2010 Sarbanes-Oxley Compliance Survey

Where U.S.-Listed Companies Stand: Reviewing Cost, Time, Effort and Processes

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Introduction

When the Sarbanes-Oxley Act of 2002 (SOX) became law, it was proclaimed to be one of the most far-reaching reforms in U.S. business. At that time, the internal control reporting provisions of Sarbanes-Oxley, in particular, received considerable attention, and they continue to do so. Organizations have come a long way in the past eight years – what once was an onerous compliance "burden," managed in an ad hoc or project manner, has evolved into something broader than its original objective. As an example, for some companies, Sarbanes-Oxley compliance has delivered numerous benefits, including increased efficiency and effectiveness of processes and operations, increased understanding of control design, and operating effectiveness.

Most reporting companies have learned that the initial years of complying with Sarbanes-Oxley require significant expenditure in terms of time, money and other resources. In subsequent years, these costs generally decline relative to revenues and, in most cases, in absolute terms. That said, Sarbanes-Oxley still has a high level of cost, effort and administrative burden for many organizations – enough to warrant a review of strategies and tactics for maximizing value from the compliance process.

This study assesses strategies and tactics companies have employed to derive value from the Sarbanes-Oxley compliance process. It is important for organizations to examine, on an ongoing basis, the current state of their compliance processes to ensure they are cost-effective and add value to the organization. This is achieved not only through greater process and budgetary efficiencies, but also by viewing these efforts as an ongoing activity that should mature and improve over time.

It is with this perspective that Protiviti designed its Sarbanes-Oxley Compliance Survey. As we detail in the following pages, the study provides valuable and important insights into how companies are complying with the internal control-related provisions of this legislation. We report on the current state of Sarbanes-Oxley compliance for all types of organizations, the related costs, associated benefits and value, as well as how to achieve a desired state of verifiable compliance and sustainability, hopefully at a reasonable cost.

Respondents in this survey represent virtually all industry sectors. The largest segment is from the manufacturing industry, followed by financial services, insurance, technology, energy and healthcare. Other represented industries include retail, services, utilities, government, education, nonprofit, life sciences, biotechnology, telecommunications, real estate, hospitality, distribution and media.

We are confident that the findings of our inaugural Sarbanes-Oxley Compliance Survey will be of interest to compliance and internal audit professionals as well as board members, C-suite executives and the various process owners who participate in their organization's Sarbanes-Oxley compliance activities.

We would be pleased to provide a customized report based on the results of respondents from a specific industry group. We want to express our appreciation to the more than 400 executives and professionals who participated in this study.

Protiviti
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Executive Summary

Cost, Benefits and Value

- Across organizations, the cost of Sarbanes-Oxley compliance is down by 50 percent in their most recently completed fiscal year, when compared to their Year One costs.
- Most respondents indicated that the costs of Sarbanes-Oxley compliance exceeded the related benefits in the initial year of compliance; however, the trend reverses for most companies over time such that, for the current year, benefits exceed costs.
- Even though a majority of respondents indicated that the Sarbanes-Oxley compliance process offers many benefits, they are of the view that their external audit costs would decline by as much as 30 percent if Sarbanes-Oxley was no longer required.

Evolving Process Maturity and Sustainability

- Nearly half of respondents perform all of their Sarbanes-Oxley compliance work in-house, for the current year of compliance.
- Outsourcing of Sarbanes-Oxley work is typically highest during the initial years of compliance and falls steadily over subsequent years as an organization gains experience and confidence in its Sarbanes-Oxley compliance process.
- Internal audit has the primary responsibility for Sarbanes-Oxley compliance, followed by executive management and the audit committee; in larger organizations, process owners and a project management organization (PMO) play an important role, too.
- Over the years, the Sarbanes-Oxley compliance program has matured across many organizations and has become more sustainable; consequently, reliance by external auditors on Sarbanes-Oxley work performed internally has increased.

Compliance Strategies and Inefficiencies

- There are significant opportunities in many organizations to automate more controls. The level of automation of key controls is in the range of 20 to 50 percent for nearly 40 percent of respondents.
- However, despite the various benefits that automation offers, most respondents indicated that their organizations have minimal automation plans beyond their current state, which may indicate a "first-mover advantage" for organizations that decide to capitalize on these efficiencies.
- Use of a risk-based testing approach, establishing process owner accountability and maximizing lessons learned from previous years/peers were employed by a majority of organizations.
- Monitoring controls represent an opportunity to tighten scope.
- Many organizations do not plan to employ strategies such as using low-cost offshore resources for selected compliance procedures, reducing the number of in-scope locations and using a PMO.
- Key inefficiencies that exist in many companies include a high dependency on spreadsheets for data accumulation to record accounting transactions, prepare manual journal entries or support financial disclosures; and general ledger close-cycle times exceeding five days.

Regulatory Landscape

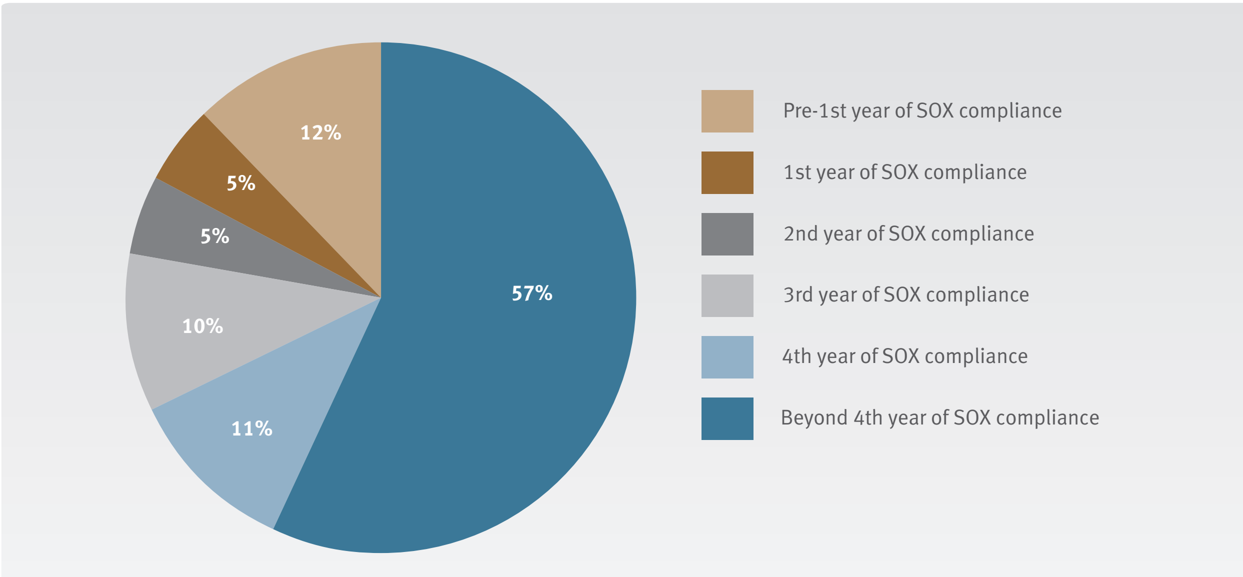
- The impact of the application of the principles of PCAOB AS5 by auditors and the SEC's 2007 interpretive guidance for Section 404 compliance by companies has been moderately positive.
- The majority of the respondents reported that regardless of market capitalization, public companies should not be exempt from Section 404(a) compliance.

I. CURRENT STATE OF SARBANES-OXLEY COMPLIANCE

Among all respondents, 68 percent are in or beyond their fourth year of Sarbanes-Oxley compliance, indicating that most have extensive experience with Sarbanes-Oxley compliance and the processes that it entails.

Year of Sarbanes-Oxley Compliance

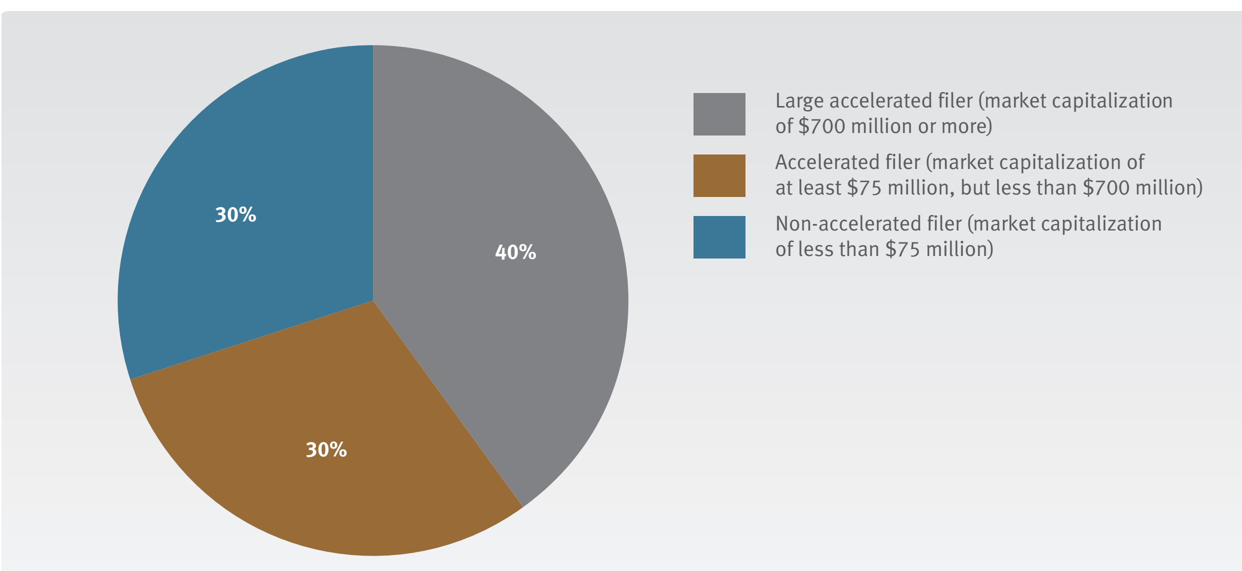
(Base: All Respondents)



Accelerated and large accelerated filers were required to file a management report on internal control over financial reporting beginning in fiscal years ending on or after November 15, 2004. Similar to the results detailed above, these filers constitute 70 percent of the survey population.

Sarbanes-Oxley Filing Status

(Base: All Respondents)



II. SARBANES-OXLEY COMPLIANCE: COST, VALUE AND BENEFITS

Benefits of Sarbanes-Oxley Compliance: Do They Outweigh the Costs?

"Costs aside, public companies' control structures are stronger as a result of SOX."

– CAE of a manufacturing company currently in its second year of compliance

A majority of respondents believe that, in the first year of Sarbanes-Oxley compliance, the costs exceeded the related benefits.

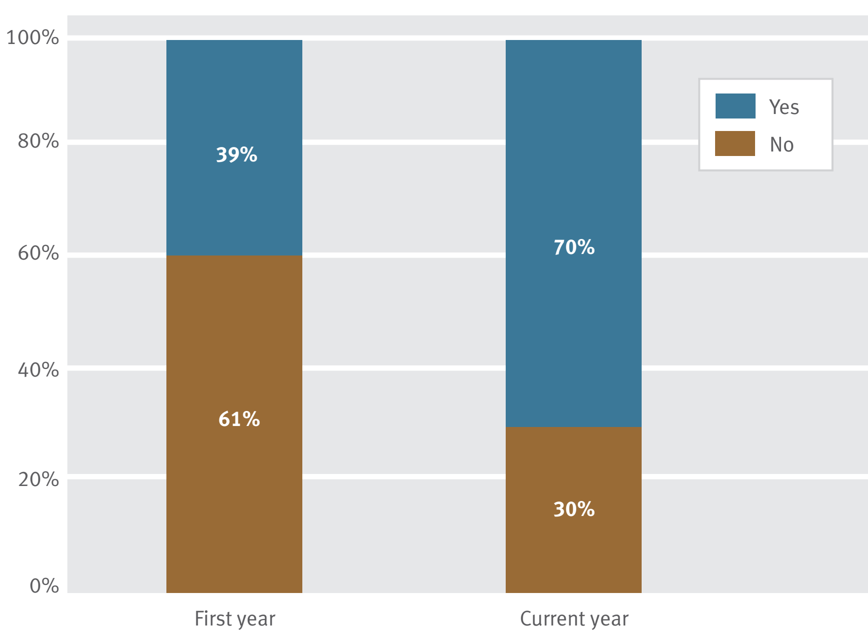
However, the results were nearly opposite when the same question was posed for the current year, which for most companies was several years following their initial year of compliance. For the current year, 70 percent reported that the benefits of compliance outweighed its costs.

Without question, as these results indicate, the first year of compliance is extremely challenging, and few companies likely will view the long-term positive results as outweighing the significant initial effort and expense involved. However, over time, as companies achieve greater efficiencies in the compliance process, Sarbanes-Oxley can result in substantial benefits that far outweigh its costs.

These results were fairly consistent across organization size, although the contrast between the responses for the first year and the current year was less for small companies. This may be due to the fact that these organizations only recently have started complying with Sarbanes-Oxley, as opposed to their larger counterparts, which have gained more experience. In addition, larger companies have faced the discipline of involving the external auditor in the process, resulting in a more rigorous initial year exercise.

Do the Benefits of Sarbanes-Oxley Compliance Outweigh the Costs?

(Base: All Respondents)



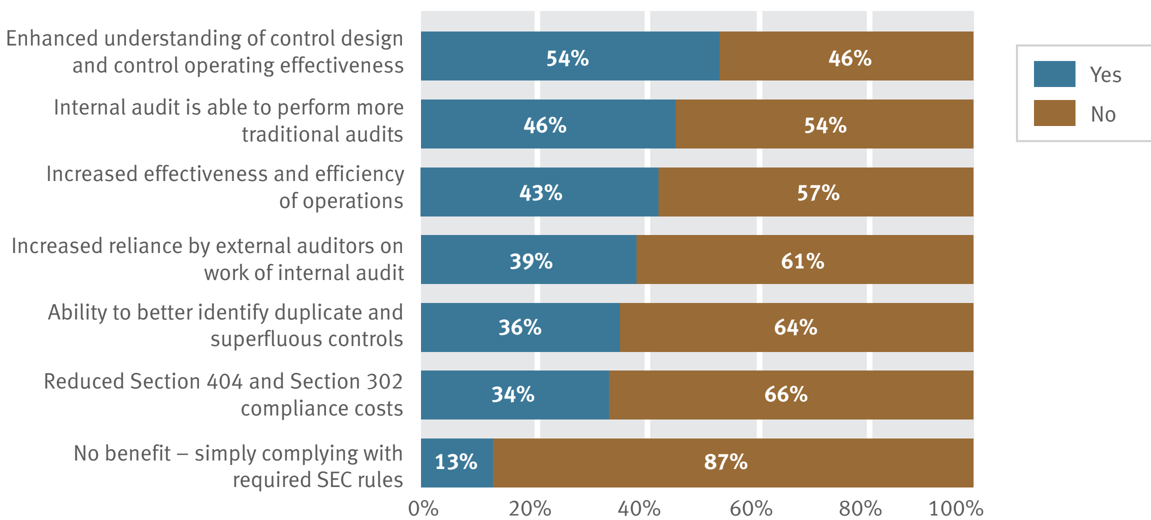
> **“By linking all controls to the objectives of efficiency, effectiveness or securing investment, the ongoing costs [of SOX compliance] became ordinary costs of doing business. Our initial costs to respond to SOX are just a blip that we used to put us on the course to our current definition of and approach to controls.”**
>
> – Director of consulting services at a services company currently in its pre-first year of compliance

Most survey participants – 87 percent – believe Sarbanes-Oxley compliance offers some benefit. When asked if they thought that Sarbanes-Oxley compliance offers no benefits and whether they do it simply to comply with SEC rules, their response was “No.” This is encouraging, as it signifies that most organizations have an understanding of both the direct and indirect benefits of Sarbanes-Oxley compliance.

When asked about the primary benefits that their organization expects to achieve in the coming fiscal year through Sarbanes-Oxley compliance, more than half of the respondents said they expect to obtain an enhanced understanding of control design and operating effectiveness.

Primary Benefits from Sarbanes-Oxley Compliance

(Base: All Respondents)



Leveraging Sarbanes-Oxley to Drive Continuous Improvement Efforts

"We continuously refine our processes and educate management on control theory and effective testing strategies."

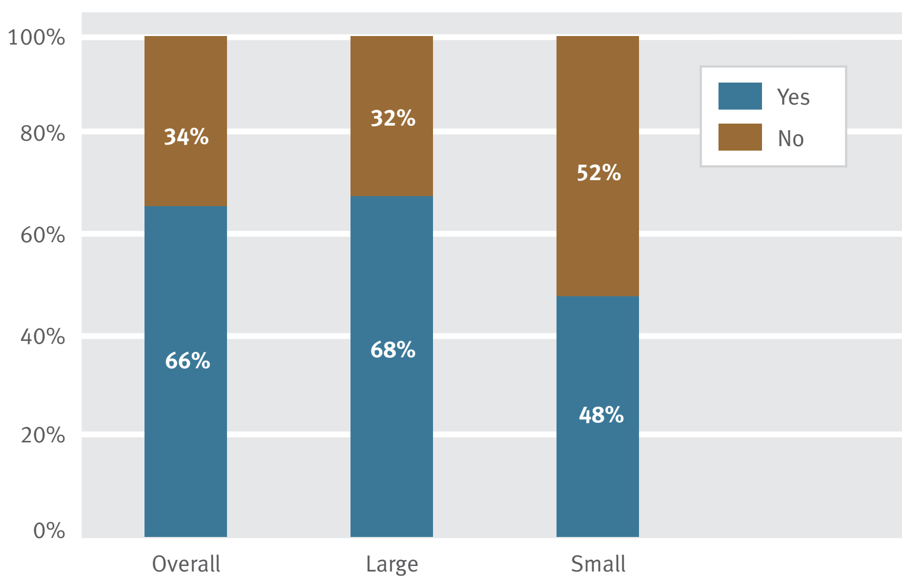
– Corporate SOX leader from a wholesale company beyond its fourth year of compliance

Nearly two-thirds of all respondents said their organizations are leveraging their current Sarbanes-Oxley compliance efforts to drive continuous improvement of business processes that affect financial reporting. However, less than half of the respondents from smaller companies feel this way, perhaps because they started complying with Sarbanes-Oxley several years later and, therefore, their compliance processes are not as evolved as those of their larger counterparts in terms of driving improvement.

Our experience also shows that many companies have recognized the value that comes with establishing a detailed process flow documentation and analysis format and approach. They have leveraged it for other business processes to flush out inefficiencies and redundancies.

Leveraging Sarbanes-Oxley to Drive Continuous Improvement Efforts

(Base: All Respondents)



Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

Cost of Sarbanes-Oxley Compliance

"Costs are coming down. We now use more internal resources as opposed to external resources, which has reduced costs."

– Corporate SOX leader at a medical devices company currently in its third year of compliance

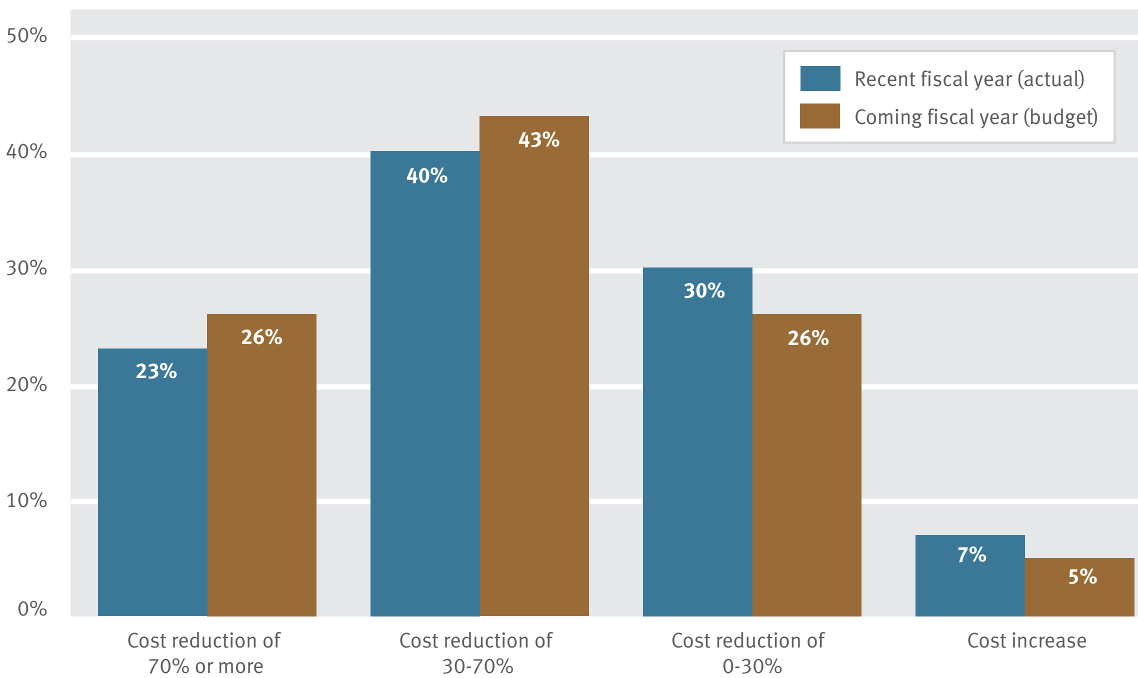
"The change from a bottom-up to top-down [approach] dramatically reduced the amount of detailed transactional activity that was required to be reviewed."

– Audit director at a manufacturing company beyond its fourth year of compliance

Across organizations, Sarbanes-Oxley costs in the most recently completed fiscal year have declined as compared to the initial compliance year. Close to one-quarter of respondents experienced a cost reduction of greater than 70 percent, while more than 60 percent of respondents indicated they had a reduction of greater than 30 percent. Less than 10 percent reported that current year costs increased relative to the first year.

Cost Change Compared to First Year of Sarbanes-Oxley Compliance

(Base: All Respondents)



"Additional resources for this effort are not cost-effective."

– Corporate SOX leader at a telecommunications company beyond its fourth year of compliance

"Although we don't specifically track it [costs], we can identify external costs based on vendor bills. Internal costs have not been identified."

– Corporate SOX leader at a technology company beyond its fourth year of compliance

When asked if their organization tracks and reports the hours and costs required to comply with Sarbanes-Oxley each year, the results were evenly split between "Yes" and "No." These results were fairly consistent for respondents across all organization sizes.

However, more companies tracked time and costs during their initial compliance years compared to subsequent years. This may be due to the fact that the level of outsourcing was higher during the initial years, when time and costs were tracked by external service providers. It also could signify that more companies believe they have achieved enough efficiencies in the compliance process that time tracking is no longer a necessity. On the other hand, this could be an indication that a growing number of companies no longer are adhering to a PMO discipline that can drive greater efficiencies and cost savings into compliance efforts.

Tracking Hours and Costs for Sarbanes-Oxley Compliance

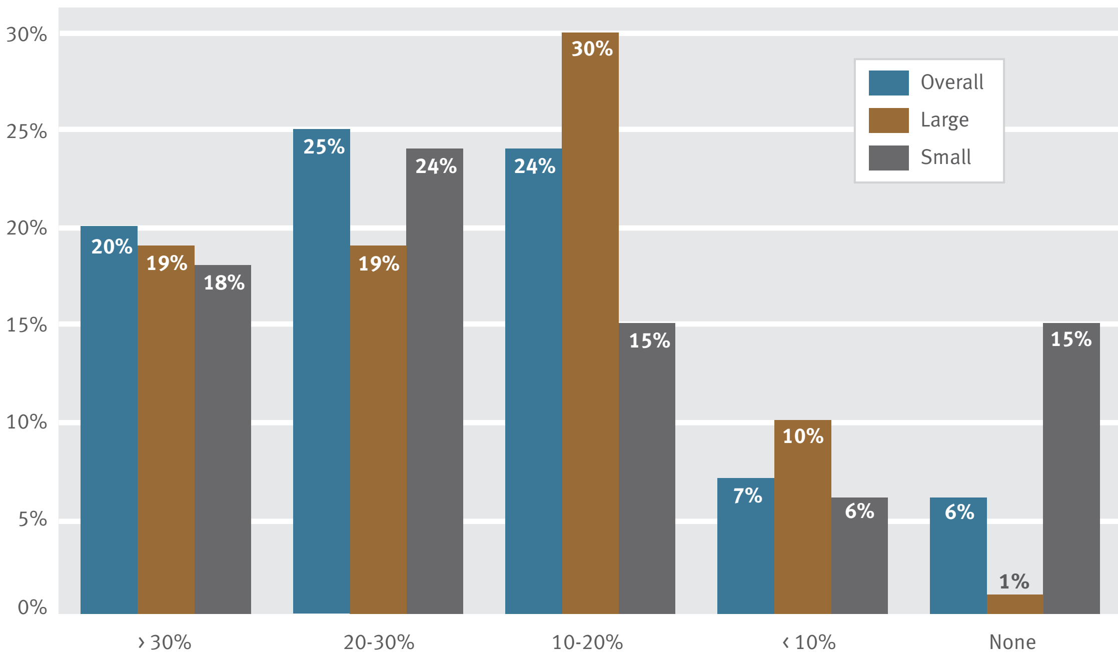
	Years 1-2	Years 3-4	Beyond Year 4	Overall
Yes	63%	58%	50%	50%
No	37%	42%	50%	50%

What if Sections 404 and 302 Were No Longer Required?

While compliance costs tend to decline after Year One, a majority of respondents still are of the view that external audit fees would fall if Sarbanes-Oxley Sections 404 and 302 were no longer required. This is not surprising, as external auditors would likely reduce the extent of auditing procedures on internal control over financial reporting if they were not required to express an opinion.

Reduction in External Audit Fees if Sections 404 and 302 Were No Longer Required

(Base: All Respondents)



Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater
Note: "Don't Know" responses not included

III. EVOLVING MATURITY OF THE SARBANES-OXLEY COMPLIANCE PROCESS

Sarbanes-Oxley Efforts Have Largely Moved In-House

"As we move forward, we are bringing the function in-house and have reduced by 100 percent our reliance on an external firm for management review and testing."

– Senior business controls analyst at a company beyond its fourth year of compliance

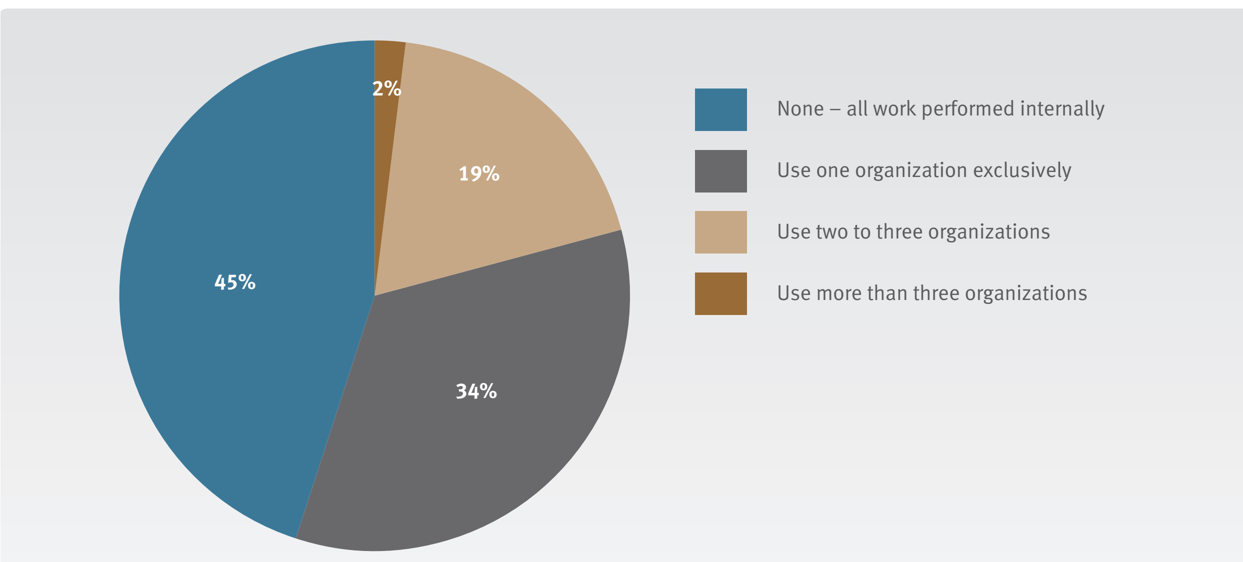
Respondents were asked the following questions:

- How much of your Sarbanes-Oxley compliance effort was outsourced to an external services provider in each of the years since you were first required to comply?
- In regard to Sarbanes-Oxley compliance in the last fiscal year, how many outside organizations did you use as Sarbanes-Oxley advisors to assist with completing this work?

Nearly half of all respondents reported they perform all of their Sarbanes-Oxley compliance work internally, while 34 percent use one organization exclusively to assist with Sarbanes-Oxley compliance.

Outside Organizations Currently Used for Sarbanes-Oxley Work

(Base: All Respondents)

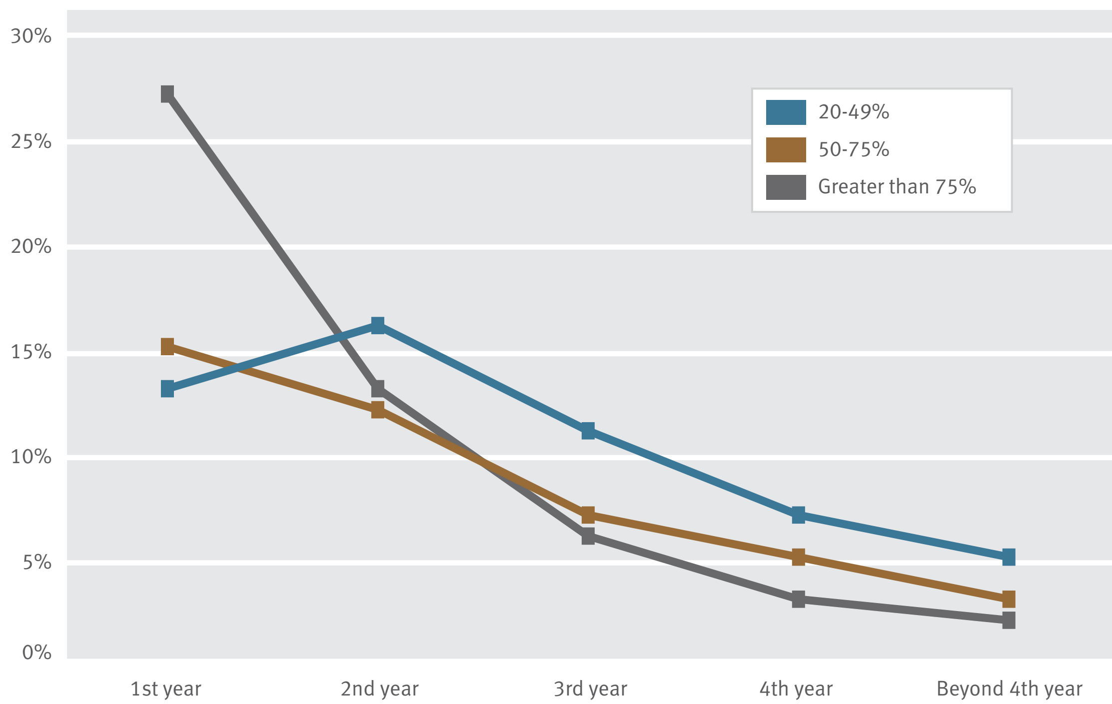


Experience and Confidence

Outsourcing of Sarbanes-Oxley work is typically the highest during the initial years of compliance. For many companies, outsourcing declines steadily over time as the organization gains experience and confidence in applying a top-down, risk-based approach and is successful in improving the cost-effectiveness of Sarbanes-Oxley compliance. This trend is highlighted in the adjacent graph, where the significant outsourcers, i.e., those who outsource more than 75 percent, as well as those who outsource 50 to 75 percent, report a decline of outsourcing over the years. Correspondingly, the respondents indicated minimal outsourcing increases over the same period.

Sarbanes-Oxley Outsourcing Trends

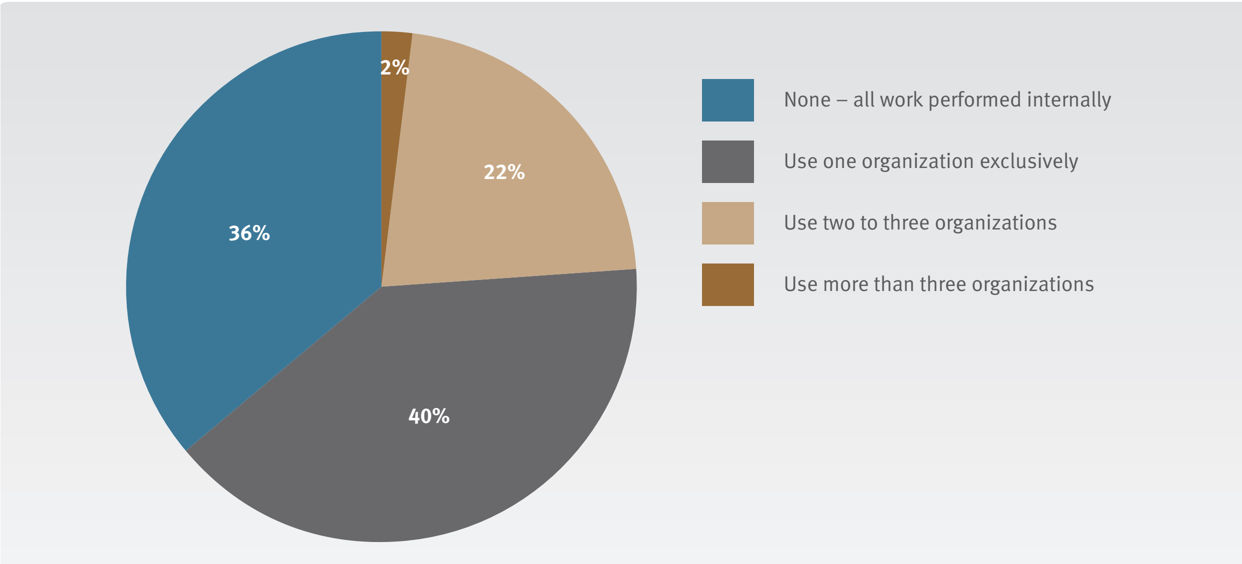
(Base: All respondents)



Interestingly, the level of outsourcing is marginally higher for smaller companies, which could reflect that these organizations may not have an internal audit department or the requisite scale or capability.

Small Companies

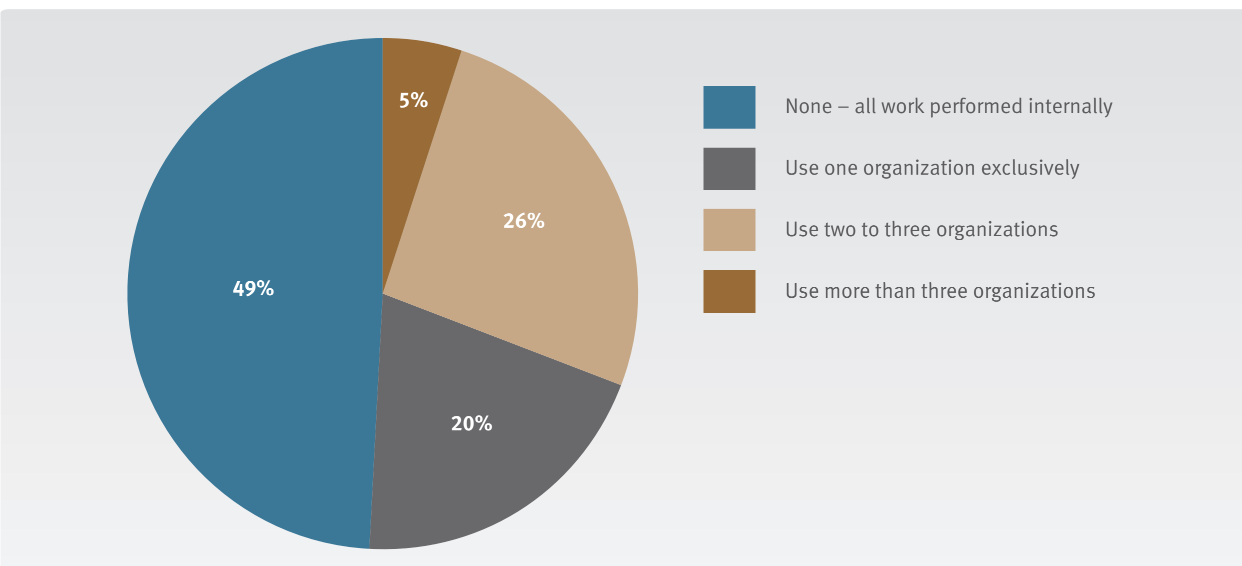
(Base: Company Size ‹ $100 million)



Larger companies tend to use more than one organization to assist them with Sarbanes-Oxley compliance, which may be due to their size of operations, requirement of specific expertise or diversification needs.

Large Companies

(Base: Company Size › $10 billion)



Internal Audit Still Primarily Responsible for Sarbanes-Oxley Work

> **"We've chosen to utilize internal audit to perform management testing of key controls so that testing can be fully relied upon by our external auditor. We believe that any savings from allowing management to self-test would be offset by additional external audit fees."**
>
> – CAE of a manufacturing company beyond its fourth year of compliance

According to the results of the study, internal audit has the primary responsibility for Sarbanes-Oxley work in 45 percent of organizations, followed by executive management and the audit committee. Some organizations entrust this responsibility to process owners, business units or specifically designated financial controls units.

There are a number of variations in these results according to company size. In the case of large companies, internal audit has a smaller role when compared to the overall results, while process owners have a more extensive role. This variation is likely due to the size and scale of the larger organizations, which gives them access to the necessary resources outside of internal audit and provides the audit function the flexibility to evaluate the overall quality of the organization's compliance efforts.

In the case of small companies, fewer of them may have an internal audit function, whether in-house or outsourced. In these organizations, executive management and the audit committee play a greater role compared to the overall results.

Primary Responsibility for Overseeing Sarbanes-Oxley Work

(Base: All Respondents)

	Overall	Large	Small
Internal audit	45%	27%	29%
Executive management	13%	12%	22%
Audit committee	13%	14%	18%
Management and/or process owners	9%	17%	9%
Business/financial controls unit	8%	9%	4%
Project management organization (PMO)	3%	11%	2%
External auditor	1%	1%	4%
Third-party service provider	1%	0%	7%
Other	7%	9%	5%

Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

Sarbanes-Oxley Compliance Process Becomes More Sustainable

Respondents were asked to rate the sustainability of their organization's Sarbanes-Oxley compliance program using the Capability Maturity Model (CMM). This model has been adapted from the Carnegie Mellon Institute and is explained in detail on page 29. Respondents provided this rating for all fiscal years prior to 2008, as well as 2008, 2009 and plans for 2010.

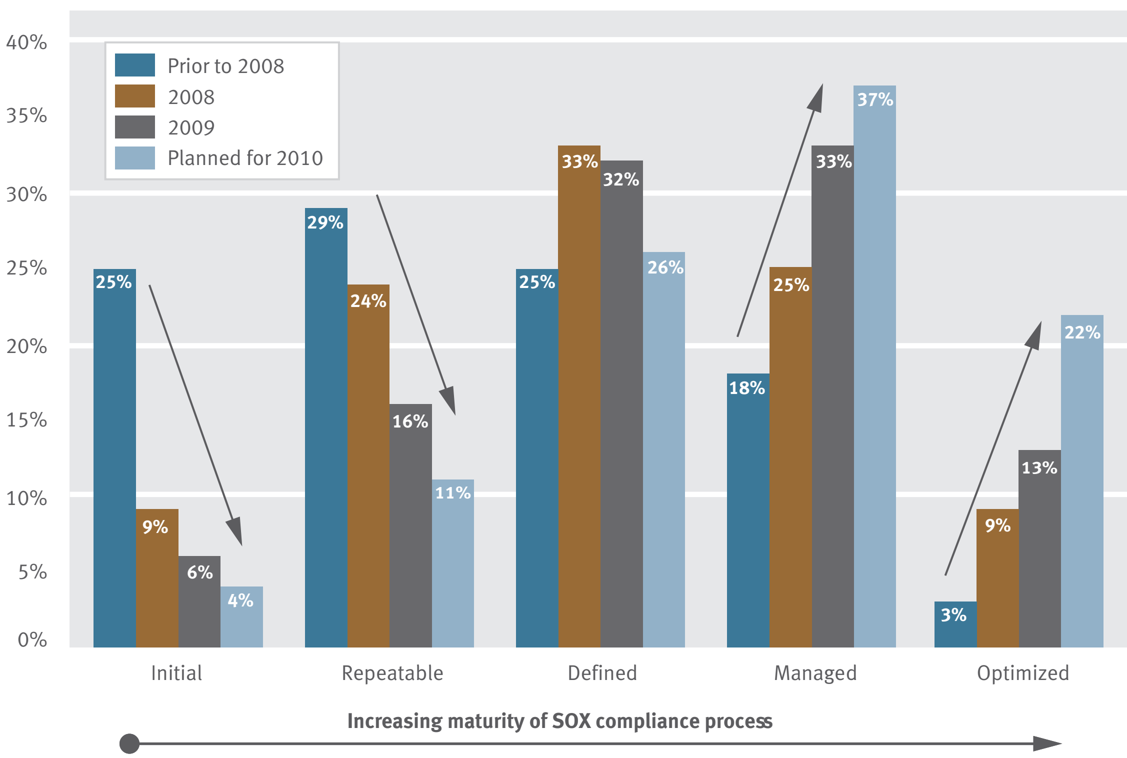
According to the results, the Sarbanes-Oxley compliance program across organizations has matured over the years and become more sustainable. Some respondents pointed out that they have no intention of reaching the optimized state, as it would not be cost-effective. Others indicated that they meet the optimized state criteria except for implementation of an enterprise resource planning (ERP) system.

The percentage of respondents in the initial stage, which represents a state where internal control is fragmented and ad hoc and the organization is managing individual risks and controls in silos, is the highest (25 percent) prior to 2008 and falls steeply in the subsequent years. Similarly, the repeatable state is highest (29 percent) prior to 2008 and falls steadily as time passes.

On a related note, the percentage of respondents for both the managed and optimized states, which are higher on the CMM continuum, was lowest prior to 2008 and the percentage rises steadily as years pass, indicating the increasing maturity of Sarbanes-Oxley compliance processes.

Sustainability Trends on CMM

(Base: All Respondents)



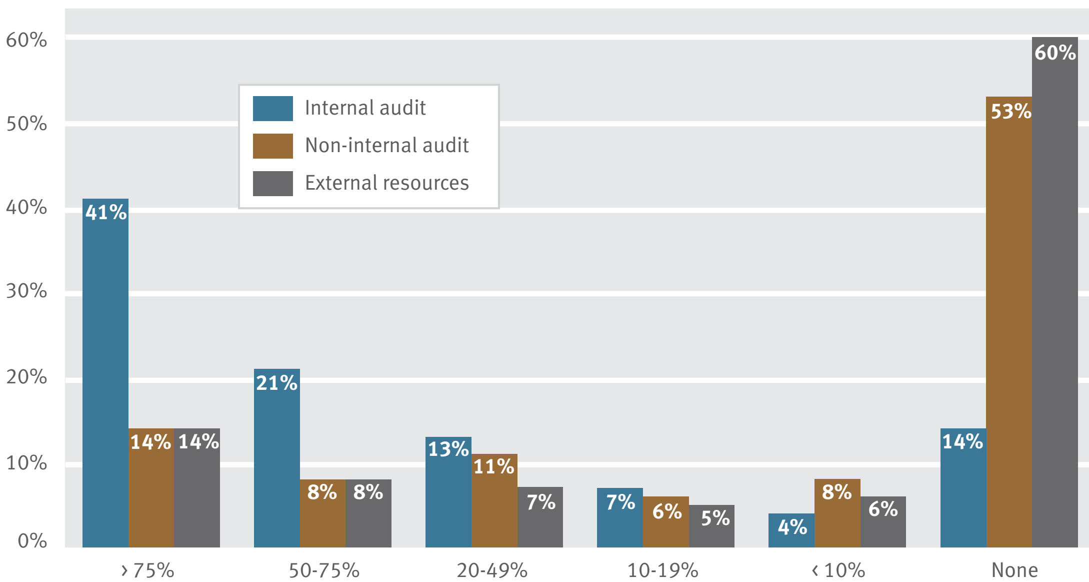
Greater Reliance on Sarbanes-Oxley Work by External Auditors

Most respondents – 70 percent – were satisfied with the extent to which their external audit firm was maximizing its reliance on work performed by others for low-risk processes, and 66 percent were satisfied with respect to the reliance on work relative to moderate-risk processes. This is encouraging, as it suggests that companies are becoming more confident in the maturity of their Sarbanes-Oxley compliance processes.

However, the data indicate that a majority of external auditors do not rely on work performed by external resources or internal functions other than internal audit. On the other hand, the external auditor places maximum reliance on internal audit's work, both for low-risk and moderate-risk processes.

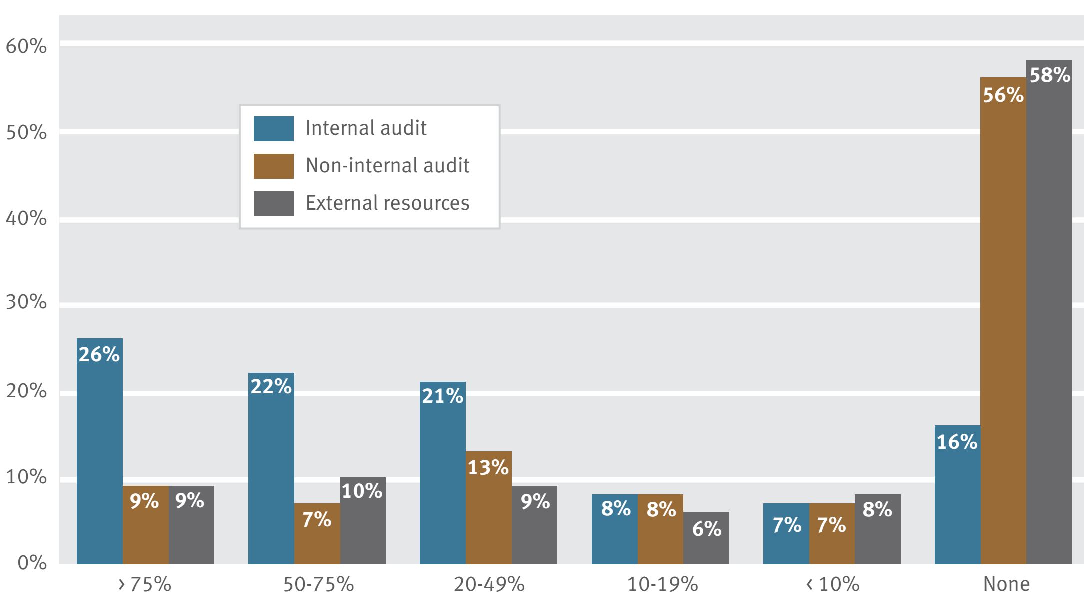
Reliance by External Auditors for Sarbanes-Oxley Work (Low-Risk Processes)

(Base: All Respondents)



Reliance by External Auditors for Sarbanes-Oxley Work (Moderate-Risk Processes)

(Base: All Respondents)



IV. SARBANES-OXLEY COMPLIANCE: STRATEGIES AND INEFFICIENCIES

Sarbanes-Oxley Compliance Strategies

Respondents were provided a list of various strategies that typically are applied for improving the efficiency and effectiveness of Sarbanes-Oxley compliance. For the current year, the following strategies are being employed by a majority of organizations:

- Use of a risk-based testing approach
- Establish process owner accountability
- Deploy a top-down validation approach, beginning with entity-level controls and monitoring
- Tightening of overall scope
- Maximize lessons learned from previous years/peers
- Greater reliance on internal auditing by external auditors
- Reduction in the number of key controls

We posed a similar question last year in our *Moving Internal Audit Back Into Balance: A Post-Sarbanes-Oxley Survey*, which assessed how organizations rely on their internal audit departments for Sarbanes-Oxley compliance-related activities while seeking to "rebalance" these functions to also address more traditional internal auditing responsibilities.[1] We deliberately included relevant questions from that study in our Sarbanes-Oxley Compliance Survey to compare the results over time.

The leading strategy in the 2009 Rebalancing survey results was "reduction in number of key controls," which is now the sixth leading strategy. One of the reasons why organizations may be looking at alternative strategies to reducing key controls is because the "low-hanging fruit," i.e., controls that were most easily culled out of the key controls population, has already been "plucked." That said, it is interesting to note that the strategy of reducing the number of key controls is still being employed by more than half of the responding organizations.

Strategies that companies plan on employing in 2010 or beyond include:

- Increase in the number of automated controls
- Decrease in the number of manual controls
- Use of continuous monitoring tools or techniques

Similar to last year, these strategies are important because, for many organizations, they represent the "last frontier" for improving the cost-effectiveness of financial reporting controls, reducing financial reporting risks and streamlining the compliance process.

Strategies that most companies do not plan to employ in 2010 or beyond include:

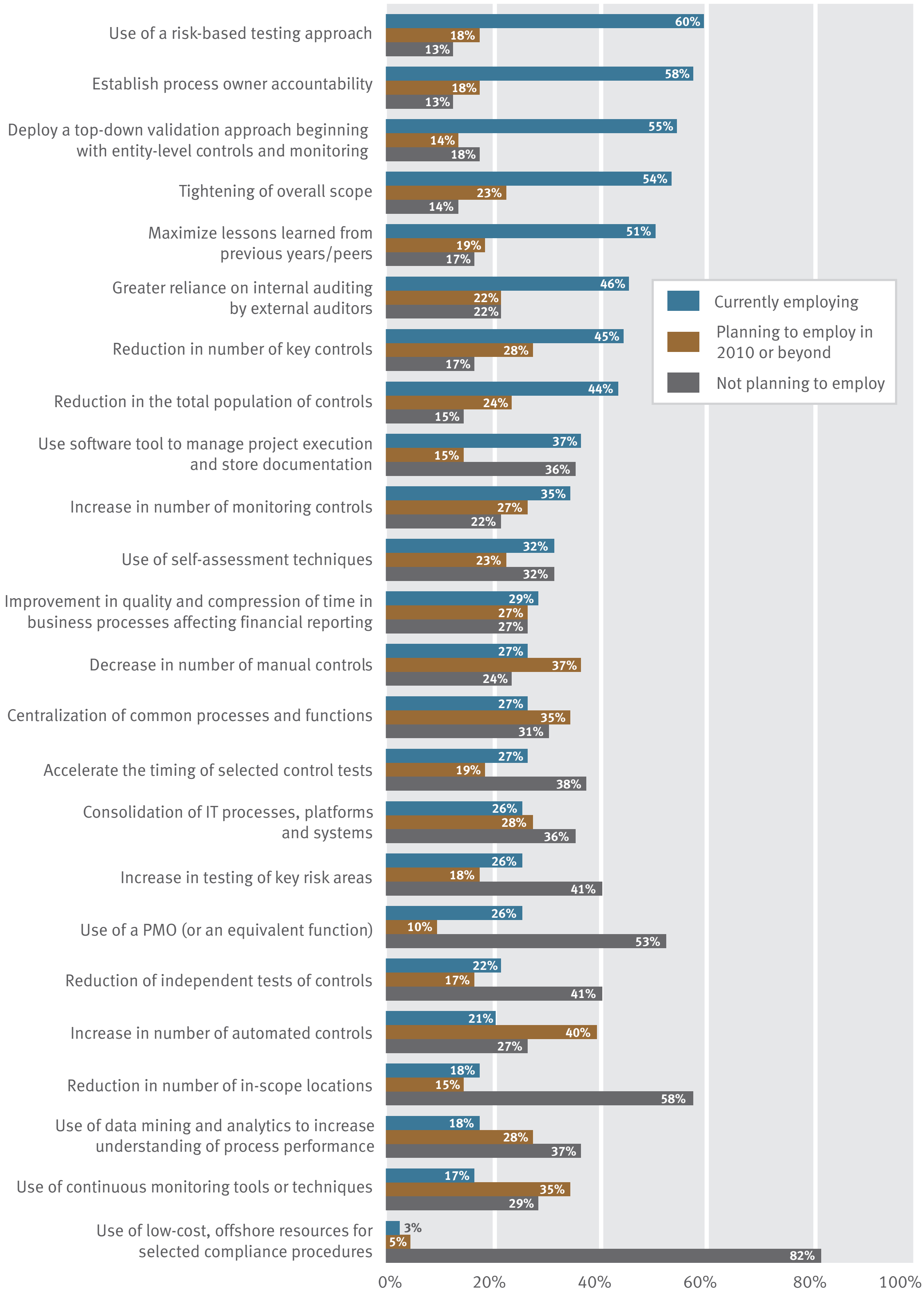
- Use of low-cost offshore resources for selected compliance procedures
- Reduction in the number of in-scope locations
- Use of a PMO (or an equivalent function)

Around 70 percent of the respondents do not plan to employ low-cost offshore resources for selected compliance procedures. When asked about the impact of these strategies on the cost of compliance, 87 percent of the respondents believe there is no impact. While this may be true for relatively complex processes, there could exist an opportunity to maximize efficiency by outsourcing certain repetitive processes to low-cost resources offshore.

[1] For more information, read *Moving Internal Audit Back Into Balance: A Post-Sarbanes-Oxley Survey*, available at www.protiviti.com.

Strategies: Current vs. Planned

(Base: All Respondents)



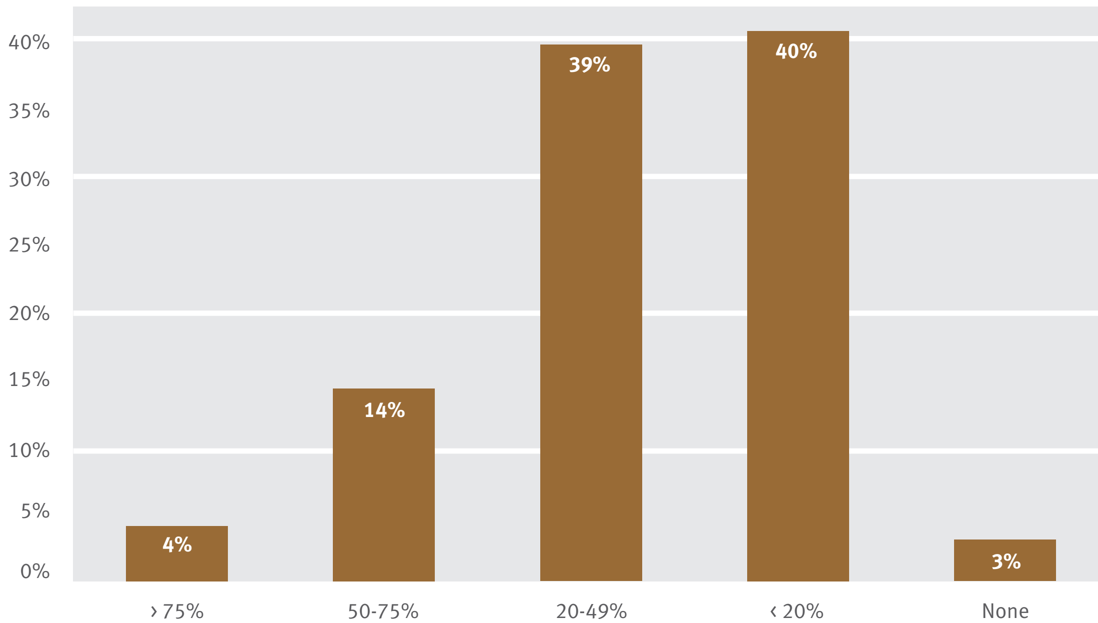
Automation of Manual Processes and Controls

The results of the study strongly suggest there is ample opportunity for organizations to automate more key controls. Surprisingly, two out of five companies automate less than 20 percent of their key controls. Just as notable, in nearly 80 percent of companies, less than half of their key controls are automated.

The distribution was fairly even across organizations of all sizes. However, for large companies the level of automation was at least 10 percent or higher, indicating that some automation initiatives have been undertaken.

Percentage of Automated Key Controls Compared to Total Key Controls

(Base: All Respondents)



When asked about intentions to automate more manual processes and controls, most respondents indicated that their organizations had minimal automation plans. In particular, smaller companies were less interested in automation compared to their larger counterparts.

One reason for this may be the lack of performance expectations or incentives to automate. For example, the primary metric for Sarbanes-Oxley compliance is focused on "pass/fail" and not on efficiency and quality through automation of manual processes. Cost savings achieved after the initial year through the implementation of a risk-based approach and reducing the number of key controls may have provided a sense of accomplishment that "the job is done" from an efficiency standpoint.

Future Plans to Automate Manual Processes and Controls

(Base: All Respondents)

	Overall	Large	Small
No plans to automate further	22%	12%	43%
Minimal plans to automate	44%	45%	31%
Moderate plans to automate	28%	33%	24%
Significant plans to automate	6%	10%	2%

Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

Automated Controls – A Business Case Beyond Sarbanes-Oxley Compliance

Automated controls within computerized or ERP systems can be designed to be both preventive and detective. For example, automated controls can help prevent duplicate payments by not allowing the system to accept multiple bookings of an invoice with the same reference number. Another example of a manual control that can be automated is the three-way matching of purchase order, goods received note and invoice before the actual release of payment, and establishing segregation of duties by ensuring that the individual responsible for purchase orders does not have access to the other two systems, i.e., goods received notes and invoice modules.

Automated controls are not just about efficiency. They can also help make processes and controls more effective by ensuring accuracy and completeness. For example, automated controls help ensure a customer number is valid, all required data is entered for a purchase order and debits equal credits. In addition, configurable application controls (a subset of automated controls) include checking tolerance limits, maintaining valid data integrity, ensuring data fields are completed as required, and maintaining workflow routing and approvals.

Challenges

Automated system controls, as described above, can be a key part of a strong internal environment. However, the survey indicates most companies are not fully optimized in their use of automated controls in ERP systems such as SAP and Oracle. These systems are typically not preconfigured to optimize compliance and effectiveness, and implementation teams too often fail to configure available controls properly. Automated controls also are overlooked because IT departments are resource-constrained and may not have the necessary skills or perspective with regard to risk management or compliance. Likewise, the compliance function (internal audit, Sarbanes-Oxley, etc.) often lacks the necessary insight into ERP automated controls definition and use.

Conclusion

Companies that plan to transition from a majority of manual controls to a majority of automated controls stand to have a "first-mover advantage." They can generate a healthy return on their investment in this automation, not only from savings on the compliance front but also from efficiency and effectiveness of the process itself. Proven benefits from automating controls include:

- Decrease in employee time spent in conducting and supervising tedious manual controls
- Decrease in the cost of annual assessments through replacing error-prone manual controls with consistently executed automated controls
- Reduction in operational inefficiency and reduction in the odds of human error and fraudulent manipulation
- Proactive management of audit fees via increased auditor reliance on automated controls
- Ability to strengthen the overall risk management environment by adding new custom controls that mirror the controls needed in key business processes

Actions to Improve the Maturity of the Sarbanes-Oxley Compliance Process

Respondents were provided a list of strategies that would typically improve the maturity of the Sarbanes-Oxley compliance process and asked to rate their effect. More than two-thirds of respondents indicated that each of the strategies would improve the maturity of their Sarbanes-Oxley compliance process at least to some extent.

A majority of respondents noted that the following strategies would lead to “Significant to Moderate Improvement”:

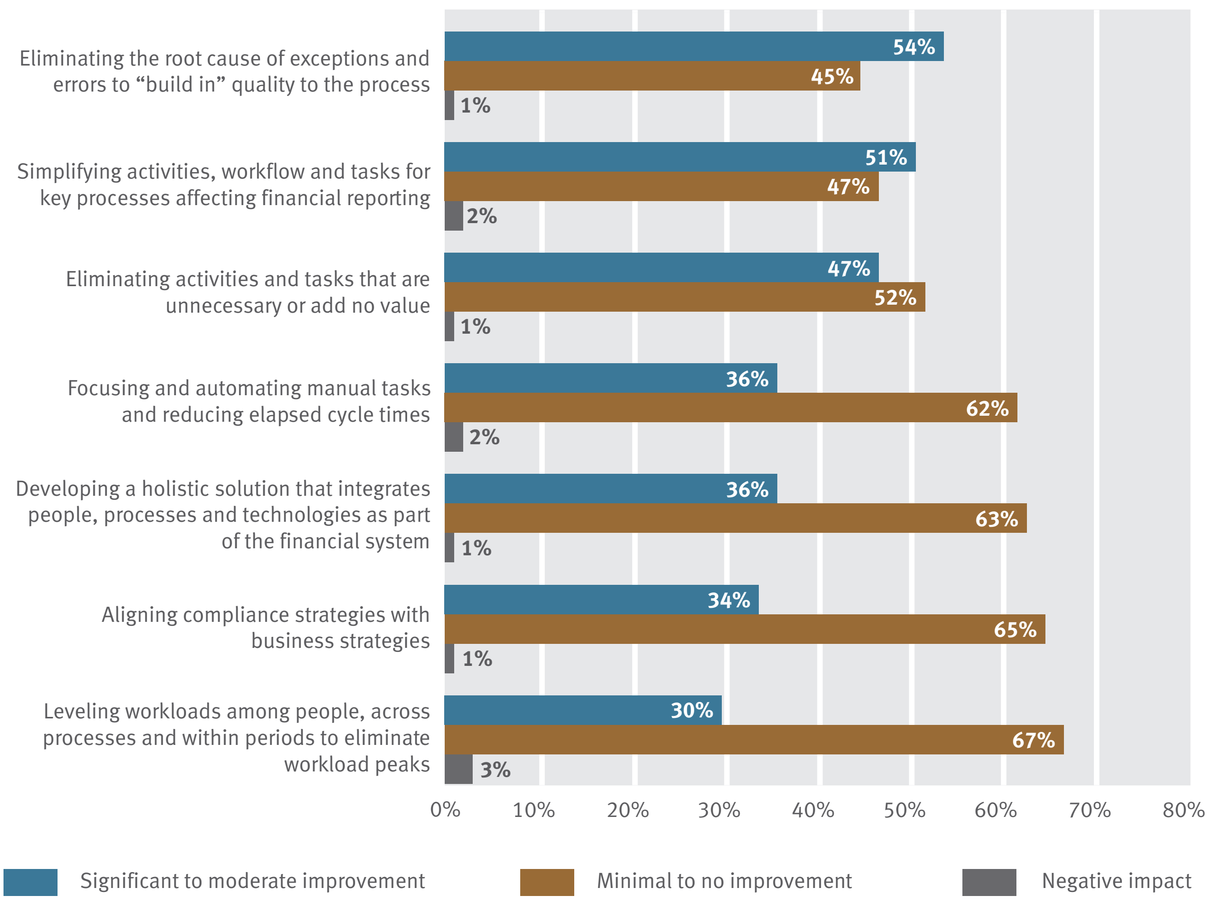
- Eliminating the root cause of exceptions and errors to “build in” quality to the upstream processes affecting financial reporting
- Simplifying activities, workflow and tasks for key processes affecting financial reporting

According to the results, activities that have helped organizations improve the maturity of their Sarbanes-Oxley compliance process to a limited extent include:

- Leveling the workloads among people, across processes and within periods to eliminate workload peaks
- Aligning compliance strategies with business strategies
- Developing a holistic solution that integrates people, processes and technologies as part of the financial system

Effect on Maturity of Sarbanes-Oxley Compliance Process

(Base: All Respondents)



Storage of Sarbanes-Oxley Process and Testing Documentation

Approximately half of all respondents indicated that their organizations either use an electronic repository specifically designed for Sarbanes-Oxley compliance or are focusing on being more disciplined in organizing their process and testing documentation. Of these, nearly two-thirds reported they prefer to purchase a solution from a vendor rather than develop it internally.

Smaller companies, however, are more dependent on manual files and PC hard drives to store their Sarbanes-Oxley process and testing documentation. While an easy-to-implement solution, this approach leads to inefficiencies in storage, sharing and retrieval of data. Therefore, as their scale and size grow, these companies need to shift their attention to more sophisticated methods of file storage.

As one might surmise, larger companies are more likely to have a specially designed electronic repository, either purchased from a vendor or developed in-house, for their storage needs as compared to smaller companies. This hypothesis was supported by the survey results.

Primary Storage Facility of Sarbanes-Oxley Process and Testing Documentation

	Overall	Large	Small
An electronic repository specifically designed for Sarbanes-Oxley compliance (purchased from a vendor)	32%	40%	19%
An electronic repository specifically designed for Sarbanes-Oxley compliance (internally developed)	16%	23%	10%
Corporate server	34%	25%	38%
Manual files	9%	7%	17%
PC hard drives	4%	1%	14%
Other	5%	4%	2%

Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

Compliance Process Inefficiencies

Respondents were provided with a list of various inefficiencies that could negatively impact their Sarbanes-Oxley compliance process. They were asked to identify which inefficiencies existed in their organization and assess the related severity.

The majority of respondents indicated that the following inefficiencies did not exist in their organization, or existed but did not have a negative impact on their Sarbanes-Oxley compliance process:

- High exception rates in financial transaction processes such as accounts payable, cash application and payroll
- Pressure on the finance organization to reduce costs to offset the increase in Sarbanes-Oxley compliance and governance costs
- Limited return on investments in IT assets

Inefficiencies that respondents noted have a negative impact on their compliance process, at least to some extent, include:

- High dependency on spreadsheets for data accumulation to record accounting transactions, prepare manual journal entries or support financial disclosures
- Decentralized business units with duplicate functions
- Increasing demand for analytical information and difficulty in generating it

More than 70 percent of respondents indicated that high dependency on spreadsheets for data accumulation to record accounting transactions, prepare manual journal entries or support financial disclosures exists in their organization. About 60 percent of the respondents indicated that this risk had a negative impact on their organization to some extent, with 11 percent stating that this negative impact was "significant."

One of the reasons for widespread use of spreadsheets is that they provide a viable alternative to lengthy and costly software development cycles – especially for users who require immediate results or are keen to automate or create efficiencies in their processes. However, the ability for users to develop and configure powerful solutions in a spreadsheet environment without appropriate training or awareness introduces a high degree of spreadsheet risk into the corporate environment.

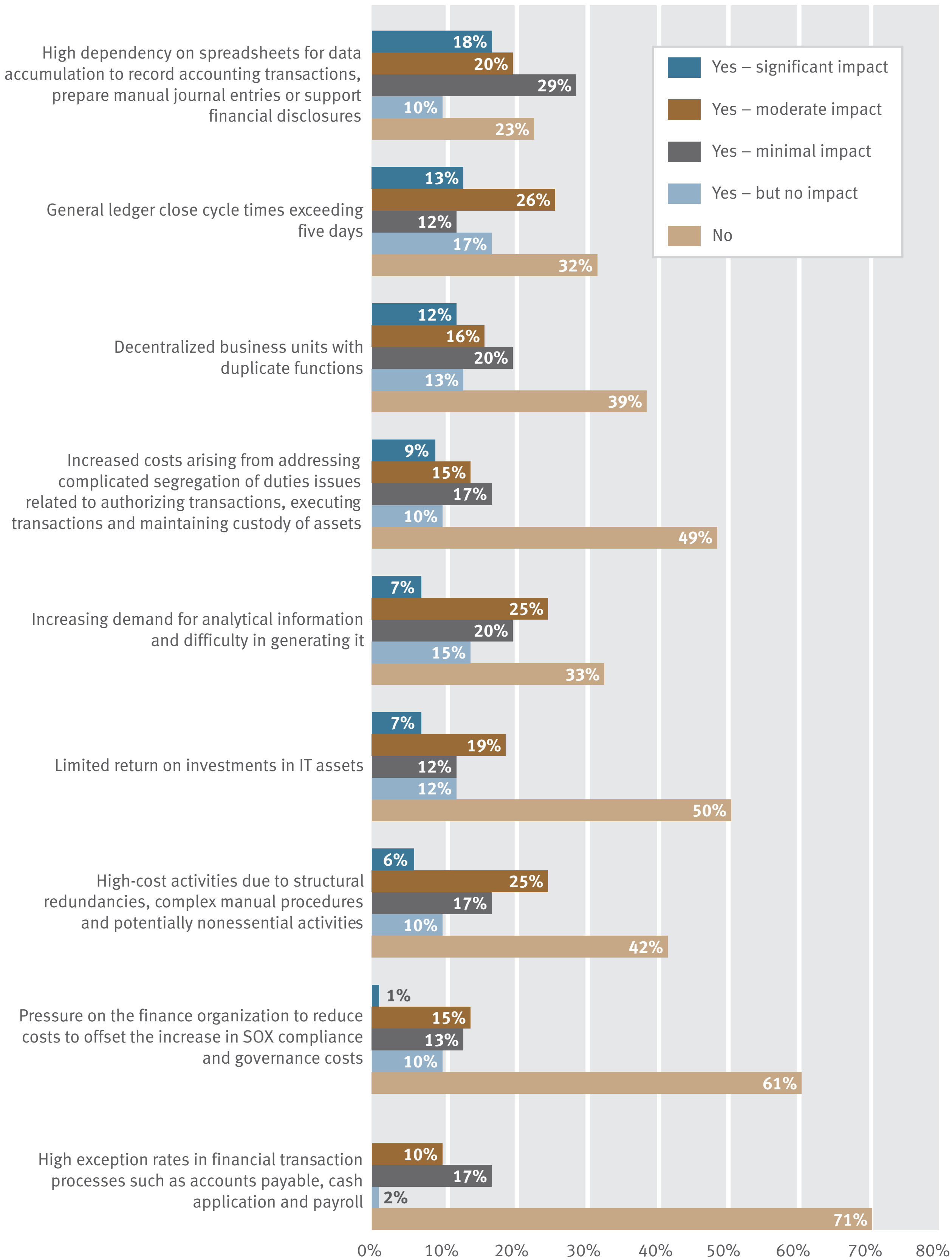
Organizations can, however, control spreadsheet risk by:[2]

- Defining spreadsheet risk management policies and supporting processes
- Evaluating available technology solutions based on business-specific requirements and objectives
- Creating an inventory of business-critical spreadsheets and prioritizing spreadsheets according to their criticality
- Reviewing spreadsheets and developing a controllable baseline version
- Implementing a spreadsheet management framework, including the selection of a spreadsheet management tool, and determining appropriate controls within the solution

[2] For more information, read *Spreadsheet Risk Management: Frequently Asked Questions*, available at www.protiviti.com.

Sarbanes-Oxley Process Inefficiencies

(Base: All Respondents)



V. SARBANES-OXLEY COMPLIANCE: REGULATORY LANDSCAPE

Impact of SEC's Interpretive Guidance and PCAOB AS5

Respondents were asked to assess the impact that the SEC's interpretive guidance and PCAOB AS5 had on their Sarbanes-Oxley compliance activities during 2008 and 2009. Similar to the results from last year's Internal Audit Rebalancing survey, this year's response shows a continued positive impact as a result of PCAOB AS5 and the SEC's interpretive guidance for Section 404. There is a decrease in the "positive impact" responses compared to 2008. These findings are interesting given that the guidance from both organizations was intended to increase the emphasis on applying a top-down, risk-based approach that enables organizations to reduce the time and costs required for compliance.

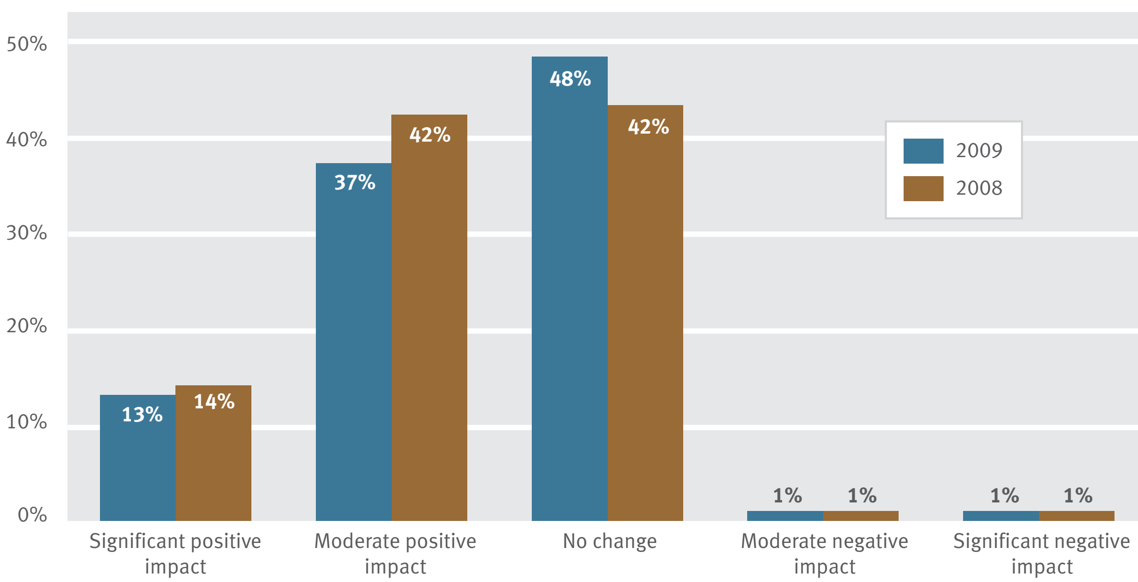
"While many gains have been made since the issuance of AS5 and the SEC's interpretive guidance, many gains are to be had in 2010."

– Corporate SOX leader from a financial services company beyond its fourth year of compliance

A majority of respondents reported that the impact of applying the SEC's 2007 interpretive guidance would have "no change" or only a "moderately positive" impact going forward. Thirteen percent of respondents noted that the expected impact would be "significantly positive." These results suggest that the SEC's guidance has been implemented to a significant degree since its issuance in 2007.

Impact of SEC's 2007 Interpretive Guidance for Section 404

(Base: All Respondents)



Of note, larger companies are more positive than small companies about the SEC's interpretive guidance.

	Overall		Large		Small	
	2009	2008	2009	2008	2009	2008
Significant positive impact	13%	14%	17%	18%	12%	12%
Moderate positive impact	37%	42%	43%	47%	29%	24%
No change	48%	42%	39%	34%	52%	57%
Moderate negative impact	1%	1%	1%	1%	0%	0%
Significant negative impact	1%	1%	0%	0%	7%	7%

Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

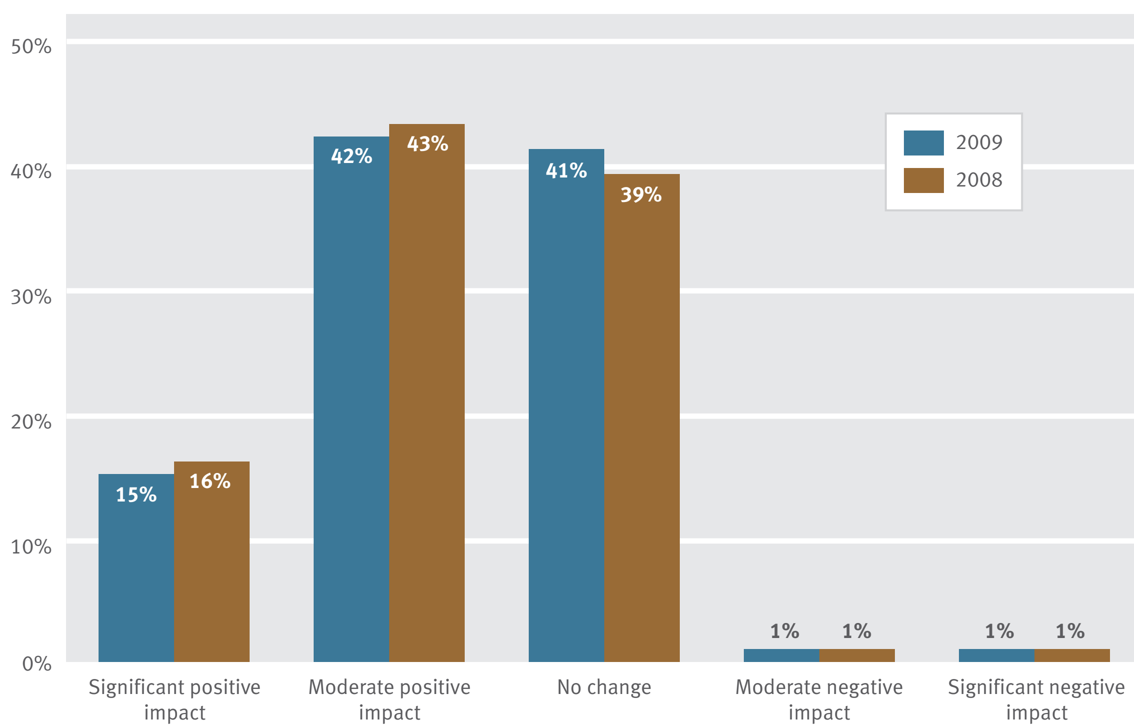
"Sarbanes-Oxley compliance is a good practice. AS5 has helped reduce some confusion and costs to the business."

– CAE from a healthcare company beyond its fourth year of compliance

The majority of respondents indicated that the impact of the application of the principles of PCAOB AS5 by external auditors would be "moderately positive" or it would have "no change" on the organization's Sarbanes-Oxley compliance activities going forward. Fifteen percent expressed the view that this application would have a "significant positive impact" – down from 16 percent in 2008. Again, these results suggest that the principles of AS5 have been applied by external auditors to a significant extent since the standard was issued in 2007.

Impact of Application of PCAOB AS5

(Base: All Respondents)



Similar to the impact of the SEC's interpretive guidance, smaller companies have a more negative view of PCAOB AS5. One possible cause: In working with the external auditor, smaller companies may have less influence than larger ones in convincing the auditor that some aspects of AS5, such as relying on the work of others, may be appropriate as part of assessing internal control over financial reporting.

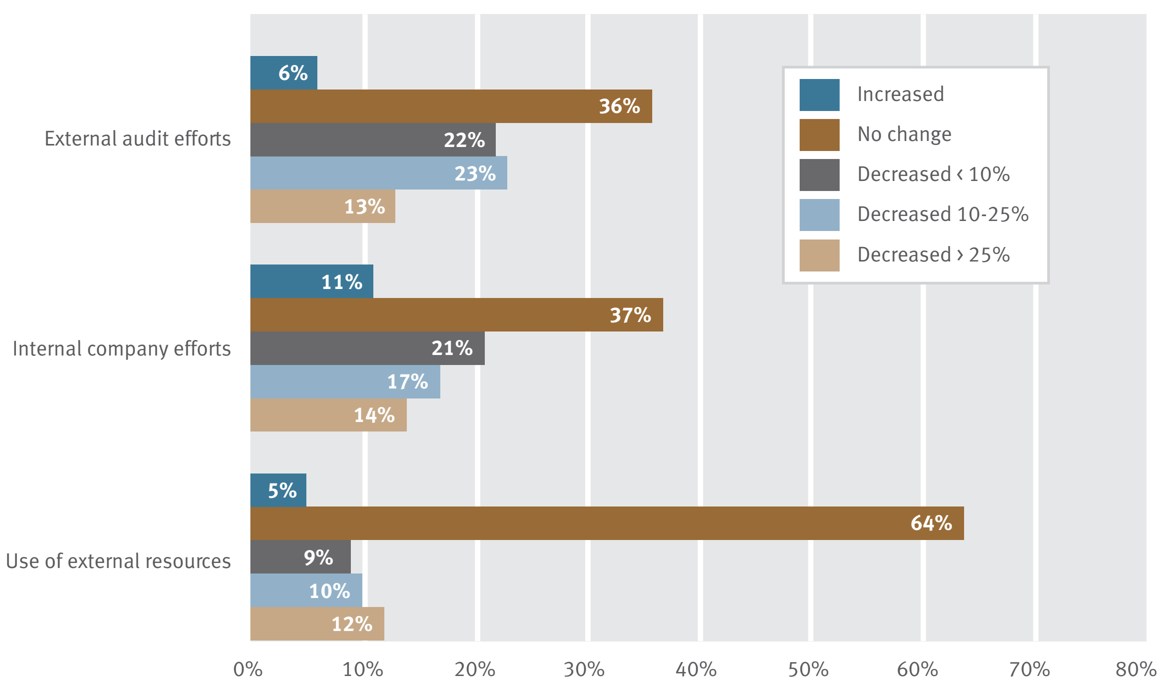
	Overall		Large		Small	
	2009	2008	2009	2008	2009	2008
Significant positive impact	15%	16%	17%	18%	14%	12%
Moderate positive impact	42%	43%	44%	43%	26%	28%
No change	41%	39%	38%	39%	52%	50%
Moderate negative impact	1%	1%	0%	0%	3%	5%
Significant negative impact	1%	1%	1%	0%	5%	5%

Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

Most respondents indicated there has been no change in compliance efforts related to the use of external resources, internal company efforts and external audit efforts. This may be a reflection of the increasing maturity of Sarbanes-Oxley and related compliance processes, as a result of which understanding and executing changes warranted by newer regulations happens relatively seamlessly.

Effect of SEC's 2007 Interpretive Guidance and PCAOB AS5 on Efforts in Current Year of Compliance

(Base: All Respondents)

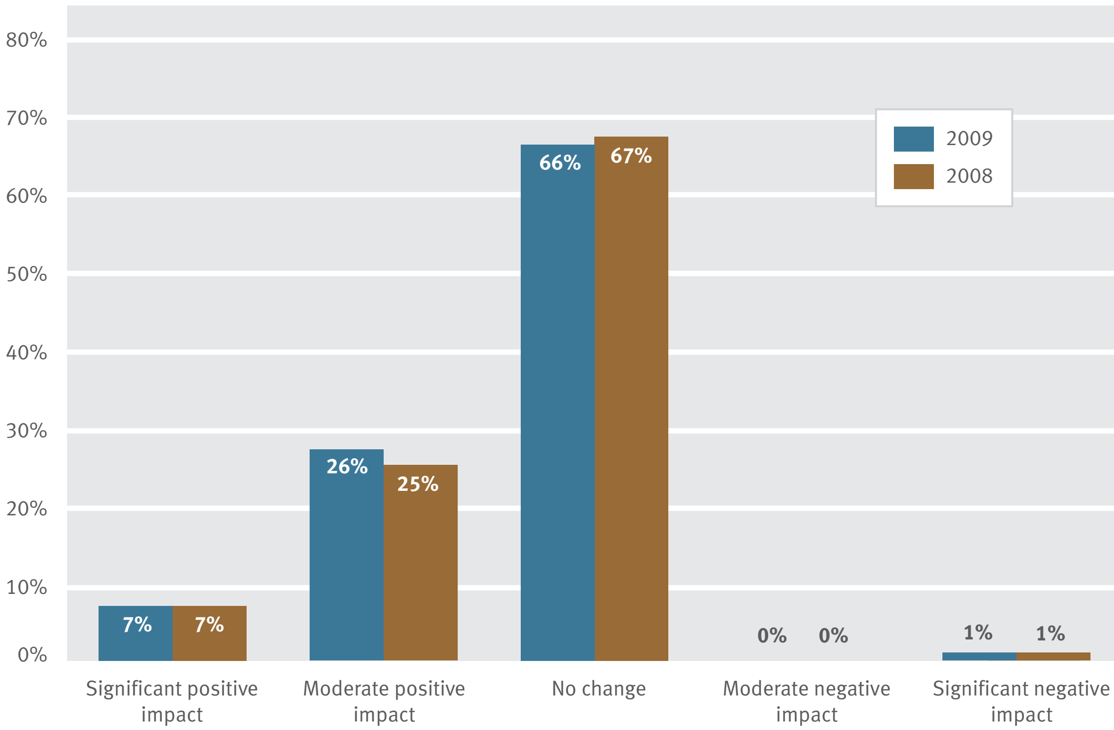


Impact of the Application of COSO's Guidance on Monitoring Internal Control Systems

Two out of three respondents – 66 percent – believe that the impact of COSO's Guidance on Monitoring Internal Control Systems will have "no change" on the organization's Sarbanes-Oxley compliance activities. Less than 10 percent of the respondents noted they expect a "significant positive impact."

Impact of Application of COSO's Guidance on Monitoring Internal Control Systems

(Base: All Respondents)



Small companies have slightly different views of this guidance, with fewer reporting a positive impact and 7 percent reporting a significant or moderate negative impact.

	Overall		Large		Small	
	2009	2008	2009	2008	2009	2008
Significant positive impact	7%	7%	8%	9%	12%	12%
Moderate positive impact	26%	25%	30%	27%	17%	14%
No change	66%	67%	62%	64%	64%	67%
Moderate negative impact	0%	0%	0%	0%	2%	2%
Significant negative impact	1%	1%	0%	0%	5%	5%

Small = Companies with revenues less than $100 million
Large = Companies with revenues of $10 billion or greater

Market Capitalization Level for Section 404(a) Exemption

"What's good for the goose is good for the gander. All public companies should be subject to Section 404(a)."

– Compliance manager of a distribution company beyond its fourth year of compliance

"Exempting companies would be terrible for governance. It will set us back 10 years. There is currently better governance ... thanks to SOX."

– Audit director at a large manufacturing company beyond its fourth year of compliance

Respondents were asked whether they believed that companies should be exempt from Section 404(a) on the basis of their market capitalization. The majority of respondents were of the view that, regardless of market capitalization, public companies should not be exempt from Section 404(a) compliance. The results are relatively consistent across company size and Sarbanes-Oxley filing status.

In their subjective comments, a number of respondents said that while key controls identification and management self-assessment are good business practices for any public reporting company, they believe that below a certain market capitalization level, companies should be exempt from the "full" requirements of Section 404 (e.g., exempt from the independent auditor attestation requirement).

Appendix: Capability Maturity Model

The Capability Maturity Model (CMM) is a framework that describes an improvement path from an ad hoc process to a mature, disciplined process focused on continuous improvement. The CMM defines the state of a process using a common language that is based on the Carnegie Mellon Software Engineering Institute Capability Maturity Model.

The CMM consists of a continuum of five process maturity levels, enabling process owners to rate the state, or maturity, of a given process as Initial, Repeatable, Defined, Managed or Optimizing. It applies to any process within an organization and, when applied effectively, improves the ability of organizations to meet goals for cost, schedule, functionality and quality, and is a useful tool when communicating with stakeholders. This model establishes a yardstick against which to determine and pursue opportunities for improved performance.

When applying the CMM, the process must meet all criteria to rate at a given level within the model. A process is either at a stage of maturity within the CMM or it isn't. There are no "pluses" or "minuses" when applying the CMM. Management must apply the criteria based upon the facts provided by the current state analysis to rate the maturity of the process. Reasonable interpretation will be needed at times when applying the model, requiring the process owner and evaluator to use professional judgment.

PROCESS	CONTINUUM	CHARACTERISTICS OF CAPABILITY	METHOD OF ACHIEVEMENT
	OPTIMIZING	OPTIMIZING FEEDBACK Issue management a source of competitive advantage	• Issue resolution strategy • Increased emphasis on taking and exploiting opportunities
	MANAGED	QUANTITATIVE Issue measured/managed quantitatively and aggregated enterprisewide	• Rigorous management • Methodologies/analysis • Intensive debate on trade-off issues
	DEFINED	QUALITATIVE/QUANTITATIVE Policies, processes and standards defined and institutionalized	• Uniform process • Remaining components of infrastructure • Rigorous methodologies
	REPEATABLE	INTUITIVE Process repeatable, but dependent on individuals	• Common language • Qualify people assigned • Defined tasks • Initial infrastructure
	INITIAL	AD HOC/CHAOTIC Dependent on heroics, institutional capability lacking	• Undefined tasks • Relies on initiative • "Just do it" • Reliance on key people

Source: Carnegie Mellon Software Engineering Institute Capability Maturity Model

Survey Demographics

More than 400 respondents participated in the survey. All demographic information was provided voluntarily and not all participants provided data for every demographic question.

Position

Audit Manager	16%
Audit Staff	16%
Audit Director	14%
Corporate Sarbanes-Oxley Leader	14%
Chief Audit Executive	14%
Other C-Suite executive	6%
Other	20%

Industry

Manufacturing was the most represented industry group in the study, followed by Financial Services.

Manufacturing	19%
Financial Services	15%
Technology	7%
Insurance	7%
Energy	6%
Healthcare	6%
Retail	4%
Services	4%
Utilities	4%
Government/Education/Not-for-profit	4%
Life Sciences/Biotechnology	4%
Telecommunications	3%
Real Estate	2%
Hospitality	2%
Distribution	2%
Media	1%
Other	10%

Size of Organization (by Gross Annual Revenue)

Overall, the greatest representation was by organizations with gross annual revenues of $1 billion to $4.99 billion, with 58 percent of organizations at $1 billion or higher.

$20 billion or greater	7%
$10 billion - $19.99 billion	12%
$5 billion - $9.99 billion	11%
$1 billion - $4.99 billion	28%
$500 million - $999.99 million	14%
$100 million - $499.99 million	17%
Less than $100 million	11%

Type of Organization

The vast majority of respondents are from publicly held organizations.

Public	79%
Private	12%
Not-for-profit	4%
Government	2%
Other	3%

Fiscal Year-End

Most respondents (67 percent) reported a fiscal year-end in December.

January	3%
February	1%
March	5%
April	2%
May	2%
June	7%
July	2%
August	2%
September	6%
October	2%
November	1%
December	67%

Certification

A majority of respondents are either Certified Public Accountants or Chartered Accountants.

Certified Public Accountant (CPA)/Chartered Accountant (CA)	56%
Certified Internal Auditor (CIA)	31%
Certified Information Systems Auditor (CISA)	18%
Certified Fraud Examiner (CFE)	6%
Certified Financial Services Auditor (CFSA)	3%
Other	28%

Experience (in Current Position)

Most of the respondents in the study have been in their current position between one and four years.

> 10 years	10%
5-10 years	32%
1-4 years	48%
< 1 year	10%

ABOUT PROTIVITI

Protiviti (**www.protiviti.com**) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. We help solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Our highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for our clients in the Americas, Asia-Pacific, Europe and the Middle East.

Protiviti has more than 60 locations worldwide and is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

Internal Audit and Financial Controls

We work with audit executives, management and audit committees at companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills. Protiviti professionals have assisted hundreds of companies in establishing first-year Sarbanes-Oxley compliance programs as well as ongoing compliance. We help organizations transition to a process-based approach for financial control compliance, identifying effective ways to appropriately reduce effort through better risk assessment, scoping and use of technology, thus reducing the cost of compliance. Reporting directly to the board, audit committee or management, as desired, we have completed hundreds of discrete, focused financial and internal control reviews and control investigations, either as part of a formal internal audit activity or apart from it.

One of the key features about Protiviti is that we are not an audit/accounting firm, thus there is never an independence issue in the work we do for clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas. In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services we provide are:

- Internal Audit Outsourcing and Co-Sourcing
- Financial Control and Sarbanes-Oxley Compliance
- Internal Audit Quality Assurance Reviews and Transformation
- Audit Committee Advisory

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