



2017 Internal Controls Survey



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Executive summary

Although Sarbanes-Oxley (SOX) is not a new regulation, it has continued to evolve over the last 15 years since it was enacted. We've seen additional focus areas from the Public Company Accounting Oversight Board (PCAOB) which increased the levels of documentation, and upcoming changes in key accounting standards may require further changes to systems, controls and documentation. Additionally, the uses of technology and data have changed significantly in this time frame – bringing about new considerations such as using intelligent automation to facilitate business processes or compliance activities. And all of this is happening while organizations strive to take costs out of their SOX programs.

“Organizations are looking at the ‘compliance exercise’ associated with SOX and are trying to reduce the cost aspect. However, to truly see improvement in your SOX program, it’s important to look at the controls through a value lens, rather than just a cost lens.”

– Sue King
KPMG's SOX Solutions Lead

KPMG LLP surveyed more than 100 organizations to compile data related to current SOX trends, challenges and strategies. We are pleased to present the results of this survey to provide insights into how your organization's SOX program compares with both your industry peers and across the total population of respondents.

Key takeaways

1

A focus on cost reduction targeted specifically at control testing costs, rather than the total cost of control.

- 52% of strategies included minimizing the cost to test SOX controls vs. only 11% focused on decreasing the cost of performing controls.
- Organizations may be overlooking the cost of performing control activities, which is typically the largest contributor to the total cost of control.

2

External auditor reliance as the primary strategy used to manage compliance costs and the SOX burden on the organization.

- The SOX program strategy for 54% of the organizations is to ensure maximum reliance by the external auditor. However, only 23% of organizations are able to quantify the savings achieved as a result of external audit reliance on their organization's testing.
- Focusing less on external auditor reliance may open the door to other cost reduction strategies, such as smaller sample sizes or self-assessments in low-risk areas. External auditor reliance should be a deliberate economic decision, weighing the costs and benefits of that strategy vs. other strategies.

3

Lack of confidence in control execution and documentation.

- Less than half of the respondents (45%) are confident that their controls would pass (i.e., be effective) without testing them.
- Four out of five top areas of improvement were related to control execution — improving controls over key spreadsheets, increasing control automation, quality of control evidence and overall quality of control performance. However, the common SOX program strategies (maximize external auditor reliance and minimize testing costs) are not aligned with these areas of improvement.



Survey objectives:

- Gain valuable perspectives on how an organization's SOX program compares to that of its peers.
- Obtain insights into results across the total population of respondents and industry trends.
- Enhance understanding of SOX program maturity.

Detailed findings

Strategy

Strategy for 2017 SOX program:



Strategies related to the SOX programs were primarily related to testing aspects – ensuring maximum external auditor reliance (54%), minimizing testing costs (52%), and rationalizing controls (49%).

52% vs. **11%**

52% of strategies included minimizing the cost to test SOX controls vs. only 11% focused on decreasing the cost of performing controls.



Organizations in the **Financial** sector (Banking & Capital Markets and Financial Services) were more likely (65%) to include “Change business processes so that the controls are embedded in the process, are not performed just for SOX, and are valuable to the business” as part of their strategy. This may be influenced by the large number of regulatory and compliance activities that need to be embedded within their business processes.

65%



Organizations with annual revenues of \$10 billion or more were most likely to include controls rationalization (61%) and focusing efforts on the entity-level and most critical controls (57%) as part of their strategy.

61%

Development of SOX strategy:*

46%

Driven by those responsible for performing the testing

41%

Driven by control and process owners

38%

Largely influenced by the external auditor

Although the SOX program strategy for 54% of organizations was to ensure maximum external auditor reliance, that strategy was not always driven or largely influenced by the external auditor.

32%

Developed in conjunction with other compliance / assurance functions

21%

Driven by the audit committee

20%

Developed as a stand-alone compliance effort

2%

Does not have a clear strategy

* Respondents could select multiple responses

Areas of improvement

Top five areas that are “like as is” or need only minor tweaks*:

Improve communication with audit committee

Improve the SOX risk assessment process

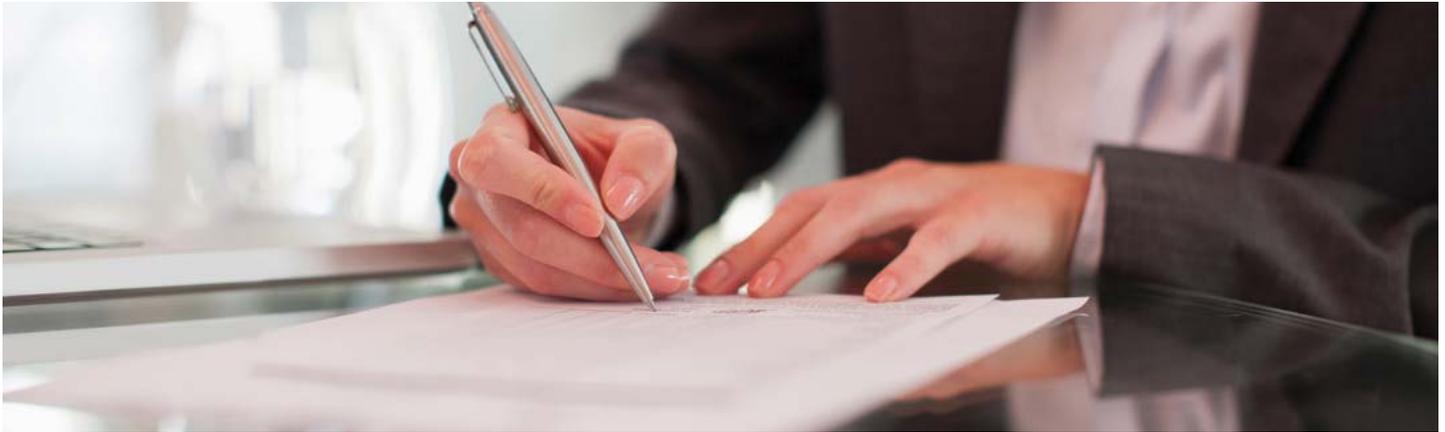
Take control of the SOX program overall

Improve system scoping to align with key business processes

Improve risk mitigation by changing process design



* Respondents ranked multiple statements



Top five areas with improvement or significant improvement needed*:

Increase control automation



Improve controls over key spreadsheets



Improve quality and consistency of control performance



Improve quality of control evidence



Reduce control testing cost / effort



* Respondents ranked multiple statements



The top areas with improvement needed primarily focus on how controls are performed and documented. Improving control performance and documentation may have a correlation to reducing associated testing costs; however, these responses indicate that perhaps organizations should first focus their strategy on control design and performance, before focusing efforts on reducing testing costs.



There were only two areas where organizations with revenue of \$10 billion or more were more likely to believe that improvement or significant improvement was needed in comparison with the full respondent group:

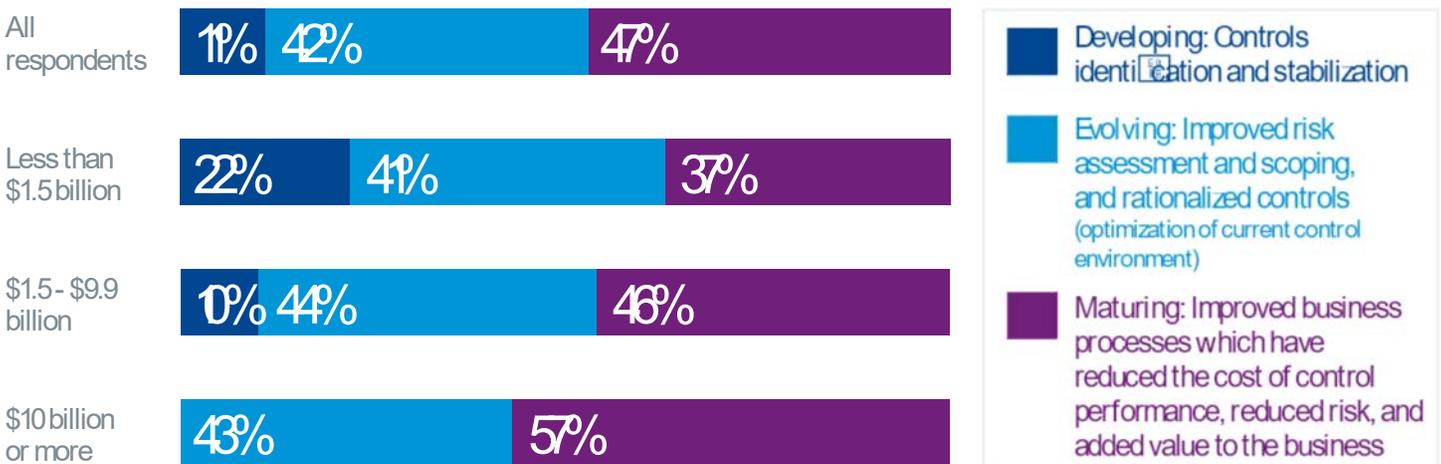


Industry trends were noted in industries that often have a more distributed and decentralized nature of operations, such as Industrial Manufacturing, Building, Construction & Real Estate and Consumer Goods:



State of the SOX program

SOX program's maturity level:



Mean responses for agreement with the following statements regarding SOX programs:

(1 = strongly disagree and 5 = strongly agree)

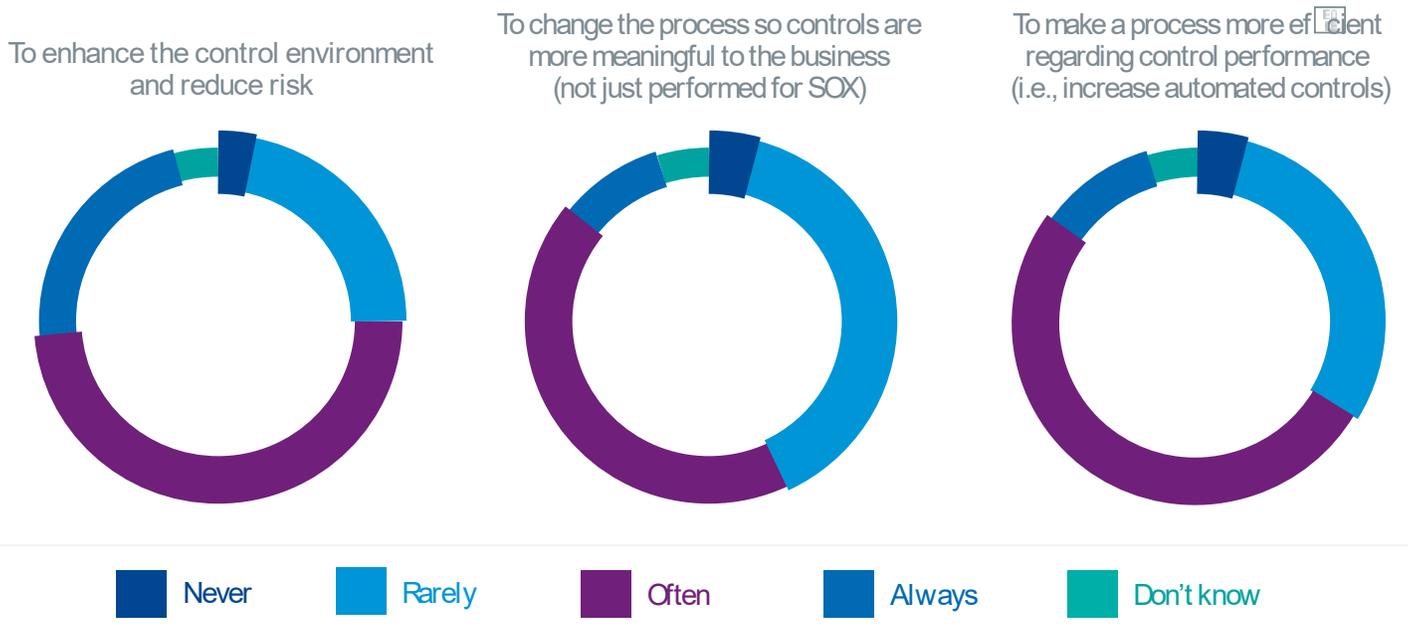




45%

Only 45% of respondents agreed or strongly agreed with this statement. This indicates a potential problem with the control culture and that perhaps more effort and strategic focus needs to be placed on the effective and efficient performance of control activities.

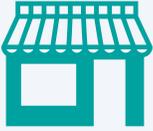
Frequency with which issues identified through SOX testing are used to make changes to the process:





SOX program execution

Who performs SOX testing:*

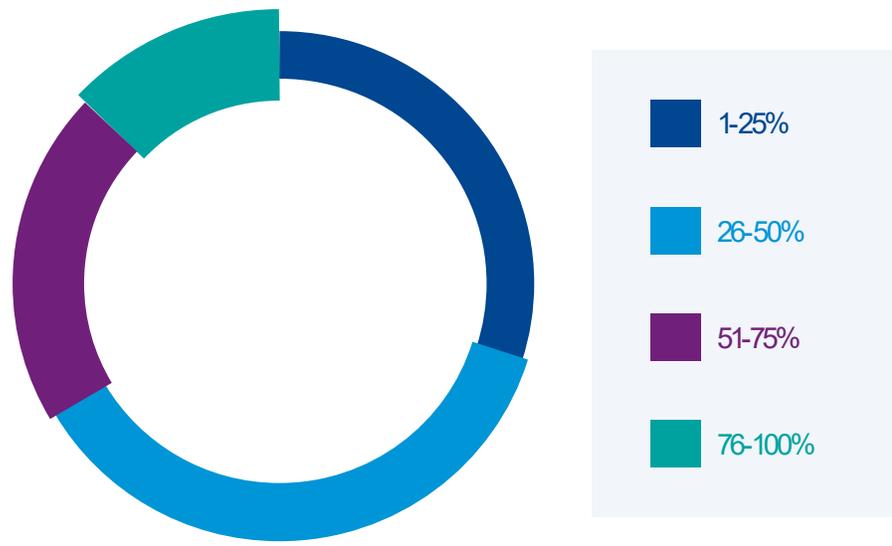
	<p>Smaller organizations (\$1.5B or less in revenue) were more likely to use external providers (72%)</p>	<p>VS.</p>		<p>Larger organizations (\$10B or more in revenue) were more likely to have an internal SOX team (54%) and to incorporate self-testing or peer testing as a component of their SOX program (39%)</p>
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* Respondents could select multiple responses



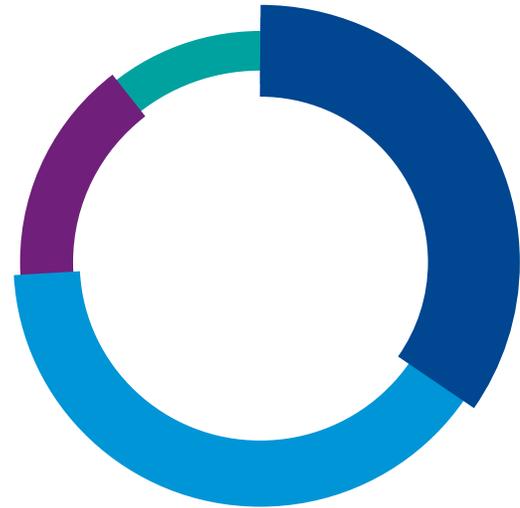
For organizations where SOX testing is performed by Internal Audit, the proportion of total Internal Audit hours related to SOX:



In organizations where Internal Audit performs SOX testing, 34% of those organizations spend more than 50% of their total Internal Audit hours on SOX. This is largely the case for organizations with less than \$10B in revenue (44%). In organizations with \$10B or more in revenue, the burden of SOX testing was often distributed across various parties (Internal Audit, SOX team, other departments, etc.), allowing a larger proportion of Internal Audit hours to be focused on other value-add activities.

How use of an external provider for support with SOX program has changed from 2016 to 2017:

Frequency of control training for control / process owners (or control performers):



- Using external providers more in 2017
- Using external providers less in 2017
- Using external providers about the same

- Less than annually
- More than annually
- Annually
- Don't know

SOX program costs

How costs are expected to change from 2016 to 2017 in regards to:

Cost and effort for management to perform the control activities

4%



3%

Control performance costs are largely staying the same or increasing in 2017; however, only 11% of organizations included focusing on decreasing such costs as part of their SOX program strategy.

SOX compliance activities (costs related to control documentation, control testing, and SOX program governance; not including the cost of control performance)



2%

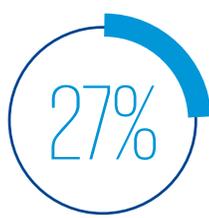
- Cost will decrease
- Costs will stay the same
- Costs will increase
- Don't know

External auditor coordination

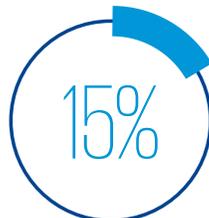
Differences in SOX controls for testing in comparison to the external auditor:



Our organization has more controls in scope for testing than our external auditor



Our organization and our external auditor have the same number of controls in scope for testing and the controls are the same



Our organization and our external auditor have approximately the same number of controls in scope for testing; however, the controls vary



Our external auditor has more controls in scope for testing than our organization

Extent to which the external auditor relies on SOX activities:

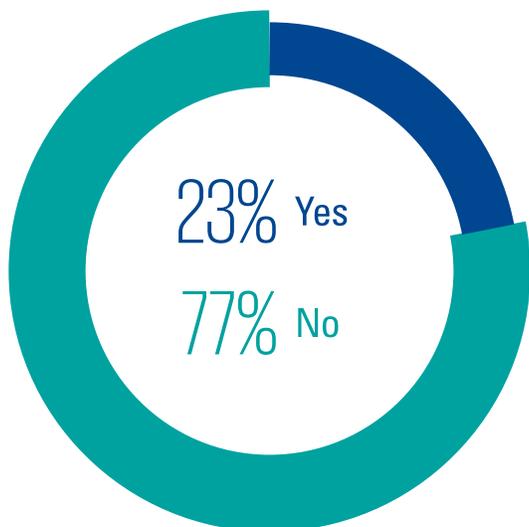
Test of design (i.e., a walkthrough)



Test of effectiveness (i.e., control testing)



Able to quantify savings achieved as a result of external auditor reliance, if applicable:



Most common metrics used to quantify and/or monitor savings from external auditor reliance:*



* Respondents could select multiple responses

Approach modifications based on external auditor's reliance model:*

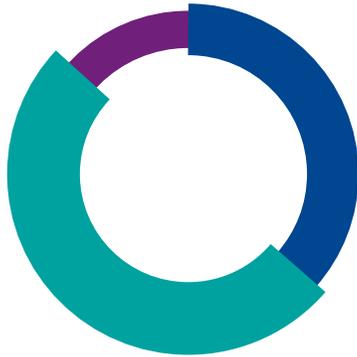


* Respondents could select multiple responses



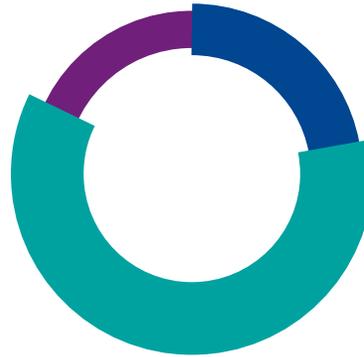
Technology use in controls

Whether key controls include continuous monitoring controls:



38% Yes
49% No
13% Don't know

Whether key controls include continuous auditing controls:



20% Yes
62% No
18% Don't know

Use of data and analytics (D&A) within SOX program:*



39%

While D&A has been somewhat of a hot topic in recent years, 39% of organizations have not incorporated it into their SOX programs. The most common ways organizations are currently using D&A in the SOX program is to select samples or during the risk assessment process.

Sample selections

41%

SOX risk assessment

32%

As part of a control activity performed by management

22%

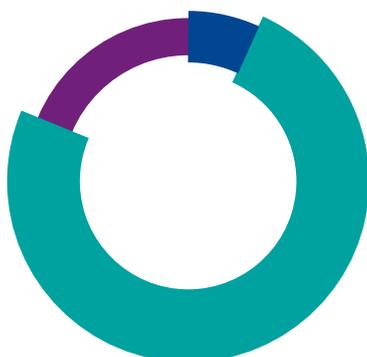
Within control testing

7%

* Respondents could select multiple responses

Use of digital labor/intelligent automation in regards to the SOX program:

To perform a control activity:



5% Yes
76% No
19% Don't know

To assist with compliance activities (testing or reporting on controls):



4% Yes
76% No
20% Don't know

Survey methodology

Surveys were completed by individuals with responsibility for internal controls over financial reporting (ICOFR) / the SOX program in their organization. The survey was completed once on behalf of each participating organization (n = 114). The findings offer useful direction and provide a basis for comparison and further analysis. The results were derived from a Web-based survey that was conducted from May through June 2017.

Survey demographics

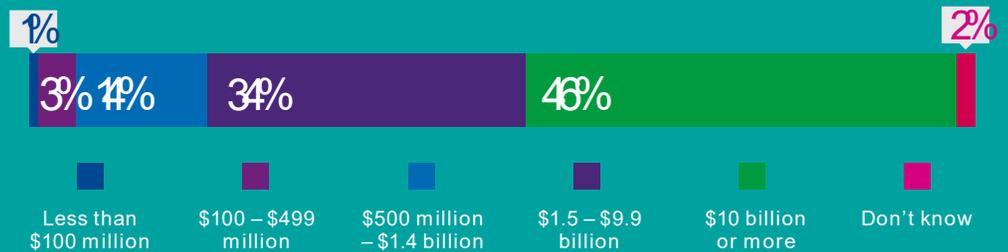
Type of organization:



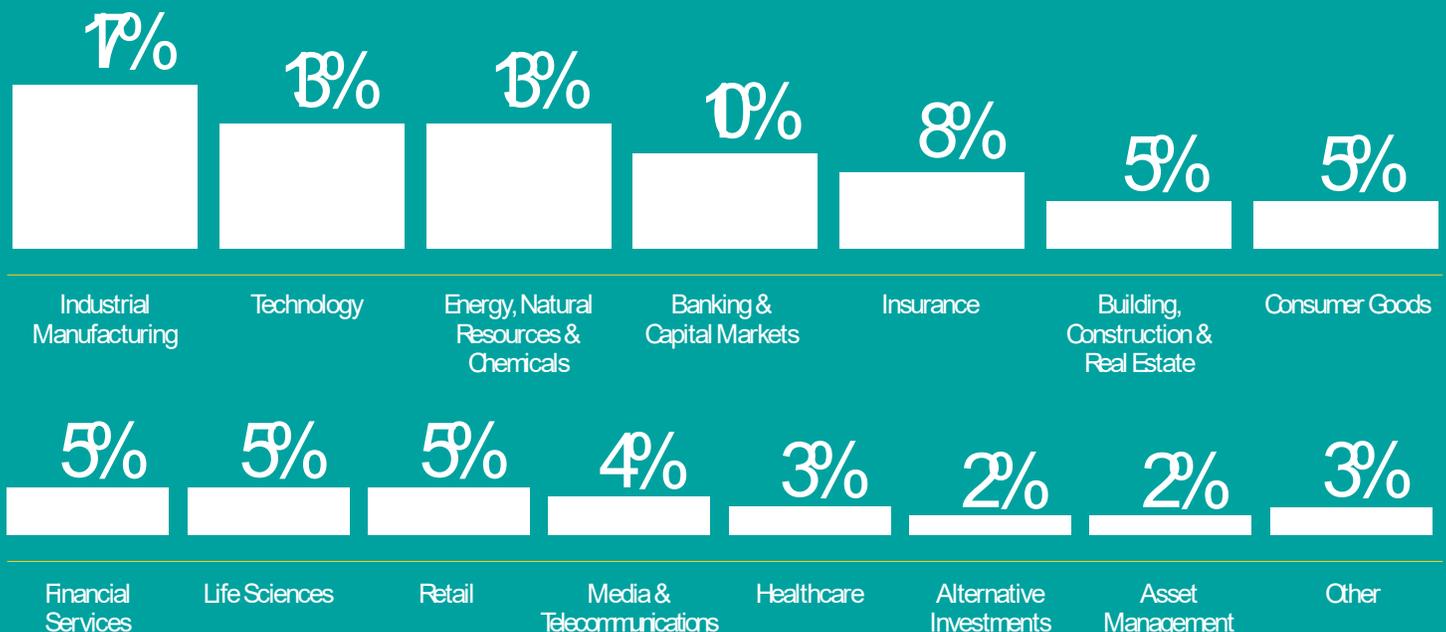
Organization's total annual revenue for the most recent fiscal year:



Organization's total assets for the most recent fiscal year:



Primary industry:



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KPMG's Advisory professionals combine technical, market and business skills that allow them to deliver objective advice and

guidance that helps the firm's clients grow their businesses, improve their performance, and manage risk more effectively.

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