

State of the SOX/Internal Controls Market Survey

2021





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Introduction

Dear Colleagues,

Enacted in 2002, the Sarbanes-Oxley Act is now nearly 20 years old, with no hint that regulators have any intention of easing compliance standards. On the contrary, SOX compliance is now firmly fixed in the corporate world.

Given the times we are living in, in addition to asking survey respondents all the usual questions about technology challenges, key controls, and automation, we asked about the effects of COVID-19 on companies' compliance efforts. Somewhat to our surprise, and much to our relief, most said the pandemic didn't disrupt their ability to get the job done. Survey respondents said that the pandemic had virtually no effect on their status reporting and certifications, and was only a minor impediment to tasks such as issues management and evidence requests. More than half of respondents said their teams moved to a fully remote work model this year, making the lack of impact both a surprise and a relief. SOX compliance teams persevered.

That said, SOX compliance remains challenging. Cybersecurity risks are swiftly rising. Businesses are transforming their operations to cope with COVID-19, seize new growth and efficiency opportunities, or both. That potentially means more controls to assess, rationalize, and document. Demands for assurance over financial reporting are as high as ever.

Meanwhile, most compliance teams (roughly 75 percent in this year's survey) use multiple technologies to manage their SOX compliance tasks, and administrative tasks still pose a considerable burden. Those hurdles made SOX compliance an ordeal before COVID-19, and they survived the pandemic largely intact.

This means that SOX compliance programs still have considerable room to improve—but such improvement is partially dependent on business processes evolving. If business processes and controls are, and remain, highly manual, SOX teams may become blocked from achieving SOX compliance program efficiencies. Digital transformation of business processes is the key driver to a more effective SOX compliance function—one based on automation that can drive better insights into risk.

SOX compliance leaders can be a strategic asset for the enterprise by connecting data to internal controls and risks, which leads to better assurance at a more efficient cost. It also means, however, that SOX compliance leaders must encourage senior management and the first line of defense to evolve so the enterprise can reap those benefits cross-functionally.

One final note: for the first time, this year's SOX/Internal Controls survey also asked respondents about their career satisfaction. We're delighted to report that a large majority of you say you're quite happy with your role. And why is that? Most of you enjoy collaborating across teams and helping your enterprise reduce risk.

That's the right mindset to conquer SOX compliance challenges of today. We hope you find this year's report useful as you keep striving to improve your team's operations in 2021 and beyond.

Sincerely,
Lauren Uyeno
Director

SOX & Internal Controls Professionals Group



Executive Summary

For the sixth consecutive year, the SOX & Internal Controls Professionals Group and Workiva surveyed the market for insights about the costs, execution, and challenges of complying with Sarbanes-Oxley (SOX).

The survey was conducted online in March and April of 2021, as much of the United States was emerging from the COVID-19 pandemic and returning to some semblance of “normal” business operations. This year, 464 SOX professionals responded to the survey, an increase from 428 respondents in 2020.

The 2021 State of the SOX/IC Market Survey findings reflect the experience of SOX professionals with a variety of SOX program maturity and complexity. The respondents offer a balanced perspective of the current state of SOX and internal controls management.

Key Findings From the 2021 State of SOX/IC Market Survey

I. Most companies believe they weathered the pandemic well.

Despite the enormous disruption of COVID-19 throughout 2020 (and to this day), most respondents said their compliance teams adjusted quite well to working remotely. The pandemic did prod some respondents to upgrade existing technology, implement new technology, or outsource work, but most respondents said they did those things only to a small degree. COVID-19 also had no real effect on tasks such as status reports, certifications, and risk and control matrices, and imposed only mild difficulty with scoping, risk assessment, and testing.

A question remains: will the extent of COVID-19 disruption to the control environment come to light through a “lagging indicator”? It’s possible that deficiencies and material weaknesses did occur during 2020’s chaos but may go unnoticed until 2021 or later when SEC comment letters, PCAOB audit inspection reports, and SEC enforcement actions covering this period emerge.

II. Key controls are increasing, and revenue is the guide.

Most surveyed companies have 250 to 350 key controls, and the average is roughly 300 key controls. That said, the data doesn’t suggest that an “optimal” number of key controls or that certain industries have more controls than others. Instead, the number of key controls seems to march in step with revenue; companies with \$5 billion or more in revenue had more than twice as many controls as companies with \$700 million or less.

The most common reasons for increasing controls were the implementation of new systems and the arrival of CECL, the new accounting standard for current expected credit losses.

Key Findings From the 2021 State of SOX/IC Market Survey (continued)

III. The technology picture remains fractured and inefficient.

Microsoft® Office tools remain the most popular technology to manage SOX processes, but not by much. Most respondents (74 percent) said they use multiple tools to manage various SOX processes. That raises the question of whether companies should consolidate their SOX program-related IT infrastructure—and it's a question worth asking. Nearly half of respondents said internal audit spends too much time on SOX compliance, and the “administrative pain” of chasing down evidence or cutting and pasting data remains high. Such administrative pain prevents an internal audit function from focusing more of its time on operational or emergent risks and from being a contributor to the bottom line.

IV. Analytics and automation aren't yet widely used.

The extent to which SOX programs may leverage analytics and automation fall into two categories. The first category relates to automating components of the SOX program itself, including automation of the risk assessment, document requests, workflow, reminders, status, etc. This is discussed in finding III.

The second category is about leveraging automation and data analytics to gain insights into control performance. Most respondents describe their SOX programs' use of automation and data analytics for control testing as “only a little.” This could be driven by insufficient process automation or understanding of how data flows. Understanding the data flow is critical to identifying opportunities to leverage data for testing control performance.

The data suggests that SOX compliance teams are slow to adopt data analytics, especially when compared to their audit firm. This lapse could leave companies at a disadvantage in finding errors or weaknesses. By investing in analytics capability, companies could increase efficiency, drive better insights about risk, and boost job satisfaction.

V. SOX compliance officers generally like their jobs.

SOX compliance may have a reputation as being, *ahem*, a bit less than thrilling—but not among this year's survey respondents! A healthy majority said they enjoy their chosen profession (nearly 40 percent say they are “extremely satisfied”), citing the rewards of working on teams, handling complex projects, and the overall sense of helping their organization to reduce risk.

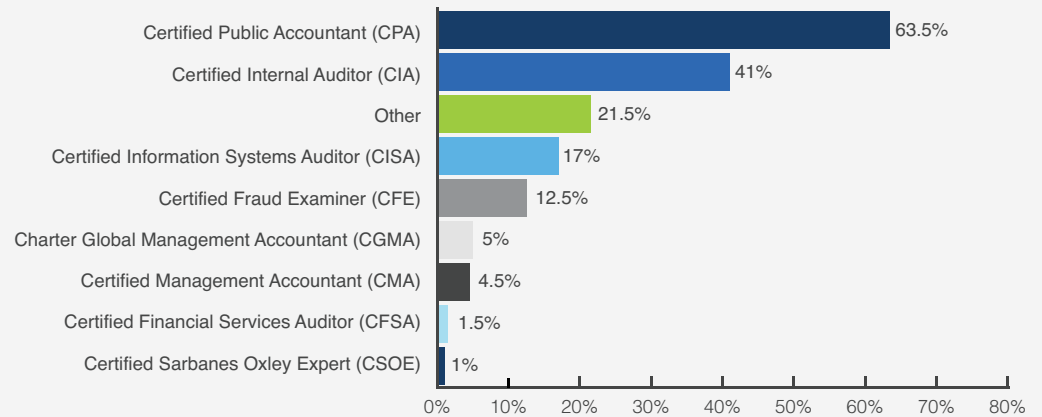
Survey Demographics

This year's survey respondents include executives from numerous roles that include both planning and executing SOX compliance programs. Respondents also represent a wide range of industries and company sizes, from less than \$75 million to more than \$5 billion in annual revenue.

On average, respondents have spent five years in their current role and nearly 15 years in SOX compliance. Almost all (90 percent) have at least one professional certification related to internal audit or compliance.

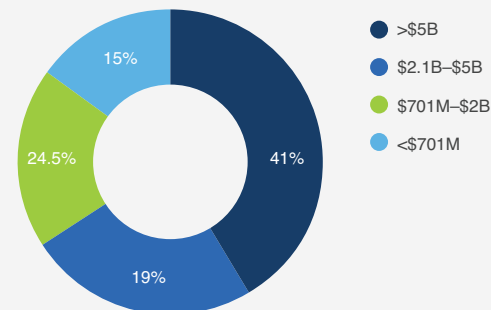
The number of respondents from large organizations (more than \$5 billion in annual revenue) jumped from 23 percent in last year's survey to 41 percent this year. The portion from smaller companies (\$700 million or less in revenue) fell from 53 percent to 15 percent.

What certifications do you have?

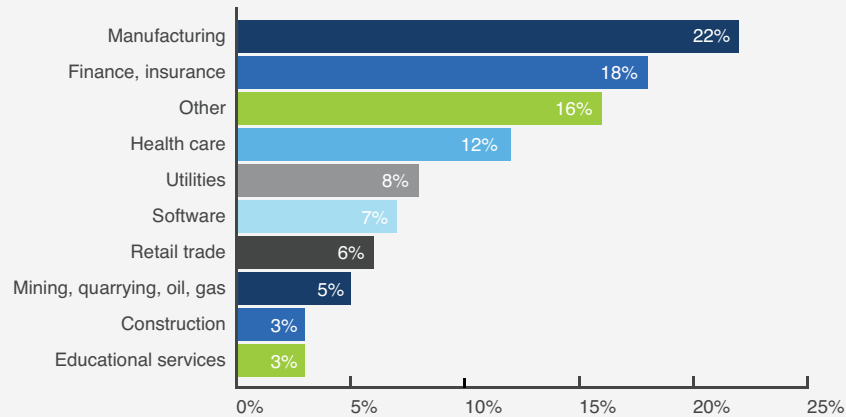


464
respondents

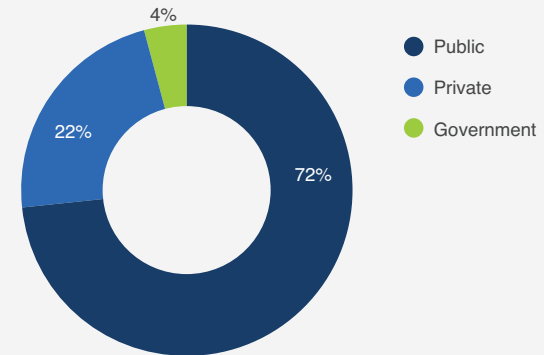
What was your organization's revenue for the last fiscal year?



What industry does your company best fit?



What best describes your type of organization?



Ninety percent of all respondents come from companies headquartered in the United States, with four percent each from Canada and Europe and a handful from Asia-Pacific or elsewhere in the world.

The single largest industry represented in this year's survey is manufacturing, closely followed by financial services. Together, they accounted for 40 percent of all respondents, followed by various other industries: health care, utilities, software, retail, and more.

Finding I. Most companies weathered the pandemic well.

Without question, the COVID-19 pandemic caused enormous disruption to SOX compliance teams and businesses overall. But survey respondents noted that despite those disruptions to their personal work routines, the pandemic generally did **not** disrupt their ability to fulfill compliance obligations.

For example, 53 percent said their companies moved to a fully remote work policy when the pandemic hit, and another 43 percent adopted a partially remote policy. Separately, 48 percent said their businesses enacted layoffs or furloughs during the past year.

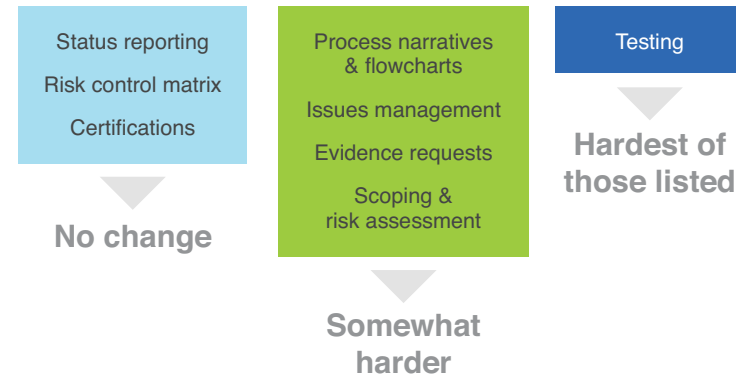
Still, 62 percent also responded that their own SOX compliance teams **didn't** suffer any loss of headcount by layoffs or other cutbacks. In addition, the pandemic didn't have much effect on SOX program automation plans: the average number of automated SOX tasks barely budged, from 9.4 percent of all processes before the pandemic to 9.7 percent today.

Survey respondents reported that their SOX programs employed numerous tactics to address the pandemic, such as (from most commonly cited to least) upgrading existing technology, implementing new technology, outsourcing work, and adding headcount. Most respondents, however, said they used those tactics only sparingly; none were widely adopted.

COVID-19 made only a few parts of the SOX compliance process more difficult. Testing of controls was rated the hardest. Narratives and flowcharts, issues management, evidence request, and scoping were rated as somewhat harder during COVID-19. Other aspects of the SOX process, such as status reporting, risk control matrix, and certifications were generally not affected by the pandemic, respondents said.

What's unclear today is the extent to which there may be a lagging indicator of the pandemic's effect on SOX compliance. That is, we don't yet know whether business changes implemented in 2020 really were fully addressed by internal controls, or whether more material weaknesses and control deficiencies will emerge in 2021 or beyond that trace back to pandemic disruptions. Compliance professionals will need to stay tuned for more analysis in future reports.

How did COVID-19 affect the following?



Finding II. Key controls are increasing, and revenue is the guideline.

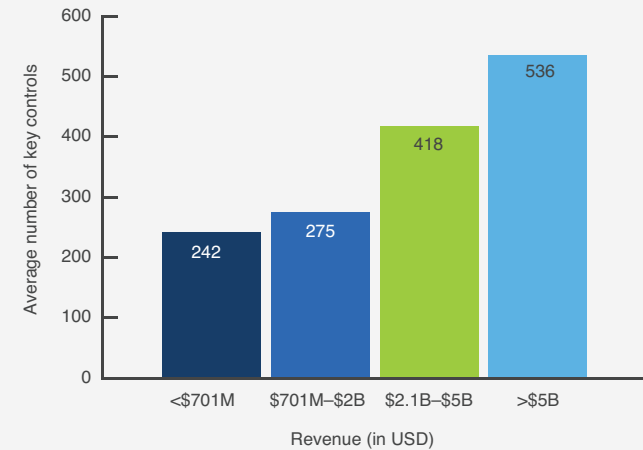
This year's survey respondents reported having more key controls than last year. On average, respondents had 300 key controls, with the majority reporting 250 to 300 key controls. In contrast, nearly half of last year's respondents had less than 250 key controls.

Remember, however, that many more respondents in this year's survey hail from larger public organizations, and that leads to an important point: more than any other factor, the number of key controls correlates with revenue size. For example, the average number of key controls among respondents at companies with less than \$700 million in average revenue was 242. Among respondents at companies with \$5 billion or more in average revenue, the average was 536.

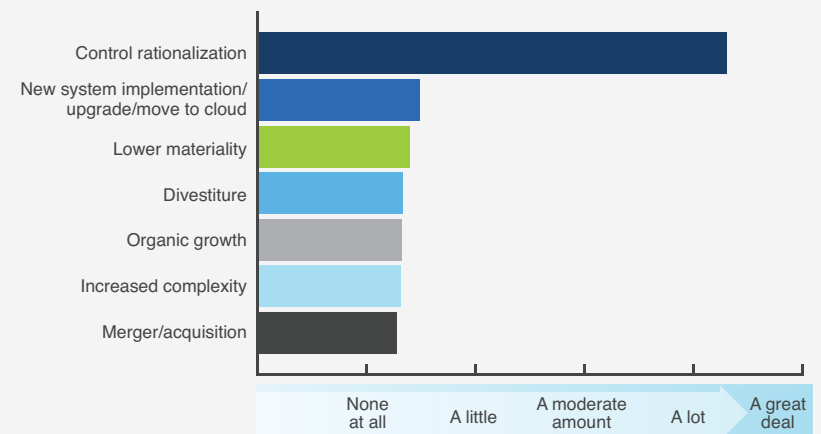
Another important point is that as company revenue size falls below \$2 billion, the corresponding decrease in key controls will not be as significant. Meaning, there is a minimum number of key controls that will be necessary in all companies, no matter the size.

This correlation between number of key controls and revenue also existed in our 2020 survey. Meanwhile, we did not find any clear correlation between key controls and specific industries.

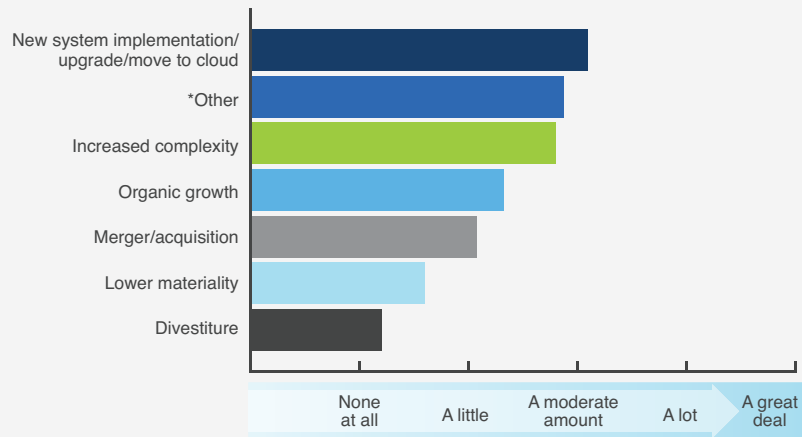
Average estimates of key controls



What impact did the following have on decreasing the number of tested controls?

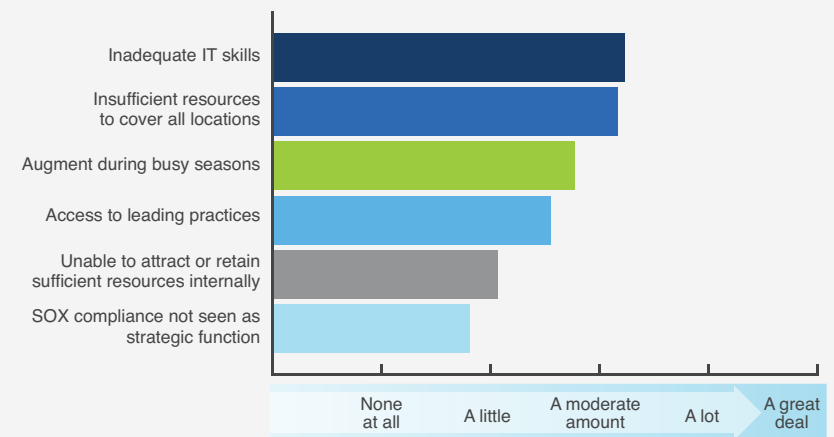


What impact did the following have on increasing the number of tested controls?



The most common reason for increasing key controls was implementing new technologies, including cloud-based services. Increasing technology shouldn't come as a surprise considering that the pandemic forced so many companies to adopt remote work for many business processes, especially back-office tasks such as accounting, procurement, and financial planning. *Another common reason for increasing controls was the CECL accounting standard for estimating credit losses, which went into effect for accelerated filers at the end of 2020.

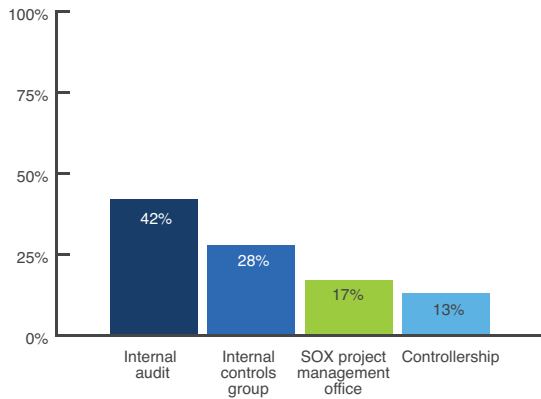
What impact did the following have on your decision to co-source?



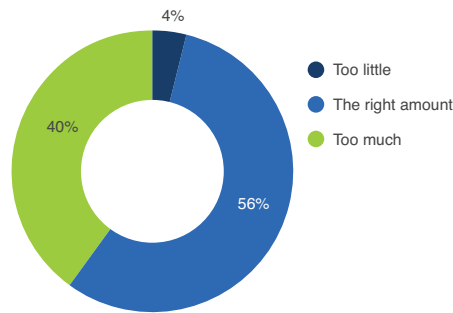
Co-sourcing surged in popularity, rising from 31 percent last year to 57 percent this year. The most common reasons cited for co-sourcing were inadequate IT skills and insufficient resources to cover all locations. This makes sense when one considers that many more respondents this year hailed from larger organizations, with complex IT needs and numerous locations across a wider geographic area.

The internal audit team continues to be the primary group responsible for SOX compliance, staying consistent at 42 percent compared to 45 percent in the previous year. Is that too much of a burden on internal audit teams? Perhaps: 40 percent of respondents said internal audit spends too much time on SOX compliance duties, although 56 percent said internal audit's time spent on SOX was "the right amount."

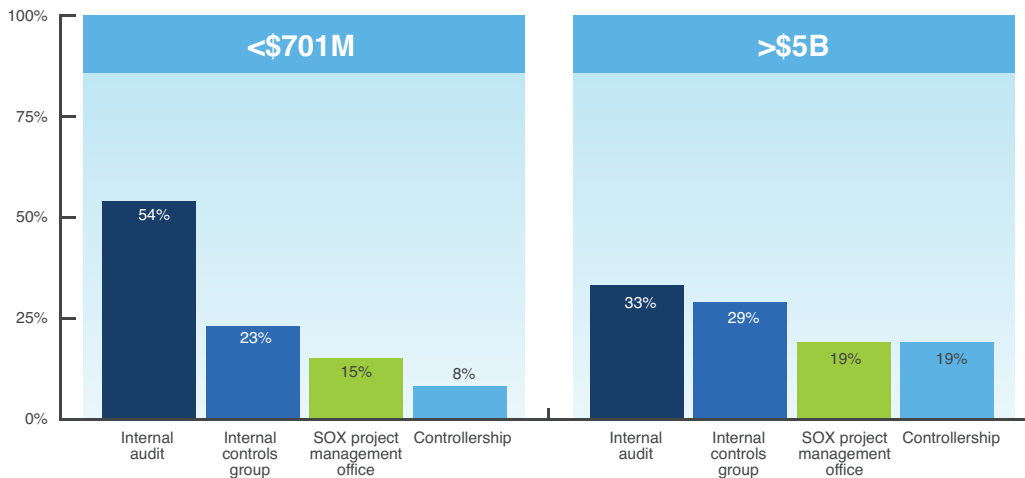
Which team is responsible for SOX compliance?



How much time does your internal audit team spend on SOX?



Responsible for SOX compliance, high vs. low revenue



**Deficiencies:
A year-over-year comparison**

The number of deficiencies in 2020 compared to 2019 remained about the same. However, the number of significant deficiencies and material weaknesses fell in 2020 compared to the prior year, with the number of material weaknesses decreasing at a greater rate.

We can't yet say whether that was due to stronger internal controls, or if a lighter touch was applied because of all the other pandemic related challenges. SOX compliance professionals will need to see what internal control feedback emerges in 2021 and beyond from PCAOB inspection reports and SEC enforcement actions.

Finding III. The technology picture remains fractured and inefficient.

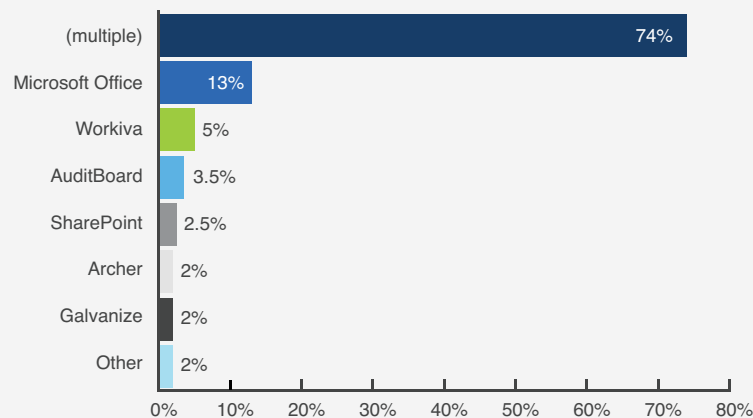
Effective use of technology is crucial to an efficient SOX compliance program, but respondents painted a decidedly mixed picture this year. Seventy-five percent said they use multiple IT systems for their SOX processes; and for almost every specific process—certifications, issues management, evidence requests, narratives and flowcharts, and other tasks—the most popular technologies were Microsoft Office desktop tools. After Office, respondents cited numerous other SOX- or GRC-specific software tools.

SOX compliance leaders should consider the implications of so much diversity in your technology stack. For example: Does the use of multiple tools lead SOX teams to spend more time maneuvering from system to system to complete their work? Are documents stored in varying locations? Are there multiple ways for team members to communicate with control owners, and does that drive confusion and inefficiency related to questions and documentation requests? Could manual status reporting be easily automated for real-time reporting?

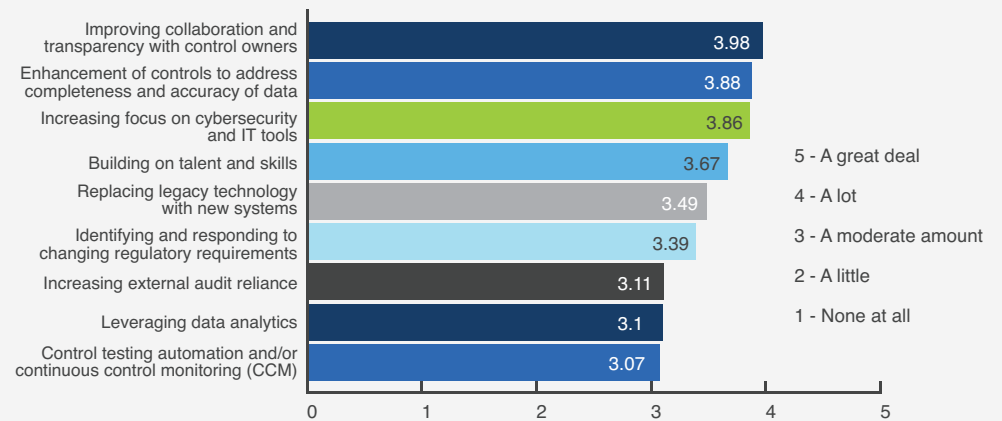
Consolidating your suite of SOX compliance tools facilitates efficiencies in your compliance processes. That, in turn, would support the company's broader goal of ensuring that time is well spent on increasing collaboration and focusing internal audit on value-added activities, support of corporate strategy, and risk management. If you use a variety of tools, which may not be seamlessly compatible, you're more likely to mishandle the data, which could lead to inaccurate control design or effectiveness conclusions.

Those company goals also happen to match respondents' SOX program priorities: improving collaboration and building human talent and IT skills. In other words, a more disciplined, unified technology strategy could drive more efficiency and better use of human capital, which in turn could make SOX compliance—and the internal audit department as a whole—more of a strategic asset to the overall enterprise.

In which system(s) do you primarily perform or document your SOX process?



How important are the following for your SOX program?

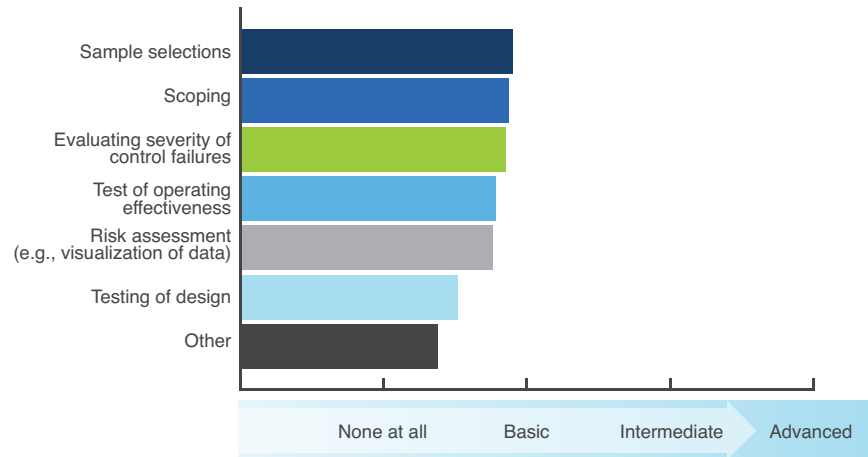


Finding IV. Automation and analytics still aren't widely used.

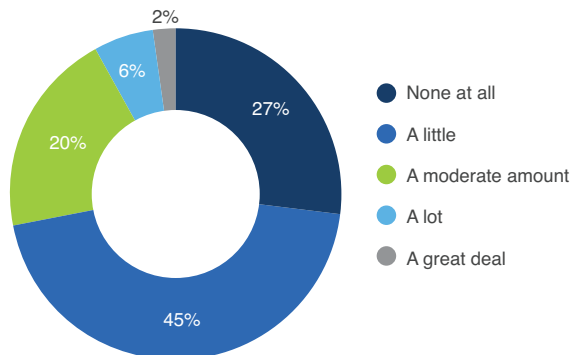
Survey respondents noted very little use of automation and analytics from all angles, little use in business and IT processes, and little use across phases of the SOX program. For example, most respondents said the use of data analytics in their SOX programs was still at basic levels for sample selection, scoping, and evaluating severity of control failures. Further, two-thirds of respondents said they don't use bots or automated routines for control testing at all. That may well be due to the lack of automation used in the first line. It's an example of how limited automation in the business processes can hinder the effectiveness of the SOX compliance team.

Among all the automation and analytics opportunities, the most impactful change results from incorporating automation and analytics in the first line. Such technology can strengthen the control environment, alleviate staffing challenges, embed compliance processes into first-line activities, improve reporting, cut costs, and more. Plus, the automated data flow can have a positive impact on leveraging automation to test control performance and an overall positive impact on SOX compliance. Automating business and IT processes is an all-around game changer.

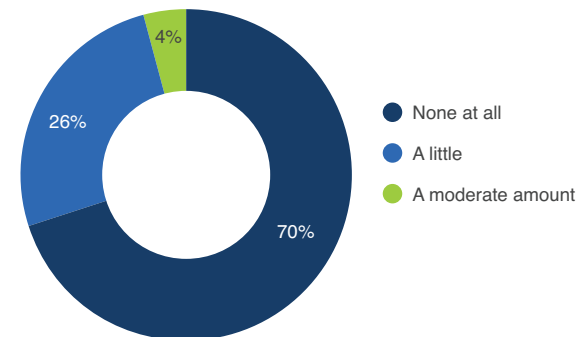
How would you describe your use of data analytics in the following areas?



To what extent has your organization started using data and analytics in first line control execution?



To what extent have you started using bots or automated routines in your testing?

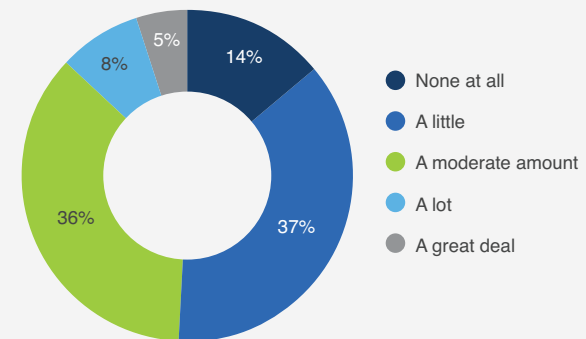


Respondents also said their external audit firms use analytics to a slightly greater degree than respondents themselves. This raises the question of whether external audit firms are finding more errors and weaknesses **because** they use automation, while respondents are leaving themselves at a disadvantage.

It's possible that companies are hesitant to embrace automation because they don't know where to start or because the journey can be confusing at first. SOX compliance leaders shouldn't let such unease keep progress at bay. Among the 25 percent of respondents who said they were unhappy with their careers and wanted to move away from SOX, the second most common complaint was that SOX processes were too "manually intensive." And as previously mentioned, administrative burdens are also still a drag on efficiency.

The good news is that with adoption rates still so low, most companies have ample runway to implement automation and data analytics. As organizations expand or implement cloud-based technologies for business processes, that automation can be applied to SOX compliance.

To what extent has your external auditor started performing data analytics as part of their audit?



Finding V. Most SOX compliance professionals enjoy their careers.

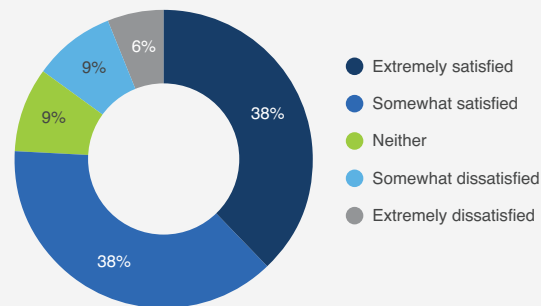
Last, we asked respondents how they felt about their careers. We're happy to report that most enjoy working in SOX compliance (nearly 40 percent described themselves as "extremely satisfied") and want to keep working in the field.

What's to like about working in SOX compliance? Among those who want to remain in a SOX career, they enjoy working on teams, project management, and helping their businesses avoid risk.

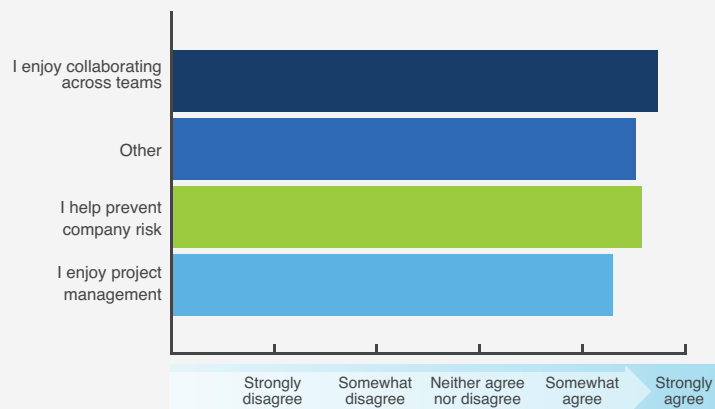
In contrast, 25 percent of respondents said they want to leave SOX compliance as a career. Why? The most common reason was that SOX doesn't align with their career goals. Other significant reasons, however, were that SOX is manually intensive and unnecessarily challenging without the right technology support.

SOX compliance team leaders should consider several implications here. If a significant portion of the workforce wants to leave SOX compliance because the work is too manually intensive and unnecessarily challenging, those drawbacks can be addressed with better technology.

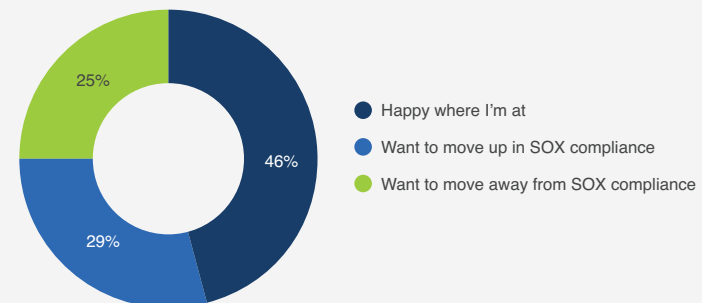
How satisfied are you in your current role?



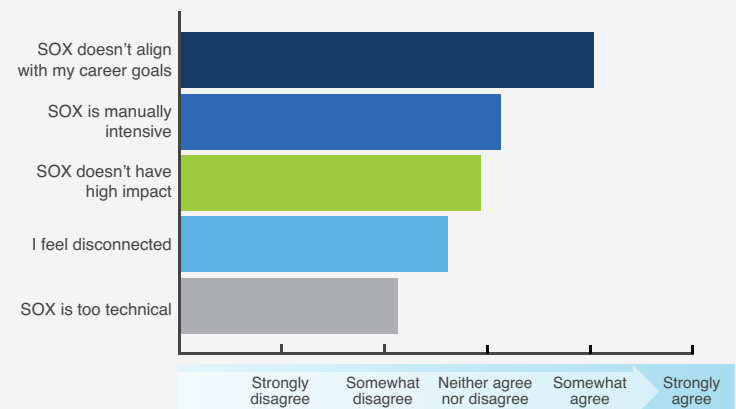
What best describes why you want to stay in a SOX career?



What are your career goals?



What best describes why you want to move away from a SOX career?



Recommendations

SOX compliance evolves year after year. Businesses processes change, automation tools advance, accounting changes are enacted, etc. As you ponder the findings of this year's State of SOX/IC Market Survey, consider these recommendations to prepare for the future.

Evaluate your key controls.

In addition to the changes noted above, businesses underwent profound change in 2020 thanks to the COVID-19 pandemic: more remote work, more reliance on cloud-based technologies, workforce restructurings, increased cybersecurity risks, and so forth.

Our 2021 survey, meanwhile, shows that most respondents didn't have a change to their number of key controls for 2020. Perhaps that decision was appropriate—but considering all the tumult of 2020, perhaps not. Material weaknesses and significant deficiencies may be a lagging consequence of COVID-19 that don't reveal themselves until 2021 or beyond through PCAOB and SEC reviews. So it's in a company's interest to evaluate its key controls rigorously, and be sure that the pandemic planted no surprises in your internal controls that might detonate sometime in the future.

Benchmarking key controls is something we are asked for frequently. As you focus on your key controls, make sure you understand how your business and IT processes flow, and if all transactions really do flow through in the same manner and are therefore covered by the current selection of key controls. We frequently find there are assumptions that data flows in only one way, yet the reality is different, thereby leaving a gap in the key control selection. Further, as automation evolves, ensure that controls are built into the new technology. If done properly, obsolete manual controls should be removed from the control population, and your automation journey declares a win!

Consolidate SOX technologies and embrace automation.

Complicated IT environments do nobody any favors, and this applies to SOX programs as well. Manual SOX compliance processes leave SOX compliance teams simply exhausted. So think about how to streamline technologies and allow SOX automation tools to facilitate efficiencies in your program. Our experience is that leveraging SOX workflow tools decrease SOX efforts by up to 30 percent.

With respect to business process automation and data analytics, SOX teams should encourage business processes to adopt automation and drive opportunities by highlighting manual activities which could benefit from automation. The perspective of SOX teams as to where process automation opportunities lie is critical to the First Line. The further the First Line advances in automation and analytics, the further the SOX team will be able to leverage the same in testing. It's a win-win!

Sue King

Advisory Partner, SOX Solutions Lead
KPMG US

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About Our Survey Sponsors

About the SOX & Internal Controls Professionals Group

Members of the SOX & Internal Controls Professionals Group are actively involved with SOX, internal controls, and internal audit processes for public and private companies, including documenting, evaluating and testing internal controls, and processes. The SOX Pro Group fosters networking and industry thought leadership and provides unique opportunities for members to share best practices. There is no cost to join, and membership provides access to a broad network of other like-minded professionals while helping them increase their value and influence across their organizations. Visit soxprofessionalsgroup.org for more information.

About Workiva

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Join SOX Pro!

You're not alone—most SOX compliance personnel enjoy their work and want to make a career out of it! As we approach the 20th anniversary of the Sarbanes-Oxley Act, clearly this profession is here to stay and offers a long, challenging career path.

So why not share your wisdom, struggles, insights, and victories with other SOX compliance professionals? Everyone needs a community. The SOX Pro Group is happy to be yours.