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2011 Sarbanes-Oxley Compliance Survey

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

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Internal Audit.

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INTRODUCTION

Has risk management ever been more of a "headline" issue for organizations than it is today? A string of devastating natural and man-made disasters worldwide coupled with continuing aftereffects of a challenging global financial crisis have placed companies in the spotlight of shareholders, governments and the public, all of whom want assurances that companies understand and are managing their risks effectively.

Of course, these issues are just the latest in a decade-long movement to enhance risk management in public companies, a trend that began in 2002 with the passage of the Sarbanes-Oxley Act. That legislation, and in particular Section 404, placed new requirements on companies to establish strong and sound internal control over financial reporting. Not only did it require management to report on the effectiveness of these controls, but also required attestation by the company's external auditor. For management and the board of directors at publicly held organizations, a new level of risk management and internal control was required to address financial reporting risk, and remains so nine years later.

This risk, and how companies are addressing and managing it while seeking to streamline their control environments and the time and cost associated with Sarbanes-Oxley compliance, is the focus of Protiviti's annual *Sarbanes-Oxley Compliance Survey.*

As is evident in this year's results, the news is becoming better for many organizations. Without question, the initial years of compliance result in high costs for companies in terms of time, money and other resources. And for some, Sarbanes-Oxley compliance remains an expensive line item in the annual budget, even after many years of experience and refinement. Overall, however, costs tend to stabilize and even fall after the initial compliance years, and more organizations find that the benefits – including a stronger internal control environment and improved effectiveness and efficiency in operations – outweigh the costs.[1]

Protiviti's *Sarbanes-Oxley Compliance Survey* takes an in-depth look at these issues, along with the strategies and tactics that will help organizations benchmark their compliance processes with regard to cost, time and effort; maximize the many benefits of those processes; and achieve a desired state of verifiable compliance, value-add and sustainability. This year's survey also includes two new sections that focus on the impact of economic events in 2009 and the exemption of nonaccelerated filers from Section 404(b) compliance (the auditor attestation requirement), as dictated in the Dodd-Frank Wall Street Reform and Consumer Protection Act passed in July 2010.

Participants in this year's *Sarbanes-Oxley Compliance Survey* included chief audit executives, chief financial officers, corporate Sarbanes-Oxley leaders, audit directors and managers, and corporate controllers, among many other executives and professionals involved with and having a stake in the financial reporting process. Respondents represented a broad array of industries, the most prevalent of which include manufacturing, financial services, technology, retail, energy, utility and healthcare, among others.

Please note that, upon request, we can provide customized reports based on the results of respondents from specific groups represented in the survey – industry, company size, etc. For additional information or to request a customized report, contact your local Protiviti office or one of the individuals listed in the back of this report.

We extend our thanks to the more than 400 executives and professionals who participated in our survey this year. Without them sharing their valuable time, this report would not be possible. We also appreciate the positive response that this and other Protiviti studies receive in the market. We welcome your feedback on this year's survey results and your suggestions for other topics to explore in this and other Protiviti research.

Protiviti
June 2011

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[1] In Protiviti's experience, Sarbanes-Oxley costs can fall as much as 50 percent after the first year.

EXECUTIVE SUMMARY

Impact of Economic Events in 2009

- A strong majority of organizations report that the global financial crisis and economic events in 2009 did not have an adverse effect on their internal control over financial reporting. However, it may be too early to state definitively how these events will affect the internal control environment over the long term.

- A significant number of companies have a better internal control over financial reporting environment than they did last year – a positive development that indicates organizations continue to enhance the quality of their internal controls and the efficiency and effectiveness of their compliance processes as they emerge out of recession.

Sarbanes-Oxley Compliance: Cost, Value and Benefits

- Similar to last year's survey results, most organizations think the costs of Sarbanes-Oxley outweigh the benefits during the first year of compliance, which usually is a time-intensive project. After Year One, however, organizations consistently view the benefits of Sarbanes-Oxley compliance to outweigh the costs.

- By Year Four of complying with Sarbanes-Oxley, most organizations spend in the range of $100,000 to $1 million annually on compliance-related activities, depending on size. After Year Four, few spend more than $1 million.

- Companies, regardless of size or year of Sarbanes-Oxley compliance, plan to reduce compliance costs in the coming year, but the reduction will be relatively nominal – less than 10 percent, on average.

- The primary benefits organizations achieve through Sarbanes-Oxley compliance include an enhanced understanding of control design and control operating effectiveness, increased effectiveness and efficiency of operations, and internal audit being able to perform more traditional and valuable audits in areas other than financial reporting processes.

Evolving Maturity of the Sarbanes-Oxley Compliance Process

- Approximately 50 percent of all companies handle all of their Sarbanes-Oxley compliance work internally. These results are relatively consistent across company size, though 26 percent of large organizations rely on at least two external service providers for assistance.

- The internal audit function remains the primary owner of compliance efforts in most organizations, followed by the audit committee and executive management.

- Most organizations typically outsource the highest percentage of Sarbanes-Oxley work during the first year of compliance and less in subsequent years. However, as expected, very few organizations are outsourcing any of this work to their external auditors, reflecting the need to limit the involvement of external auditors in Sarbanes-Oxley compliance and other non-audit-related activities.

- Accelerated filers outsource significantly more of their Sarbanes-Oxley compliance efforts compared to large accelerated and nonaccelerated filers.

- More companies are enhancing their Sarbanes-Oxley compliance processes to a Managed or Optimized state (according to the Capability Maturity Model).

- More organizations are applying COSO's guidance on monitoring internal control systems, and one in three report this guidance is having a positive impact on their Sarbanes-Oxley compliance activities.

- Most companies are satisfied that their external audit firms are maximizing their reliance on work performed by others for low- and medium-risk processes.

Sarbanes-Oxley Compliance: Strategies and Inefficiencies

- To improve the efficiency and effectiveness of Sarbanes-Oxley compliance, strategies organizations are employing most frequently include maximizing lessons from previous years and peer benchmarking, using a risk-based testing approach, and establishing process owner accountability.
- The top strategies organizations plan to employ in 2011 and beyond include:
  - Increasing the number of automated controls
  - Using continuous monitoring tools or techniques
  - Decreasing the number of manual controls
- There continue to be significant opportunities for organizations to automate more of their key controls and gain significant competitive advantage. On a positive note, more than one in three organizations are planning to automate more of their controls.

Perspectives from Nonaccelerated Filers

- Most nonaccelerated filers were preparing to comply with the auditor attestation requirement of Sarbanes-Oxley prior to the exemption passed as part of the Dodd-Frank Act and were ready to comply by the deadline.
- Most of these companies did not have a material auditor-generated adjustment in either 2009 or 2010.
- Key areas these companies would have needed to address if auditor attestation of internal control over financial reporting were still required include:
  - IT general controls
  - Spreadsheet controls
  - Segregation of duties

RESULTS AND ANALYSIS

I. Sarbanes-Oxley Compliance – Status of Survey Respondents

Among this year's survey respondents, 68 percent are in or beyond their fourth year of Sarbanes-Oxley compliance, and 83 percent are either large accelerated or accelerated filers. Therefore, these organizations have extensive experience with the Sarbanes-Oxley compliance process and understand its challenges and how to overcome them.

Year of Sarbanes-Oxley Compliance
Base: All Respondents

- 6%
- 7%
- 5%
- 3%
- 17%
- 62%

Pre-1st Year of SOX Compliance

1st Year of SOX Compliance

2nd Year of SOX Compliance

3rd Year of SOX Compliance

4th Year of SOX Compliance

Beyond 4th Year of SOX Compliance
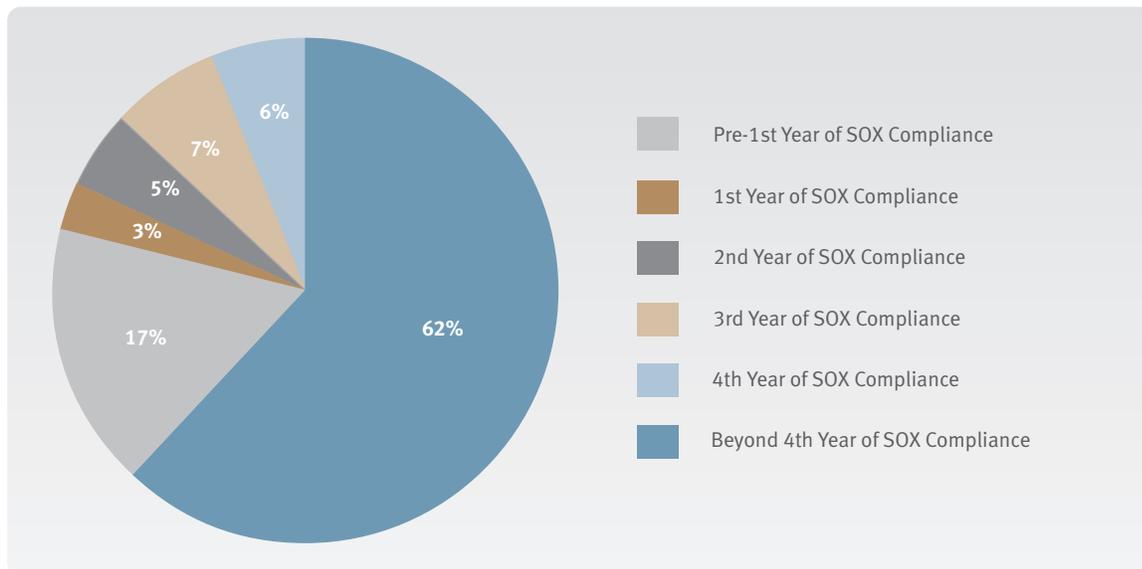
Sarbanes-Oxley Filing Status
Base: All Respondents
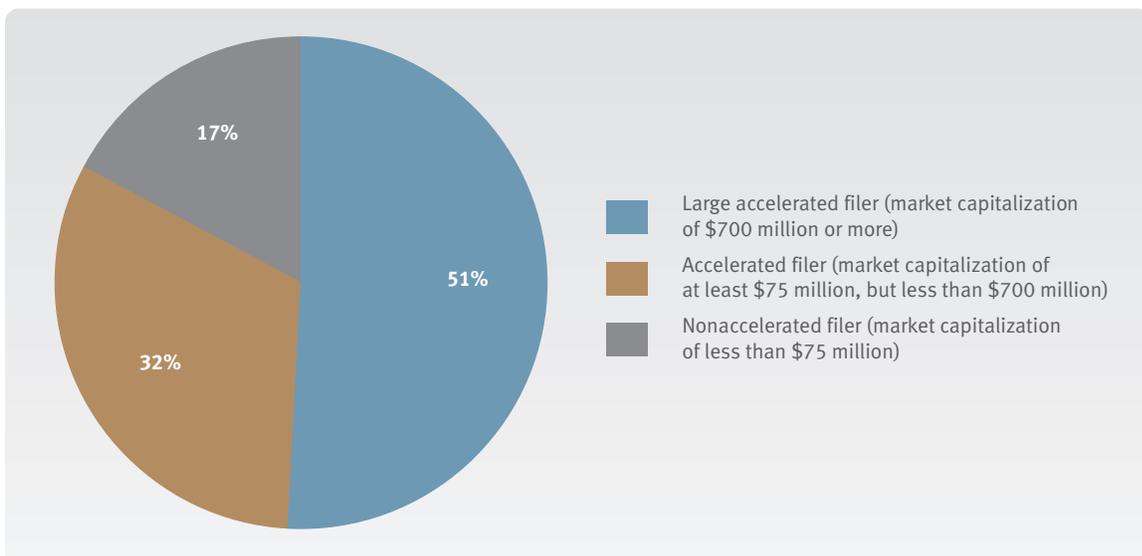
- 17%
- 51%
- 32%

Large accelerated filer (market capitalization of $700 million or more)

Accelerated filer (market capitalization of at least $75 million, but less than $700 million)

Nonaccelerated filer (market capitalization of less than $75 million)

II. Impact of Economic Events in 2009

This year's *Sarbanes-Oxley Compliance Survey* sought to assess whether companies were compelled to make any sacrifices in their internal control environments as a result of budget cuts, staff reductions and process modifications made during the global financial crisis and economic events in 2009. It is not unusual for significant cost reduction efforts to result in compromise in the key control activities essential to reliable financial reporting. In addition, in times of expansion, new acquisitions, business activities and information technology systems can place an already fragile control structure under further stress. Therefore, this line of inquiry is often one of interest to audit committees as companies come out of a significant recession.

Effect on Internal Control over Financial Reporting

Respondents were asked about the effects of economic events in 2009 on internal control over financial reporting in their organizations. Most participants – 89 percent – said that these events did not have an adverse effect in this area. Among those who reported an impact, 67 percent said it was moderate while 18 percent rated it significant.

While overall these results are promising, it is important to note that it may be too early to proclaim definitively how the 2009 economic events will affect internal control reporting environments. In fact, results from another question show some of the specific changes organizations underwent that could influence internal control over financial reporting on a longer-term basis. Respondents were asked about specific headcount changes their organizations had experienced as a result of recent economic events. Overall, approximately one in three reported slight to moderate declines in:

- Personnel responsible for executing key controls
- Finance department personnel
- Total company employee headcount

Interestingly, there were relatively few headcount reductions reported that were related to personnel having a key role in managing Section 404(b) compliance activities. This suggests that organizations have, to a great extent, streamlined this process so that it is functioning with minimum staff, or that they recognize the importance of having effective internal control over financial reporting. In addition, many continue to outsource key functions in the Sarbanes-Oxley compliance process (see page 19).

In reality, it may take a few years or more to gain a clear picture of the effects the global economic crisis may have created on the internal control environment related to financial reporting. If an organization reduced the personnel responsible for its internal controls, that action could result in remaining personnel being expected to accomplish more with less. It is possible that mistakes could spike over time. Given this possibility, it will be interesting to monitor these survey results over the next few years.

State of Internal Control Environment

Nearly half of the respondents – 45 percent – said that the state of the internal control over financial reporting environment in their organizations is better now than it was last year. This is positive news. Even nine years after passage of the Sarbanes-Oxley Act, companies are still learning and working to continuously improve the quality of their internal controls as well as the effectiveness and efficiency of their compliance processes. That is exactly what the U.S. Congress intended with the passage of Sarbanes-Oxley. Still, as noted above, time will tell whether recent economic events will have a meaningful impact on internal control environments.

III. Sarbanes-Oxley Compliance: Cost, Value and Benefits

How Much Are Companies Spending on Sarbanes-Oxley Compliance?

Reviewing and benchmarking Sarbanes-Oxley costs is difficult and, to an extent, limiting, as company size and industry are key factors that affect how much a company invests annually in these efforts. Still, as shown in the accompanying graphics, some notable trends emerge from the survey results.

Results by Company Size

- Predictably, most small companies spend far less on compliance than do midsize and large companies. More than 80 percent of small companies spend less than $100,000 annually.
- Approximately half of midsize organizations spend from $100,000 to $500,000 annually and 70 percent spend $1 million or less.
- Predictably, large companies spend the most and show the greatest spread among cost ranges – this likely is a result of wide-ranging variations in operating structures and the number of international locations.

Results by Year of Compliance

- By Year Four of Sarbanes-Oxley compliance, most organizations are spending from $100,000 to $1 million annually.
- After Year Four, very few spend more than $1 million (and as noted, most of these are large companies).

Cost for Most Recently Completed Fiscal Year of Sarbanes-Oxley Compliance (by size of company)
Base: All Respondents
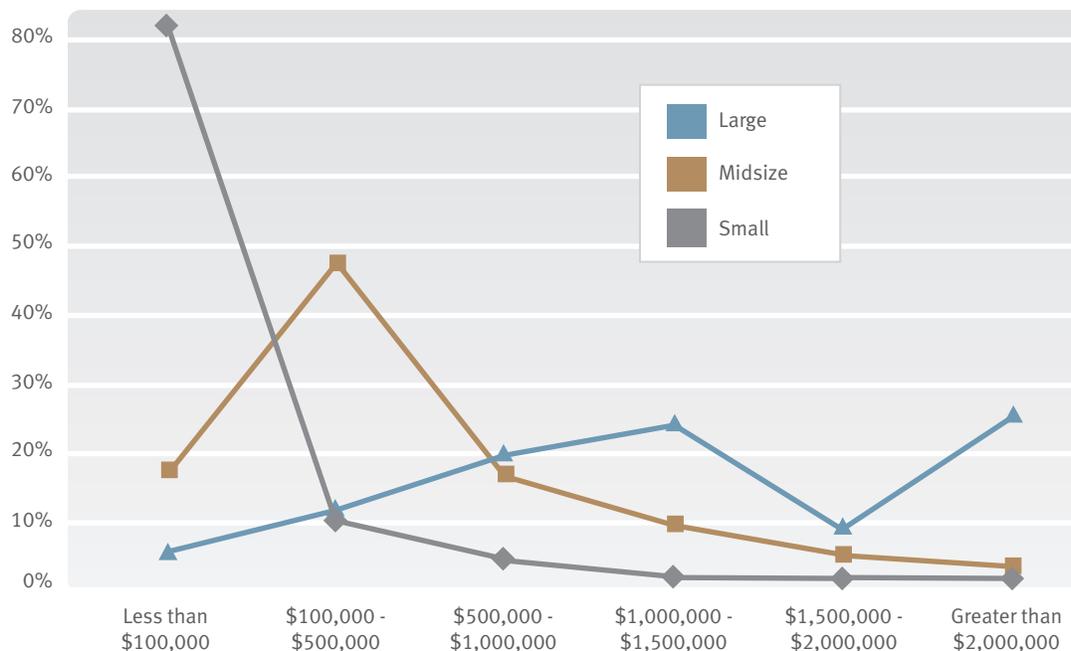
Small = Companies with revenues less than $100 million
Midsize* = Companies with revenues between $100 million and $10 billion
Large = Companies with revenues of $10 billion or greater

* Upon request, Protiviti can provide additional reporting in this broad category.

We believe that most companies can develop a cost-effective [and] sustainable SOX compliance process. It needs to be subject to continuous improvement [and] should be part of the organization's overall risk management.

Chief audit executive, real estate company

Cost for Most Recently Completed Fiscal Year of Sarbanes-Oxley Compliance (by year of compliance)

	Pre-1st Year of SOX Compliance	1st Year of SOX Compliance	2nd Year of SOX Compliance	3rd Year of SOX Compliance	4th Year of SOX Compliance	Beyond 4th Year of SOX Compliance
Less than $100,000	67%	25%	21%	19%	11%	9%
$100,000 - $500,000	22%	50%	42%	69%	58%	41%
$500,000 - $1,000,000	4%	13%	16%	12%	4%	22%
$1,000,000 - $1,500,000	2%	12%	11%	0%	16%	14%
$1,500,000 - $2,000,000	2%	0%	10%	0%	11%	6%
Greater than $2,000,000	3%	0%	0%	0%	0%	8%

Cost for Most Recently Completed Fiscal Year of Sarbanes-Oxley Compliance (midsize company breakdown)

	$100 million - $499.99 million	$500 million - $999.99 million	$1 billion - $4.99 billion	$5 billion - $9.99 billion
Less than $100,000	30%	13%	16%	5%
$100,000 - $500,000	58%	50%	50%	30%
$500,000 - $1,000,000	5%	30%	19%	17%
$1,000,000 - $1,500,000	7%	0%	9%	28%
$1,500,000 - $2,000,000	0%	7%	3%	14%
Greater than $2,000,000	0%	0%	3%	6%

Efforts to Reduce Sarbanes-Oxley Compliance Costs

WE ARE IN THE BEGINNING STAGES OF REDESIGNING THE SOX PROCESS … MOST OF THE COST ASSOCIATED WITH THE REWORK OF THE PROCESSES, STRUCTURE, NEW GRC SYSTEM, ETC., WILL BE INCURRED IN 2011. WE HOPE COSTS WILL DROP IN 2012.

Audit director, financial services company

Companies, regardless of size or year of compliance, plan to reduce their compliance costs in the coming year, but the decrease will be relatively nominal. Most respondents reported they either are expecting costs to decline by less than 10 percent or are essentially done with efforts to reduce costs.

Regardless of year of compliance, companies are continuously striving to reduce overall costs for their Sarbanes-Oxley activities, but as they move beyond Year Four, the ability to reduce these costs becomes harder and harder, if not impossible. Most organizations reach a point of diminishing returns. However, after reaching a more mature state of compliance from a cost perspective, companies continue to refine their approach to compliance and do so in a more strategic way.

The table below shows that, after Year One, the percentage of companies determining they cannot reduce costs any further increases over time. Conversely, the percentage of companies planning to reduce costs by more than 10 percent generally declines over time. Of the remaining companies, most of them plan to reduce costs by less than 10 percent. Interestingly, there is a steady minority of companies in each year of Sarbanes-Oxley compliance, as well as prior to the first year of compliance, expecting costs to increase. An increase can be due to a variety of reasons most likely related to a change in circumstances, such as a major acquisition, a new system, a significant change in accounting principles, or the emergence of a significant deficiency or material weakness, among other things.

Expected Changes in Sarbanes-Oxley Compliance Costs for Next Fiscal Year (by year of compliance)
Base: All Respondents

	Overall	Pre-1st Year of SOX Compliance	1st Year of SOX Compliance	2nd Year of SOX Compliance	3rd Year of SOX Compliance	4th Year of SOX Compliance	Beyond 4th Year of SOX Compliance
We expect costs to increase	13%	16%	12%	5%	25%	11%	13%
We cannot reduce costs any further	26%	40%	0%	11%	13%	16%	27%
We plan to reduce costs by less than 10%	44%	31%	64%	58%	38%	37%	47%
We plan to reduce costs by 10-15%	10%	0%	0%	16%	13%	26%	10%
We plan to reduce costs by 15-20%	4%	7%	12%	5%	6%	5%	2%
We plan to reduce costs by more than 20%	3%	6%	12%	5%	5%	5%	1%

Expected Changes in Sarbanes-Oxley Compliance Costs for Next Fiscal Year (by size of company)

Base: All Respondents

	Overall	Large	Midsize	Small
We expect costs to increase	13%	12%	12%	35%
We cannot reduce costs any further	26%	22%	26%	24%
We plan to reduce costs by less than 10%	44%	52%	44%	35%
We plan to reduce costs by 10-15%	10%	6%	11%	0%
We plan to reduce costs by 15-20%	4%	8%	4%	0%
We plan to reduce costs by more than 20%	3%	0%	3%	6%

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

* Upon request, Protiviti can provide additional reporting in this broad category.

The table above breaks down the overall results by size of company. The expectation that costs cannot be reduced any further is the same, regardless of company size. Generally speaking, midsize and large companies are reasonably consistent in their views. However, smaller companies generally see less opportunity than midsize and large companies to reduce compliance costs and show the greatest disparity from the overall results. A possible reason for this difference may be due to their operations and control environment being less complex, meaning they generally spend less in these areas than other companies.

Monitoring Sarbanes-Oxley Compliance Time and Costs

Respondents were asked if their organizations track and report the hours and costs required to comply with Sarbanes-Oxley each year. The overall results were comparable to last year's survey: Companies are split, with approximately half tracking these areas.

In assessing the results by size of company and year of Sarbanes-Oxley compliance, there are several notable findings:

- Not surprisingly, just 18 percent of small companies track and report on hours and costs, while results for midsize and large companies mirror the overall results. These results support the prevailing view that midsize and large companies are more likely to implement a project management discipline over the compliance effort.
- Fewer Year One and pre-Year One organizations track hours and costs. By Year Two, however, the results change dramatically. By Year Three – perhaps a time when organizations begin delving more deeply into opportunities for cost savings and greater efficiencies in the compliance process – 75 percent track hours and costs. These results make sense, as many organizations often have a "just get it done" mentality during the initial year of compliance.

Does your organization track and report the hours and costs required to comply with Sarbanes-Oxley each year?

Base: All Respondents

	Overall	Pre-1st Year of SOX Compliance	1st Year of SOX Compliance	2nd Year of SOX Compliance	3rd Year of SOX Compliance	4th Year of SOX Compliance	Beyond 4th Year of SOX Compliance
Yes	45%	18%	38%	58%	75%	37%	47%
No	55%	82%	62%	42%	25%	63%	53%

Does your organization track and report the hours and costs required to comply with Sarbanes-Oxley each year?

Base: All Respondents

	Overall	Large	Midsize	Small
Yes	45%	44%	47%	18%
No	55%	56%	53%	82%

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

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

Survey respondents were asked if they believe the benefits of complying with Sarbanes-Oxley Section 404 outweighed the costs during their first year of compliance, and whether they believe this now for their current compliance year. Similar to last year's results, a majority believe that for the first year of Section 404 compliance, the costs outweigh the benefits. For the current year, however, more respondents view the benefits as outweighing the costs.

These results underscore the difficulty and challenges an organization faces in preparing for and undertaking the Sarbanes-Oxley compliance process for the first time. Certainly, there are many years of lessons to be learned from other organizations that underwent this process. Notwithstanding these well-documented lessons, the review and possible transformation of the internal control environment requires experienced staff and in-depth knowledge of potential pitfalls in specific areas. For the first year of compliance, the process is and remains time-consuming. That is why these companies should be mindful to start early and plan accordingly.

Once they address and overcome these challenges, however, it is clear that a stronger internal control environment brings many benefits. Even with annual costs ranging, on average, from $100,000 to $1 million or more (see page 6), organizations see many benefits, including a streamlined and still-effective internal control environment that enables them to operate more efficiently and reliably.

Do the benefits of Sarbanes-Oxley compliance outweigh the costs?
Base: All Respondents

	First year of compliance		Current year of compliance	
	2011	2010	2011	2010
Yes	43%	39%	67%	70%
No	57%	61%	33%	30%
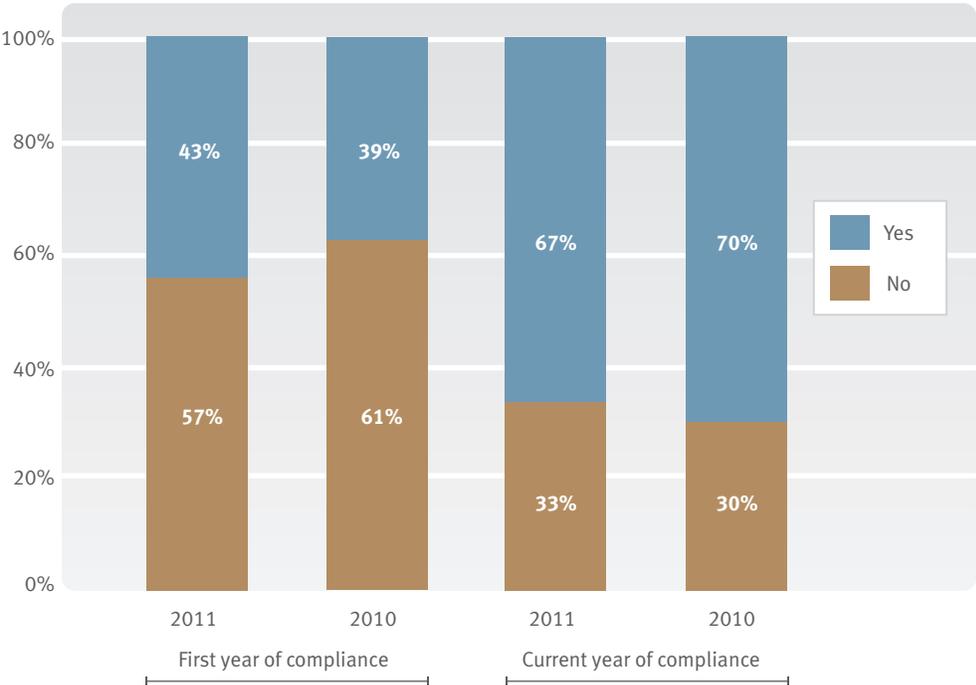
In assessing the responses by year of compliance, the results are consistent: For the current year of compliance, the benefits of Sarbanes-Oxley compliance are viewed as outweighing the costs. Among the specific benefits respondents cited include:

- An enhanced understanding of control design and control operating effectiveness
- Increased effectiveness and efficiency of operations
- Internal audit able to perform more traditional audits in operational and nonfinancial reporting-related areas
- Increased reliance by external auditors on work of internal audit

In contrast to initial media reports of pervasive opinions that Sarbanes-Oxley compliance would be exorbitantly expensive, compliance costs continue to go down through refinement of processes, streamlined controls, and the release of updated guidance from the U.S. Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB), among other factors. In addition, not only are there more views that Sarbanes-Oxley compliance should be palatable for most organizations, but numerous industry reports also show that financial restatements and reports of deficiencies and material weaknesses continue to decline.

Primary Benefits of Sarbanes-Oxley Compliance

WE BELIEVE WE RECEIVE VALUE FROM MAKING OPERATING LOCATIONS MORE RISK AND CONTROLS CONSCIOUS AND BY MAKING A GOOD INTERNAL CONTROL ENVIRONMENT A PRIORITY.

Chief audit executive, real estate company

What are the primary benefits your organization expects to achieve in the coming fiscal year through Sarbanes-Oxley compliance?

Base: All Respondents

Benefit	Yes	No
Enhanced understanding of control design and control operating effectiveness	56%	44%
Increased effectiveness and efficiency of operations	49%	51%
Internal audit is able to perform more traditional audits	46%	54%
Increased reliance by external auditors on work of internal audit	45%	55%
Ability to better identify duplicate and superfluous controls	37%	63%
Reduced Section 404 and Section 302 compliance costs	34%	66%
No benefit – simply complying with required SEC rules	14%	86%

Optimism Regarding Auditor Opinions

Respondents were asked to provide the type of auditor opinion their organizations received in 2009 (unqualified, qualified, disclaimer), and the opinion they expected to receive for the following fiscal year (2010). The results show a high level of optimism among companies, with less than 5 percent noting an auditor opinion other than unqualified for both 2009 and 2010.

This is a sign of growing optimism among companies that are more confident in their internal control environments and, as a result, expect unqualified auditor opinions every year.

On a related note, only 6 percent of respondents reported changing auditors in 2010, and just 5 percent did so in 2009.

Those respondents that reported changing auditors were asked to provide the reasons for doing so. Among the top reasons were switching to a firm with better coverage and capabilities (36 percent) and fees (34 percent). Only 7 percent made a change because of a disagreement on accounting and reporting matters. This is a further indicator of the high level of confidence companies have today regarding their internal control over financial reporting.

Leveraging Sarbanes-Oxley to Drive Continuous Improvement Efforts

Beginning in the first year of Sarbanes-Oxley compliance, most organizations seek to drive continuous improvement in business processes that affect financial reporting. By Year Four, 94 percent of organizations are leveraging their compliance activities for this purpose. These results are positive news, as they show that companies are capitalizing on their Sarbanes-Oxley compliance efforts to create value in their organizations rather than treating them as a stand-alone, compliance-only process.

Experience shows that it takes time for companies to develop this focus, as the first two to three years of compliance are often devoted to streamlining the Section 404 evaluation scope, ensuring a top-down and risk-based approach is applied, and reducing the number of key controls. The latter activity is often viewed as a process improvement. Once companies begin to automate processes and improve metrics, measures and monitoring, they begin the "real work" of process improvement – shifting the compliance project to a true process of continuous improvement.

Does your organization currently leverage Sarbanes-Oxley compliance efforts to drive continuous improvement of business processes that affect financial reporting?
Base: 279 Respondents
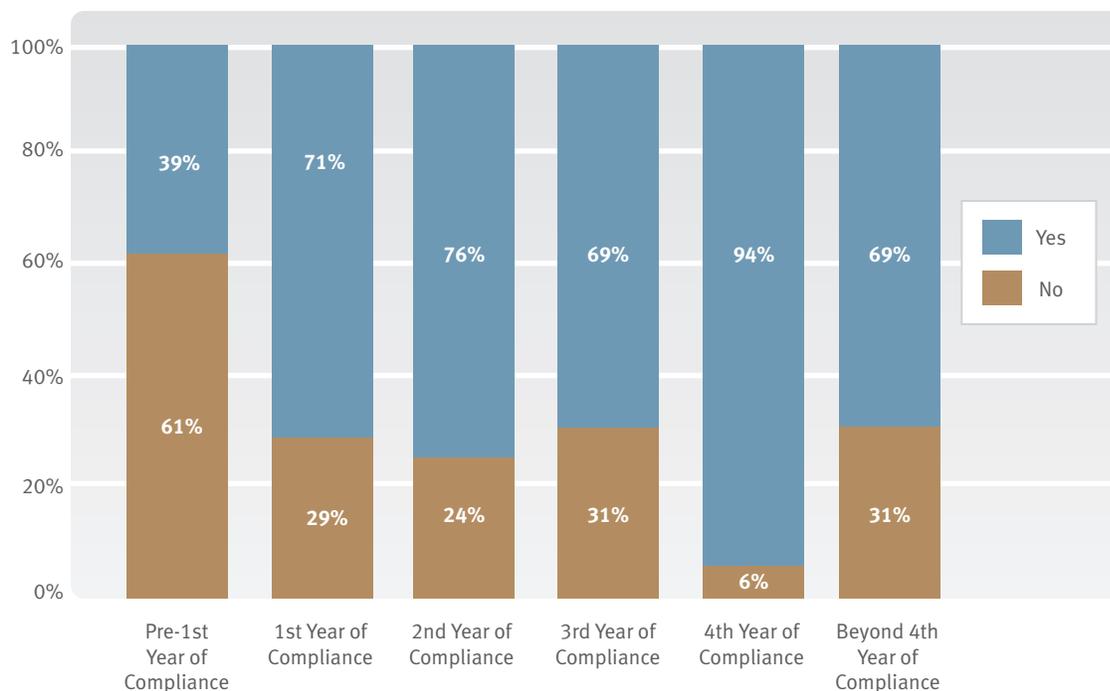
What if Sections 404 and 302 Were No Longer Required?

Not surprisingly, even though the cost of Sarbanes-Oxley compliance tends to decline or at least stabilize after Year One, a majority of respondents believe their organizations would save at least 10 to 20 percent in external audit fees if they were not required to comply with Sections 404 and 302 of Sarbanes-Oxley. In many organizations – 38 percent overall – the estimated cost savings would be at least 20 to 30 percent.

Interestingly, in comparing this year's findings to the results from Protiviti's *2010 Sarbanes-Oxley Compliance Survey*, there is a slight downward trend in the estimated cost savings if compliance with these regulations were no longer required. This could indicate that companies are becoming more effective at streamlining their compliance-related activities while ensuring their internal control environments are improving, meaning that the external audit attestation is less time-consuming to conduct and, therefore, less costly.

Reduction in External Audit Fees if Sections 404 and 302 Were No Longer Required
Base: 305 Respondents
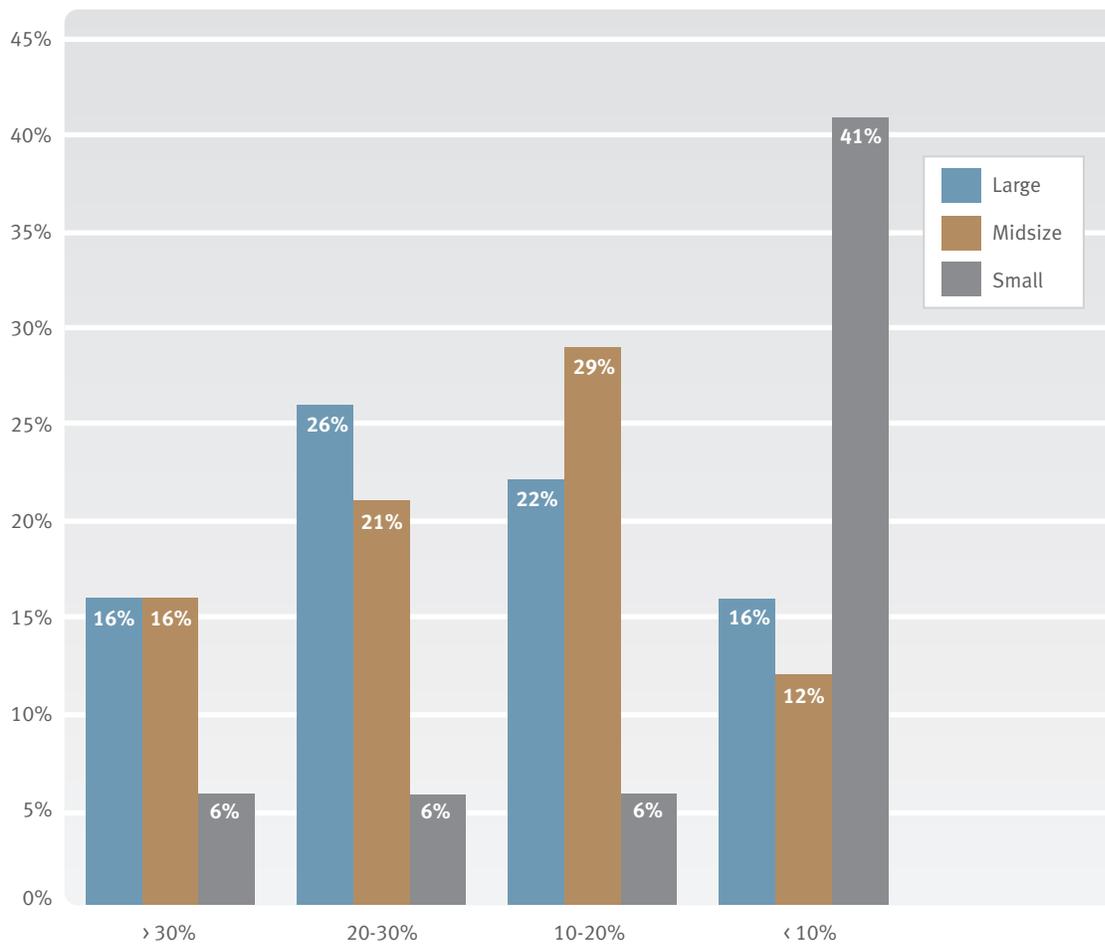
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* Upon request, Protiviti can provide additional reporting in this broad category.

IV. Evolving Maturity of the Sarbanes-Oxley Compliance Process

Sarbanes-Oxley Efforts Have Largely Moved In-House

Respondents were asked the following questions:

- How much of your Sarbanes-Oxley compliance effort was outsourced to an external service 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?

The results are consistent with last year's survey and show that, with the maturity of the Sarbanes-Oxley compliance process, more of this work has moved in-house. For the most recent fiscal year, half of the respondents reported that they handled all Sarbanes-Oxley compliance work internally, while one in three used one organization exclusively to assist with these activities.

Outside Organizations Currently Used for Sarbanes-Oxley Work
Base: All Respondents

Legend:
- None – all work performed internally
- Use one organization exclusively
- Use two to three organizations
- Use more than three organizations
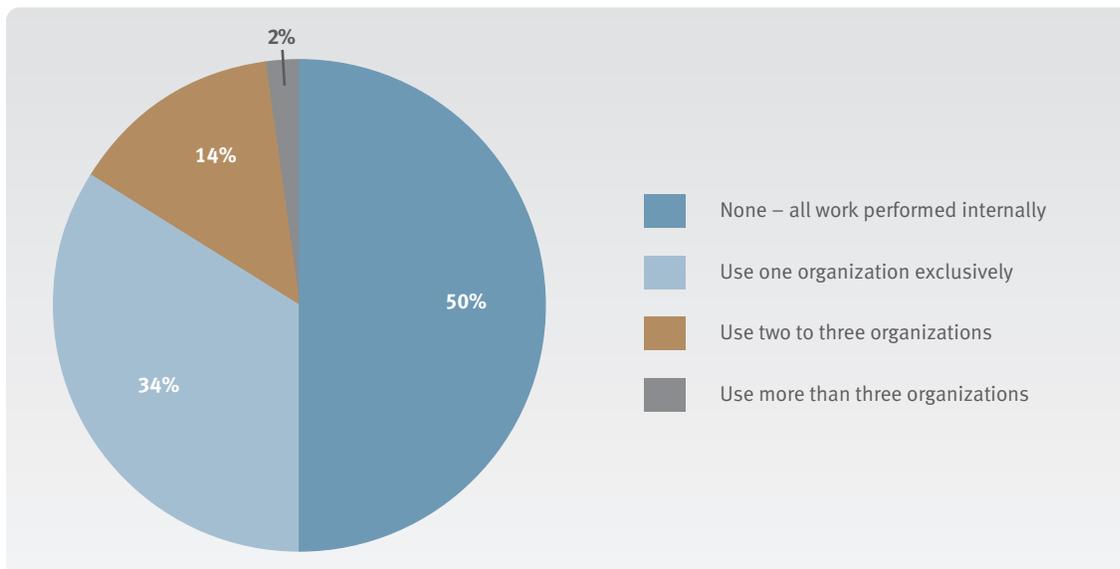
Interestingly, the results are relatively consistent across company size. While a higher percentage of small companies perform all Sarbanes-Oxley compliance work internally, 55 percent of large companies do so as well. However, 26 percent of large organizations rely on at least two external service providers to assist with completing this work.

	Large	Midsize	Small
None – all work performed internally	55%	48%	67%
Use one organization exclusively	19%	37%	28%
Use two to three organizations	21%	13%	5%
Use more than three organizations	5%	2%	0%

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

* Upon request, Protiviti can provide additional reporting in this broad category.

Internal Audit Has Primary Responsibility for Sarbanes-Oxley Work

Consistent with the results from previous years of the *Sarbanes-Oxley Compliance Survey*, the internal audit function remains the primary owner of oversight responsibilities regarding compliance efforts in most organizations, followed by the audit committee and executive management.

In reviewing the results by company size, there are some notable differences. More management and/or process owners are likely to have this responsibility in large companies compared to midsize and small organizations. Also, far more large companies (24 percent) rely on a project management organization (PMO) to be responsible for Sarbanes-Oxley compliance efforts compared to other organizations.

The key focus here is on oversight. Internal control is everyone's responsibility, starting with management and process owners. The complexity and geographic reach of larger organizations lead them to give stronger consideration to designating a PMO structure to play an oversight role. When an internal audit function exists, it will likely be considered when assigning oversight responsibilities; this is particularly the case for large and midsize organizations. By contrast, smaller companies are more likely to lean on executive management and the audit committee to provide oversight.

Primary Responsibility for Overseeing Sarbanes-Oxley Work

Base: All Respondents

	Overall	Large	Midsize	Small
Internal audit	46%	29%	54%	0%
Audit committee	12%	11%	12%	19%
Executive management	10%	6%	8%	38%
Project management organization (PMO)	9%	24%	7%	0%
Management and/or process owners	7%	14%	6%	5%
Business/financial controls unit	6%	10%	4%	10%
External auditor	1%	0%	1%	4%
Third-party service provider	1%	0%	1%	0%
Other	8%	6%	7%	24%

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

* Upon request, Protiviti can provide additional reporting in this broad category.

Outsourcing Trends

External Service Providers (other than external audit firms)

Most organizations typically outsource the highest percentage of Sarbanes-Oxley work during the first year of compliance and significantly less in subsequent years. According to the results, 22 percent of companies outsource more than 75 percent of their compliance efforts in Year One, and another 12 percent outsource 50 to 75 percent of this work during this period. By Year Four, just 17 percent outsource 20 percent or more of their compliance activities.

The results are relatively consistent across company size. Even small companies (less than $100 million in annual revenue) trend toward reducing the amount of Sarbanes-Oxley work that they outsource in later years of compliance.

These results reflect the significant effort required in the initial year of compliance around documenting the control environment and key financial reporting processes, conducting an initial risk assessment, identifying the key controls, evaluating control design effectiveness, designing the test plan, and remediating control deficiencies. These and other one-time activities are demanding and labor-intensive, often resulting in an "all hands on deck" focus. Many organizations do not have all the resources they need to do the job. Therefore, outsourcing is an attractive solution to fill in the gaps. Once the organization moves beyond the first couple of years and the compliance process begins to mature, outsourcing tends to decline.

Sarbanes-Oxley Outsourcing Trends
Base: All Respondents
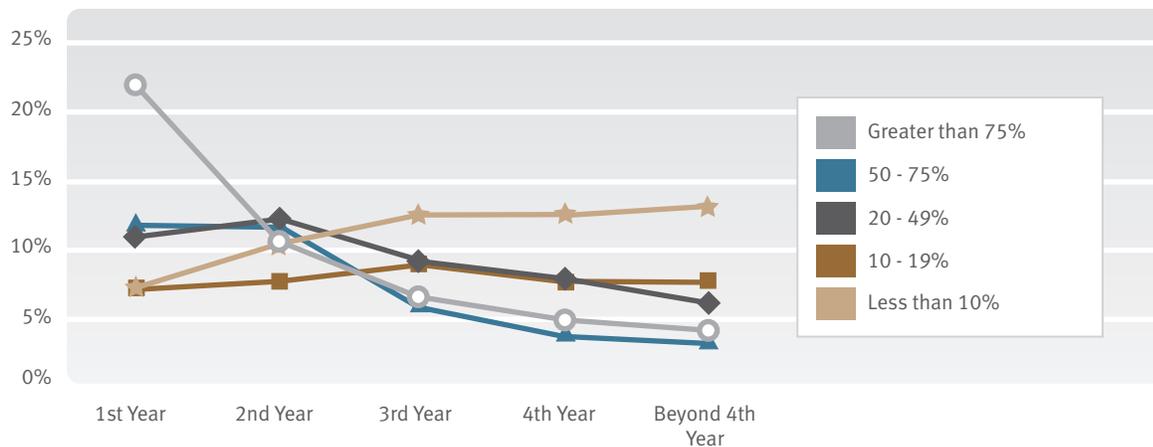
External Audit Firms

Respondents also were asked how much of their Sarbanes-Oxley compliance efforts are outsourced to their external audit firm[s]. According to the results, regardless of company size or year of Sarbanes-Oxley compliance, very few organizations are outsourcing any of this work to their external auditors. These findings indicate that companies are keeping to the letter and spirit of the Sarbanes-Oxley Act and subsequent guidance from the SEC and PCAOB, all of which call for preserving the independence of the external auditors by limiting the extent of their involvement in assisting companies with performing and documenting their Sarbanes-Oxley compliance and other non-audit-related activities. Simply stated, auditors cannot be placed in a position of auditing their own work.

Of note, 7 percent of small companies did report outsourcing to the external auditor more than 50 percent of Sarbanes-Oxley compliance work during their first year of compliance. While this is a relatively small percentage, the use of external auditors by these smaller organizations is far higher than other companies. Management and boards at small companies should be mindful of the independence requirements for Sarbanes-Oxley compliance work and exercise the appropriate caution in engaging their external auditors in doing this non-attest work.

Year-over-Year Changes

Respondents also were asked to indicate, in 2010 as compared to 2009, whether their organizations had changed their use of outside resources for Sarbanes-Oxley compliance efforts. The results are consistent with other findings in the survey:

- 68 percent reported no change.
- 24 percent decreased their use of outside resources.
- 8 percent increased their use of outside resources.

Survey participants who reported *decreasing* their use of outside resources were asked why this change had occurred. Among the top reasons cited:

- Bringing more activities in-house (34 percent)
- Decreasing the scope of Section 404(b) work (19 percent)
- Hiring more in-house resources (17 percent)
- Required/forced cost reduction (15 percent)
- Increase in the number of automated controls (10 percent)

Among the survey participants who reported their organizations *increased* the use of outside resources, reasons cited for this change included:

- Trading the use of in-house resources with outside resources (26 percent)
- Reduction in in-house personnel (24 percent)
- Increasing the scope of Section 404(b) activities (22 percent)
- Remediation of control deficiencies (11 percent)

Interestingly, accelerated filers – companies with a market capitalization of at least $75 million but less than $700 million – outsource significantly more of their Sarbanes-Oxley compliance efforts compared to large accelerated and nonaccelerated filers, even during Year Four and beyond. For these compliance years, an estimated one in four accelerated filers outsource at least 20 percent of their Sarbanes-Oxley activities to an external service provider other than their external audit firm.

Using a Project Management Office

WE HAVE A VERY STRONG AND VALUE-ADDED PROJECT MANAGEMENT ORGANIZATION FOR SARBANES-OXLEY AND AN INTERNAL SELF-ASSESSMENT QUARTERLY PROCESS.

Corporate Sarbanes-Oxley leader, utility company

Interestingly, 65 percent of all respondents reported that their organizations do not use a PMO to organize and manage their Sarbanes-Oxley Section 404 compliance activities. As expected, though, the survey results show that more large companies rely on a PMO to oversee and manage their compliance efforts, likely as a result of their more complex, and often multinational, operating environments that increase the scope, budget and resources required as part of the compliance process.

Use a PMO for SOX 404 Activities
Base: All Respondents

	Overall	Large	Midsize	Small
Yes	35%	54%	33%	5%
No	65%	46%	67%	95%

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

* Upon request, Protiviti can provide additional reporting in this broad category.

A key question to consider is whether some companies that currently do not use a PMO for this purpose might benefit from doing so (see sidebar). The key is the underlying project risk involved. The more complex the Section 404 compliance process, the more likely the project requires a PMO. The coordination required for multiple tasks by multiple people and teams for multiple locations and units involving multiple processes in which multiple controls are embedded, and for which there are multiple action steps to identify, document, assess, test and remediate controls, can become too difficult a task for even the most talented and best-intentioned individuals. For that reason, larger companies should view initial Section 404 compliance as they would any major project, and dedicate sufficient resources and project management discipline to hold the appropriate personnel accountable and bring the project to successful completion on time and on budget.

Creating and Leveraging a Sarbanes-Oxley Project Management Office

A PMO is responsible for the centralized control of a group of projects essential to the success of an initiative. The PMO's leadership defines, plans, implements and integrates a master project plan for these streams of work, identifying all interdependencies as well as critical risks and issues related to the project. It is important to remember that an effective PMO needs to do much more than aggregate and report status. This function also should identify opportunities for improving efficiency and communication among project groups more quickly, and ultimately help to facilitate learning and knowledge transfer throughout the organization.

Employing a well-run PMO for Section 404(b) compliance activities can help companies implement a sustainable and cost-effective compliance process that is top-down and risk-based, improve the sustainability of the internal control structure, and increase the cost-effectiveness and business value of the financial reporting compliance process. All of these actions enhance the maturity of the Sarbanes-Oxley compliance process.

Sarbanes-Oxley Compliance Process Becomes More Sustainable

[Sarbanes-Oxley compliance] ensures that the business is held accountable for sustaining a controlled environment.

Corporate Sarbanes-Oxley leader, manufacturing company

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 in the Appendix on page 39. Respondents provided this rating collectively for all fiscal years prior to 2009, as well as for 2009, 2010 and plans for 2011.

The findings show positive trends in the efforts of companies to enhance their Sarbanes-Oxley compliance processes to a Managed or Optimized state. For example, prior to 2009, the sustainability of the Sarbanes-Oxley compliance program in 58 percent of companies was at an Initial or Repeatable state, while just 23 percent were at a Managed or Optimized state. However, plans for 2011 indicate that 73 percent of organizations intend to have their compliance processes at a Managed or Optimized state, and just 14 percent will be at the Initial or Repeatable state.

Respondents also were asked to describe the status of efforts in their organizations to improve the maturity of Section 404 compliance processes. As expected based on the number of organizations at a Managed or Optimized state, 45 percent reported that improvement efforts are nearly complete. Just 5 percent said they are a long way from having a fully mature process.

An analysis of these results by year of compliance for an organization supports this trend:

- 71 percent of companies in Year One of compliance need substantial changes to improve the maturity of their compliance process, while 29 percent are almost done with improvement efforts.
- Among companies beyond Year Four, 52 percent are almost done with improvement efforts and another 24 percent require no major changes.

The sustainability trends noted in the following chart suggest a steady progression by companies over time as they improve the maturity of their financial reporting processes and related internal controls. This progression is important. As companies improve the maturity of their processes, including their financial reporting processes, they improve the quality and efficiency of the processes while reducing risk. Cost reduction, improved quality and reduced risk – often a result of simplifying, focusing and automating processes and eliminating nonessential tasks – enable companies to redeploy their resources to create value for their operations and reduce the overall cost of the finance function.

Sustainability Trends Based on Capability Maturity Model
Base: All Respondents

Increasing maturity of SOX compliance process
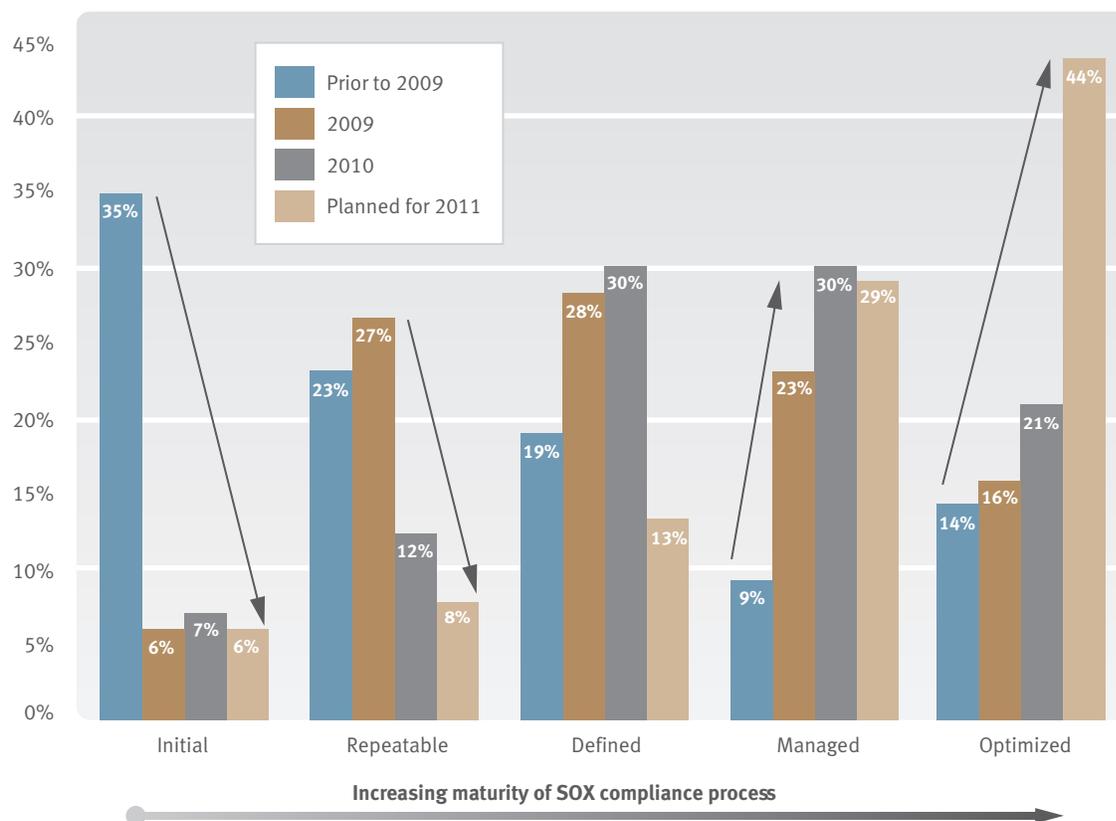
The following table provides another view of this steadily improving trend in the relative maturity of financial reporting processes and related internal controls over time. By implementing improved processes, new key performance indicators and effective controls, companies are able to achieve the largest reduction in financial reporting risk, which is what Sarbanes-Oxley compliance is about.

How would you describe the overall status of your efforts to improve the maturity of your Sarbanes-Oxley Section 404(b) compliance process?
Base: All Respondents

	Pre-1st Year of Compliance	1st Year of Compliance	2nd Year of Compliance	3rd Year of Compliance	4th Year of Compliance	Beyond 4th Year of Compliance
No major changes are needed	19%	0%	11%	19%	33%	24%
We are almost done with improvement efforts	10%	29%	61%	44%	44%	52%
Substantial changes need to be made	19%	71%	22%	19%	6%	16%
We are a long way from having a mature process	14%	0%	6%	13%	11%	3%
Other	38%	0%	0%	5%	6%	5%

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

This year's results show that more organizations – 68 percent – are currently applying COSO's guidance or planning to apply it in fiscal year 2011 compared to last year's results (59 percent). Among those organizations that are applying this guidance, one in three report it has had a significant or moderate positive impact on their Sarbanes-Oxley compliance activities, while virtually no respondents reported a negative impact.

We believe there should be more emphasis on monitoring activities, because effectively functioning monitoring activities provide increased assurance to certifying officers that the internal control structure is sustainable. Accordingly, to the extent that it results in greater and more effective use of monitoring, COSO's guidance is a welcome addition to the standards literature.

Monitoring activities may include controls to monitor results of business processes as well as controls to monitor other controls, including activities of the internal audit function, the audit committee and self-assessment programs. Monitoring activities would likely include those entity-level controls directly impacting the assessment of a financial reporting element. In effect, a monitoring activity is a procedure that ensures a key control is operating effectively. In this context, effective monitoring assesses the quality of internal control performance over time and provides transparency into how the control structure is performing.

Extent to Which the Organization Has Applied COSO's Guidance on Monitoring Internal Control Systems in the Sarbanes-Oxley Process

Base: All Respondents
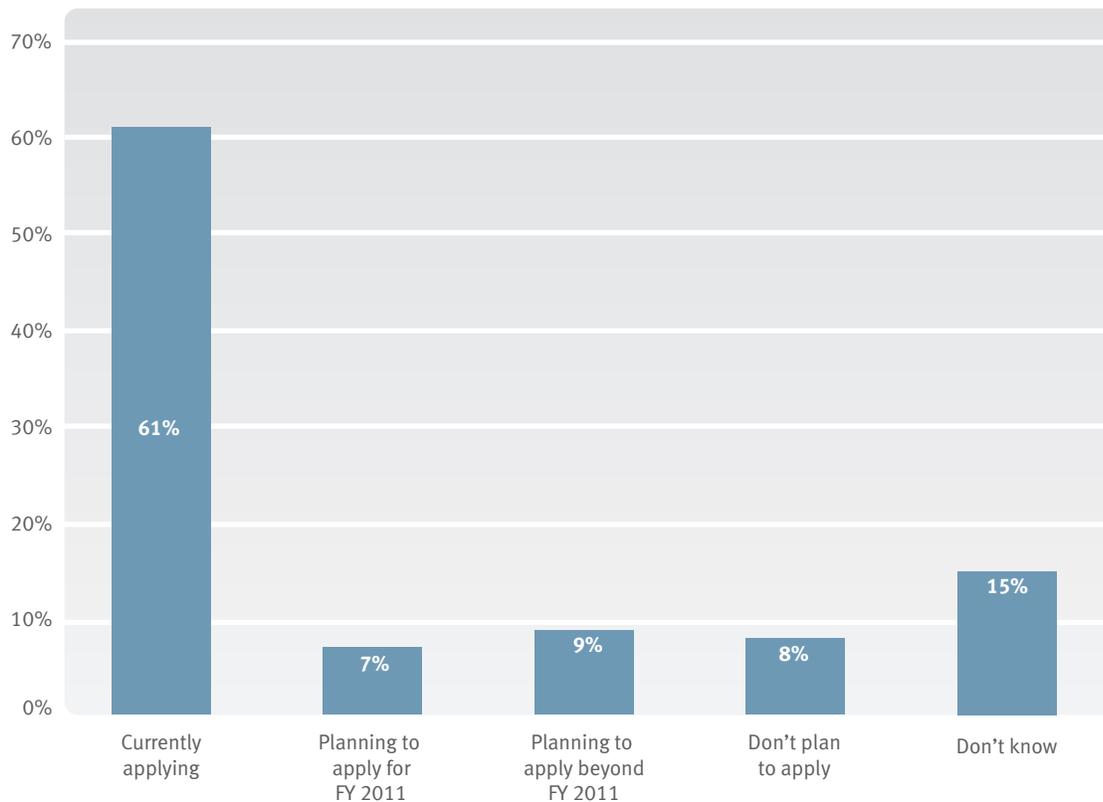
Use of the guidance is one thing; gaining traction on achieving effectiveness in the monitoring process is another. Nearly one in three respondents noted a significant to moderate impact. Given the remaining companies, most of which reported no impact, we believe there is still work to do to maximize the value and contribution of the monitoring process.

Impact of Application of COSO's Guidance on Monitoring Internal Control Systems on Sarbanes-Oxley Activities

Base: 313 Respondents

Bar chart showing:
- Significant positive impact: 11%
- Moderate positive impact: 21%
- No change: 67%
- Moderate negative impact: 1%
- Significant negative impact: 0%
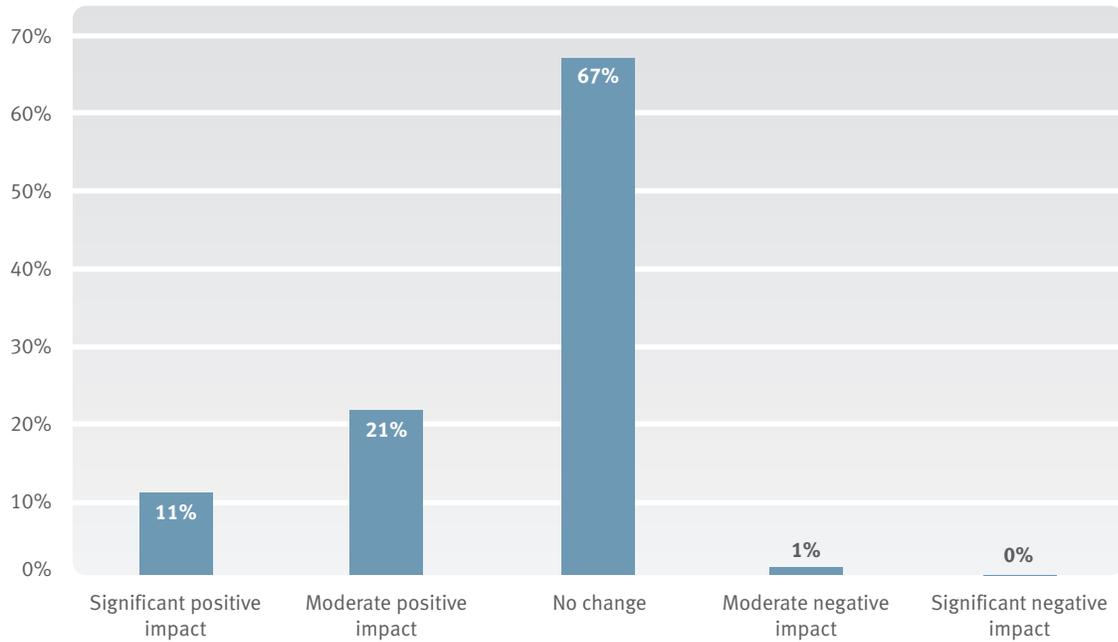
Benchmarking

Respondents were asked whether their companies have benchmarked their Sarbanes-Oxley compliance activities against other organizations. Nearly half – 45 percent – have done so. Organizations they benchmarked themselves against most often include those within the same industry (39 percent), followed by companies with similar revenue levels (29 percent). This activity is understandable, as more and more organizations want to benchmark themselves against enterprises that face challenges and risks similar to their own.

Areas on which the benchmarking effort focused most often include the number of key controls (27 percent) and attributes of the entity-level control environment (21 percent), both of which suggest a continued effort to reduce the number of controls or limit scope as much as possible.

Interestingly, just 19 percent of organizations focused the benchmarking effort on compliance costs. This could indicate that companies believe they have managed costs to be as efficient as possible at this juncture in the evolution of their Sarbanes-Oxley compliance process.

Perhaps most notably, 97 percent of the respondents rated the benchmarking experience as extremely or somewhat valuable, while only 3 percent saw no value in it.

Type of Organization Benchmarked Against and Focus of Benchmarking Effort
Base: 217 Respondents

TYPE OF ORGANIZATION
- Organizations within the same local market
- Organizations of similar revenue size
- Organizations within the same industry
- Organizations across multiple industries
- Other

FOCUS
- Entity-level control environment
- Specific processes
- Number of key controls
- Extent of automation
- Compliance costs incurred
- Other
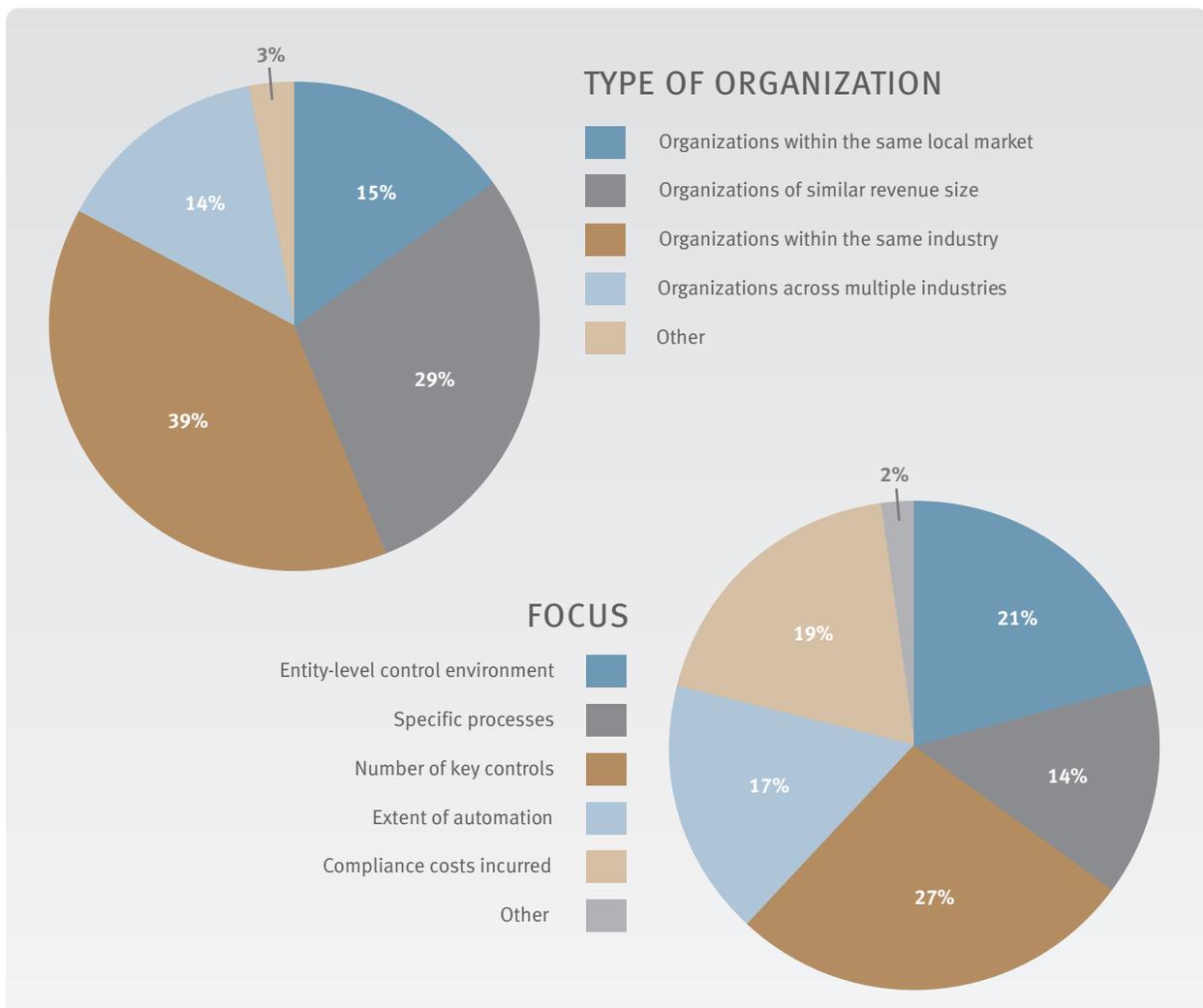
Greater Reliance on Sarbanes-Oxley Work by External Auditors

WE WORK VERY CLOSELY WITH OUR EXTERNAL AUDITORS TO ENSURE THEY ARE COMFORTABLE WITH OUR APPROACH.

Audit director, distribution company

According to the survey results, four out of five companies – 80 percent – are satisfied that their external audit firms are maximizing their reliance on work performed by others for low-risk processes, and 76 percent of respondents expressed this same satisfaction with regard to medium-risk processes. For both types of processes, this represents a 10 percent increase in satisfaction from last year's results. These findings provide evidence of traction gained in applying the principles of Auditing Standard No. 5 and the performance reviews by the PCAOB to ensure that audit firms are applying the standard effectively.

Similar to the results from previous years of this study, for both low- and medium-risk processes, most of the work relied upon by external auditors is performed by the internal audit function. A relatively small percentage of this work is performed by other internal and external resources, underscoring the importance of a strong internal audit function to support the external auditor's review, which will increase efficiency in the compliance process and help reduce overall compliance costs.

Note: By their very nature, high-risk processes generally receive more attention from and effort by the external auditor. Thus, the work of others is not relied upon at all or as much for these processes as compared to low- and medium-risk processes.

For low-risk processes, what percentage of Sarbanes-Oxley compliance work completed by your organization does your external auditor rely upon?
Base: All Respondents
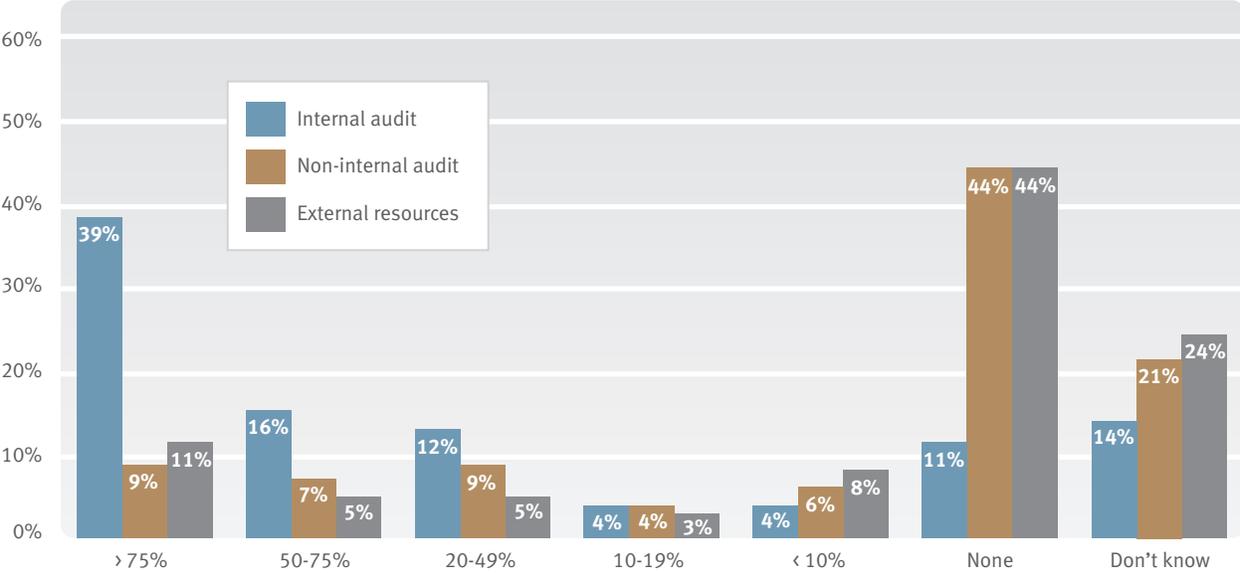
For moderate-risk processes, what percentage of Sarbanes-Oxley compliance work completed by your organization does your external auditor rely upon?

Base: All Respondents

	› 75%	50-75%	20-49%	10-19%	‹ 10%	None	Don't know
Internal audit	23%	21%	16%	8%	4%	11%	17%
Non-internal audit	4%	8%	10%	7%	5%	42%	24%
External resources	7%	7%	7%	3%	7%	43%	26%
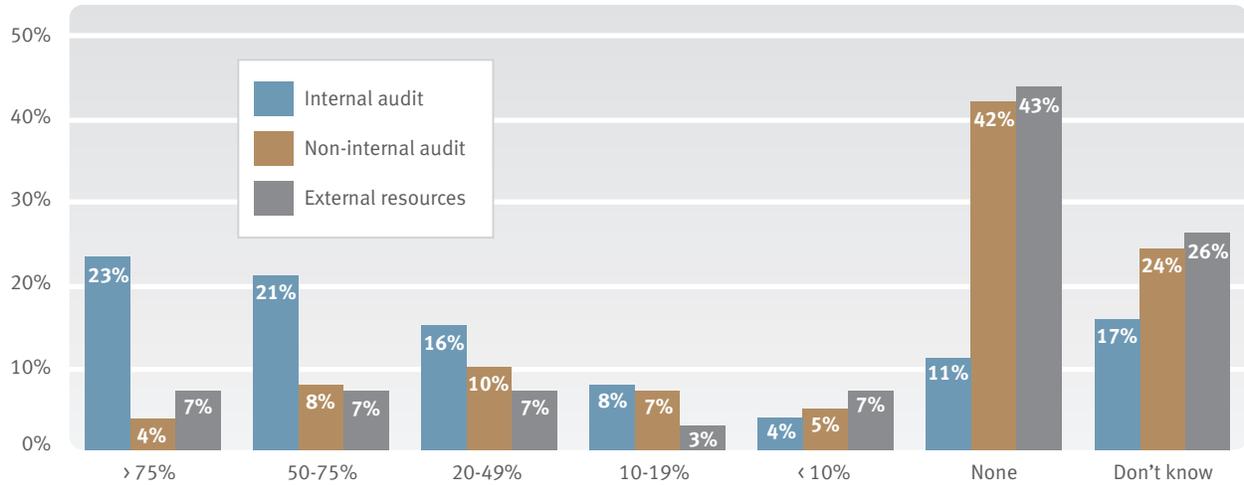
V. Sarbanes-Oxley Compliance: Strategies and Inefficiencies

CONTINUOUS CONTROL MONITORING WILL HELP THE BUSINESS IN DETECTING EXCEPTIONS ON AN ONGOING BASIS, AND HAS THE POTENTIAL TO SAVE OVERALL COMPLIANCE COSTS.

Audit staff, manufacturing company

Sarbanes-Oxley Compliance Strategies

Respondents were provided a list of various strategies that typically are applied to improve the efficiency and effectiveness of Sarbanes-Oxley compliance. For the current year, organizations are employing the following strategies most frequently:

- Maximize lessons from peers/previous years
- Use of a risk-based testing approach
- Establish process owner accountability
- Deploy a top-down validation approach beginning with entity-level controls and monitoring
- Eliminate activities and tasks that are unnecessary or add no value
- Reduction in number of key controls and total population of controls
- Tightening of overall scope

These results make sense. Implementing a top-down, risk-based approach, rationalizing the number of key controls in a robust manner, and establishing accountability with process owners are the initial steps to take for most companies, as they lay the foundation for an efficient and effective compliance process.

Strategies cited most frequently by respondents as ones they are planning to employ in 2011 or beyond include:

- Increase in number of automated controls
- Use of continuous monitoring tools or techniques
- Decrease in number of manual controls
- Use of data mining and analytics to increase understanding of process performance
- Consolidation of IT processes, platforms and systems

These additional strategies build on the foundation discussed above. Transitioning from manual to automated controls and implementing entity- and process-level monitoring (including data mining techniques) provide a coordinated approach to build the body of evidence supporting management's assertion regarding the effectiveness of financial reporting controls in the annual internal control report. Tests of controls are made easier with improved and more efficient processes.

Strategies that most organizations have no plans to employ include:

- Use of low-cost, offshore resources for selected compliance procedures
- Reduction in number of in-scope locations
- Use of a PMO (or an equivalent function) to stay on top of compliance efforts

By now for most companies, multilocation scoping should be vetted fully.

Strategies: Current versus Planned
Base: All Respondents

Strategy	Currently employing/have employed	Planning to employ in 2011 or beyond	Not planning to employ
Maximize lessons learned from peers/previous years	58%	12%	17%
Use of a risk-based testing approach	56%	14%	17%
Establish process owner accountability	55%	15%	17%
Deploy a top-down validation approach beginning with entity-level controls and monitoring	48%	14%	23%
Reduction in number of key controls	47%	18%	21%
Eliminate activities and tasks that are unnecessary or add no value	47%	21%	20%
Tightening of overall scope	47%	19%	21%
Eliminate the root cause of exceptions and errors to "build in" quality to the process	46%	17%	23%
Greater reliance on internal auditing by external auditors	46%	13%	27%
Reduction in the total population of controls	45%	18%	24%
Use software tool to manage project execution and store documentation	37%	15%	32%
Align compliance strategies with business strategies	35%	18%	30%
Simplify activities, workflow and tasks for key processes affecting financial reporting	33%	18%	33%
Centralization of common processes and functions	33%	20%	33%
Level workloads among people, across processes and within periods to eliminate workload peaks	32%	14%	35%

Finally, respondents were asked about the impact of these strategies in terms of cost. Interestingly, the top-ranked areas with regard to expected or projected cost savings were reduction in the number of key controls and tightening of overall scope – areas that cause Sarbanes-Oxley costs to skyrocket during the first years of compliance. Many companies, even those that have been complying with Sarbanes-Oxley for many years, continue to seek out cost-reduction opportunities. Reducing scope and the number of key controls remain ideal areas to identify such opportunities.

Strategies: Current versus Planned *(continued)*
Base: All Respondents

Strategy	Currently employing/ have employed	Planning to employ in 2011 or beyond	Not planning to employ
Use of a PMO (or an equivalent function) to stay on top of compliance effort	29%	6%	49%
Use of self-assessment techniques	29%	17%	36%
Increase in testing of key risk areas	28%	15%	40%
Develop a holistic solution that integrates people, processes and technologies as part of the financial system	27%	13%	40%
Increase in number of monitoring controls	27%	25%	27%
Decrease in number of manual controls	26%	31%	25%
Consolidation of IT processes, platforms and systems	25%	26%	33%
Improvement in quality and compression of time in business processes affecting financial reporting	24%	19%	35%
Increase in number of automated controls	23%	37%	23%
Accelerate the timing of selected control tests	22%	15%	47%
Reduction in number of in-scope locations	19%	10%	54%
Reduction of independent tests of controls	18%	15%	45%
Use of continuous monitoring tools or techniques	17%	33%	31%
Use of data mining and analytics to increase understanding of process performance	16%	29%	35%
Use of low-cost, offshore resources for selected compliance procedures	7%	8%	69%

Automation of Manual Processes and Controls

There continue to be significant opportunities for organizations to automate more of their key controls. According to the survey results, in 45 percent of companies, less than 20 percent of the total key control population is automated and just 9 percent automate more than 50 percent. Of note, these figures are down significantly from last year's survey results, when 18 percent of organizations reported automating more than 50 percent of all key controls.

Automation is likely the "last frontier" of process improvement. As the underlying business processes are simplified, focused and automated, there will be greater emphasis on preventive controls (versus detective controls); systems-based controls (versus manual controls); and metrics, measures and monitoring.

Going forward, one in three organizations – 35 percent – have significant or moderate plans to automate more of their controls, and 42 percent of large companies have plans to do so.

Percentage of Automated Key Controls Compared to Total Key Controls
Base: All Respondents
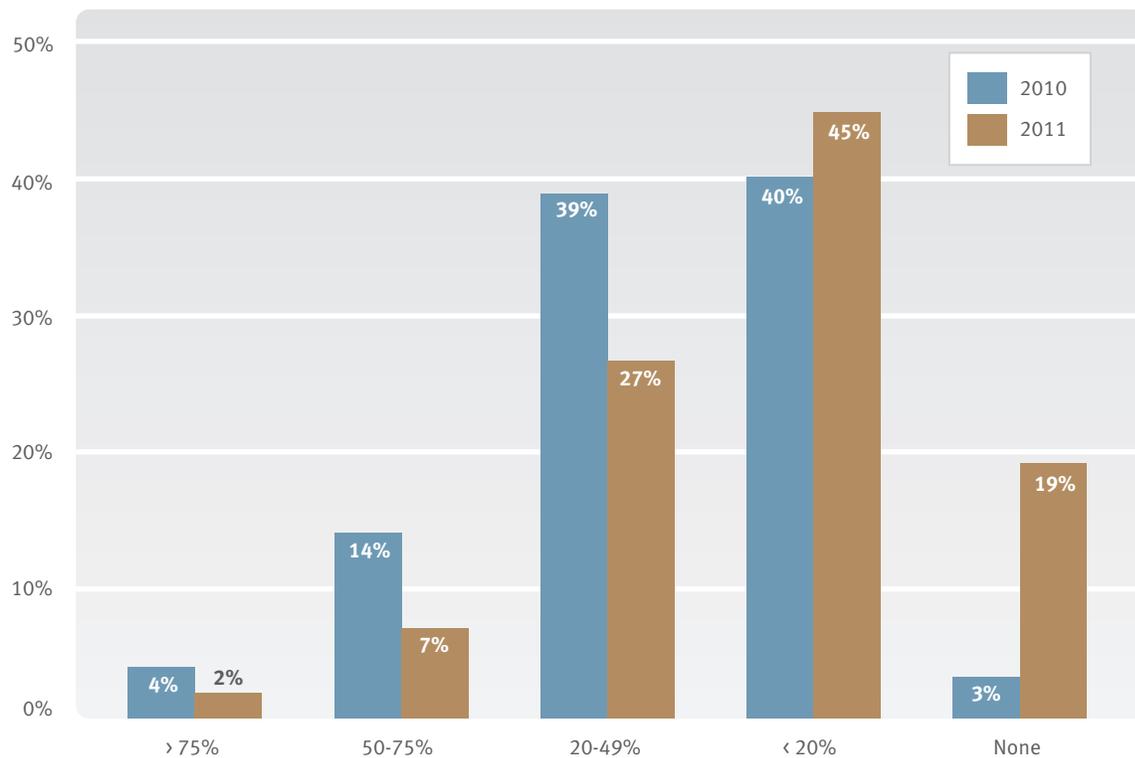
Organizations that automate many or a majority of their manual controls can generate a significant return on their investment in terms of compliance cost savings as well as efficiency and effectiveness of the process itself. Benefits from automating as many controls as possible include:

- 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 exposure to fraudulent manipulation
- Proactive management of audit fees via increased auditor reliance on automated controls
- Ability to strengthen the overall risk management environment by adding newly customized controls that mirror the controls needed in key business processes

In summary, business processes that rely heavily on automated controls will require less testing, resulting in reduced compliance costs. The efficiencies in the Sarbanes-Oxley compliance process driven by automation are why systems-based controls are worth a close look by those companies with a significant number of people-based manual processes and controls. As the table below notes, there are still a fair number of companies electing to take that look.

Plans to Automate Manual Processes and Controls

Base: All Respondents

	Overall		Large		Midsize		Small	
	2011	2010	2011	2010	2011	2010	2011	2010
No plans to automate further	20%	22%	14%	12%	18%	22%	53%	43%
Minimal plans to automate	45%	44%	44%	45%	47%	45%	29%	31%
Moderate plans to automate	27%	28%	35%	33%	26%	27%	18%	24%
Significant plans to automate	8%	6%	7%	10%	9%	6%	0%	2%

Storage of Sarbanes-Oxley Process and Testing Documentation

Similar to last year's results, with regard to storing and managing Sarbanes-Oxley-related process and testing documentation, 45 percent of organizations have in place an electronic repository specifically designed for Sarbanes-Oxley compliance, either purchased from a vendor or developed internally. Not surprisingly, this percentage is higher for large companies. One in three organizations rely on a corporate server.

Of note, while only 8 percent of all companies rely on manual files, 29 percent of small companies do so. Many of these organizations also use a corporate server for this purpose. Management and process owners in small companies often leverage corporate servers and manual files as a convenient "go to" option for storing Sarbanes-Oxley documentation. However, these should not be viewed as long-term solutions given their significant inefficiencies in data storage, sharing and retrieval. Small companies should assess the ever-expanding market of customizable and cost-effective electronic repositories.

Primary Storage Facility of Sarbanes-Oxley Process and Testing Documentation
Base: All Respondents

	Overall		Large		Midsize		Small	
	2011	2010	2011	2010	2011	2010	2011	2010
An electronic repository specifically designed for Sarbanes-Oxley compliance (purchased from a vendor)	30%	32%	56%	40%	26%	31%	0%	19%
An electronic repository specifically designed for Sarbanes-Oxley compliance (internally developed)	15%	16%	20%	23%	14%	14%	6%	10%
Corporate server	35%	34%	13%	25%	40%	36%	41%	38%
Manual files	8%	9%	0%	7%	8%	9%	29%	17%
PC hard drives	2%	4%	2%	1%	3%	4%	0%	14%
Other	10%	5%	9%	4%	9%	6%	24%	2%

Compliance Process Inefficiencies

Respondents were presented with a list of process inefficiencies and, for each of them, were asked whether it existed within their organizations and had a negative impact on the Sarbanes-Oxley compliance process.

By far the most prevalent process inefficiency in these organizations, according to the results, is a high dependency on spreadsheets. Nearly three out of four companies – 72 percent – rely on spreadsheets to accumulate data, record accounting transactions, prepare manual journal entries and/or support financial disclosures. Moreover, 34 percent report there is a significant or moderate negative impact on their Sarbanes-Oxley compliance processes.

Other oft-cited areas of process inefficiency included:

- Increasing demand for analytical information and difficulty in generating such information
- Decentralized business units with duplicate functions
- High-cost activities due to structural redundancies, complex manual procedures and potentially nonessential activities

Studies indicate that errors are found in more than 90 percent of spreadsheets. A fundamental problem with them is that they often are designed and developed without consideration for building in appropriate controls and applying best practices that reduce the risk of error to an acceptable level. Spreadsheets often evolve, passed down from user to user, with undue trust placed in their integrity despite the potential for risk. Nonetheless, many organizations are relying on spreadsheets in lieu of systems developments or upgrades that have been postponed or are still in the planning stages. In many cases, they are supporting increasingly sophisticated activities and critical business processes and enabling users to perform analysis that otherwise would be difficult or time-consuming. Thus, due to their importance, pervasive use and inherent risk, it is not surprising to see spreadsheets rated highly in the survey results.

Managing Spreadsheet Risk

One major reason behind the widespread use of spreadsheets is that they are a convenient alternative to lengthy and costly software development cycles – especially for users who require immediate results or want 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 control spreadsheet risk by undertaking the following procedures:

- Define spreadsheet risk management policies and supporting processes.
- Evaluate available technology solutions based on business-specific requirements and objectives.
- Create an inventory of business-critical spreadsheets and prioritize spreadsheets according to their criticality.
- Review spreadsheets and develop a controllable baseline version.
- Implement a spreadsheet management framework, including the selection of a spreadsheet management tool, and determine appropriate controls within the solution.

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

Sarbanes-Oxley Process Inefficiencies

Base: All Respondents

Legend:
- Yes – significant impact
- Yes – moderate impact
- Yes – minimal impact
- Yes – but no impact
- No

High dependency on spreadsheets for data accumulation to record accounting transactions, prepare manual journal entries or support financial disclosures
- 10%
- 24%
- 27%
- 11%
- 28%

Decentralized business units with duplicate functions
- 8%
- 17%
- 15%
- 10%
- 50%

High-cost activities due to structural redundancies, complex manual procedures and potentially nonessential activities
- 6%
- 16%
- 19%
- 7%
- 52%

Increasing demand for analytical information and difficulty in generating it
- 5%
- 13%
- 23%
- 15%
- 44%

General ledger close cycle times exceeding five days
- 5%
- 11%
- 13%
- 19%
- 52%

Limited return on investments in IT assets
- 5%
- 12%
- 16%
- 8%
- 59%

Increased costs arising from addressing complicated segregation of duties issues related to authorizing transactions, executing transactions and maintaining custody of assets
- 4%
- 13%
- 22%
- 8%
- 53%

High exception rates in financial transaction processes such as accounts payable, cash application and payroll
- 3%
- 5%
- 12%
- 6%
- 74%

Pressure on the finance organization to reduce costs to offset the increase in SOX compliance and governance costs
- 1%
- 10%
- 13%
- 8%
- 68%

VI. Perspectives from Nonaccelerated Filers

As part of this year's *Sarbanes-Oxley Compliance Survey*, nonaccelerated filers – which became exempt from having to comply with Section 404(b) of Sarbanes-Oxley (the auditor attestation of internal control over financial reporting) with the passage of the Dodd-Frank Act in July 2010 – were asked a series of questions specific to their circumstances.

Overall, the results show that most of these organizations were preparing for these requirements and were ready to comply by the deadline until Congress relieved them of this responsibility.

Among the key findings:

- 56 percent of respondents reported their organizations were "very prepared" to comply with Section 404(b), while 29 percent said they were somewhat prepared.

- 89 percent said that their latest management assertion regarding the effectiveness of internal control over financial reporting was that such controls were "effective."

- Three out of five companies did not have a material auditor-generated adjustment in either 2009 or 2010. Among the companies that did have such an adjustment, there were 9 percent fewer in 2010 (15 percent) compared to 2009 (24 percent).

Feedback from Other Organizations on Exemptions for Nonaccelerated Filers

All survey respondents were asked whether they agree with the decision of the U.S. Congress to exempt non-accelerated filers (market capitalization of less than $75 million) from having to comply with the attestation requirements of Sarbanes-Oxley Section 404(b). Interestingly, 35 percent reported that they do not agree with this decision. This could suggest an interest in having a "level playing field" for all publicly held companies with regard to auditor attestation of internal control over financial reporting, or possibly that companies view the benefits of Section 404 compliance as outweighing the costs (see page 11). Of course, companies can elect to comply voluntarily with Section 404(b).

Nonaccelerated filer respondents also were asked about the areas of internal control over financial reporting that would have required the most attention in their organizations if the Dodd-Frank Act had not exempted them from having to comply with Section 404(b). According to the results, the areas that would have required the most attention fall under the scope of IT and automation:

- IT general controls
- Spreadsheet controls
- Segregation of duties

These findings are not a surprise and correlate closely with our experience in completing Sarbanes-Oxley compliance engagements with smaller-sized companies. Other areas that tend to be more problematic include:

- Income taxes
- Financial close process
- Revenue recognition

Two points place the Section 404(b) exemption for nonaccelerated filers into context. First, these companies must still comply with the management reporting requirement of Section 404(a). In doing so, they must apply the SEC's interpretive guidance issued in 2007, which articulates the SEC staff's expectations as to both the process that management must apply to support its assertion in the internal control report and the required supporting documentation.

Second, the Dodd-Frank Act commissioned a study with the Comptroller General of the United States on the impact of the Section 404(b) exemption. This study is to include an analysis of the following:

- Whether the exempt issuers have fewer or more restatements of published financial statements than issuers that must comply with the attestation requirements of Section 404(b)
- How the cost of capital of issuers exempt from Section 404(b) compares to the cost of capital of issuers that are required to comply with Section 404(b)
- Whether there is any difference in the confidence of investors in the integrity of financial statements of issuers that comply with Section 404(b) and issuers that are exempt from such compliance
- Whether issuers that do not receive an attestation of internal control over financial reporting should be required to disclose the lack of such attestation to investors
- The costs and benefits to issuers that are exempt from Section 404(b) that voluntarily have obtained an attestation from their external auditor

This study is required to be completed no later than three years following enactment of the Dodd-Frank Act, which means sometime in 2013. The point is that while the exemption in the Dodd-Frank Act effectively provides a permanent exemption from the auditor attestation requirement for eligible smaller companies, the results of the aforementioned study will provide Congress an opportunity to revisit the issue down the road. Thus, the debate could continue.

Finally, nonaccelerated filer respondents provided feedback on Section 404(b)-related costs:

- For 55 percent of companies, external audit fees would have increased by at least 10 percent. One in four respondents said these costs would have risen more than 20 percent.
- 28 percent believe they saved as much as 20 percent in internal costs as a result of the exemption. However, 61 percent estimate they achieved no significant internal cost savings.

While nonaccelerated filers currently are exempt under law from the need to comply with Sarbanes-Oxley Section 404(b), the question is whether this exemption is permanent. This is not a certainty. Not only could a new law be enacted, but more likely, an organization could grow beyond nonaccelerated filer status and be compelled to comply during its next fiscal year. It also is important to note that even though Section 404(b) compliance is not required legally, it does not mean that many aspects of additional auditor attestation and effective internal control around Section 404 are not good business practice. In fact, these steps can improve the organization and send a positive message to stakeholders, customers and employees.

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, which was conducted online in the fourth quarter of 2010 and the first quarter of 2011. All demographic information was provided voluntarily and not all participants provided data for every demographic question.

Position

Chief Audit Executive	22%
Audit Manager	19%
Audit Staff	18%
Audit Director	16%
Corporate Sarbanes-Oxley Leader	16%
Other C-suite Executive	4%
Other	5%

Industry

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

Manufacturing	20%
Financial Services	13%
Technology	8%
Energy	6%
Retail	6%
Government/Education/Not-for-profit	5%
Healthcare	5%
Utility	5%
Insurance	4%
Real Estate	4%
Telecommunications	4%
Hospitality	3%
Life Sciences/Biotechnology	2%
Services	2%
Other	13%

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 62 percent of organizations at $1 billion or higher.

$20 billion or greater	8%
$10 billion - $19.99 billion	10%
$5 billion - $9.99 billion	12%
$1 billion - $4.99 billion	32%
$500 million - $999.99 million	14%
$100 million - $499.99 million	18%
Less than $100 million	6%

Type of Organization

The vast majority of respondents are from publicly held organizations.

Public	72%
Private	18%
Not-for-profit	4%
Government	3%
Other	3%

Fiscal Year-End

Most respondents reported a fiscal year-end in December.

December	74%
November	1%
October	4%
September	8%
August	1%
July	2%
June	7%
May	2%
April	1%
March	0%
February	0%
January	0%

Certification

Certified Public Accountant (CPA)/Chartered Accountant (CA)	38%
Certified Internal Auditor (CIA)	24%
Certified Information Systems Auditor (CISA)	10%
Certified Fraud Examiner (CFE)	4%
Certified Financial Services Auditor (CFSA)	3%
Other	21%

Experience (in current position)

1-4 years	57%
5-10 years	43%

Company Location

North America	95%
Asia-Pacific	3%
Europe	2%

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 is proud to be a Principal Partner of The IIA. More than 700 Protiviti professionals are members of The IIA and are actively involved with local, national and international IIA leaders to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.

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

For more information about Protiviti's Internal Audit and Financial Controls solutions, please contact:

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About the Protiviti Governance Portal

Facing today's unprecedented economic challenges while balancing sound governance with business performance requires powerful insights, proven delivery and enabling software.

The Governance Portal is a comprehensive software platform that integrates content and commonly accepted and proprietary frameworks with world-class consulting expertise that provides organizations with the visibility and insight needed to manage and mitigate critical risk and compliance issues today and in the future.

Protiviti delivers solutions that leverage the experience of our expert consultants who have worked with thousands of global clients. The Governance Portal has the built-in knowledge needed to deliver targeted GRC software solutions that address your immediate needs while facilitating convergence toward fully integrated, value-added GRC practices.

The integration of process, knowledge and technology helps clients quickly launch their GRC program, efficiently execute their plan, and easily sustain the process year after year, and provides them the ability to drive deeper into more value-adding GRC issues.

Benefits of Using the Governance Portal

Customers choose Protiviti's Governance Portal because it helps them:

- **Start Quickly** – Using the MS Excel-based content utility and leveraging out-of-the box GRC solutions, diagnostics to quickly determine the areas requiring focus, and templates to provide guidance, organizations are able to implement the Governance Portal with less deliberation and shorter lead times, thus reducing implementation costs.

- **Execute Efficiently** – The proprietary GRC content within the Governance Portal provides industry normative guidance at no additional cost. Organizations just getting started or those well down the GRC track can use this information to benchmark and check the completeness of their analyses.

- **Create Sustainability** – The Governance Portal adapts to your organization and allows you to maintain your GRC program requirements. Configuration allows you to personalize the system to your methodology and terminology so you can meet your specific business requirements. Through workflow, you can involve business users in the management of GRC. With easy-to-use templates you can create repeatability and predictability in your program. Year after year, the Governance Portal will help you optimize your GRC efforts.

- **Add Value** – The Governance Portal is a complete GRC solution that supports the convergence of multiple GRC activities. Real-time reporting and dashboards provide your executives with a holistic view of your organization's GRC efforts. Leveraging and sharing information within a single platform allows your GRC teams to collaborate more efficiently and focus on true operational challenges.

Other Thought Leadership from Protiviti

Visit **www.protiviti.com** to obtain copies of these and other thought leadership materials from Protiviti.

- **2011 Internal Audit Capabilities and Needs Survey**
- **Board Risk Oversight – A Progress Report (from COSO and Protiviti): Where Boards of Directors Currently Stand in Executing Their Risk Oversight Responsibilities**
- Flash Report (June 22, 2010) – "U.S. Congressional Conference Committee Agrees to Exempt Smaller Companies from Having an Audit of Internal Control Over Financial Reporting"
- **Guide to Internal Audit: Frequently Asked Questions About Developing and Maintaining an Effective Internal Audit Function** (Second Edition)
- **Guide to Public Company Readiness: Frequently Asked Questions**
- **Guide to the Sarbanes-Oxley Act: Internal Control Reporting Requirements** (Fourth Edition)
- **Internal Auditing Is an Asset for Small Companies as well as Large Ones**
- **Powerful Insights** (Protiviti's podcast series)
  - Internal Audit Quality Assessment Reviews – Required as well as Beneficial
  - IT Audit – Assessing and Managing Risks Effectively Within the IT Environment
  - Technology-Enabled Audits – Increasing Productivity and Delivering More Timely and Reliable Results
- **Spreadsheet Risk Management: Frequently Asked Questions**
- **Using High Value IT Audits to Add Value and Evaluate Key Risks and Controls**

KnowledgeLeader℠ provided by protiviti®

KnowledgeLeader℠ is a subscription-based website that provides information, tools, templates and resources to help internal auditors, risk managers and compliance professionals save time, stay up-to-date and manage business risk more effectively. The content is focused on business risk, technology risk and internal audit. The tools and resources available on KnowledgeLeader include:

- **Audit Programs** – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeader. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.

- **Checklists, Guides and Other Tools** – More than 800 checklists, guides and other tools are available on KnowledgeLeader. They include questionnaires, best practices, templates, charters and more for managing risk, conducting internal audits and leading an internal audit department.

- **Policies and Procedures** – KnowledgeLeader provides more than 300 sample policies to help in reviewing, updating or creating company policies and procedures.

- **Articles and Other Publications** – Informative articles, survey reports, newsletters and booklets produced by Protiviti and other parties (including Compliance Week and Auerbach) about business and technology risks, internal audit and finance.

- **Performer Profiles** – Interviews with internal audit executives who share their tips, techniques and best practices for managing risk and running the internal audit function.

Key topics covered by KnowledgeLeader℠:

- Audit Committee and Board
- Business Continuity Management
- Control Self-Assessment
- Corporate Governance
- COSO
- Enterprise Risk Management

- Financial and Credit Risk
- Fraud and Ethics
- IFRS
- Internal Audit
- IT Audit
- Sarbanes-Oxley

KnowledgeLeader℠ also has an expanding library of methodologies and models – including the robust Protiviti Risk Model℠, a process-oriented version of the Capability Maturity Model, the Six Elements of Infrastructure Model, and the Sarbanes-Oxley 404 Service Delivery Model.

Furthermore, with a KnowledgeLeader℠ membership, you will have access to AuditNet Premium Content; discounted certification exam preparation material from ExamMatrix; discounted MicroMash CPE Courses to maintain professional certification requirements; audit, accounting and technology standards and organizations; and certification and training organizations, among other information.

To learn more, sign up for a complimentary 30-day trial by visiting **www.knowledgeleader.com**. Protiviti clients and alumni, and members of The IIA, ISACA and AHIA, are eligible for a subscription discount. Additional discounts are provided to groups of five or more.

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