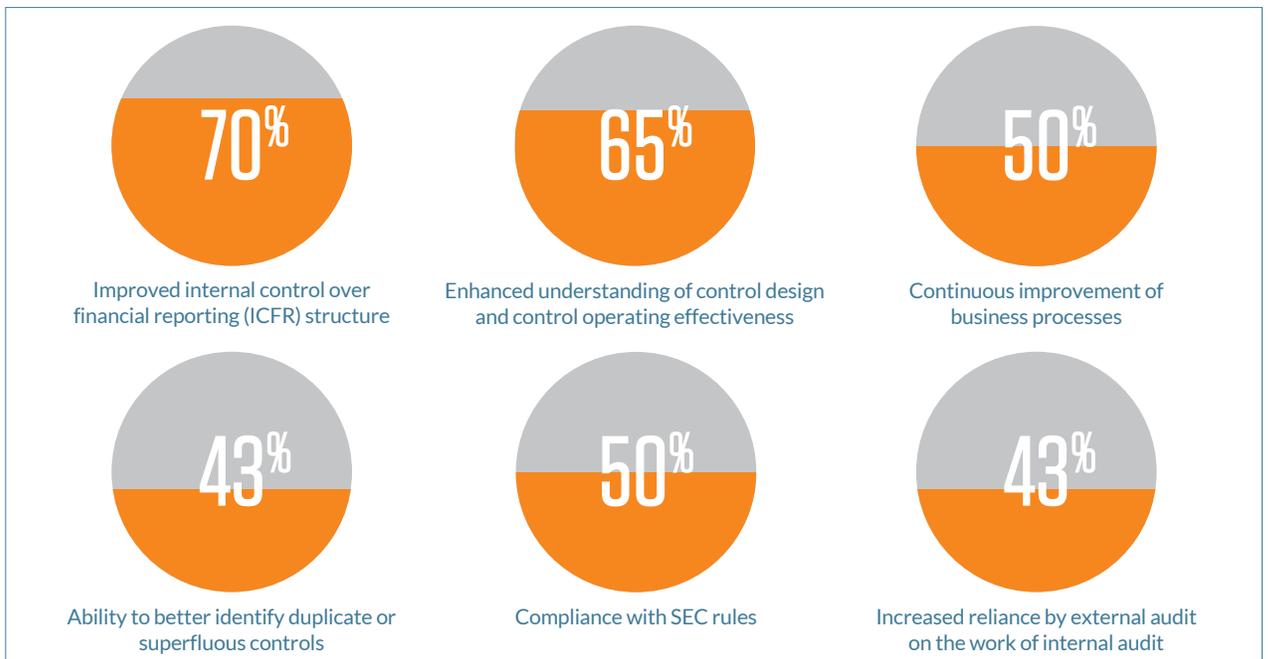
- • • *To what degree did you note the following changes in your organization's SOX compliance program in 2016?*

	Extensive/Substantial		Moderate		Minimal/None	
	2017	2016	2017	2016	2017	2016
Expansion of scope related to IT general controls	35%	28%	34%	37%	31%	35%
Changes/increase in process control documentation for high-risk processes	35%	31%	34%	36%	31%	33%
Increase in scope to baseline test more IT reports	34%	27%	32%	36%	34%	37%
Increased scrutiny from external auditors on testing exceptions/deficiencies	34%	28%	34%	32%	32%	40%
Increase in total control count	33%	27%	25%	44%	42%	29%
Increased testing of controls over management judgments and estimates	32%	26%	36%	36%	28%	38%
Increase in the frequency of "walkthroughs" to gain and document an understanding of key business processes	31%	25%	27%	32%	42%	43%
Increase in focus on segregation of duties	31%	23%	34%	35%	35%	42%
Significant change in the organization's internal control environment	31%	22%	29%	28%	40%	50%
Fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	30%	22%	28%	32%	42%	46%

- • • *How has the internal control over financial reporting (ICFR) structure changed since SOX Section 404(b) was required for your organization?*



- • • *Considering the lifecycle of your SOX program until now, what are the primary benefits your organization has achieved through its SOX compliance process? (Multiple responses permitted)*

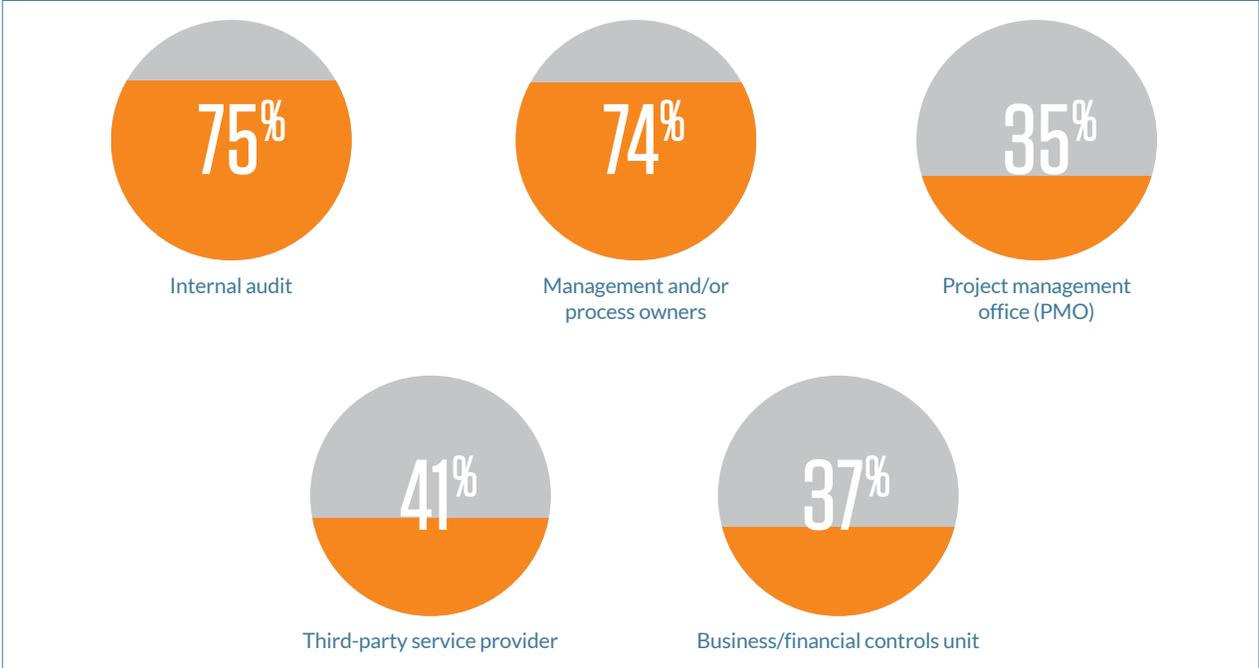


# Appendix – Other Notable Findings

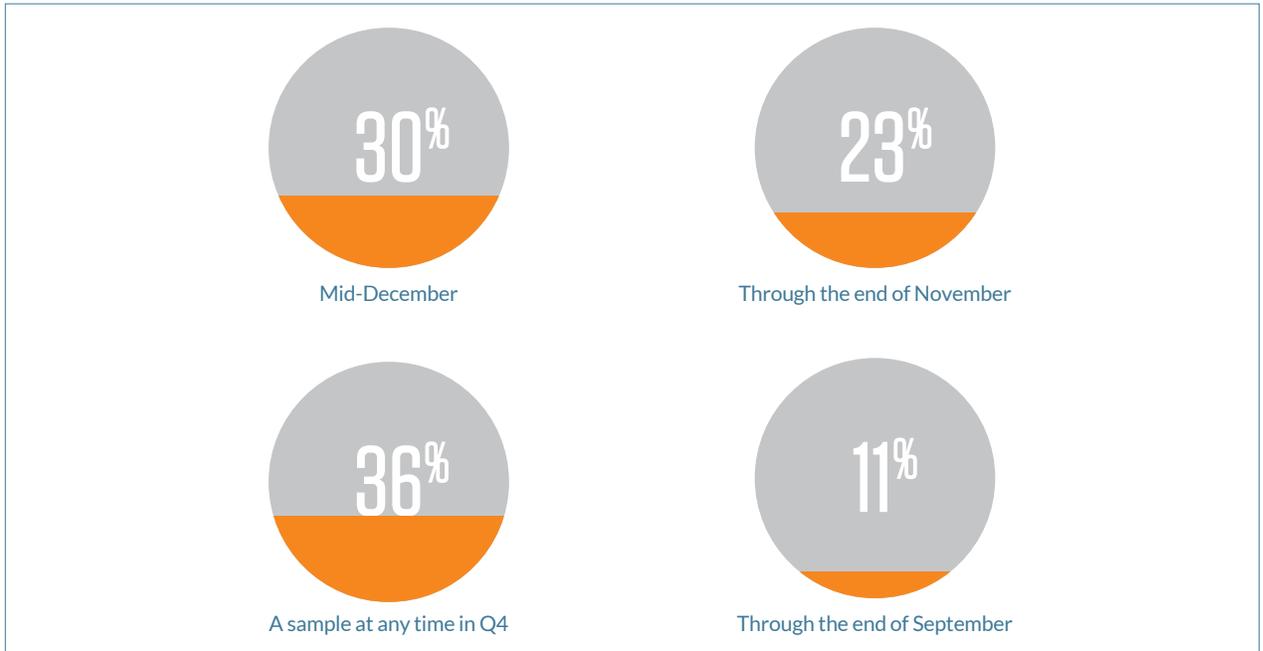
- • • Do you baseline test system-generated reports used in key SOX controls?



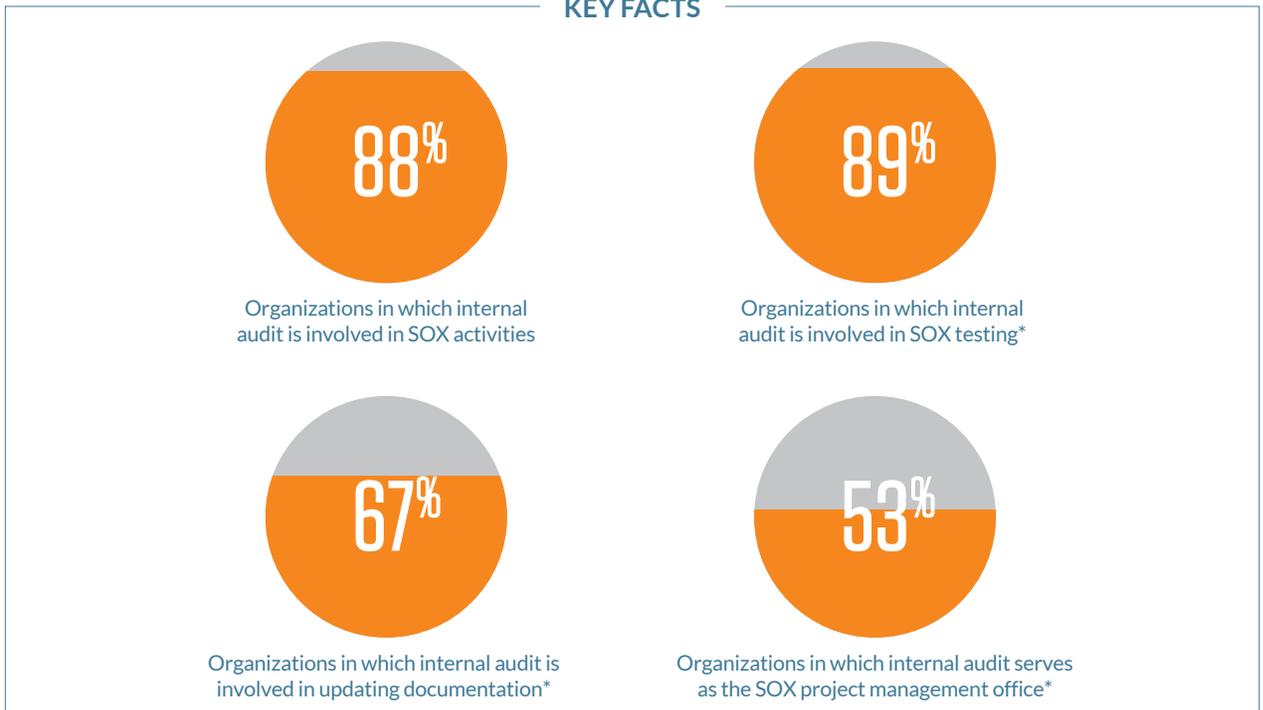
- • • Who in your organization supports SOX testing efforts? (Multiple responses permitted)



- • • *How late in the year does the population of year-end update testing need to be completed?*



#### KEY FACTS



\* Among organizations in which internal audit is involved in SOX activities

# Survey Methodology and Demographics

More than 460 respondents (n=468) from publicly held organizations participated in Protiviti’s 2017 Sarbanes-Oxley Compliance Survey, which was conducted online during the first quarter of 2017. Survey participants

also were asked to provide demographic information about the nature, size and location of their businesses, and their titles or positions. We are very appreciative of and grateful for the time invested in our study by these individuals.

- • • *Position*

Chief Audit Executive (CAE)	14%
Other C-suite executive	3%
Audit Director	15%
Finance Director	2%
Corporate Sarbanes-Oxley Leader/PMO Leader	11%
Business Unit Control Leader	1%
Corporate Controller	3%
Audit Manager	24%
Finance Manager	2%
Audit Staff	19%
Finance Staff	1%
Risk Management	3%
Other	2%

• • • *Industry*

Financial Services	19%
Manufacturing	15%
Technology	8%
Retail	7%
Professional Services	3%
Consumer Products	4%
Energy	6%
Insurance (excluding Healthcare - Payer)	4%
Healthcare – Provider	2%
Real Estate	4%
Hospitality	4%
Education	1%
Services	2%
Government	1%
Distribution	2%
Life Sciences/Biotechnology	3%
Telecommunications	3%
Utilities	2%
Healthcare – Payer	1%
Media	1%
Other	8%

- • • *Size of Organization (by gross annual revenue)*

\$20 billion or greater	12%
\$10 billion - \$19.99 billion	10%
\$5 billion - \$9.99 billion	18%
\$1 billion - \$4.99 billion	32%
\$500 million - \$999.99 million	13%
\$100 million - \$499.99 million	13%
Less than \$100 million	2%

- • • *Current SOX Compliance Reporting Status*

Beyond 2nd year of SOX compliance	78%
2nd year of SOX compliance	9%
1st year of SOX compliance	9%
Pre-1st year SOX compliance	4%

- • • *Month of Organization's Fiscal Year-End*

January	6%
February	2%
March	5%
April	3%
May	1%
June	6%
July	1%
August	2%
September	4%
October	4%
November	1%
December	65%

## ABOUT PROTIVITI

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 70 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

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