

# SOX COMPLIANCE AMID A NEW BUSINESS EQUILIBRIUM

*Assessing SOX costs, hours, controls  
and other trends in the results of Protiviti's  
2020 Sarbanes-Oxley Compliance Survey*





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# Foreword

*We are living in a new world and need to find our new equilibrium.*

In talking with CAEs and colleagues around the world, I've heard this sentiment expressed on a daily basis and see it readily around me as, like most of us, I work from home. The COVID-19 global pandemic is taking a devastating toll on people and economies worldwide, and undoubtedly has reshaped the business environment for years to come.

Take your pick of the many changes already evident in our day-to-day professional lives: most employees working remotely, more virtual versus in-person meetings, major adjustments to global supply chains and warehousing, contactless operations, new approaches to developing and enhancing the customer experience, emerging plans to transform building and office layouts, and much more.

And yes, the pandemic is bringing potentially significant changes to the SOX compliance process. We see growing numbers of controls changing. Organizational and market developments are altering what organizations need to audit and capture in controls reviews. Not surprisingly, my colleagues and I are receiving many questions about SOX compliance in 2020, not the least of which is how compliance efforts need to change in response to a large-scale crisis like this.

Here's what we know: First, it's important to stay the course with your SOX compliance activities in 2020, even though these efforts will be a bit different this year. As of the writing of this report, while the SEC had provided public companies, subject to certain conditions, a 45-day extension to file certain disclosure reports, no further guidance has been issued. In fact, no changes or leniency are expected in management controls evaluations and compliance.



— Brian Christensen, Executive Vice President —  
Global Internal Audit, Protiviti, May 2020

Given the likely changes in the organization's control environment, it's important to start controls reviews early. SOX compliance teams working remotely may need more time to conduct proper reviews and gather appropriate evidence. As part of this, we also need to focus on being problem-solvers. Our organizations need us to come up with solutions to new challenges emerging from the crisis, such as remotely conducting proper audits of controls as part of SOX compliance activities. (Our special section on SOX and the COVID-19 crisis provides some helpful guidance on this.)

Above all, good communication is critical — with control owners, with management, with the external auditor and with the audit committee. We're seeing the changes in our businesses firsthand — we need to keep on the same page regarding plans, audits, deadlines and expectations.

I hope the results and insights from our latest SOX Compliance Survey will help SOX teams and business leaders navigate their SOX compliance activities and find their equilibrium in this new environment. The guidance we offer around greater use of automation and technology should be of interest to companies seeking increased efficiencies and flexibility in their compliance activities.

In closing, on behalf of my Protiviti colleagues around the world, I want to extend our appreciation and gratitude for the healthcare professionals and first responders who are on the front lines battling this pandemic. We hope you are staying safe and wish you continued good health.

*I hope the results and insights from our latest SOX Compliance Survey will help SOX teams and business leaders navigate their SOX compliance activities and find their equilibrium in this new environment. The guidance we offer around greater use of automation and technology should be of interest to companies seeking increased efficiencies and flexibility in their compliance activities.*

— Brian Christensen, Executive Vice President, Global Internal Audit, Protiviti



# Executive Summary

*The world has changed. But SOX work goes on.*

Organizations required to comply with the Sarbanes–Oxley Act no doubt are experiencing this sentiment firsthand in recent weeks. The COVID–19 global pandemic has caused seismic shifts in companies of all sizes. The impact worldwide has been well–documented and will continue to evolve not only for the remainder of 2020, but certainly in the years to come as organizations transition to the new equilibrium.

We conducted this year’s Sarbanes–Oxley Compliance Survey in the first quarter of 2020, before the full scope and impact of the COVID–19 pandemic was realized. However, since the results largely reflect SOX programs and work performed in fiscal year 2019, the findings remain highly relevant. In addition, trends we’ve identified with regard to the use of automation and technology tools are illuminated even further in this crisis, with offices worldwide closed and a massive percentage of the workforce — likely more than at any time in history — working remotely.

These are unprecedented times. But CAEs and internal audit and SOX leaders are well aware that their obligations to perform internal controls reviews and testing continue. And as we learned from our survey, challenges endure with regard to managing costs and time, as well as leveraging automation and technology tools to achieve long–term savings and efficiencies.

## Key Findings

**Costs continue to rise** — This has been a long-term trend in our study, reflected in both internal SOX compliance costs and related external auditor fees. SOX compliance requirements are unlikely to change significantly — to drive down costs over the long term, greater use of data, automation and technology tools is key.

**Hours are increasing** — Commensurate with costs, SOX compliance-related hours are on the rise, as well. And similar to cost trends, organizations have an opportunity to reduce hours through increased use of data and technology, including automation as well as collaboration and workflow tools.

**It’s time to embrace automation** — Long-term trends showing slow but steady increases in SOX costs and hours are unlikely to change. Automated processes and controls, along with utilization of technology tools to test controls, can create long-term efficiency, increased accuracy, and measurable time and cost savings. Of note, this also is advantageous during times such as the COVID-19 pandemic, when offices are shuttered and staff are working remotely.



Protiviti would like to thank AuditBoard for collaborating on the 2020 Sarbanes-Oxley Compliance Survey questionnaire and report.

AuditBoard is the leading cloud-based platform transforming how enterprises manage risk. Its integrated suite of easy-to-use audit, risk, and compliance solutions streamlines internal audit, SOX compliance, controls management, risk management, and workflow management. AuditBoard’s clients range from prominent pre-IPO to *Fortune* 50 companies looking to modernize, simplify, and elevate their functions. AuditBoard is the top-rated GRC and audit management software on G2, and was recently ranked as the third fastest-growing technology company in North America by Deloitte. For more information, visit [www.auditboard.com](http://www.auditboard.com).

# COVID-19 and SOX Compliance Activities – Executing New Approaches

The COVID-19 global pandemic has created issues and challenges far greater than SOX compliance. However, key business activities must and will continue. Among them: executing and documenting internal controls, even if this is accomplished in a different manner. Audit and SOX teams that continue to pay attention to controls and the related documentation, while also working as needed with control and process owners, will save time and effort later in the year.

Yet it's clear that for many, this work must be done in a different way. People are working remotely, possibly on a long-term basis. Critical data and systems may not be readily available. Fortunately, there are

proven approaches to overcome these obstacles and complete needed controls work. Moreover, these and related improvements will enable organizations to stay ahead of these types of concerns in the future.

In the accompanying table, consider the solutions for potential activities where the COVID-19 pandemic has impacted the ability for management to execute and evidence manual controls. It provides alternative controls and practical suggestions that companies can implement in the short term and how they can retain supporting evidence. And in the longer term, companies have options to enable systematic capturing of manual controls or automating them in the future.

Potential Impact	Short-Term Solution	Long-Term Solution
Manual journal entry review	<ul style="list-style-type: none"> <li>Review: Use digital signature and PDF writer to complete review and mark up scanned documents.</li> <li>Supporting evidence: Capture support information through screen shots or phone pictures and email to retain evidence for this period (including computer timestamp to prove timeliness of review).</li> </ul>	<ul style="list-style-type: none"> <li>Use workflow within ERP or tools to facilitate automation and control of the financial close process (including account reconciliations), with an add-on to allow for easy viewing of journal entry support if needed.</li> <li>Utilize artificial intelligence and data analytics solutions to profile and analyze journal entry data and identify outliers, anomalies and high-risk transactions.</li> </ul>
Period-end manual journal entry completeness review	<ul style="list-style-type: none"> <li>Use audit management software, SharePoint or similar tools to store journal reports and a PDF writer to evidence review and mark up review notes.</li> <li>Use a manual journal review risk ranking to focus on high-risk journal entries.</li> </ul>	<ul style="list-style-type: none"> <li>Use technologies such as Microsoft Teams to evidence task completion and record evidence of completion.</li> <li>Use a manual journal review risk ranking to focus on high-risk journal entries.</li> </ul>
Manual account reconciliation review	<ul style="list-style-type: none"> <li>Create a SharePoint or intranet folder with restricted access and allow posting to that site to signify approval for this period.</li> <li>Grant a temporary extension or scope out certain low-risk or low-activity accounts.</li> <li>Validate with a follow-up email to the preparer noting approval and no required follow-up procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Leverage an automated reconciliation tool to facilitate the process and retain support; risk-rank account reconciliations.</li> </ul>

Potential Impact	Short-Term Solution	Long-Term Solution
Period-end checklists	<ul style="list-style-type: none"> <li>Use SharePoint with secured folders to store checklists and online signature tools such as DocuSign to capture evidence of review and approval (including timestamps and identity authentication).</li> </ul>	<ul style="list-style-type: none"> <li>Use collaboration tools such as Microsoft Teams to evidence task completion and record evidence of completion.</li> <li>Use process workflow tools to help enforce the process, support step-to-step progression and monitor status.</li> </ul>
10-Q/K tie-out binder	<ul style="list-style-type: none"> <li>Utilize PDF software to capture tie-out electronically.</li> <li>Capture handwritten tie-out via a scanner and save.</li> <li>Create a network folder which only the reviewer has access to and allow transfer into this file to serve as evidence of review.</li> </ul>	<ul style="list-style-type: none"> <li>Use a tool to facilitate financial reporting support and tie-out process for submitting SEC filings.</li> </ul>
Manual employee change notices or user access provisioning forms	<ul style="list-style-type: none"> <li>Create a centralized SOX documentation email box to be copied on email approvals.</li> <li>Leverage DocuSign or other signature tools to capture evidence of review and approval (including timestamps and identity authentication).</li> </ul>	<ul style="list-style-type: none"> <li>Leverage IT incident management tools to capture and evidence approvals.</li> </ul>
Period-end physical inventory count/validation	<ul style="list-style-type: none"> <li>Utilize video share to locate and view sample selections to validate quantity and quality where needed for higher risk locations, or deploy in-building/outside drones.</li> <li>Have third party certify or confirm count for lower risk locations.</li> <li>Rollback or rollforward inventory balance to alternate date.</li> </ul>	<ul style="list-style-type: none"> <li>Use automated/remote scanning or tagging solutions to validate barcodes of inventory on hand.</li> </ul>
Period-end user access review	<ul style="list-style-type: none"> <li>Remind owners to run reports on or as of period-end date exactly. If reports are run as of a later date, this may force reconciliation back to the period-end date.</li> </ul>	<ul style="list-style-type: none"> <li>Configure system to automatically run and distribute reports within predefined date and data parameters.</li> </ul>
Minimum password reset frequency	<ul style="list-style-type: none"> <li>If your organization is suspending the reset of passwords every x days, ensure that control wording is updated and risks are mitigated by other controls. Consider longer, more complex passwords in lieu of frequent change practices.</li> </ul>	<ul style="list-style-type: none"> <li>Institute an automated password reset application driven off security questions to avoid impact on IT support to allow for password reset frequency without interruption.</li> </ul>
Dual check signature requirement	<ul style="list-style-type: none"> <li>Temporarily update transactional authority to a central point such as controller or head of finance, and periodically monitor activity through weekly review of high-risk/high-dollar activity to ensure appropriateness.</li> </ul>	<ul style="list-style-type: none"> <li>Utilize banking software tools.</li> </ul>
Manual approval of invoices, contracts, agreements, asset purchase or disposals, scrap sale, etc.	<ul style="list-style-type: none"> <li>Utilize secured digital signature tools such as DocuSign to record approvals on the secured documents.</li> </ul>	<ul style="list-style-type: none"> <li>Use workflow within ERP, with an add-on to allow for easy viewing of secured documents and sign off using digital signature tools.</li> </ul>



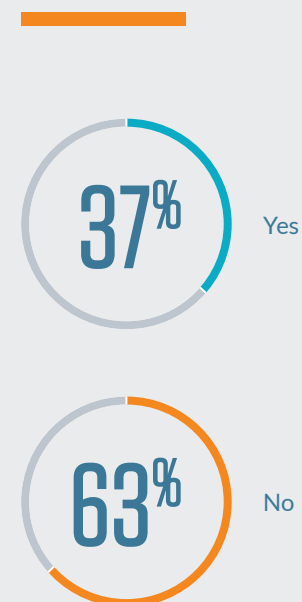
One critical issue to address is risk assessments. The pace of change in response to the pandemic is like nothing we have seen before. Risk assessments will need to be updated following the second quarter of fiscal year 2020 and likely even more frequently thereafter as circumstances continue to evolve. Organizations will need to be able to demonstrate that their SOX risk assessment and scoping are reflective of any material changes in the financial statements at the end of the current fiscal year. This new environment we are living in will push us more than ever toward real-time, dynamic risk assessments rather than the typical annual update.

While there may not be time to update all process and procedure documents in the near term, control descriptions should be updated to reflect changes to procedures to ensure testing occurs against these revised practices. Organizations may consider facilitating a control certification, even if off-cycle from their typical annual or quarterly frequency, to confirm control owners have adjusted control design and timing of execution to still mitigate risk and document their activities adequately. Once organizations return to the new equilibrium post-COVID-19, it will be important to reassess any temporary changes in control design and operation to ensure they continue to be aligned with the organization's risk appetite.

Post COVID-19, organizations also must consider potential changes in audits of their third parties. In fiscal year 2019, a large percentage of organizations relied solely on internal management review controls for testing a majority of outsourced provider controls. In light of the crisis, System and Organization Controls (SOC) audits, performed in accordance with *SSAE 18 Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting*, could be interrupted or delayed, auditors may not be able to go on site at one or more third parties (see accompanying chart), and third party activities and controls could be impacted by their own office closures and transitions to a distributed workplace. SOX PMOs should take stock of these outside provider relationships and plan for any office/location shutdowns and resulting lack of access that may require adjustments to auditing activities.

Without question, organizations have been battling with historic events and seismic shifts in their businesses, from furloughing staff and shuttering offices temporarily to reducing operations. As a result, fewer and/or different resources are handling SOX compliance activities such as management review controls and the period-end close, among many others. These events have underscored the importance of detailed policies and procedures, documented methodologies, and job descriptions which detail internal control responsibilities, along with clear documentation of how someone, for example, calculated a reserve or completed an analysis. Long-term, organizations will benefit from having these policies, procedures and documentation in place as these current events unfold and especially if another historic event results in changing business conditions and capabilities.

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



# SOX Compliance Costs Increase Again

While internal SOX compliance costs dropped slightly in fiscal year 2018, they rose again in this year's survey, continuing a longstanding trend over the 11 years of our study. Despite efforts and expectations to the contrary, the hours and level of commitment dedicated to SOX compliance have not decreased notably over the past decade. At this point, the Sarbanes-Oxley Act legislation and resulting requirements for organizations are what they are — we do not expect regulatory relief nor substantial changes in SOX governance protocols that would significantly lessen the volume of internal controls reviews and attestations. We do believe, however, that organizations can benefit from greater centralization of their SOX programs, as well as increased automation in the testing of controls and use of technology tools as part of the SOX compliance process.

Many organizations have expressed reluctance about embracing centralized control testing and increasing their use of automation. In some respects, these can be significant steps to take, requiring upfront costs and time to implement correctly, not to mention a strong organizational commitment. But the long-term benefits will far outweigh these short-term investments. Moreover, the current business environment and expected new equilibrium are starting to force this transition — increased use of automation and technology tools would better enable SOX work to be performed virtually.

It also is possible SOX costs are rising due to challenges associated with recruiting and hiring qualified internal staff. Though the COVID-19 pandemic may change the dynamic with regard to talent availability, organizations in recent years have been finding it increasingly difficult to recruit and retain high-caliber individuals, driving up overall talent costs as well as perceived SOX investments given the time devoted by these higher-cost employees.

## In this section:

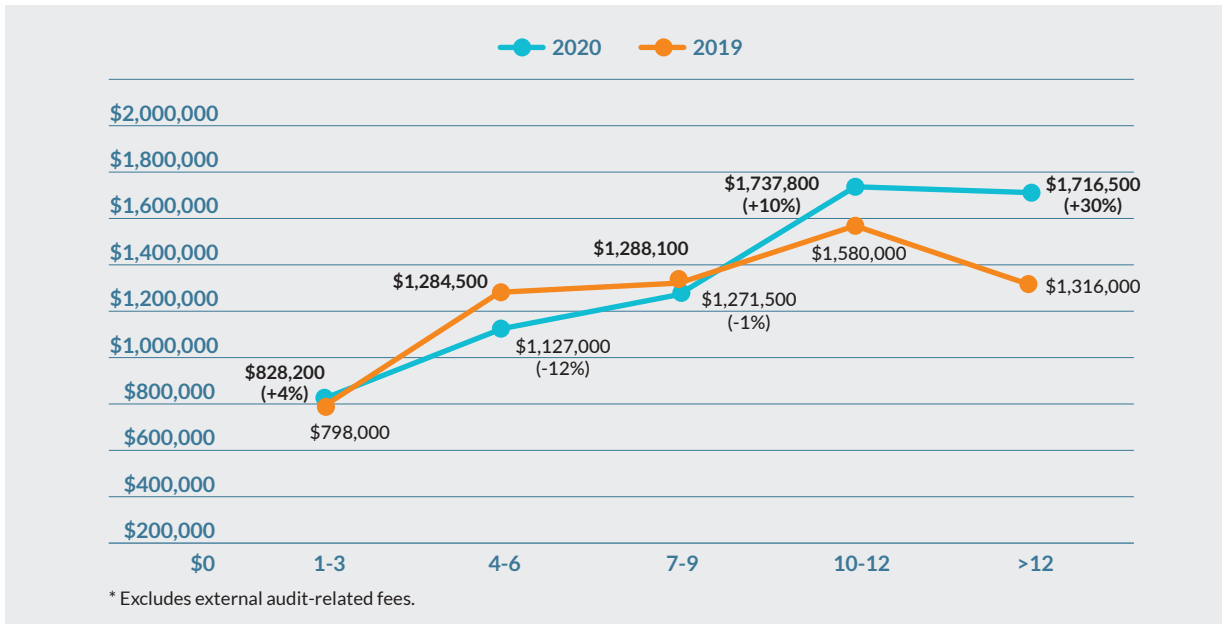


*Average Annual SOX Compliance Costs (Internal)*

*Who Spent \$2 Million or More? (Internal)*

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

- • • Average Annual SOX Compliance Costs (Internal) by Number of Unique Locations\*  
Percentages in parentheses indicate year-over-year changes



Years after the SOX requirements became effective for most companies, the costs and level of effort, both internally and from external audit, continue to go up. Long-term, companies should explore the types of automation and technology tools that can deliver greater efficiencies to their SOX compliance efforts.

– Keith Kawashima, Managing Director, Protiviti

SOX Filer Status	Average Annual SOX Compliance Costs (Internal)*			
	2020	2019	Trend	Percent Change
Large accelerated filer	\$1,371,200	\$1,309,200	↑	5%
Accelerated filer	\$1,133,000	\$989,300	↑	15%
Nonaccelerated filer	\$889,300	\$734,200	↑	21%
Emerging growth company	\$1,328,600	\$1,338,800	↓	-1%
Size of Organization				
\$20 billion or greater	\$1,812,500	\$2,068,200	↓	-12%
\$10 billion to \$19.99 billion	\$1,482,600	\$1,423,200	↑	4%
\$5 billion to \$9.99 billion	\$1,370,600	\$1,402,800	↓	-2%
\$1 billion to \$4.99 billion	\$1,215,400	\$1,014,300	↑	20%
\$500 million to \$999.99 million	\$1,019,300	\$1,068,300	↓	-5%
Industry				
Healthcare – Provider	\$806,700	\$1,118,800	↓	-28%
Financial Services	\$1,515,000	\$1,277,500	↑	19%
Manufacturing and Distribution	\$1,207,500	\$965,000	↑	25%
Technology, Media and Telecommunications	\$1,244,200	\$1,435,700	↓	-13%
Energy and Utilities	\$974,300	\$1,250,000	↓	-22%
Insurance	\$1,122,700	\$767,300	↑	46%
Consumer Products/Retail	\$1,200,900	\$1,412,000	↓	-15%

\* Excludes external audit-related fees.

## How does your organization compare?

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- • • *Who Spent \$2 Million or More? (Internal)\**

	2020	2019	Trend
<b>SOX Filer Status</b>			
Large accelerated filer	26%	24%	↑
Accelerated filer	19%	12%	↑
Nonaccelerated filer	18%	15%	↑
Emerging growth company	22%	20%	↑
<b>Size of Organization</b>			
\$20 billion or greater	43%	52%	↓
\$10 billion to \$19.99 billion	32%	18%	↑
\$5 billion to \$9.99 billion	29%	19%	↑
\$1 billion to \$4.99 billion	18%	13%	↑
\$500 million to \$999.99 million	15%	15%	↔
\$100 million to \$499.99 million	2%	8%	↓
Less than \$100 million	5%	0%	↑
<b>SOX Compliance Year</b>			
Beyond 2nd year of SOX compliance	24%	21%	↑
2nd year of SOX compliance	22%	9%	↑
1st year of SOX compliance	20%	13%	↑
Pre-1st year of SOX compliance	2%	14%	↓

\* Excludes external audit-related fees.

## How does your organization compare?

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- Who Spent \$2 Million or More? (Internal)\*

	2020	2019	Trend
<b>Industry</b>			
Healthcare – Provider	13%	9%	⬆️
Financial Services	30%	22%	⬆️
Manufacturing and Distribution	22%	13%	⬆️
Technology, Media and Telecommunications	19%	27%	⬇️
Energy and Utilities	17%	23%	⬇️
Insurance	24%	13%	⬆️
Consumer Products/Retail	19%	15%	⬆️
<b>Number of Unique Locations</b>			
More than 12	44%	31%	⬆️
10-12	40%	15%	⬆️
7-9	19%	16%	⬆️
4-6	19%	16%	⬆️
1-3	8%	11%	⬇️

\* Excludes external audit-related fees.

## How does your organization compare?

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- • • Who Spent \$500,000 or Less? (Internal)\*

	2020	2019	Trend
<b>SOX Filer Status</b>			
Large accelerated filer	23%	26%	↓
Accelerated filer	35%	45%	↓
Nonaccelerated filer	54%	57%	↓
Emerging growth company	17%	44%	↓
<b>Size of Organization</b>			
\$20 billion or greater	12%	23%	↓
\$10 billion to \$19.99 billion	21%	29%	↓
\$5 billion to \$9.99 billion	24%	27%	↓
\$1 billion to \$4.99 billion	27%	31%	↓
\$500 million to \$999.99 million	30%	46%	↓
\$100 million to \$499.99 million	65%	63%	↑
Less than \$100 million	84%	73%	↑
<b>SOX Compliance Year</b>			
Beyond 2nd year of SOX compliance	29%	37%	↓
2nd year of SOX compliance	17%	42%	↓
1st year of SOX compliance	22%	29%	↓
Pre-1st year of SOX compliance	71%	53%	↑

\* Excludes external audit-related fees.

## How does your organization compare?

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# External Audit Costs Continue to Rise

Judging by this year's results, external auditors have been spending more time on internal controls reviews and attestations. This trend is likely to continue in the wake of the COVID-19 pandemic as internal control environments undergo significant changes.

As with all aspects of audits of internal control over financial reporting, early and frequent communication with the external auditor on COVID-19 impacts is recommended as organizations emerge from the crisis and begin to operate in the new status quo. Management should review and obtain external auditor agreement with the risk assessment conclusion and practical guidance for updates in fiscal year 2020. Additionally, management should query their external auditor regarding the relationship between their increasing internal control attestation costs versus a potential reduction of substantive audit costs, with the expected driver being greater control reliance in aggregate audit approaches. Management also should understand if/how the external auditors will be applying technology/tools to the audit process to increase efficiency, while also ensuring a clear understanding of how external audit will evaluate management's use of similar tools (e.g., RPA).<sup>1</sup>

Finally, management should discuss how the timing and extent of audit procedures will be impacted and coordinate on the effects of any filing extension.<sup>2</sup> Organizations also should keep their auditors apprised of critical changes to business operations and how those might affect the control environment.

1 For more information, read "Changes in Use of Data and Technology in the Conduct of Audits," PCAOB, May 12, 2020, <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/data-technology.aspx>.

2 On March 25, 2020, the SEC issued an order granting certain public companies a 45-day extension to make public filings if they have been adversely affected by the COVID-19 pandemic ([www.sec.gov/rules/exorders/2020/34-88465.pdf](http://www.sec.gov/rules/exorders/2020/34-88465.pdf)). To date, the commission has granted no other extensions or orders with regard to delayed public filings.

## In this section:

*For fiscal year 2019, what change, if any, did you experience in your external audit fees?*

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





# SOX Compliance Is Consuming More Hours

In the last fiscal year, a large number of companies spent significantly more hours on SOX compliance. As we noted earlier, the SOX legislation and requirements for organizations are what they are — at this juncture, we do not expect substantial changes that would significantly lessen the volume of internal controls reviews and attestations. Thus the most effective way for organizations to achieve greater savings in time is through increased use of data and technologies across all aspects of SOX compliance processes and activities.

Given that a significant driver of change throughout organizations these days is technology, it only makes sense that SOX teams would look for ways to apply modern tools, such as cloud audit management software, advanced analytics, intelligent process automation (IPA), artificial intelligence and machine learning, and workflow and collaboration tools, among others, to SOX processes. Automation has already proven to be useful in such areas as document requests, control certifications and status recording (although the use of technology tools appears to be trending down — see next section). Organizations need to continually challenge how to take technology and automation a step further.

More organizations also can benefit from deploying an appropriate GRC tool. SOX teams that rely solely on spreadsheet and word processing applications, or legacy GRC systems, to manage their control environments spend extensive time dealing with version control issues, manually making individual control changes across a dozen or so documents, and preparing status reports. Using a GRC solution purposely built for SOX compliance enables auditors to reduce time wasted on these administrative tasks, and also provides access to external auditors for improved collaboration and streamlined information exchange. Best-in-class SOX solutions can also help eliminate control deficiencies, which adds to the time savings that can be achieved in a SOX program.

## In this section:



*For fiscal year 2019, how did the total amount of hours your organization devoted to Sarbanes-Oxley compliance change?*

*How many hours, on average, would you estimate your organization spent on each key control as it relates to the following activities?*

- • • For fiscal year 2019, how did the total amount of hours your organization devoted to Sarbanes-Oxley compliance change?

SOX compliance hours increased	SOX compliance hours increased more than 10%*	SOX compliance hours decreased	SOX compliance hours decreased more than 10%**	SOX compliance hours stayed the same
51%	67%	13%	43%	36%

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

\*\* Among organizations in which Sarbanes-Oxley compliance hours decreased.

	SOX compliance hours increased	SOX compliance hours decreased
<b>SOX Filer Status</b>		
Large accelerated filer	48%	17%
Accelerated filer	56%	9%
Nonaccelerated filer	35%	12%
Emerging growth company	64%	5%
<b>Size of Organization</b>		
\$20 billion or greater	47%	16%
\$10 billion to \$19.99 billion	58%	12%
\$5 billion to \$9.99 billion	47%	14%
\$1 billion to \$4.99 billion	49%	17%
\$500 million to \$999.99 million	57%	4%
\$100 million to \$499.99 million	50%	11%
Less than \$100 million	44%	6%
<b>SOX Compliance Year</b>		
Beyond 2nd year of SOX compliance	49%	13%
2nd year of SOX compliance	48%	14%
1st year of SOX compliance	67%	10%
Pre-1st year of SOX compliance	59%	11%

## How does your organization compare?

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# Benchmarking the SOX Control Environment — The Promise of Technology and Automation

There are many areas throughout the SOX compliance lifecycle where companies can improve their use of technology, from risk assessment and scoping, walkthroughs, and control testing, to administrative project matters such as process and control owner communications and information exchange, all of which can help automate repetitive manual processes. As we've seen in prior years of our study, the processes for which technology tools are used for testing most frequently include accounts payable, financial reporting and account reconciliations. However, the overall use of technology tools for testing controls appears to be trending down, which is surprising but also consistent with other studies we have conducted. Technology-enabled tools can be used to facilitate walkthroughs, conduct population-based rather than sample-based data analysis, and provide real-time monitoring and data visualizations.

When internal audit and SOX leaders adopt the right technologies, many positive outcomes are achieved. They can save time and effort by automating workflows for administrative and manual tasks. They help improve job satisfaction for their own teams, and even decrease attrition by eliminating drudgery and creating opportunities to expand and deepen next-generation internal audit capabilities. And they can increase the understanding and ownership of controls and correct control deficiencies, improving the culture of control compliance throughout the organization.

The use of RPA as part of SOX compliance efforts is one technology that organizations can leverage to level the playing field, because it can be layered on top of existing infrastructure, quickly and in many cases at minimal cost. However, RPA and other forms of automation do not appear to be advancing significantly in the SOX compliance environment. Some of this can be attributed to the fact that there remains substantial uncertainty about whether external auditors are ready to deal with automated control testing.<sup>3</sup> There also is some concern about how much an external auditor may inquire about the testing “bot” — its scripting, coding and governance. Some auditors still question whether bots might actually cause more, rather than less, work when it comes to meeting control requirements and answering external auditor questions.

Then there is the even more basic challenge of data. For companies that are “born digital,” access to data is usually not a significant problem. But for those firms that are digitalizing now, data is not always available electronically, or it is not in the right format (i.e., it is unstructured). Additional tools are needed to structure the data properly, and that obviously causes complexity, along with extra costs, raising the barrier to automation.

<sup>3</sup> “Changes in Use of Data and Technology in the Conduct of Audits,” PCAOB.

## In this section:

*Controls Testing*

*Use of Technology Tools*

*Automated Controls*

*Entity-Level Controls*

*Process-Level Controls*

*SOC Reports*

While concerns about external auditors and data availability and integrity are barriers to moving forward with RPA and automation, the SOX PMO still has an opportunity to assess what processes or parts of SOX compliance can benefit from automation and provide well-reasoned and credible recommendations to finance and audit leadership to automate certain areas.

Control rationalization is another key challenge for SOX teams, one that has been top of mind for almost as long as Sarbanes-Oxley has been in effect. Companies that have achieved the most success in this regard are ones that perform more frequent and agile risk assessments and involve control owners early in the compliance process. For example, if an organization is considering the benefits of deploying a new GRC tool, it makes sense to involve process owners early in the decision-making process. They can be consulted on defining the scope and in the testing of the controls they are owners of, and that can be a basis for control rationalization.

Whether the number of controls can be reduced depends a lot on upfront process planning, and of course, involving the external auditor in that discussion. With so many changes occurring in SOX compliance, control counts can escalate quickly. This is especially true when SOX teams are in the habit of carrying over, rather than updating, risk assessments from year to year and adding new controls along the way. This can lead to an accumulation of redundant and unnecessary controls.

In general, SOX leaders have found that they can reap significant efficiencies with periodic risk assessments, which can identify and eliminate redundancies as well as uncover opportunities to standardize controls and perform them across processes and in multiple locations. Once a control has been standardized, it can be tested at a higher level, rather than having to perform individual tests for every instance in which that control has been applied. Also, as noted earlier, given the pace of change in organizations that has resulted from the COVID-19 pandemic, it may be prudent to update risk assessments following the second quarter of fiscal year 2020 and on a more frequent basis as circumstances evolve.

Bottom line, the use of technology and automation in SOX compliance is lagging, particularly given the increasing use of technology and automation in the preparation and presentation of financial records and reporting to which the SOX testing is directed. The time is now to focus on and solve historical challenges around the use of technology and data. Organizations need to take this seriously and dedicate the resources necessary to improve in these areas.

The SOX Act was written into law almost 20 years ago and yet much is unchanged in the way that SOX compliance programs are executed. The technology and tool landscape has changed dramatically over that same period, yet there remains an inertia related to the adoption of technology to support SOX compliance activities. There are proven and operationalized use cases across much of the SOX compliance lifecycle where technology and tools are being leveraged, including: PMO, scoping and risk assessment, transactional analysis, data and artifact gathering





- • • What percentage of your controls testing do the external auditors rely upon?

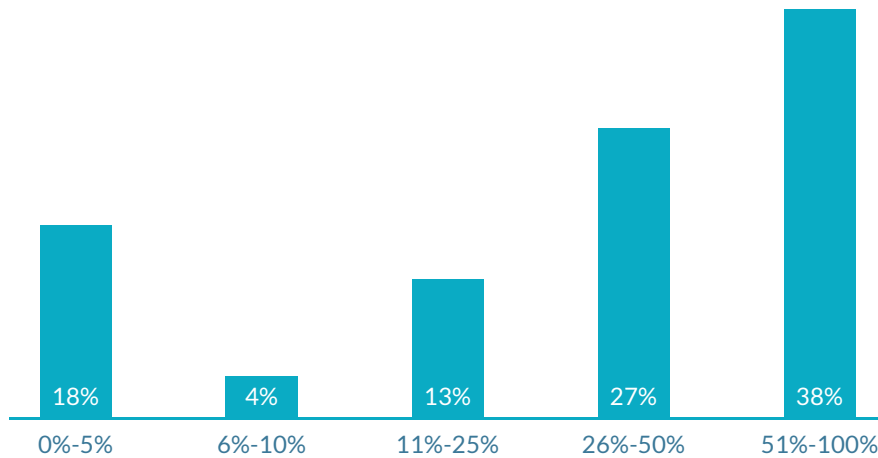
SOX Filer Status				
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
10% or less	12%	12%	16%	7%
11%-20%	11%	16%	21%	22%
21%-30%	15%	17%	7%	18%
31%-40%	14%	9%	2%	13%
41%-50%	14%	13%	19%	14%
51%-75%	24%	16%	19%	16%
76%-100%	10%	17%	16%	10%
<b>Average estimated percentage</b>	<b>44%</b>	<b>44%</b>	<b>43%</b>	<b>39%</b>

Size of Organization							
	\$20 billion or greater	\$10 billion to \$19.99 billion	\$5 billion to \$9.99 billion	\$1 billion to \$4.99 billion	\$500 million to \$999.99 million	\$100 million to \$499.99 million	Less than \$100 million
10% or less	5%	12%	13%	19%	12%	15%	26%
11%-20%	12%	12%	17%	12%	22%	13%	16%
21%-30%	22%	18%	14%	16%	14%	13%	3%
31%-40%	13%	16%	9%	13%	10%	5%	6%
41%-50%	18%	8%	13%	9%	17%	20%	10%
51%-75%	15%	22%	24%	22%	17%	10%	16%
76%-100%	15%	12%	10%	9%	8%	24%	23%
<b>Average estimated percentage</b>	<b>45%</b>	<b>44%</b>	<b>42%</b>	<b>40%</b>	<b>38%</b>	<b>46%</b>	<b>42%</b>

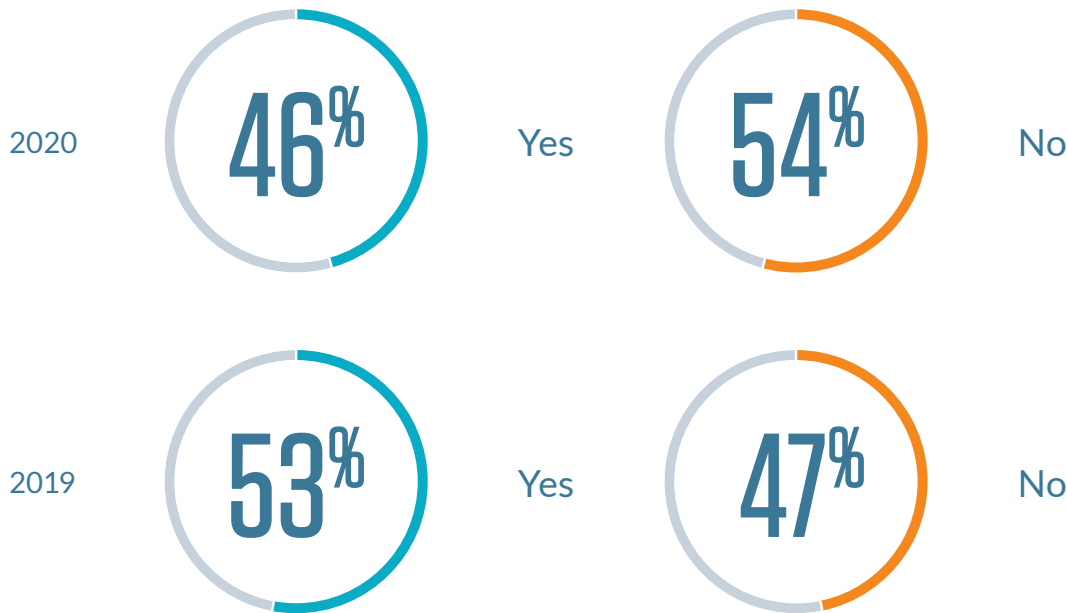
and analysis, automation of testing activities, information exchange, and controls compliance monitoring. Companies must make concerted efforts to overcome any resistance and drive toward increased and sustained use of data and technology.

– Andrew Struthers-Kennedy, Managing Director, Global IT Audit Leader, Protiviti

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



- • • For the 2019 fiscal year, did your organization utilize technology tools in the testing of controls to comply with Sarbanes-Oxley Section 404?



*Internal audit and SOX program leaders are in a prime position to rapidly evolve their audit and compliance programs with modern, collaborative technology that enables distributed work, improved efficiency and quick response in this time of need.*

— Jay Lee, Co-founder and Co-CEO at AuditBoard







## Automated Controls

- • • For fiscal year 2019, what percentage of your organization's total key controls would you estimate are automated key controls?

SOX Filer Status								
	Large accelerated filer		Accelerated filer		Nonaccelerated filer		Emerging growth company	
	2020	2019	2020	2019	2020	2019	2020	2019
0%-5%	22%	18%	12%	12%	25%	30%	7%	8%
6%-10%	22%	16%	20%	10%	23%	13%	9%	5%
11%-25%	25%	32%	28%	34%	23%	11%	28%	14%
26%-50%	18%	19%	24%	29%	15%	27%	25%	51%
51%-75%	7%	11%	10%	9%	10%	11%	23%	13%
76%-100%	6%	4%	6%	6%	4%	8%	8%	9%
<b>Average estimated percentage</b>	<b>24%</b>	<b>26%</b>	<b>29%</b>	<b>30%</b>	<b>25%</b>	<b>28%</b>	<b>38%</b>	<b>39%</b>

## How does your organization compare?

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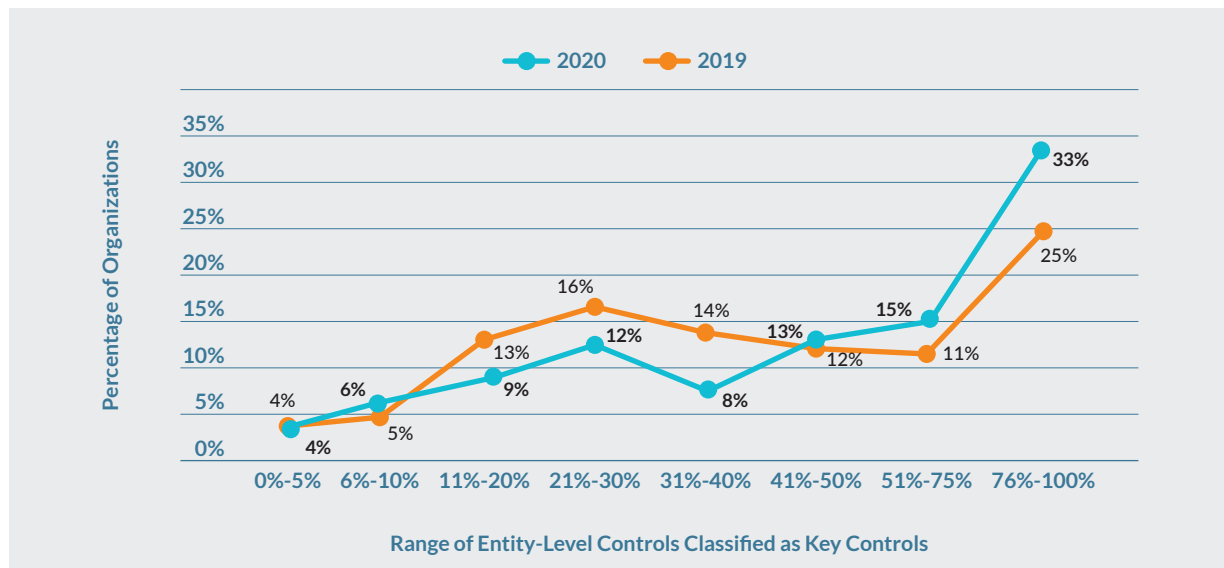


## Entity-Level Controls

- • • *Number of Entity-Level Controls – by Number of Unique Organization Locations*

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
Less than 15	20%	17%	9%	10%	10%
16-25	27%	12%	16%	12%	24%
26-35	18%	15%	11%	14%	11%
36-45	8%	3%	7%	14%	6%
46-55	9%	15%	9%	12%	10%
56-75	4%	9%	11%	2%	5%
76-95	1%	4%	6%	2%	3%
96-115	5%	9%	8%	16%	9%
More than 115	8%	16%	23%	18%	22%

- • • *Percentage of Entity-Level Controls Classified as Key Controls*



## How does your organization compare?

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- Percentage of Entity-Level Controls Classified as Key Controls – by Number of Unique Organization Locations

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
0%-5%	7%	3%	2%	0%	4%
6%-10%	7%	5%	3%	4%	7%
11%-20%	8%	8%	9%	10%	12%
21%-30%	11%	14%	18%	12%	9%
31%-40%	6%	8%	11%	10%	8%
41%-50%	8%	14%	18%	10%	15%
51%-75%	13%	17%	16%	25%	11%
76%-100%	40%	31%	23%	29%	34%

*The pace of change in response to the pandemic has been like nothing we have seen before, and efforts by organizations to pivot from business as usual to address the emerging challenges and risks show no signs of slowing down. Risk assessments will need to be updated frequently as circumstances change, and this new environment we are living in will push us more than ever toward real-time risk assessment rather than an annual update.*

– Kristen Kelly, Associate Director, Protiviti





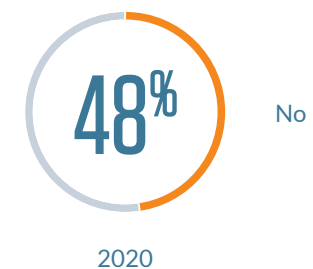
- Percentage of Process-Level Controls Classified as Key Controls – by Number of Unique Organization Locations

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
0%-5%	5%	2%	1%	2%	5%
6%-10%	5%	4%	3%	2%	4%
11%-20%	3%	8%	10%	2%	3%
21%-30%	4%	8%	16%	10%	5%
31%-40%	8%	7%	12%	12%	6%
41%-50%	8%	8%	14%	14%	15%
51%-75%	19%	25%	21%	29%	28%
76%-100%	48%	38%	23%	29%	34%

- Percentage of Process-Level Controls Classified as IT General Controls – by Number of Unique Organization Locations

	1-3 locations	4-6 locations	7-9 locations	10-12 locations	More than 12 locations
0%-5%	11%	8%	5%	4%	14%
6%-10%	10%	9%	5%	14%	8%
11%-20%	25%	17%	19%	14%	25%
21%-30%	21%	15%	26%	23%	19%
31%-40%	10%	19%	8%	16%	7%
41%-50%	7%	11%	10%	13%	14%
51%-75%	10%	13%	22%	10%	5%
76%-100%	6%	8%	5%	6%	8%

Has your organization started updating its controls documentation to reflect the implementation of the accounting standard Financial Instruments—Credit Losses (Topic 326)?





# Testing Information Produced by the Entity

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

SOX Filer Status				
	Large accelerated filer	Accelerated filer	Nonaccelerated filer	Emerging growth company
We test IPE on a rotational basis with coverage every 2-3 years	23%	16%	7%	39%
We test IPE once a year for each key control that uses or relies upon it, and do not test it again if its source has not changed	43%	50%	52%	48%
We test IPE every time we test a control that uses or relies upon it	34%	34%	41%	13%

- • • *Do you baseline test system-generated reports used in key Sarbanes-Oxley controls?*



Yes, all reports for key controls annually



Yes, all reports for key controls on a rotational basis



Yes, for some but not all reports



Yes, but only for new reports as they are developed



No

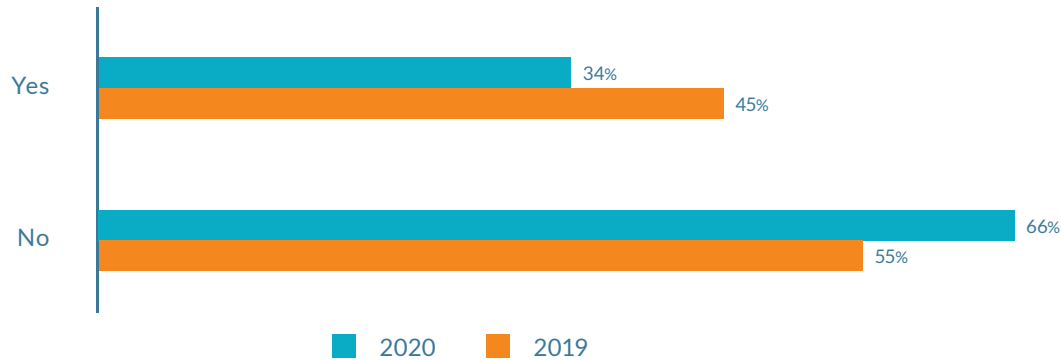
## In this section:

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

*Do you baseline test system-generated reports used in key Sarbanes-Oxley controls?*

# Cybersecurity

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



- • • If “Yes”: What was the impact on the total amount of hours your organization devoted to Sarbanes-Oxley compliance during the fiscal year?\*

	2020	2019
Increased > 20%	7%	18%
Increased 16%-20%	19%	19%
Increased 11%-15%	24%	16%
Increased 6%-10%	18%	27%
Increased 1%-5%	15%	9%
No change in hours	17%	11%

\* Among organizations that reported that they are required to issue a cybersecurity disclosure (according to CF Disclosure Guidance: Topic No. 2.)

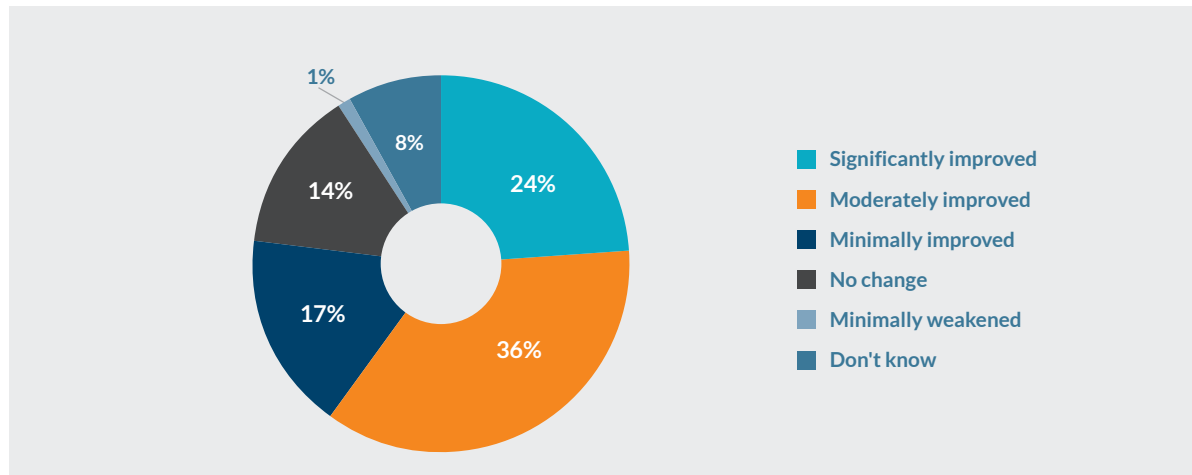
## In this section:

Was your organization required to issue a cybersecurity disclosure (according to CF Disclosure Guidance: Topic No. 2)?

If “Yes”: What was the impact on the total amount of hours your organization devoted to Sarbanes-Oxley compliance during the fiscal year?

# Perceptions of the SOX Compliance Process and Internal Control Over Financial Reporting

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



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

	TOTAL
Improved internal control over financial reporting (ICFR) structure	61%
Continuous improvement of business processes	55%
Enhanced understanding of control design and control operating effectiveness	54%
Compliance with SEC rules	44%
Ability to better identify duplicate or superfluous controls	41%
Improvements in company culture, specifically related to risk and controls	39%
Increased reliance by external audit on the work of internal audit	37%

## In this section:

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

*Considering the lifecycle of your Sarbanes-Oxley program until now, what are the primary benefits your organization has achieved through its Sarbanes-Oxley compliance process?*

*Is internal audit involved in Sarbanes-Oxley activities in your organization?*

*Who in your organization supports Sarbanes-Oxley testing efforts?*

- • • *If “Yes”: How is internal audit involved in Sarbanes-Oxley activities in your organization? (Multiple responses permitted)\**

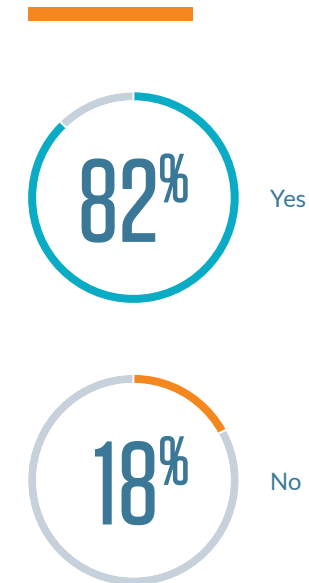
	TOTAL
Testing	88%
Updating documentation	61%
Project management office (PMO)	41%

\*Among organizations in which internal audit is involved in Sarbanes-Oxley activities

- • • *Who in your organization supports Sarbanes-Oxley testing efforts? (Multiple responses permitted)*

	TOTAL
Internal audit	70%
Management and/or process owners	68%
Business/financial controls unit	35%
Third-party service provider	31%
Project management office (PMO)	27%

## Is internal audit involved in Sarbanes-Oxley activities in your organization?



# Outsourcing Practices

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

	Total	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	33%	31%	41%	34%	33%
Yes, we outsource our process-related Sarbanes-Oxley activities	18%	13%	28%	42%	22%
No, we do not use outside resources	49%	56%	31%	24%	45%

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

	Total	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	35%	34%	35%	42%	33%
Yes, we outsource our IT-related Sarbanes-Oxley activities	22%	16%	40%	34%	25%
No, we do not use outside resources	43%	50%	25%	24%	42%

- Do you use an audit management application to automate SOX workflows, centralize supporting documents, interact with control owners and executive management, and manage reporting?



Yes



No

## In this section:

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

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

Do you use an audit management application to automate SOX workflows, centralize supporting documents, interact with control owners and executive management, and manage reporting?















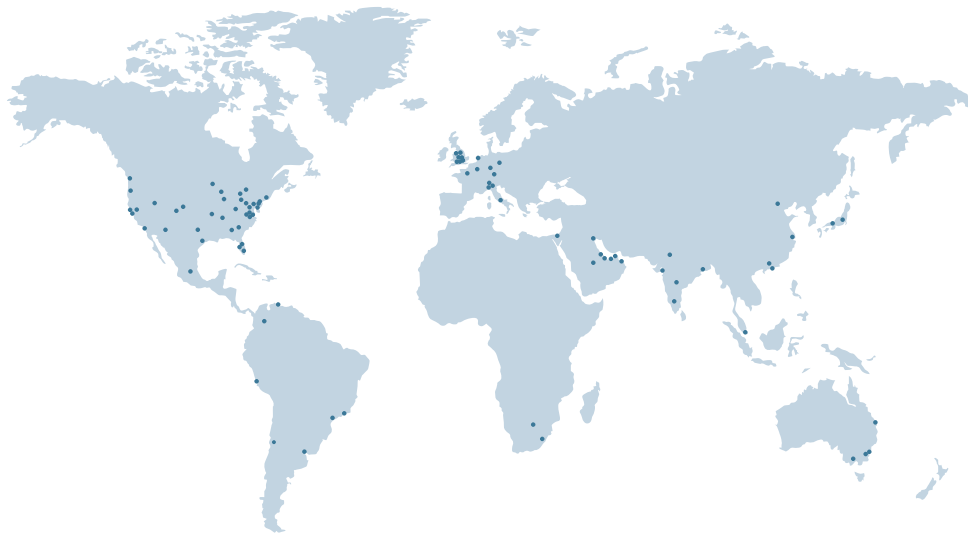












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