

Understanding the Costs and Benefits of SOX Compliance

Findings from Protiviti's 2016 Sarbanes-Oxley Compliance Survey show companies are spending more time and money but continue improving their internal controls and business processes. Read on to better understand how your organization compares to the benchmarking data from our study.

protiviti[®]
Risk & Business Consulting.
Internal Audit.

Powerful Insights. Proven Delivery.[®]

EXECUTIVE SUMMARY

Sarbanes-Oxley compliance once was thought to be a relatively stable, predictable process that organizations could rely on to be routine and, for the most part, static. Yet market and regulatory changes continue to make this a more dynamic process, with costs and hours continuing to rise for many organizations. The good news is that more organizations are recognizing the benefits of their compliance efforts through improved internal control structures and business processes.

How can companies face the future with confidence by managing costs, hours and expectations regarding their Sarbanes-Oxley compliance processes? It starts with understanding not only their organizations and business transformation efforts, but also the requirements set forth by the Public Company Accounting Oversight Board (PCAOB) and the revised COSO internal control framework, as well as evolving expectations of the external auditors.

In our annual Sarbanes-Oxley compliance survey, we look deeply into areas including costs, hours and the control environments of a broad spectrum of organizations. Among our notable findings this year:

- **Sarbanes-Oxley costs vary ... a lot** – Overall, nearly one in three organizations spends \$500,000 or less annually on Sarbanes-Oxley compliance, and just under half spend less than \$1 million. Yet this doesn't tell the whole story. A significant number of large companies spend \$2 million or more per year, as do organizations from industries including insurance and telecommunications (see pages 2-5 for details on SOX compliance costs for different organization types).
- **External audit fees continue to rise for many** – However, this also varies significantly by organization size and Sarbanes-Oxley filing status, among other factors. For example, external audit fees increased in the last fiscal year for a majority of large accelerated and accelerated filers, whereas these fees decreased for a majority of emerging growth companies and nonaccelerated filers.
- **Hours continue to rise** – Many organizations devoted more hours to SOX compliance in their latest fiscal year compared to prior years. Among the possible reasons: ongoing implementation of the new COSO internal control framework; evolving external auditor requirements for Section 404(b) compliance; and efforts among organizations that currently comply only with Section 404(a) to prepare for the level of rigor required to comply with Section 404(b).
- **Internal control structures and business processes have improved as a result of SOX compliance** – A majority of organizations with mature SOX compliance processes have improved their internal control over financial reporting, and most organizations are leveraging their SOX compliance efforts to drive continuous improvement of their business processes.
- **Many organizations are planning to automate controls** – Well over half of organizations have at least moderate plans to automate manual processes and controls in fiscal year 2016.

Throughout our report, in addition to results by different organization sizes and types, we provide overall findings focusing on publicly held companies. This differs from prior years of this survey, in which we provided results for all survey respondents. In assessing our study and the feedback from the market, it was determined that overall results that focus specifically on public companies (as opposed to private organizations) provide a more accurate and realistic view of Sarbanes-Oxley compliance data and trends.

Upon request, we can provide additional data cuts and insights for different categories of organizations.

SARBANES-OXLEY COSTS AND HOURS: BROAD RANGES FOR DIFFERENT TYPES OF ORGANIZATIONS

Estimated internal costs for the organization's most recent year of Sarbanes-Oxley compliance (excluding external audit-related fees):

| Industry | Average Annual SOX Compliance Costs (internal) |
|-----------------------------|--|
| Consumer Products | \$916,000 |
| Distribution | \$1,121,000 |
| Education | \$973,000 |
| Energy | \$943,000 |
| Financial Services | \$1,225,000 |
| Government | \$1,640,000 |
| Healthcare Payer | \$2,310,000 |
| Healthcare Provider | \$1,293,000 |
| Hospitality | \$1,135,000 |
| Insurance | \$1,458,000 |
| Life Sciences/Biotechnology | \$1,154,000 |
| Manufacturing | \$1,001,000 |
| Not-for-Profit | \$917,000 |
| Media | \$856,000 |
| Real Estate | \$1,435,000 |
| Retail | \$991,000 |
| Services | \$887,000 |
| Technology | \$1,069,000 |
| Telecommunications | \$1,339,000 |
| Utilities | \$969,000 |
| Professional Services | \$976,000 |

| SOX Filer Status | Average Annual SOX Compliance Costs (internal) |
|-------------------------|--|
| Large accelerated filer | \$1,335,000 |
| Accelerated filer | \$914,000 |
| Nonaccelerated filer | \$1,219,000 |
| Emerging growth company | \$1,430,000 |

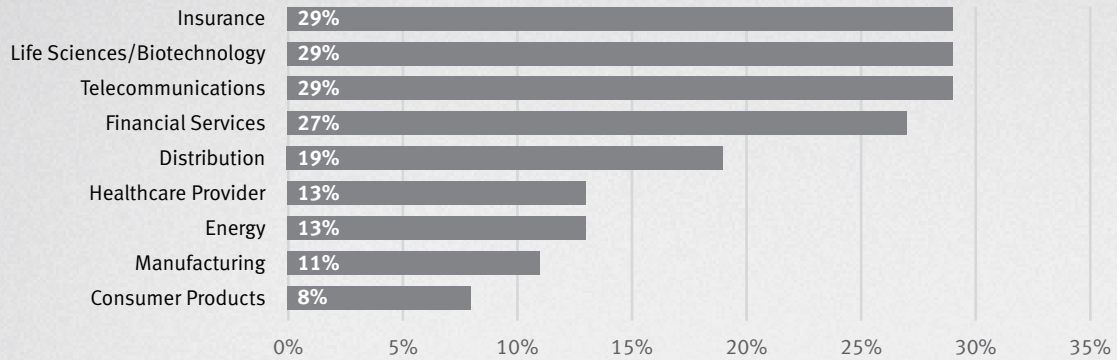
| Size of Organization | Average Annual SOX Compliance Costs (internal) |
|----------------------------------|--|
| \$20 billion or greater | \$2,050,000 |
| \$10 billion – \$19.99 billion | \$1,382,000 |
| \$5 billion – \$9.99 billion | \$1,342,000 |
| \$1 billion – \$4.99 billion | \$1,241,000 |
| \$500 million – \$999.99 million | \$1,124,000 |
| \$100 million – \$499.99 million | \$474,000 |
| Less than \$100 million | \$367,000 |

| Type of Organization | Average Annual SOX Compliance Costs (internal) |
|-----------------------|--|
| Publicly held | \$1,113,000 |
| Private, planning IPO | \$1,442,000 |
| Privately held | \$1,387,000 |

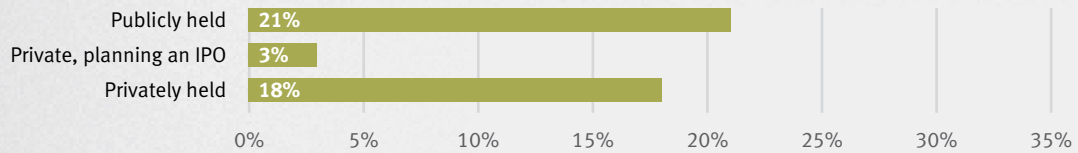
| SOX Compliance Year | Average Annual SOX Compliance Costs (internal) |
|-----------------------------------|--|
| Beyond 2nd year of SOX compliance | \$1,183,000 |
| 2nd year of SOX compliance | \$1,549,000 |
| 1st year of SOX compliance | \$925,000 |
| Pre-1st year of SOX compliance | \$1,020,000 |

WHO SPENT \$2 MILLION OR MORE?

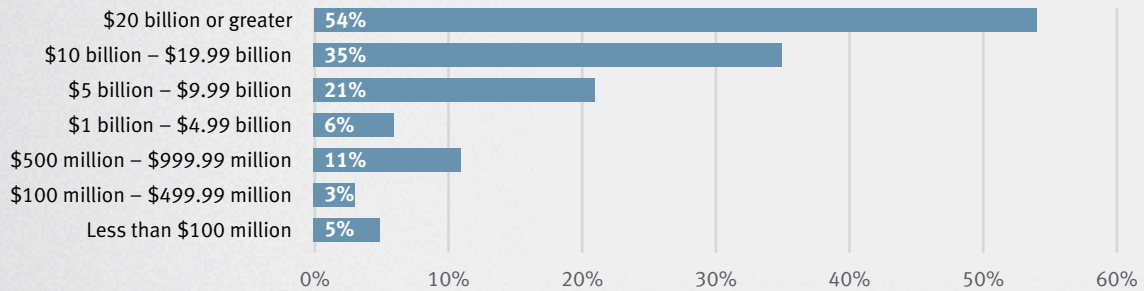
INDUSTRY HIGHLIGHTS



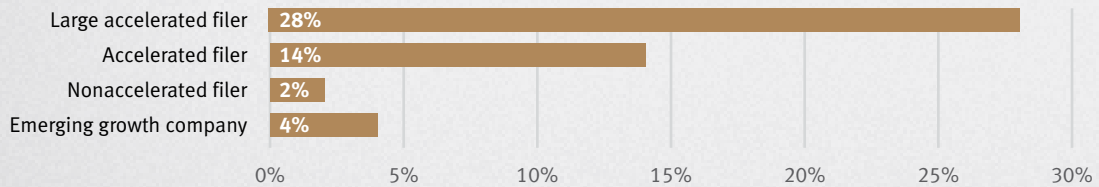
TYPE OF ORGANIZATION



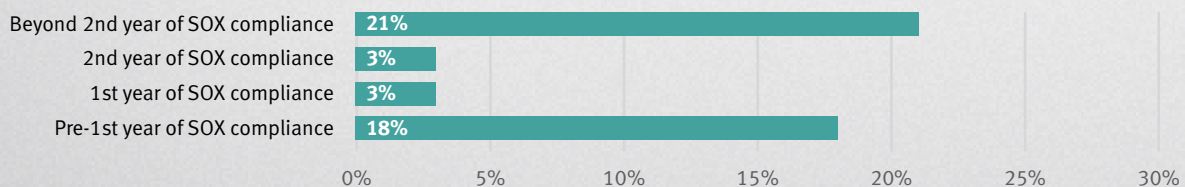
SIZE OF ORGANIZATION



SOX FILER STATUS

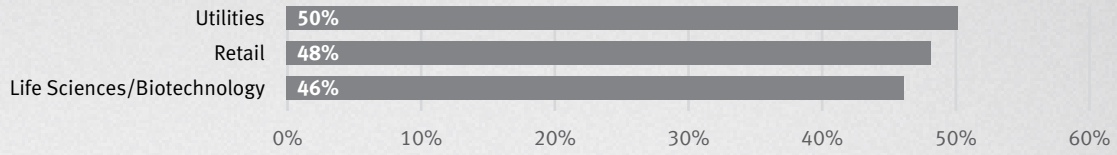


SOX COMPLIANCE YEAR

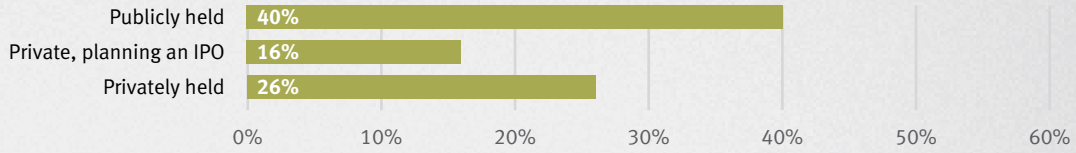


WHO SPENT \$500,000 OR LESS?

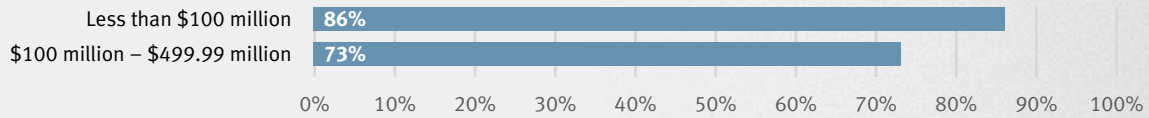
INDUSTRY HIGHLIGHTS



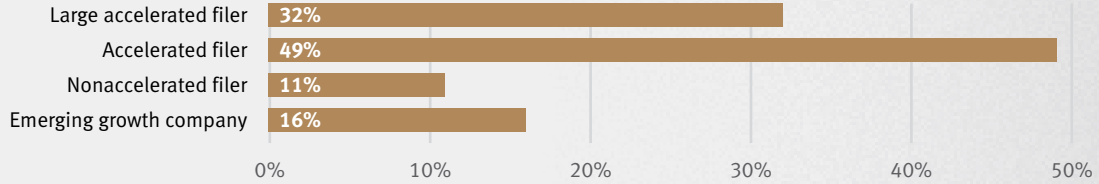
TYPE OF ORGANIZATION



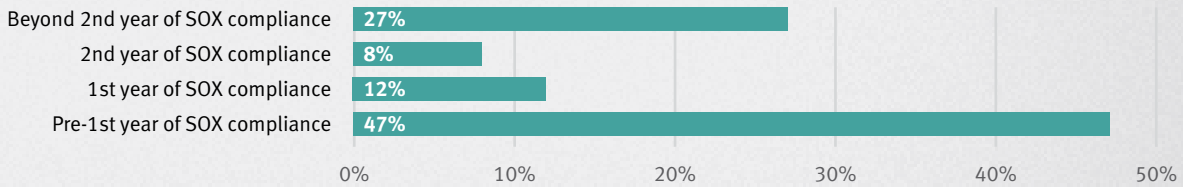
SIZE OF ORGANIZATION



SOX FILER STATUS



SOX COMPLIANCE YEAR



HOURS

How did the total amount of hours your organization devoted to Sarbanes-Oxley compliance change in fiscal year 2015?

| | Size of Organization | |
|----------------------------------|---|---|
| | Hours devoted to SOX compliance increased | Hours devoted to SOX compliance increased more than 10 percent* |
| \$20 billion or greater | 46% | 61% |
| \$10 billion – \$19.99 billion | 54% | 65% |
| \$5 billion – \$9.99 billion | 60% | 75% |
| \$1 billion – \$4.99 billion | 39% | 79% |
| \$500 million – \$999.99 million | 27% | 67% |
| \$100 million – \$499.99 million | 47% | 76% |
| Less than \$100 million | 55% | 61% |

| | SOX Filer Status | |
|-------------------------|---|---|
| | Hours devoted to SOX compliance increased | Hours devoted to SOX compliance increased more than 10 percent* |
| Large accelerated filer | 51% | 64% |
| Accelerated filer | 53% | 70% |
| Nonaccelerated filer | 22% | 89% |

* Among organizations in which Sarbanes-Oxley compliance hours increased.

| | Type of Organization | |
|-----------------------|---|---|
| | Hours devoted to SOX compliance increased | Hours devoted to SOX compliance increased more than 10 percent* |
| Publicly held | 55% | 68% |
| Private, planning IPO | 22% | 82% |
| Privately held | 29% | 75% |

| | SOX Compliance Year | |
|-----------------------------------|---|---|
| | Hours devoted to SOX compliance increased | Hours devoted to SOX compliance increased more than 10 percent* |
| Beyond 2nd year of SOX compliance | 45% | 63% |
| 2nd year of SOX compliance | 11% | 71% |
| 1st year of SOX compliance | 56% | 92% |
| Pre-1st year of SOX compliance | 66% | 88% |

Insights

- Many organizations devoted more hours to SOX compliance in their latest fiscal year compared to prior years. One possible explanation is that organizations invested more time in ongoing implementation of the new COSO internal control framework.
- Note the disparity between organizations in their first and second year of SOX compliance, with just 11 percent of second-year companies reporting an increase in hours devoted to SOX compliance, compared to 56 percent of first-year companies. This difference is understandable given the first-year demands of SOX compliance. As expected, two out of three companies in their second year reported a decrease in hours devoted to SOX compliance in their latest fiscal years, while 41 percent of first-year companies reported a decrease.
- We see that a significant number of large accelerated and accelerated filers devoted many more hours to SOX compliance activities in their latest fiscal year. In addition, a substantial number of smaller organizations put in more than 20 percent more time on SOX compliance.
- Nearly three out of four nonaccelerated filers (72 percent) reported a decrease in hours devoted to SOX compliance. However, most noted the decrease was less than 10 percent.
- Not surprisingly, for nearly two out of three companies in their second year of SOX compliance (65 percent), hours devoted to compliance decreased. For close to a third (30 percent), the drop was less than 10 percent, though 33 percent did report a decrease in hours of greater than 15 percent.

* Among organizations in which Sarbanes-Oxley compliance hours increased.

External Audit Fees Rising for Many Organizations

For fiscal year 2015, what change, if any, did you experience in your external audit fees?

| | SOX Filer Status | | | |
|---|-------------------------|-------------------|----------------------|-------------------------|
| | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| Our external audit fees increased | 50% | 52% | 41% | 36% |
| Our external audit fees decreased | 8% | 18% | 52% | 56% |
| Our external audit fees stayed the same | 42% | 30% | 7% | 8% |

| | Size of Organization | | | | | | |
|---|-------------------------|--------------------------------|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|
| | \$20 billion or greater | \$10 billion – \$19.99 billion | \$5 billion – \$9.99 billion | \$1 billion – \$4.99 billion | \$500 million – \$999.99 million | \$100 million – \$499.99 million | Less than \$100 million |
| Our external audit fees increased | 44% | 46% | 53% | 55% | 31% | 57% | 37% |
| Our external audit fees decreased | 11% | 9% | 17% | 28% | 57% | 7% | 12% |
| Our external audit fees stayed the same | 45% | 45% | 30% | 17% | 12% | 36% | 51% |

“EXTERNAL AUDITORS ARE DIGGING A LOT DEEPER THIS YEAR FOR SUPPORTING DOCUMENTATION COMPARED TO PRIOR YEARS, INCREASING THE LEVEL OF SCRUTINY.”

CHIEF AUDIT EXECUTIVE, LARGE PUBLIC MANUFACTURING COMPANY

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

| | SOX Filer Status | | | |
|------------------|-------------------------|-------------------|----------------------|-------------------------|
| | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| Increased > 20% | 11% | 13% | 4% | 13% |
| Increased 16-20% | 10% | 22% | 3% | 30% |
| Increased 11-15% | 11% | 17% | 4% | 30% |
| Increased 6-10% | 30% | 27% | 85% | 23% |
| Increased 1-5% | 38% | 21% | 4% | 4% |

| | Size of Organization | | | | | | |
|------------------|-------------------------|--------------------------------|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|
| | \$20 billion or greater | \$10 billion – \$19.99 billion | \$5 billion – \$9.99 billion | \$1 billion – \$4.99 billion | \$500 million – \$999.99 million | \$100 million – \$499.99 million | Less than \$100 million |
| Increased > 20% | 7% | 11% | 10% | 2% | 2% | 0% | 25% |
| Increased 16-20% | 7% | 44% | 38% | 39% | 3% | 13% | 0% |
| Increased 11-15% | 29% | 0% | 24% | 50% | 82% | 38% | 25% |
| Increased 6-10% | 14% | 33% | 5% | 4% | 11% | 13% | 0% |
| Increased 1-5% | 43% | 12% | 23% | 5% | 2% | 36% | 50% |

Insights

- A majority of organizations in the \$500 million to \$999.99 million revenue range saw their external audit fees decrease, as did emerging growth companies and nonaccelerated filers.
- Conversely, external audit fees increased for half of all large accelerated and accelerated filers. Furthermore, fees rose by more than 10 percent for 32 percent of large accelerated filers and 52 percent of accelerated filers.
- More than half of public companies (52 percent) reported that external audit fees increased for fiscal year 2015. Similar to other organization groups, costs rose more than 10 percent for one in three public companies.
- Among the possible reasons for external auditor fee increases include greater focus on information produced by entity (IPE). See survey results regarding IPE on page 17.

External Auditor Reliance on the Work of Others

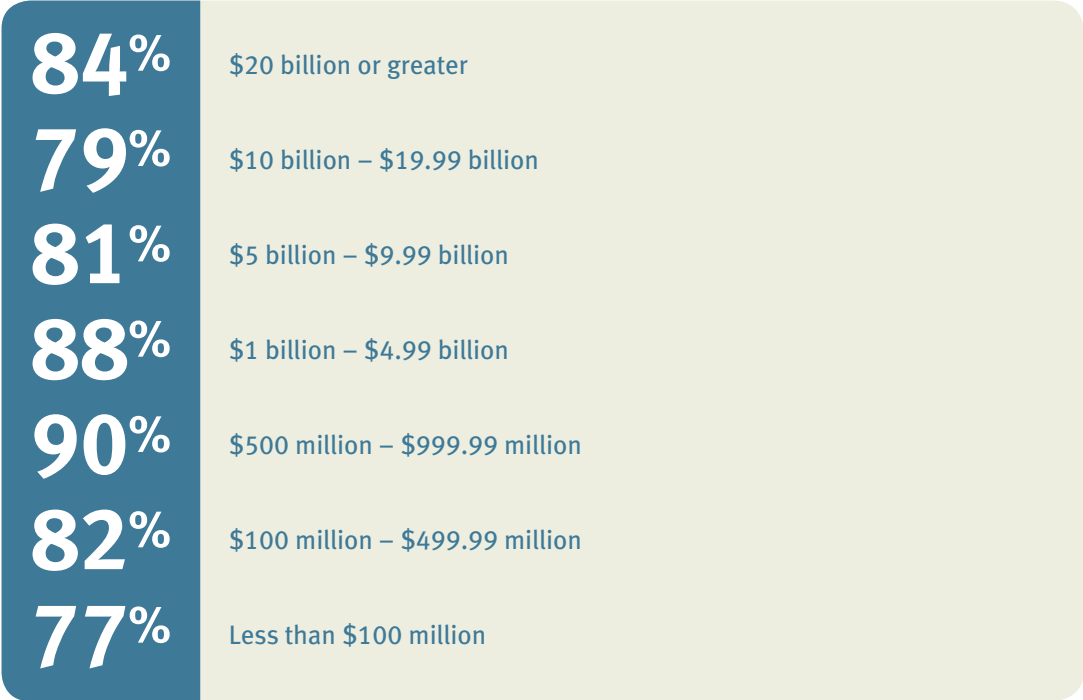
Do your external auditors rely on work that you do to the fullest extent possible for medium- and low-risk processes?

“Yes” responses

SOX FILER STATUS



SIZE OF ORGANIZATION



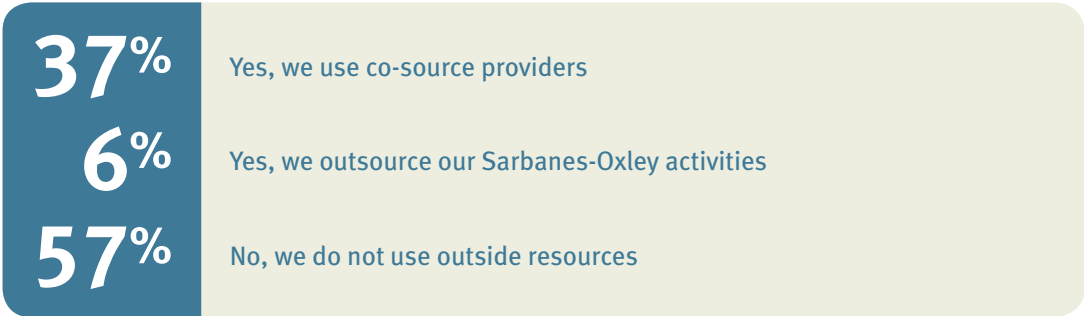
Insights

- Results are very consistent with our prior year findings.
- The findings for public companies are similar, with 80 percent reporting that their external auditors rely on the work of others for medium- and low-risk processes.

DELVING DEEPER INTO THE SARBANES-OXLEY CONTROLS ENVIRONMENT

Does your organization use outside resources for Sarbanes-Oxley compliance activities related to process controls?

All respondents (public companies)



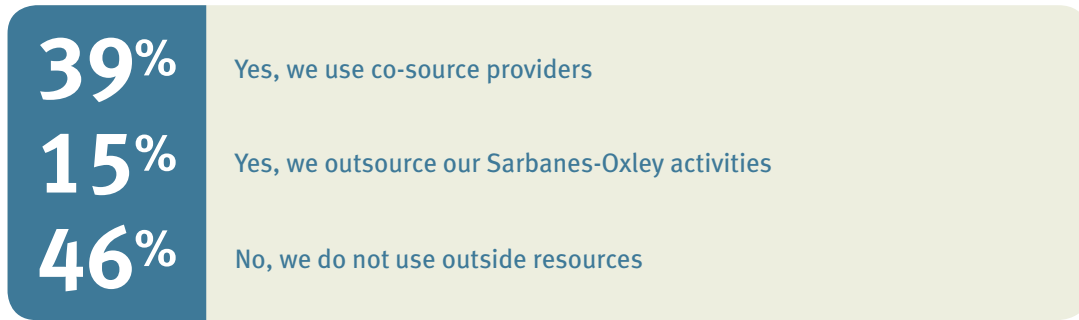
| | SOX Compliance Year | | | |
|---|-----------------------------------|----------------------------|----------------------------|--------------------------------|
| | Beyond 2nd year of SOX compliance | 2nd year of SOX compliance | 1st year of SOX compliance | Pre-1st year of SOX compliance |
| Yes, we use co-source providers | 41% | 11% | 51% | 53% |
| Yes, we outsource our Sarbanes-Oxley activities | 7% | 83% | 41% | 15% |
| No, we do not use outside resources | 52% | 6% | 8% | 32% |

“COSO 2013 INCREASED THE LEVEL OF SCRUTINY TO WHICH WE DOCUMENT AND TEST CONTROLS, AND FURTHER TAILORING WAS REQUIRED RELATED TO SYSTEM REPORTING USED IN PERFORMANCE OF CONTROLS AS WELL AS SERVICE ORGANIZATIONS, WHICH ATTRIBUTED TO THE INCREASE IN OUR SOX EFFORT YEAR-OVER-YEAR.”

AUDIT DIRECTOR, LARGE PUBLIC MEDIA COMPANY

Does your organization use outside resources for Sarbanes-Oxley compliance activities related to IT controls?

All respondents (public companies)



| | SOX Compliance Year | | | |
|---|-----------------------------------|----------------------------|----------------------------|--------------------------------|
| | Beyond 2nd year of SOX compliance | 2nd year of SOX compliance | 1st year of SOX compliance | Pre-1st year of SOX compliance |
| Yes, we use co-source providers | 32% | 64% | 51% | 43% |
| Yes, we outsource our Sarbanes-Oxley activities | 25% | 31% | 40% | 22% |
| No, we do not use outside resources | 43% | 5% | 9% | 35% |

Insights

- It is interesting to find that many companies continue to outsource these activities. Yet as expected, as SOX compliance processes mature, such as in organizations beyond their second year of compliance, outsourcing of activities related to process and IT controls decreases.

“SEGREGATION OF DUTIES FOR IT GENERAL CONTROLS IS BECOMING MORE OF A CONCERN FOR SOX AND THE REGULATORY AGENCIES. DATA GOVERNANCE, TOO.”

CHIEF RISK OFFICER, MIDSIZE PUBLIC FINANCIAL SERVICES COMPANY

For fiscal year 2015, what was your organization’s estimated number of entity-level and process-level Sarbanes-Oxley-related controls?

Results below reflect the averages of all responses for each group

| | Entity-level controls | Estimated percentage classified as “key controls”** | Process-level controls | Estimated percentage classified as “key controls”** | Estimated percentage classified as IT General Controls (ITGC)* |
|------------------------------------|-----------------------|---|------------------------|---|--|
| All respondents (public companies) | 50 | 60% | 96 | 63% | 37% |
| \$20 billion or greater | 64 | 52% | 93 | 56% | 38% |
| \$10 billion – \$19.99 billion | 51 | 56% | 89 | 56% | 31% |
| \$5 billion – \$9.99 billion | 55 | 56% | 93 | 58% | 40% |
| \$1 billion – \$4.99 billion | 48 | 32% | 84 | 33% | 21% |
| \$500 million – \$999.99 million | 54 | 26% | 79 | 28% | 20% |
| \$100 million – \$499.99 million | 42 | 57% | 82 | 59% | 40% |
| Less than \$100 million | 41 | 48% | 70 | 52% | 32% |

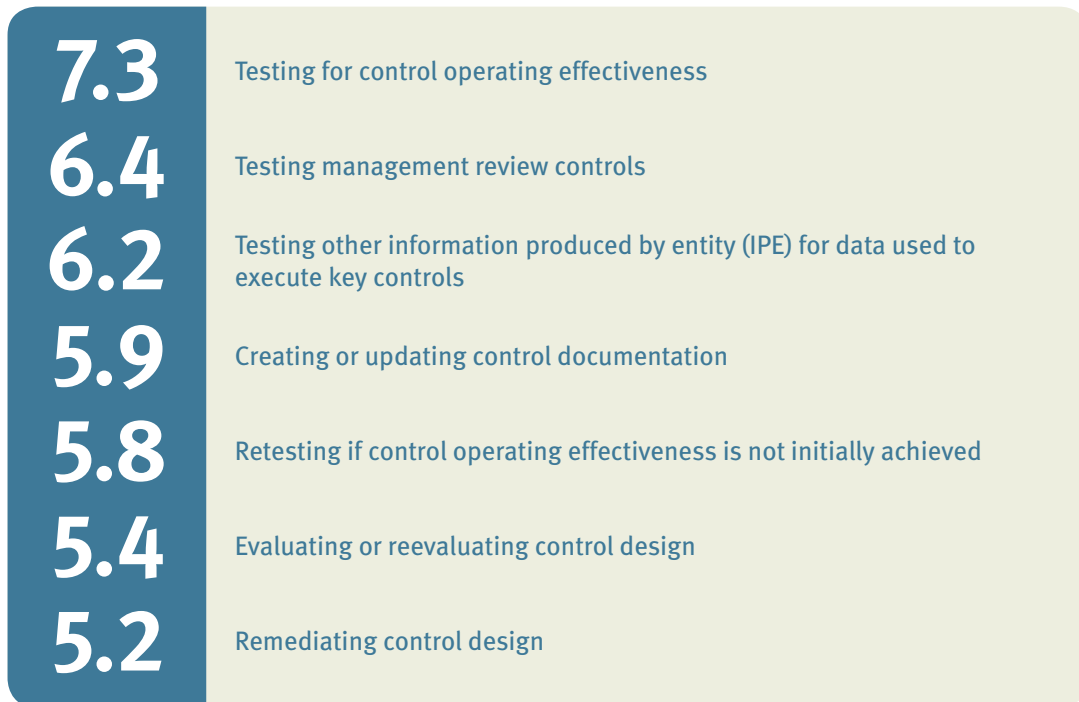
Insights

- For midsize organizations (those in the \$500 million to \$5 billion range), the percentages of entity-level and process-level controls classified as key controls are rather low. Generally, these percentages are 50 percent or greater.

* For purposes of evaluating the effectiveness of internal control over financial reporting.

During fiscal year 2015, how many hours, on average, would you estimate your organization spent on each key control as it relates to the following activities?

Results from public company respondents showing average number of hours spent on each key control



Insights

- A variety of factors, including but not limited to more meticulous work being performed by external auditors as a result of the PCAOB's periodic inspection reports of external auditing firms, are driving organizations today to spend, on average, two to three more hours per key control compared to several years ago.
- With regard to the testing of management review controls, the number of hours reported (average of 6.4) is rather low. There is more focus on and scrutiny of these controls from the external auditors. Of note, larger organizations (\$10 billion or more in annual revenue) are spending, on average, one hour more on these controls, which is to be expected.
- Generally, an organization should plan to spend an average of six to seven hours testing each key control.

KEY FACT

7.5

Average number of hours spent by the largest organizations (\$20 billion+ in annual revenue) on each key control as it relates to testing management review controls.

For fiscal year 2015, what percentage of your organization’s total key controls would you estimate are automated key controls?

| | SOX Filer Status | | | | |
|--------|------------------------------------|-------------------------|-------------------|----------------------|-------------------------|
| | All respondents (public companies) | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| 0-5% | 13% | 12% | 15% | 23% | 4% |
| 6-10% | 18% | 19% | 25% | 65% | 44% |
| 11-25% | 35% | 35% | 29% | 5% | 18% |
| 26-50% | 25% | 25% | 26% | 6% | 22% |
| 51-75% | 9% | 9% | 5% | 1% | 12% |

To what extent does your organization plan to further automate its manual processes and controls within fiscal year 2016?

| | SOX Filer Status | | | | |
|--|------------------------------------|-------------------------|-------------------|----------------------|-------------------------|
| | All respondents (public companies) | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| We have significant plans to automate a broad range of IT processes and controls | 15% | 14% | 21% | 3% | 20% |
| We have moderate plans to automate numerous IT processes and controls | 36% | 34% | 42% | 90% | 69% |
| We have minimal plans to automate selected IT processes and controls | 37% | 41% | 27% | 4% | 6% |
| We have no plans to automate any further | 12% | 11% | 10% | 3% | 5% |

“OUR COMPANY IS WORKING TO INCREASE EFFICIENCY WHEREVER POSSIBLE TO IMPROVE CONTROLS AND REDUCE COSTS.”

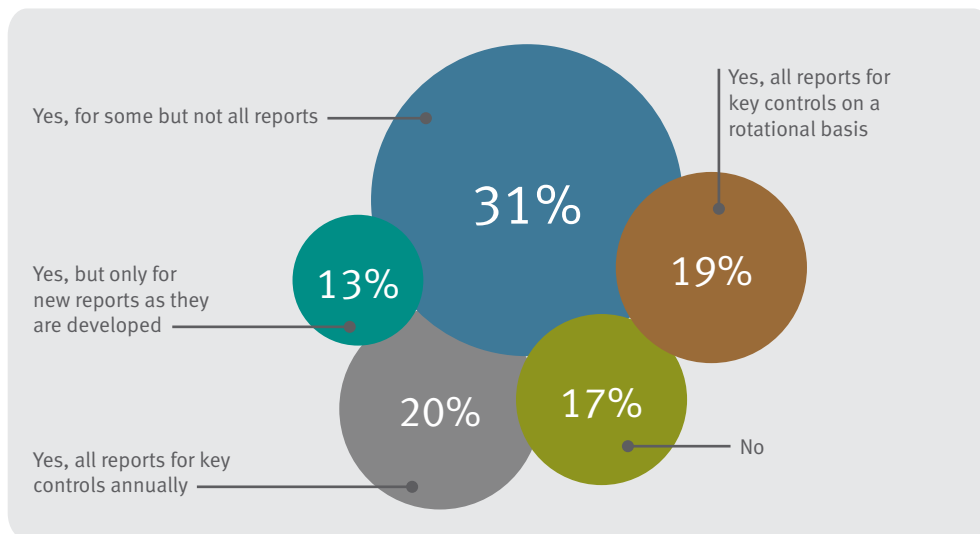
CHIEF RISK OFFICER, MIDSIZE PUBLIC FINANCIAL SERVICES COMPANY

Insights

- As expected, large accelerated and accelerated filers have higher percentages of their total key controls that are classified as automated key controls. These organizations have, over time and throughout their growth, moved beyond basic solutions to focus more on incorporating automated controls and a greater reliance on information technology.
- Similarly, the percentages are relatively strong for public company respondents.
- Conversely, the numbers are relatively low for nonaccelerated filers, underscoring that as an organization becomes larger, its use of automated key controls becomes greater, which is a positive trend and an important goal for growing organizations.
- Well over half of organizations, in every category shown, have at least moderate plans to automate manual processes and controls in fiscal year 2016.
- It is especially positive to see large percentages of nonaccelerated filers and emerging growth companies with plans to automate their manual processes and controls.

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

All respondents (public companies)



Looking at Information Produced by Entity

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

| | SOX Filer Status | | | | |
|---|------------------------------------|-------------------------|-------------------|----------------------|-------------------------|
| | All respondents (public companies) | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| We test IPE every time we test a control that uses it | 21% | 22% | 18% | 1% | 4% |
| We test IPE at least once a year per key control, sometimes more than once | 27% | 26% | 34% | 41% | 19% |
| We test IPE once a year for each key control, and do not test it again if its source has not had any changes made to it | 29% | 27% | 34% | 53% | 69% |
| Not sure | 23% | 25% | 14% | 5% | 8% |

Insights

- For a vast majority of organizations, IPE testing is an integral part of their overall control testing activities, which is positive to see. Testing IPE becomes a critical focal point once SOX Section 404(b) becomes a requirement. For emerging growth companies, pre-IPO and pre-SOX organizations, there is less emphasis on IPE. But once the internal control over financial reporting attestation requirements of Section 404(b) kick in, IPE testing is emphasized far more. This is evident in the results for large accelerated and accelerated filers.
- Overall, one in five public companies tests IPE every time they test a control.
- Also of note, a majority of public companies (50 percent) report that the PCAOB's inspection reports on external auditors have had a significant impact on costs tied to testing system reports and other IPE (see page 23).

“[OUR] NUMBER OF KEY PRIMARY CONTROLS HAS INCREASED 18 PERCENT SINCE 2013 DUE TO EMPHASIS ON MANAGEMENT REVIEW CONTROLS AND IPE CONTROLS REQUIRED BY EXTERNAL AUDIT FOR PCAOB COMPLIANCE.”

CORPORATE SARBANES-OXLEY LEADER, LARGE PUBLIC FINANCIAL SERVICES COMPANY

* Other IPE includes customizable queries, spreadsheets, Access databases and other non-system generated reports that are utilized in performing a control.

LOOKING DEEPER INTO SARBANES-OXLEY COMPLIANCE CHANGES IN THE CURRENT MARKET

To what degree did you note the following changes in your organization’s Sarbanes-Oxley compliance program in 2015?

Top 10 overall responses (public companies) – extensive/substantial changes

| | EXTENSIVE/ SUBSTANTIAL | | MODERATE | | MINIMAL/NONE | |
|--|---------------------------|------|----------|------|--------------|------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Change/increase in process control documentation for high-risk processes | 31% | 30% | 36% | 24% | 33% | 46% |
| Expansion of scope related to IT general controls | 28% | 24% | 37% | 34% | 35% | 42% |
| Increased scrutiny from external auditors on testing exceptions/deficiencies | 28% | 27% | 32% | 27% | 40% | 46% |
| Increase in scope to baseline test more IT reports | 27% | 29% | 36% | 41% | 37% | 30% |
| Expansion of documentation related to the entity-level control environment (Control Environment, Risk Assessment, Information and Communication, Monitoring) | 26% | 25% | 33% | 36% | 41% | 39% |
| Increased testing of controls over management judgments and estimates | 26% | 25% | 36% | 40% | 38% | 35% |
| Increase in the frequency of “walkthroughs” to gain and document an understanding of key business processes | 25% | 19% | 32% | 45% | 43% | 36% |
| Increase in focus on segregation of duties | 23% | NA | 35% | NA | 42% | NA |
| Increased testing of controls over application of revenue recognition policies | 22% | 20% | 31% | 37% | 47% | 43% |
| Significant change in the organization’s internal control environment (system implementation, acquisition, divestiture, etc.) | 22% | NA | 28% | NA | 50% | NA |
| Increase in testing at year-end vs. interim date | 22% | 21% | 28% | 36% | 50% | 43% |
| Fresh assessment of the extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations | 22% | 27% | 32% | 25% | 46% | 48% |

Top 10 overall responses (public companies) – minimal/no changes

| | MINIMAL/NONE | | MODERATE | | EXTENSIVE/ SUBSTANTIAL | |
|---|--------------|------|----------|------|---------------------------|------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Reduction in total control count | 65% | 73% | 22% | 21% | 13% | 6% |
| Decreased reliance on the work of internal audit by the external audit firm | 64% | 70% | 22% | 13% | 14% | 17% |
| More reliance on the work of management by the external audit firm | 58% | 52% | 26% | 35% | 16% | 13% |
| Less reliance on the work of management by the external audit firm | 58% | 63% | 25% | 25% | 17% | 12% |
| Increase in testing at interim date vs. year-end | 57% | 65% | 27% | 19% | 16% | 16% |
| Increased focus from external auditor on the qualifications, independence and objectivity of internal audit | 56% | 47% | 26% | 35% | 18% | 18% |
| Increase in automated controls | 56% | 54% | 28% | 29% | 16% | 17% |
| Challenging the credentials (objectivity and competency) of others performing testing | 55% | 54% | 28% | 18% | 17% | 28% |
| Additional testing to justify using the work of others | 54% | 50% | 29% | 37% | 17% | 13% |
| Increased focus on footnote disclosures | 54% | 48% | 28% | 33% | 18% | 19% |

Insights

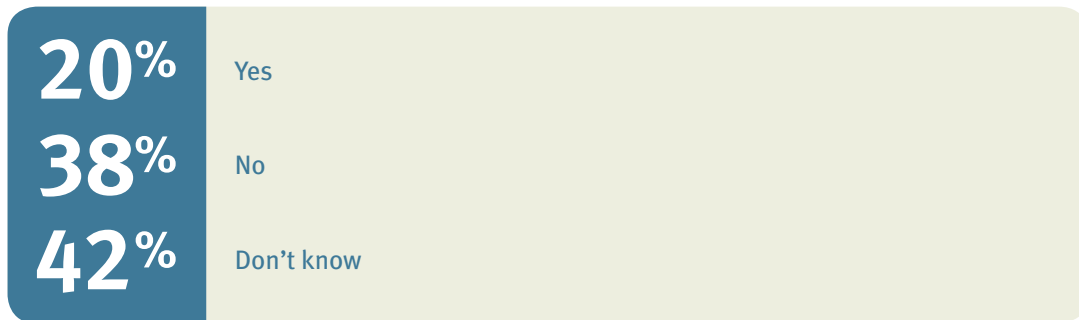
- The reason for the lack of activity in these areas at more than half of companies is because these topical areas are already being addressed by many organizations. These companies have settled into a more steady state and were probably on the front end of addressing these issues a year or two ago.

“THERE HAS BEEN AN INCREASE IN THE AMOUNT OF WORK REQUIRED TO DOCUMENT COMPLETENESS AND ACCURACY OF SYSTEM-GENERATED REPORTS.”

AUDIT DIRECTOR, MIDSIZE PUBLIC MANUFACTURING COMPANY

During fiscal year 2015, was your organization required to issue a cybersecurity disclosure (according to CF Disclosure Guidance: Topic No. 2)?

All respondents (public companies)



If you reported that your organization was required to issue a cybersecurity disclosure (according to CF Disclosure Guidance: Topic No. 2) during fiscal year 2015, please indicate the impact on the total amount of hours your organization devoted to Sarbanes-Oxley compliance during the fiscal year.



Insights

- One in five public companies was required to issue a cybersecurity disclosure in fiscal year 2015. For many of these organizations, there was a notable impact on their SOX compliance-related hours. Interestingly, a large percentage of organizations reported they did not know if the organization was required to issue this disclosure.
- Given the prevalence of cybersecurity incidents and related scrutiny from boards of directors as well as regulatory authorities, we would expect the percentage of organizations required to issue a cybersecurity disclosure to increase in the coming years. Organizations will need to plan accordingly with regard to the time necessary to prepare this information.

Executive Sponsorship, Execution and Testing

With regard to Sarbanes-Oxley compliance efforts, who in your organization has primary responsibility for 1) executive sponsorship, 2) execution, and 3) supporting related testing efforts?

All respondents (public companies)

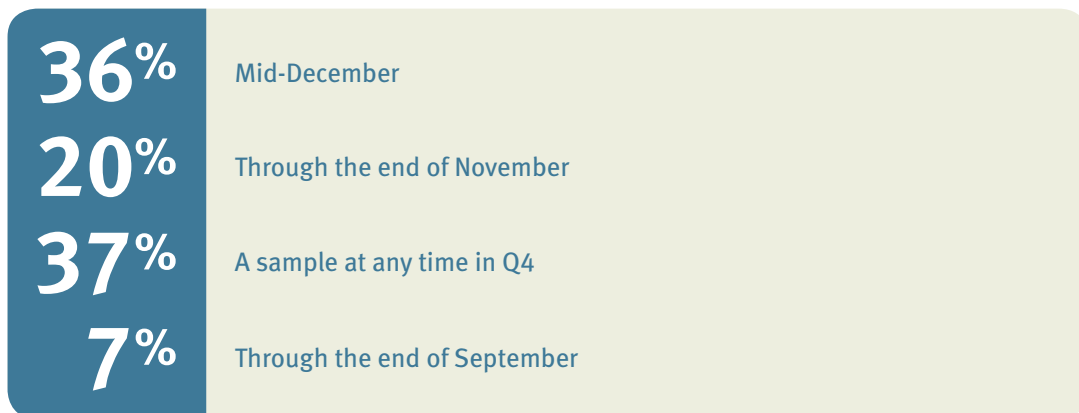
| | Executive Sponsorship | Execution | Supporting Testing Efforts |
|---------------------------------------|-----------------------|-----------|----------------------------|
| Audit committee | 46% | 14% | 8% |
| Executive management | 39% | 15% | 8% |
| Management and/or process owners | 5% | 17% | 21% |
| Internal audit | 4% | 35% | 46% |
| General counsel | 3% | 3% | 1% |
| Business/financial controls unit | 1% | 9% | 6% |
| Project management organization (PMO) | 1% | 4% | 3% |
| Third-party service provider | 0% | 1% | 5% |
| Other | 1% | 2% | 2% |

Insights

- For a strong majority of public companies (85 percent), either the audit committee or executive management is the executive sponsor for SOX compliance efforts. The audit committee should be responsible for the broad overview of the organization's risk management, under which SOX compliance falls. Executive management is specifically responsible for the accuracy and completeness of the organization's internal control over financial reporting – a key component of the SOX requirements. Therefore, it makes sense that executive sponsorship falls under one of these bodies, particularly within a public company.
- Internal audit is primarily responsible for the execution of these activities in one out of three companies (35 percent). Within a majority of organizations, either internal audit or management and/or process owners have this responsibility.
- When it comes to testing, two-thirds of public companies rely on either their internal audit groups (46 percent) or management and/or process owners (21 percent).
- Internal auditors performing and supporting testing efforts is not surprising, given that they are well-suited to do it with their skill sets and they are sufficiently independent to enable external audit reliance.

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

All respondents (public companies)



Insights

- With regard to timing of year-end update testing, most organizations are able to perform this in the fourth quarter.

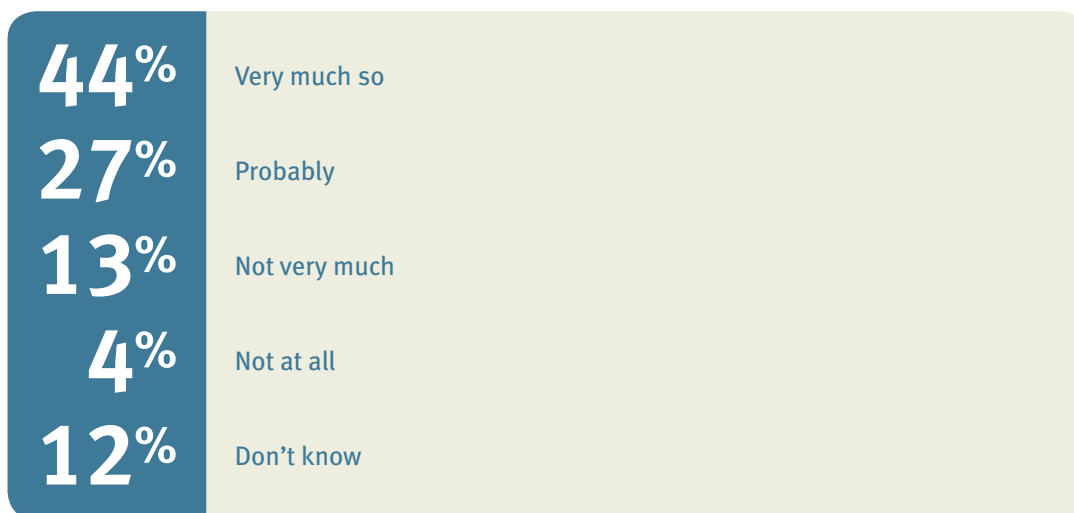
“PCAOB COMMENTS ARE PUTTING PRESSURES ON EXTERNAL AUDIT FIRMS, WHICH IS PUTTING ADDITIONAL WORK ON CONTROL OWNERS AND CONTROL TESTERS.”

CHIEF AUDIT EXECUTIVE, LARGE PUBLIC RETAIL COMPANY

Ongoing Effects of the PCAOB Inspection Reports of External Auditors¹

If your external audit firm required significant changes to Sarbanes-Oxley compliance activities in 2015, to what extent do you believe those changes are the result of the inspections of the registered accounting firms by the PCAOB?

All respondents (public companies)



What was the impact of the PCAOB's inspection reports on external auditors on your organization's costs for the following Sarbanes-Oxley compliance activities?

All respondents (public companies)

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

Insights

- The results for roll-forward controls testing are a bit surprising. This is an area on which the external audit firms are focusing. It will be interesting to observe if these results change in the next fiscal year, with more public companies reporting an extensive, substantial or moderate impact on SOX compliance costs.

¹ The results in this section reflect responses from public company respondents but exclude those from emerging growth companies, which are not required to meet the auditor attestation requirement under Sarbanes-Oxley Section 404(b).

KEY FACTS FOR PUBLIC COMPANIES

50

Percentage in which, during fiscal year 2015, the external audit firm placed more focus on evaluating deficiencies

75

Percentage in which someone is keeping abreast of the guidance on PCAOB inspections issued by the PCAOB

58

Percentage required to update documentation to identify related parties (according to PCAOB Auditing Standard No. 18 – Related Parties)

8

Average percentage increase in hours resulting from the requirement to update documentation to identify related parties

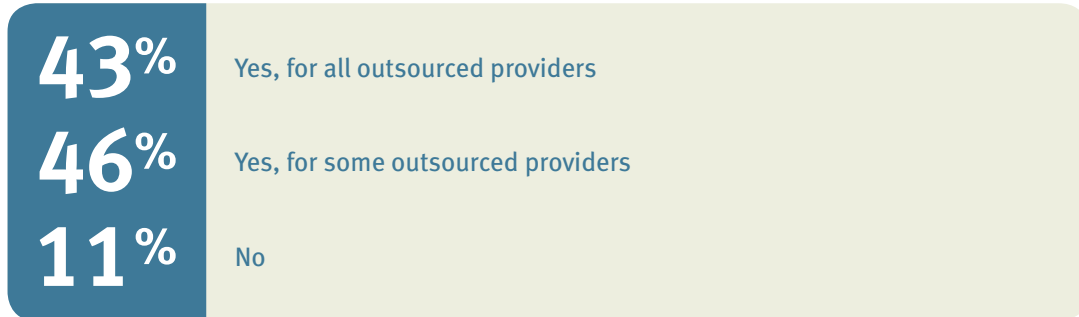
“THE KEYS TO SUCCESSFUL SOX COMPLIANCE WITH THE EXTERNAL AUDITORS ARE (1) CONSTANT COMMUNICATION, AND (2) READ AT LEAST ALL OF THE BIG 4 FIRMS’ PCAOB INSPECTION REPORTS AND CHALLENGE HOW THE OBSERVATIONS MAY IMPACT YOUR COMPANY. PROACTIVELY DISCUSS THE PCAOB FINDINGS ... WITH YOUR EXTERNAL AUDITOR TO DETERMINE EARLY ON IN THE YEAR IF ANY CHANGES ARE NEEDED FOR THE CURRENT YEAR’S APPROACH.”

CHIEF AUDIT EXECUTIVE, LARGE PUBLIC HOSPITALITY COMPANY

Outsourcing Trends

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

All respondents (public companies)



For processes that your company outsources, have you had to audit the supplier onsite to gain sufficient comfort around the control environment?

“Yes” responses



Insights

- The number of organizations that receive SOC 1 reports from all of their outsourced providers (43 percent) is relatively low. There is rising pressure in the market to obtain these reports and provide them to the external auditor if requested. This is a growing area and this figure likely will increase for the next fiscal year.
- Most companies do not have the capabilities to visit each of their outsourced providers onsite to audit them. However, reviewing any outsourced provider or vendor should be part of a rotational schedule. In general, we would expect to see one in three organizations doing this, depending on the industry and complexity of the organization.
- Interestingly, a large number of emerging growth companies and nonaccelerated filers are conducting such onsite audits. It is possible they are being overly cautious in the pre- or early stages of Sarbanes-Oxley compliance.
- The likely reason for the higher percentages among nonaccelerated filers and emerging growth companies is that these organizations have fewer outsourced providers, thus they can perform onsite audits more easily.

GENERATING VALUE FROM SOX COMPLIANCE

How has the internal control over financial reporting structure changed since Sarbanes-Oxley Section 404(b) was required for your organization?

| | Size of Organization | | | | | | |
|-----------------------------------|-------------------------|--------------------------------|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|
| | \$20 billion or greater | \$10 billion – \$19.99 billion | \$5 billion – \$9.99 billion | \$1 billion – \$4.99 billion | \$500 million – \$999.99 million | \$100 million – \$499.99 million | Less than \$100 million |
| Significantly/moderately improved | 65% | 68% | 62% | 37% | 40% | 65% | 56% |

| | SOX Filer Status | | | |
|-----------------------------------|-------------------------|-------------------|----------------------|-------------------------|
| | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| Significantly/moderately improved | 65% | 69% | 13% | 63% |



| | SOX Compliance Year | | | |
|-----------------------------------|-----------------------------------|----------------------------|----------------------------|--------------------------------|
| | Beyond 2nd year of SOX compliance | 2nd year of SOX compliance | 1st year of SOX compliance | Pre-1st year of SOX compliance |
| Significantly/moderately improved | 64% | 18% | 26% | 67% |

| | Type of Organization | | |
|-----------------------------------|----------------------|-----------------------|----------------|
| | Publicly held | Private, planning IPO | Privately held |
| Significantly/moderately improved | 67% | 72% | 47% |



Does your organization currently leverage Sarbanes-Oxley compliance efforts to drive continuous improvement of business processes across the organization?

| Size of Organization | | | | | | | |
|----------------------|-------------------------|--------------------------------|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|
| | \$20 billion or greater | \$10 billion – \$19.99 billion | \$5 billion – \$9.99 billion | \$1 billion – \$4.99 billion | \$500 million – \$999.99 million | \$100 million – \$499.99 million | Less than \$100 million |
| Yes | 71% | 80% | 63% | 80% | 86% | 75% | 56% |

| SOX Filer Status | | | | |
|------------------|-------------------------|-------------------|----------------------|-------------------------|
| | Large accelerated filer | Accelerated filer | Nonaccelerated filer | Emerging growth company |
| Yes | 69% | 68% | 93% | 78% |



| | SOX Compliance Year | | | |
|-----|-----------------------------------|----------------------------|----------------------------|--------------------------------|
| | Beyond 2nd year of SOX compliance | 2nd year of SOX compliance | 1st year of SOX compliance | Pre-1st year of SOX compliance |
| Yes | 70% | 88% | 90% | 70% |

| | Type of Organization | | |
|-----|----------------------|-----------------------|----------------|
| | Publicly held | Private, planning IPO | Privately held |
| Yes | 70% | 69% | 69% |

Insights

- Across the board, there are positive indicators regarding improvements in internal control over financial reporting resulting from the Sarbanes-Oxley Act. Generally, among organizations in which SOX compliance processes have matured (e.g., large accelerated and accelerated filers, companies beyond their second year of compliance, larger companies), two out of three believe there have been significant or moderate improvements to their internal control over financial reporting structures.
- Bottom line, it is apparent that SOX compliance requires a significant investment for many organizations in terms of budget and hours. But the results reflected above reinforce the reasons these investments are needed and the value they create.
- At the end of the day, the Sarbanes-Oxley Act was intended to improve the quality and reliability of internal control over financial reporting structures in organizations. These findings illustrate the value of this work for companies. More and more are realizing that if they approach their compliance processes in the right way, employing proven best practices such as automating more of their key controls, there will be positive ripple effects throughout their organizations.

METHODOLOGY AND DEMOGRAPHICS

More than 1,500 respondents (n=1,512) participated in Protiviti's 2016 Sarbanes-Oxley Compliance Survey, which was conducted online during the first quarter of 2016. Survey participants also were asked to provide demographic information about the nature, size and location of their businesses, and their titles or positions. We are very appreciative of and grateful for the time invested in our study by these individuals.

Position

| | |
|--|-----|
| Chief Audit Executive | 10% |
| Chief Financial Officer | 6% |
| Chief Information Officer | 6% |
| Chief Risk Officer | 1% |
| Chief Operating Officer | 1% |
| Chief Compliance Officer | 1% |
| Board Member/Audit Committee Member | 5% |
| Audit Director | 7% |
| Finance Director | 2% |
| Audit Manager | 13% |
| Finance Manager | 3% |
| Corporate Controller | 5% |
| Business Unit Control Leader | 20% |
| Corporate Sarbanes-Oxley Leader/PMO Leader | 3% |
| Audit Staff | 13% |
| Other | 4% |

Type of Organization

| | |
|--|-----|
| Public | 54% |
| Private | 16% |
| Educational Institution | 16% |
| Government | 7% |
| Private, but planning an IPO within the next 12 months | 6% |
| Not-for-Profit | 1% |

Industry

| | |
|--|-----|
| Government | 17% |
| Financial Services | 14% |
| Energy | 10% |
| Manufacturing | 9% |
| Professional Services | 7% |
| Real Estate | 5% |
| Insurance (excluding Healthcare Payer) | 4% |
| Technology | 4% |
| Consumer Products | 3% |
| Retail | 3% |
| Services | 3% |
| Healthcare Provider | 3% |
| Media | 2% |
| Healthcare Payer | 2% |
| Telecommunications | 2% |
| Life Sciences/Biotechnology | 2% |
| Utilities | 2% |
| Distribution | 1% |
| Hospitality | 1% |
| Education | 1% |
| Other | 5% |

Size of Organization (by Gross Annual Revenue)

| | |
|----------------------------------|-----|
| \$20 billion or greater | 9% |
| \$10 billion – \$19.99 billion | 7% |
| \$5 billion – \$9.99 billion | 8% |
| \$1 billion – \$4.99 billion | 41% |
| \$500 million – \$999.99 million | 23% |
| \$100 million – \$499.99 million | 8% |
| Less than \$100 million | 4% |

SOX Year of Compliance

| | |
|---|-----|
| Large accelerated filer | 37% |
| Accelerated filer | 19% |
| Nonaccelerated filer | 32% |
| Emerging growth company | 9% |
| Planning an IPO within the next 12 months | 3% |

Current SOX Compliance Reporting Status

| | |
|-----------------------------------|-----|
| Beyond 2nd year of SOX compliance | 58% |
| 2nd year of SOX compliance | 20% |
| 1st year of SOX compliance | 17% |
| Pre-1st year of SOX compliance | 5% |

Organization Headquarters

| | |
|-----------------|-----|
| North America | 66% |
| Central America | 18% |
| India | 7% |
| Middle East | 5% |
| Europe | 3% |
| Asia/Pacific | 1% |

Month of Organization's Fiscal Year-End

| | |
|-----------|-----|
| January | 2% |
| February | 1% |
| March | 3% |
| April | 1% |
| May | 23% |
| June | 8% |
| July | 1% |
| August | 7% |
| September | 2% |
| October | 2% |
| November | 1% |
| December | 49% |

ABOUT PROTIVITI

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. Protiviti and our independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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.



Ranked 57 on the 2016 *Fortune* 100 Best Companies to Work For® list, Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

About Our Internal Audit and Financial Advisory Solution

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

Contact

Brian Christensen
Executive Vice President – Global Internal Audit
+1.602.273.8020
brian.christensen@protiviti.com

Protiviti Internal Audit and Financial Advisory Practice – Contact Information

Brian Christensen
Executive Vice President – Global Internal Audit
+1.602.273.8020
brian.christensen@protiviti.com

AUSTRALIA

Mark Harrison
+61.2.6113.3900
mark.harrison@protiviti.com.au

BELGIUM

Jaap Gerkes
+31.6.1131.0156
jaap.gerkes@protiviti.nl

BRAZIL

Raul Silva
+55.11.2198.4200
raul.silva@protivitiglobal.com.br

CANADA

Ram Balakrishnan
+1.647.288.8525
ram.balakrishnan@protiviti.com

CHINA (HONG KONG AND MAINLAND CHINA)

Albert Lee
+852.2238.0499
albert.lee@protiviti.com

FRANCE

Bernard Drui
+33.1.42.96.22.77
b.drui@protiviti.fr

GERMANY

Michael Klinger
+49.69.963.768.155
michael.klinger@protiviti.de

INDIA

Sanjeev Agarwal
+91.99.0332.4304
sanjeev.agarwal@protivitiglobal.in

ITALY

Alberto Carnevale
+39.02.6550.6301
alberto.carnevale@protiviti.it

JAPAN

Yasumi Taniguchi
+81.3.5219.6600
yasumi.taniguchi@protiviti.jp

MEXICO

Roberto Abad
+52.55.5342.9100
roberto.abad@protivitiglobal.com.mx

MIDDLE EAST

Manoj Kabra
+965.2295.7700
manoj.kabra@protivitiglobal.com.kw

THE NETHERLANDS

Jaap Gerkes
+31.6.1131.0156
jaap.gerkes@protiviti.nl

SINGAPORE

Sidney Lim
+65.6220.6066
sidney.lim@protiviti.com

SOUTH AFRICA

Fana Manana
+27.11.231.0600
fanam@sng.za.com

UNITED KINGDOM

Lindsay Dart
+44.207.389.0448
lindsay.dart@protiviti.co.uk

UNITED STATES

Brian Christensen
+1.602.273.8020
brian.christensen@protiviti.com

THE AMERICAS

UNITED STATES

| | | |
|-----------------|--------------|------------------|
| Alexandria | Kansas City | Salt Lake City |
| Atlanta | Los Angeles | San Francisco |
| Baltimore | Milwaukee | San Jose |
| Boston | Minneapolis | Seattle |
| Charlotte | New York | Stamford |
| Chicago | Orlando | St. Louis |
| Cincinnati | Philadelphia | Tampa |
| Cleveland | Phoenix | Washington, D.C. |
| Dallas | Pittsburgh | Winchester |
| Denver | Portland | Woodbridge |
| Fort Lauderdale | Richmond | |
| Houston | Sacramento | |

ARGENTINA*

Buenos Aires

BRAZIL*

Rio de Janeiro
São Paulo

CANADA

Kitchener-Waterloo
Toronto

ASIA-PACIFIC

AUSTRALIA

Brisbane
Canberra
Melbourne
Sydney

CHINA

Beijing
Hong Kong
Shanghai
Shenzhen

INDIA*

Bangalore
Hyderabad
Kolkata
Mumbai
New Delhi

JAPAN

Osaka
Tokyo

SINGAPORE

Singapore

EUROPE/MIDDLE EAST/AFRICA

FRANCE

Paris

GERMANY

Frankfurt
Munich

BAHRAIN*

Manama

KUWAIT*

Kuwait City

OMAN*

Muscat

SOUTH AFRICA*

Johannesburg

ITALY

Milan
Rome
Turin

QATAR*

Doha

SAUDI ARABIA*

Riyadh

UNITED ARAB EMIRATES*

Abu Dhabi
Dubai

THE NETHERLANDS

Amsterdam

UNITED KINGDOM

London

* Protiviti Member Firm