2012 Sarbanes-Oxley Compliance Survey

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

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INTRODUCTION

Remarkably, it has been nearly 10 years since passage of the U.S. Sarbanes-Oxley Act, which introduced sweeping changes to financial reporting processes among public companies worldwide. Ironically, 2012 has brought one of the most significant changes to this landmark legislation with the passage of the Jumpstart Our Business Startups (JOBS) Act, which exempts so-called "emerging growth companies" from having to comply with the auditor attestation requirements of Sarbanes-Oxley Section 404(b).

This is a potential "game changer" for budding organizations planning or considering an initial public offering (IPO). However, the picture hasn't changed for existing publicly held companies. For a decade, these organizations (large accelerated filers, accelerated filers and nonaccelerated filers) have been discovering the nuances of complying successfully with Sarbanes-Oxley and how to achieve greater efficiencies in the compliance process while adding value to their organizations. It is now an appropriate and suitable time to look back on lessons learned and ascertain the effects, both positive and negative, from this legislation.

This is the focus of Protiviti's *2012 Sarbanes-Oxley Compliance Survey*, an annual study that takes an in-depth look at the many issues companies address related to Sarbanes-Oxley, from costs and resources to achieving a stronger internal control environment and improved efficiency and effectiveness in operations.

In assessing the findings from this year's study, a number of key themes emerge:

- While initial compliance costs and efforts involved are burdensome for new Sarbanes-Oxley filers, over the long term, many organizations view the benefits of Sarbanes-Oxley compliance to outweigh the costs.
- Over the last decade, internal control structures have improved.
- Automation – in terms of controls, processes, etc. – may represent the "final frontier" for significant improvement opportunities related to greater efficiencies and long-term savings.
- A growing number of organizations are not in favor of the decision to exempt certain smaller public companies from having to comply with Section 404(b) of Sarbanes-Oxley (auditor attestation of internal control over financial reporting).[1]
- There is some sentiment in favor of a new requirement for periodic rotation of external auditors (currently under consideration by the Public Company Accounting Oversight Board (PCAOB)).

One intriguing finding in this year's survey that we touch on and discuss throughout the report is the fact that, compared to previous years, the value and benefits of the Sarbanes-Oxley compliance process have trended down in terms of percentages of responses.

Respondents to Protiviti's *2012 Sarbanes-Oxley Compliance Survey* included chief audit executives, chief financial officers, corporate Sarbanes-Oxley and PMO leaders, and chief compliance officers, among many other executives and professionals who are involved with and have a stake in the quality of financial reporting and Sarbanes-Oxley compliance processes. Survey participants were from a broad array of industries, the most represented of which include industrial products, financial services, technology, energy, and business and professional services.

[1] Of note, the survey was administered prior to passage of the JOBS Act.

As always, upon request, we would be pleased to provide customized reports based on the results of respondents from specific groups represented in our survey – company size, industry, Sarbanes-Oxley filing status, etc. For additional information or to request a customized report, please contact your local Protiviti office or one of the individuals listed in the back of our report. We also welcome any feedback on this study and the issues we cover.

In closing, we wish to express our sincere appreciation to the nearly 600 executives and professionals who took part in our survey. Their willingness to share their insights and their valuable time make this survey possible. We also are grateful for the continued positive response that this research project receives in the market. We look forward with great anticipation to the dialogue generated by the survey's results and insights, as well as developments in the marketplace that will affect how organizations continue to approach and refine their processes toward achieving Sarbanes-Oxley compliance.

Protiviti
May 2012

EXECUTIVE SUMMARY

Sarbanes-Oxley: 10 Years Later

- Nearly one in three organizations view the benefits of Sarbanes-Oxley to outweigh its costs, with large accelerated filers holding a slightly more positive view. Approximately half of all companies believe the costs outweigh the benefits to some degree.
- With regard to Sarbanes-Oxley's impact on corporate America, companies appear to view the legislation in a more negative manner, suggesting that they see Sarbanes-Oxley as benefitting their own organizations more than others.
- Organizations are divided in their views on whether certain smaller public companies should be exempt from having to comply with Sarbanes-Oxley Section 404(b).[2] Nearly 40 percent believe these requirements should be eliminated for organizations with less than $1 billion in market capitalization. However, more than half of all large accelerated and accelerated filers do not approve of the current Section 404(b) exemption for nonaccelerated filers.
- In a large percentage of companies, the internal control over financial reporting structure has improved since compliance with Sarbanes-Oxley Section 404(b) became a requirement.
- Nearly half of organizations are in favor of a periodic auditor rotation requirement (currently under consideration by the PCAOB).[3]

Costs

- Not surprisingly, most small companies spend far less on compliance than do midsize and large companies – the Sarbanes-Oxley compliance budget for a majority of small organizations is less than $100,000 annually.
- One in three midsize organizations spend from $100,000 to $500,000 annually, and almost 80 percent spend $1 million or less.
- Large companies spend the most and show the greatest spread among cost ranges.
- By Year Four of Sarbanes-Oxley compliance, most organizations spend from $100,000 to $500,000 annually, regardless of size.
- Companies, regardless of size or year of compliance, plan to hold steady with their projected Sarbanes-Oxley compliance spend for the upcoming fiscal year – a possible indicator that organizations believe they have the compliance process well-managed and under control.

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[2] As detailed in the report, this survey was conducted prior to passage of the JOBS Act.

[3] As of the date of publication of this report, the PCAOB's consideration of the auditor rotation concept continues to evolve.

Key Strategies and Metrics for Improving the Compliance Process

- For most organizations, the number of process-level and entity-level controls dropped significantly between their first year of compliance and fiscal year 2011, as did the number of process controls classified as key controls. These downward trends in the controls population are to be expected and are likely due to the emphasis on a top-down, risk-based approach supported by the Securities and Exchange Commission (SEC) narrowing the focus to what really matters. PCAOB AS5 supports this approach, as well. The reduction in the number of key controls is also expected. As their Sarbanes-Oxley compliance processes mature, companies become better at planning, scoping and recognizing which controls are most important in reducing the risk of material misstatements to their financial statements. Note that these findings related to the reduction of the controls population and the number of key controls may vary depending on the length of time a company has been public. Also, recent PCAOB inspection results may reverse some of this trending in 2012 as audit firms are given direction in some areas to increase the amount of audit procedures performed.
- Strategies employed most frequently to achieve these controls-related reductions include identifying ***selected*** controls related to higher-risk financial reporting assertions.
- There continue to be opportunities for organizations to automate more of their key controls, which establishes a proactive/preventive tone to the internal control environment and supports the mission to simplify and streamline business processes. In many ways, this may represent the next and last opportunity for organizations to achieve significant and meaningful changes, and long-term cost savings, in their internal control structures and Sarbanes-Oxley compliance processes.
- Small organizations are more hesitant to invest in the automation of controls, while close to half of midsize and large organizations, most of which are more mature in their Sarbanes-Oxley compliance processes, plan to continue down the automation path.
- Based on Sarbanes-Oxley compliance strategies organizations are employing or planning to employ, there is a strong focus on eliminating waste, improving quality and efficiency, and effecting positive changes in areas beyond internal control over financial reporting.

Value and Benefits

- The most notable benefits of Sarbanes-Oxley compliance are viewed to be enhanced understanding of controls design and operating effectiveness, internal audit's ability to perform more traditional audits, and increased effectiveness and efficiency of operations.
- A strong majority of large organizations leverage their Sarbanes-Oxley compliance efforts to drive continuous improvement in business processes that affect financial reporting, and a significant majority of organizations that are beyond their fourth year of compliance do so.
- Many large companies also are at or near the end of their efforts to improve the maturity of their Sarbanes-Oxley compliance processes.
- There is a general trend seen throughout the findings showing that organizations may be deriving fewer benefits and less value from their Sarbanes-Oxley compliance processes than in previous years. This is likely a result of the increased maturity of the control structure and compliance process.

Evolving Maturity of the Sarbanes-Oxley Compliance Process

- While nearly half of all organizations handle all Sarbanes-Oxley compliance work internally (as opposed to using one or more outside resources for assistance), there is a trend among large companies to rely more on external service providers to assist with Sarbanes-Oxley compliance efforts, possibly so that internal teams can focus more on higher-level and strategic initiatives.
- Internal audit functions continue to be relied upon more frequently than other departments or business owners for the oversight and organization of Sarbanes-Oxley compliance processes, though within large companies these responsibilities are spread more among various functions, including specialized internal control units or a project management office (PMO).
- There are some notable indicators that organizations are increasing the scope of their Section 404(b) activities and increasing their use of outside resources related to these activities. Some of this increase may be due to recent PCAOB inspection results.
- Many organizations, and large companies in particular, continue to use benchmarking as a means of assessing their Sarbanes-Oxley compliance efforts and identifying areas for improvement, with a focus on the number of key controls, the entity-level control environment and the extent of automation (interestingly, compliance costs incurred are also assessed, but less so than these other areas of focus).
- More than half of all companies – and most large organizations – store their Sarbanes-Oxley Section 404(b) process and testing documentation in an electronic repository specifically designed for this purpose. This is a positive development, reflecting the growing priority, challenges and complexities of secure data storage and privacy, along with the significant efficiencies that can be achieved by storing this information in a secure and well-organized repository that facilitates the inevitable updates required over time.

RESULTS AND ANALYSIS

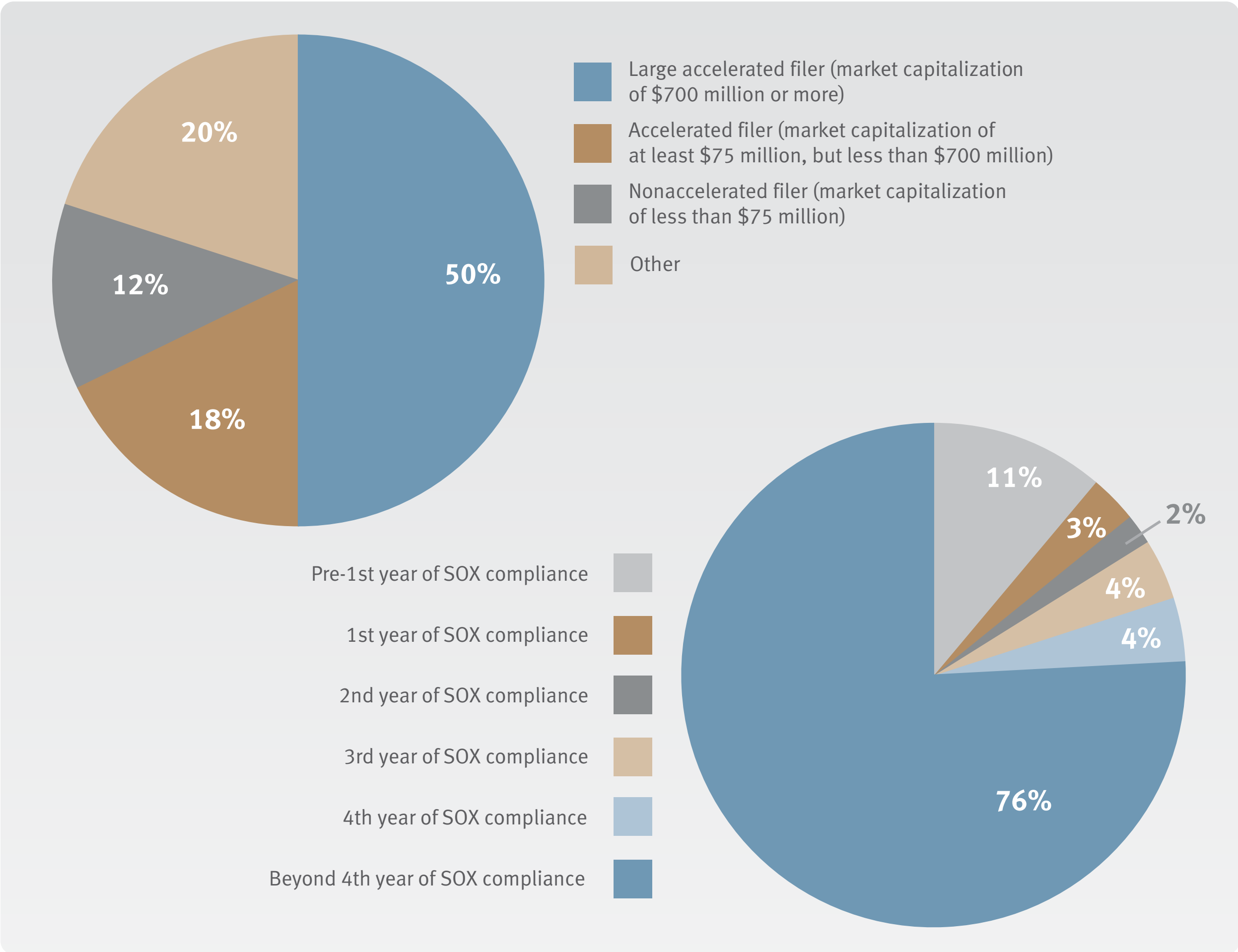
Profile of Survey Respondents

Of the respondents in this year's survey, 68 percent are large accelerated or accelerated filers and 80 percent are either in or beyond their fourth year of Sarbanes-Oxley compliance. This indicates that, for the most part, a large percentage of survey participants are seasoned filers who are well-versed in the requirements and demands of the Sarbanes-Oxley compliance process.

Of note, numerous respondents reported that a significant "change" event had occurred within their organization that normally would require an update or new assessment of their Sarbanes-Oxley compliance processes. These events include a significant merger or acquisition (37 percent), a significant change in personnel responsible for internal control over financial reporting (34 percent), and major changes in significant IT systems over financial reporting (34 percent).

Year of Sarbanes-Oxley compliance and filing status

Base: All respondents



Sarbanes-Oxley: 10 Years Later

Since the inception of the Sarbanes-Oxley Act, the requirements and practices surrounding it have continued to evolve. Among the more notable Sarbanes-Oxley-related changes that have occurred over the past decade:

- The SEC created a “large accelerated filer” category of companies.
- The SEC issued interpretive guidance to management for conducting the assessment process required by Section 404.
- The PCAOB issued Auditing Standard No. 5 (AS5), which superseded the controversial Auditing Standard No. 2.
- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued further guidance on the use of its Internal Control – Integrated Framework, focusing in particular on smaller companies. (COSO also is in the process of preparing an update on this framework, with release scheduled in 2013.)
- The Dodd-Frank Wall Street Reform and Consumer Protection Act exempted nonaccelerated filers from the requirements of Section 404(b) (auditor attestation of internal control over financial reporting).
- The Dodd-Frank legislation mandated a study by the SEC to ascertain whether the attestation requirement was necessary and cost-effective in providing investor protections for issuers with public float between $75 million and $250 million. Issued last year, the final study recommended retaining the current $75 million threshold, meaning no further exemptions of Section 404(b).
- With the focus on job creation shifting the debate to reducing the burden on startup companies, the Jumpstart Our Business Startups (JOBS) Act was signed into law, creating a new category of “emerging growth companies” that is exempted for a period of up to five years from certain regulatory requirements, including Sarbanes-Oxley Section 404(b). (See sidebar on page 9.)

As detailed in the findings and analysis in this survey report, the Sarbanes-Oxley Act and subsequent laws and regulatory guidance unquestionably have had significant effects on corporate America, from views on costs and benefits to changes in internal control over financial reporting structures. And the winds of change are certain to continue influencing opinions across the board.

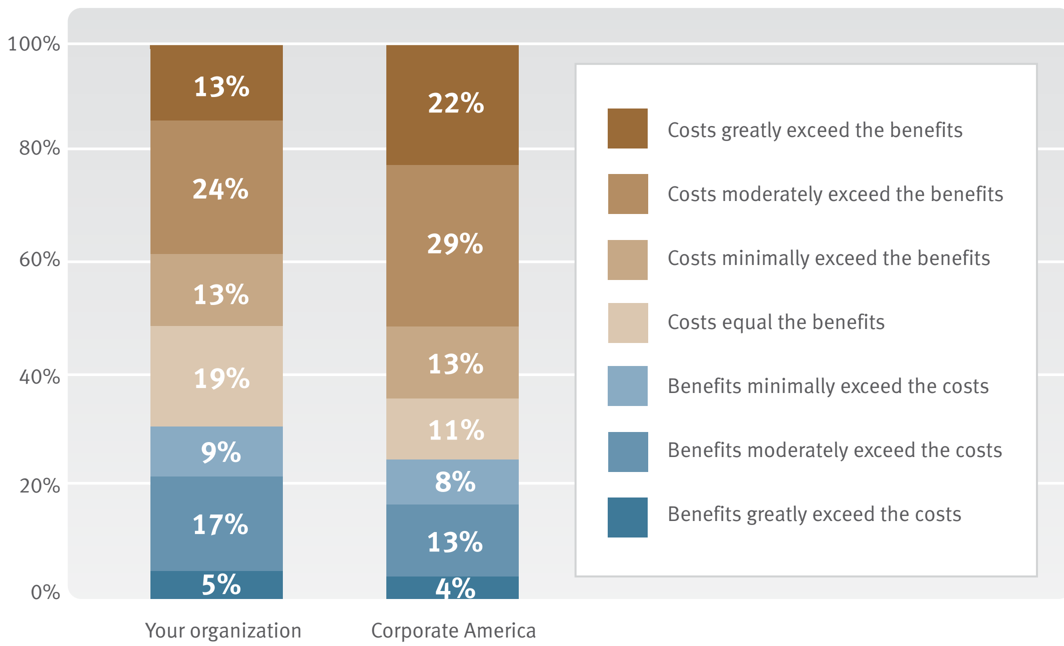
Impact on Organizations

Nearly one in three respondents indicated that, for their own organizations, the benefits of Sarbanes-Oxley exceed its costs, with 22 percent reporting the benefits greatly or moderately exceed the costs. Large accelerated filers (companies with over $700 million in public float) hold slightly more positive views – 37 percent believe the benefits outweigh the costs. Among all respondents, approximately half view the costs to outweigh the benefits in some manner.

Interestingly, when it comes to assessing the law's impact on corporate America, respondents view the legislation in a more negative manner, with 64 percent stating that Sarbanes-Oxley's costs outweigh its benefits. This suggests that companies view Sarbanes-Oxley as benefitting their own organizations more than the rest of corporate America. It is possible that ongoing media coverage of the issues with Sarbanes-Oxley may be influencing these results.

Impact of Sarbanes-Oxley

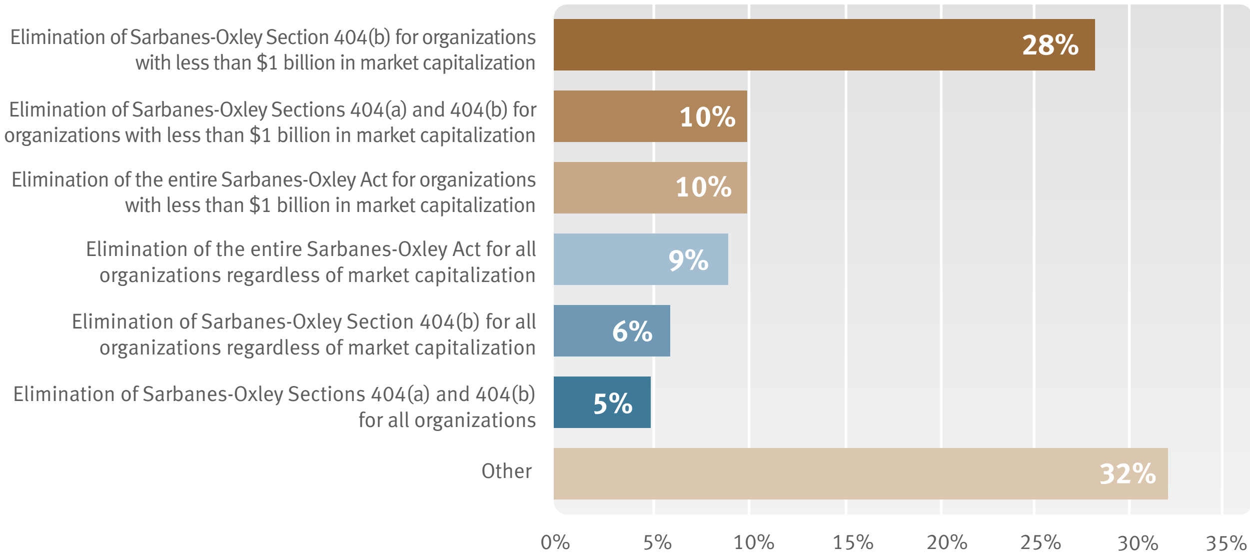
Base: All respondents



More than one in three respondents (38 percent) agree that Section 404(b) compliance requirements should be eliminated for organizations with less than $1 billion in market capitalization. While this survey was conducted in late 2011 and early 2012 (see Demographics section for details), these responses are in line with the exemption created by the JOBS Act (see sidebar on page 9 and Appendix B). Under the legislation, emerging growth companies are defined as having total annual gross revenue of less than $1 billion and are exempted from certain regulatory requirements until specific milestones are achieved (one of which is attaining a market capitalization of a large accelerated filer ($700 million)). These firms do not have to comply with Section 404(b) of Sarbanes-Oxley (independent auditor attestation).

If Congress were to modify the current Sarbanes-Oxley legislation, which of the following do you believe would be the appropriate action?

Base: All respondents



JOBS Act Becomes Law, Reducing Regulatory Requirements for Startups

On April 5, 2012, President Barack Obama signed the Jumpstart Our Business Startups (JOBS) Act into law. The JOBS Act is designed to make it easier for small businesses and entrepreneurs to attract investors and access capital while complying with U.S. securities laws.

The new law makes several significant changes to the securities laws by (1) encouraging initial public offerings (IPOs) by a new classification of “emerging growth companies,” and (2) facilitating the ability of such companies to raise capital in private and small public offerings without registration with the SEC, thereby potentially reducing the costs and red tape associated with raising capital.

Under the legislation, emerging growth companies are defined as having total annual gross revenue of less than $1 billion or market capitalization of less than $700 million, and are exempted from certain regulatory requirements until the earliest of four dates:

1. The last day of the fiscal year of the issuer following the fifth anniversary of the date of the company’s initial public offering of common equity securities;
2. The last day of the fiscal year during which the issuer had total annual gross revenue of $1 billion or more;
3. The date on which the issuer has, during the previous three-year period, issued more than $1 billion in nonconvertible debt; or
4. The date on which such issuer is deemed to be a “large accelerated filer” (market capitalization of $700 million or greater).

These firms would not have to comply with Section 404(b) of the Sarbanes-Oxley Act during the period that they continue to qualify as an emerging growth company.

For more information, see Appendix B.

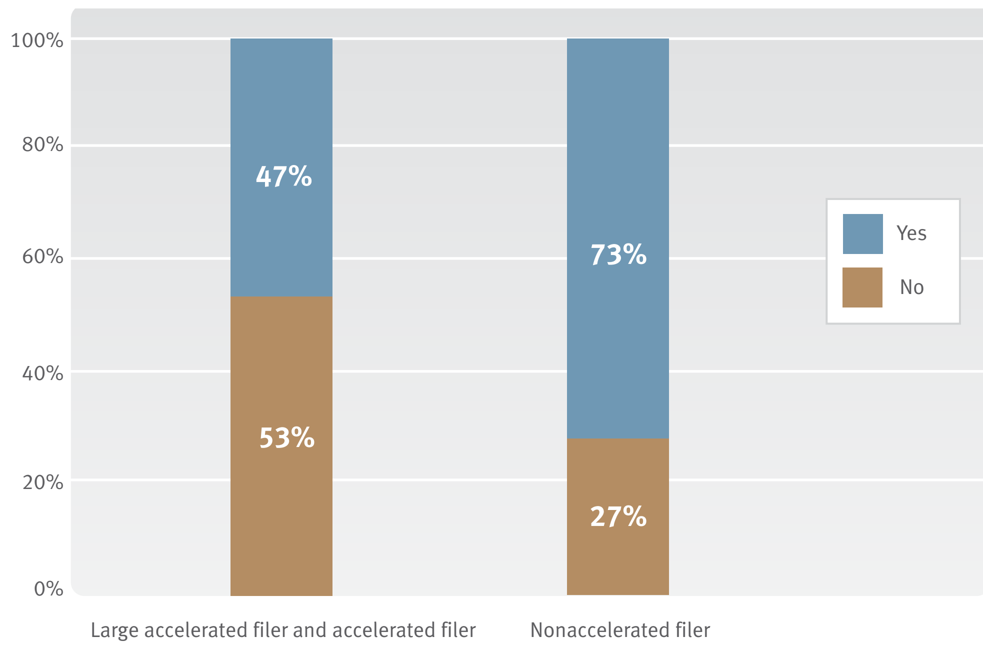
Appropriateness of Section 404(b) Exemptions

Respondents were asked whether they agree that it is appropriate for nonaccelerated filers to be exempt from complying with Section 404(b).[4] (In July 2010, the SEC exempted nonaccelerated filers (market capitalization of less than $75 million) from complying with Section 404(b)). Interestingly, 47 percent reported that they do not agree with this decision. This is up from 35 percent in 2011.

When comparing the collective responses of survey participants from large accelerated filers and accelerated filers with participants from nonaccelerated filers, it is not surprising to see that nonaccelerated filers are strongly in favor of this change – 73 percent. Large accelerated filers and accelerated filers are split on the issue, with a small majority reporting nonaccelerated filers should not be exempt from these requirements.

Is it still appropriate for nonaccelerated filers to be exempt from complying with Section 404(b)?

Base: Large accelerated filers, accelerated filers and nonaccelerated filers



[4] The recently enacted JOBS Act does not affect existing public companies, including small cap, nonaccelerated filers.

Comments Regarding Changes to Sarbanes-Oxley

In the survey, respondents provided substantial feedback regarding potential changes to the Sarbanes-Oxley Act, including exemptions for certain organizations. Following is a sampling of comments received:

I do not believe changes should be made … if companies and auditors implement and test the true monitoring control activity, the costs would be reduced and companies' control environments will be strengthened.

– Chief audit executive, midsize manufacturing company

Although costs have potentially exceeded benefits in early years, SOX 404(a) and (b) are largely a good thing now that everyone is in more of a steady state. The biggest suggestion for change would be to ensure we are aligned in the U.S. with continuing regulatory change that comes into effect in other countries that mirror SOX.

– Corporate controller, large technology company

[We should] eliminate all aspects of SOX and Dodd-Frank other than the requirement to have the CFO/CEO acknowledge responsibility for financial reporting accuracy. Limit this to large accelerated filers and financial institutions.

– Corporate Sarbanes-Oxley/PMO leader, large manufacturing company

External auditor sign-off for large organizations makes sense – the potential for material things to be hidden/missed given the inherent complexity of large companies is too high. But the same is not readily applicable for smaller companies.

– Chief audit executive, small life sciences/biotechnology company

Internal controls are currently audited in duplication with financial statement audits. Modification to either the SOX or financial statement audit requirements should consider removing some of the duplication.

– Chief compliance officer, midsize manufacturing company

[Sarbanes-Oxley] needs to be reformed to truly focus on the issues and risks that caused a need for the legislation in the first place – fraud and collusion. Routine testing of daily transactions year after year is not the most effective means for prevention and detection.

– Audit director, midsize manufacturing company

Every public company should have to design effective ICFR and be audited on their compliance, but it should be more prescriptive and simplified for smaller companies.

– Corporate Sarbanes-Oxley/PMO leader, large hospitality company

Sections 404(a) and (b) overall helped many large organizations because controls and processes were not documented well prior to the law. However, I think the auditors' evaluation of controls for 404(b) should be more closely linked to their financial audit (as AS5 attempted) with less "operational" process evaluation required of them.

– Corporate Sarbanes-Oxley/PMO leader, midsize utilities company

I disagree with the elimination of either section of SOX … I've audited organizations before and after this law and the differences in operational improvement and control awareness is night and day. After all these years, many organizations have figured out how to reduce their testing costs. As an audit profession, we will lose the "big stick" that drives process improvement.

– Chief audit executive, midsize manufacturing company

Keep SOX intact as is. Most companies have moved from a project to a process and that process is embedded into all aspects of controls.

– Chief financial officer, midsize manufacturing company

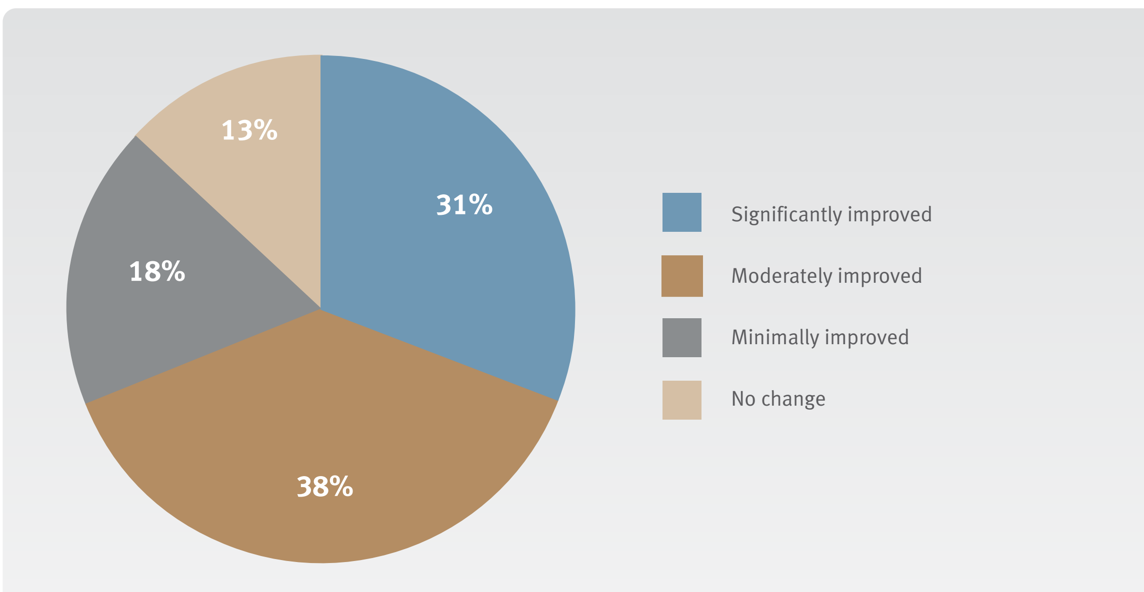
Changes in Internal Control over Financial Reporting Structure

> CURRENTLY, MOST IMPROVEMENTS IN OUR FINANCIAL REPORTING PROCESSES ARE DRIVEN BY SOX DOCUMENTATION AND WALKTHROUGH ACTIVITIES.
>
> Chief compliance officer, midsize technology company

Nearly 70 percent of respondents reported that the internal control over financial reporting structure in their organizations has significantly or moderately improved since compliance with Sarbanes-Oxley Section 404(b) became a requirement. This is positive news. A decade after passage of the Sarbanes-Oxley Act, companies are still learning and working to continuously improve the quality of their internal controls as well as the effectiveness and efficiency of their compliance processes.

Change in internal control over financial reporting structure

Base: All respondents



Auditor Rotation

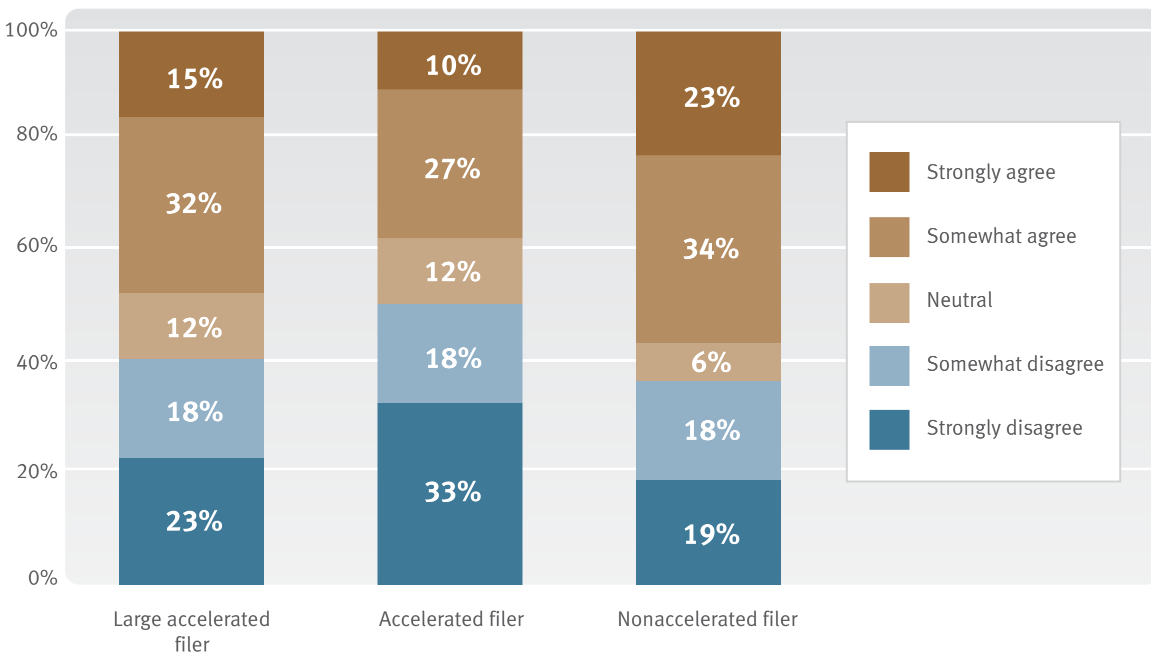
In 2011, the PCAOB began assessing the potential benefits, costs and unintended consequences of requiring the periodic rotation of external auditors for SEC registrants. Advocates of external auditor term limits believe this type of rotation could address the conflict of the external auditor being paid by the audited company and the complacency that could possibly come to exist in a long-term auditor tenure, among other issues. But additional costs and disruption to companies as well as potential compromise of the audit committee's role are also important factors.

Nearly half of all survey respondents – 48 percent – agree that this rotation would have a positive impact, and 47 percent of large accelerated filers share this view. Moreover, nearly 60 percent of nonaccelerated filers agree with requiring auditor rotation.

These results are somewhat surprising as it can be expensive and time consuming to change external auditors, and such an action would represent a very substantial change in the external auditor arrangements for companies. Further, the limited number of global network accounting firms significantly restricts rotation options.[5]

What do you think of requiring periodic rotation of auditors?

Base: Large accelerated filers, accelerated filers and nonaccelerated filers



[5] Note: Some members of Congress share this view. The PCAOB's consideration of auditor rotation continues to evolve. At the time this survey report was released, it appears the PCAOB may be redirecting its focus to improving the effectiveness of audit committees. Note that the JOBS Act includes an exemption from any rule the PCAOB might pass that requires companies to rotate audit firms.

Costs

> I think for most large companies, SOX costs are now considered manageable and part of the ongoing cost of doing business.
>
> Chief accounting officer, large technology company

Even before the ink had dried on the Sarbanes-Oxley legislation in 2002, debate began over the costs versus benefits of its requirements, and that debate continues today. As noted earlier, while approximately half of the survey's respondents view the costs of Sarbanes-Oxley to outweigh its benefits, one in three organizations hold a contrarian view.

What are those costs? The survey results reveal some interesting findings with regard to changes in external audit fees, how much companies are currently spending on Sarbanes-Oxley compliance, upcoming budgets, and the reliance of external auditors on the work of others.

Spending on Sarbanes-Oxley Compliance

Respondents were asked to indicate the estimated cost for their most recently completed fiscal year of compliance, excluding external auditor fees. In addition, they were asked to consider primarily incremental internal costs (internal control-related costs they think they would incur beyond what they would incur if Sarbanes-Oxley was not required) and third-party service provider costs.

Results by Company Size

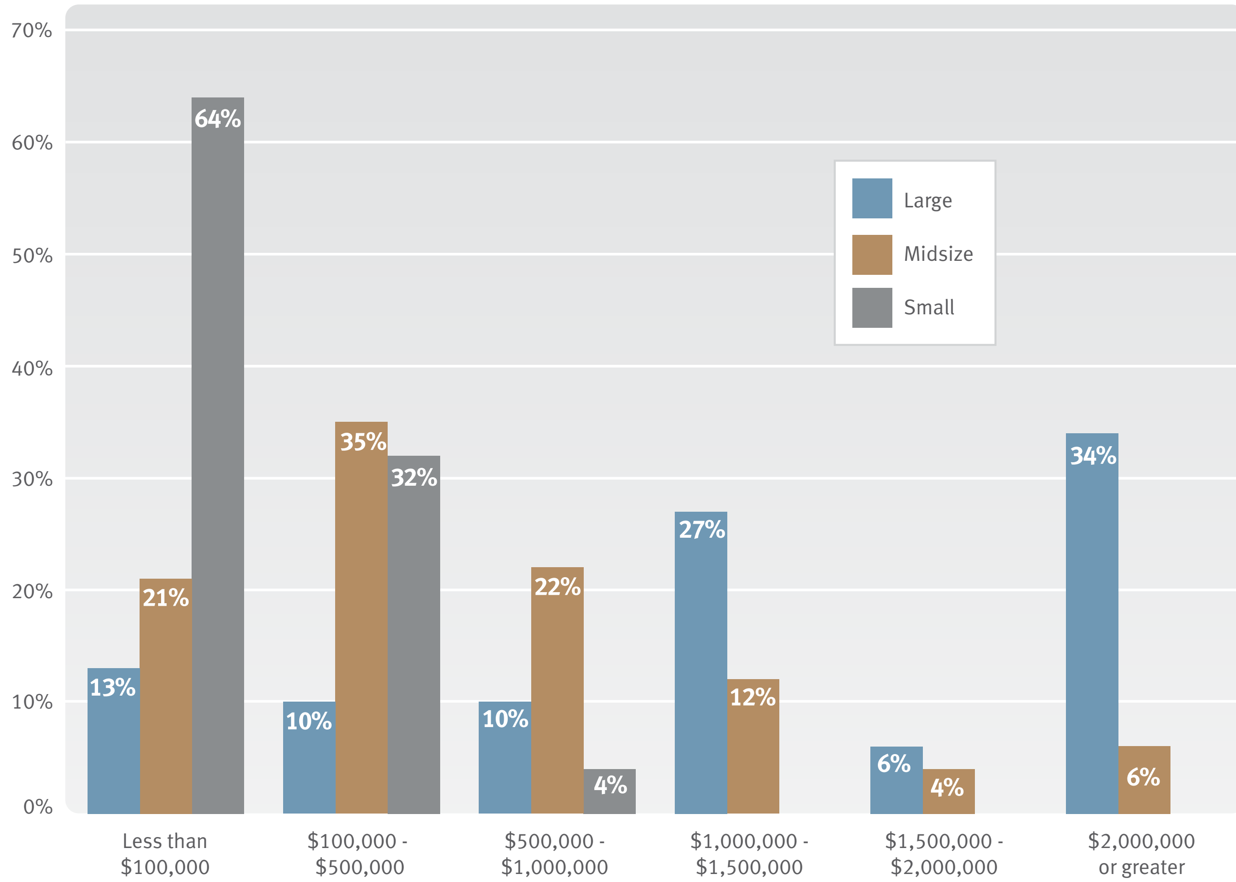
- Predictably, most small companies spend far less on compliance than do midsize and large companies. More than 60 percent of small companies spend less than $100,000 annually.
- Approximately 35 percent of midsize organizations spend from $100,000 to $500,000 annually, and almost 80 percent spend $1 million or less.
- As would be expected, large companies spend the most and show the greatest spread among cost ranges – this likely is a result of wide-ranging variations in operating structures, the number of international locations and geographic scope, along with the nature of the internal control structure (e.g., automated versus manual controls, extent of centralization, effectiveness of monitoring controls, etc.).

Results by Year of Compliance

- By Year Four of Sarbanes-Oxley compliance, most organizations are spending from $100,000 to $500,000 annually.
- After Year Four, very few spend more than $2 million (and as noted, most of these are large companies).

Cost for most recently completed fiscal year of Sarbanes-Oxley compliance (by size of company)

Base: All respondents



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

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

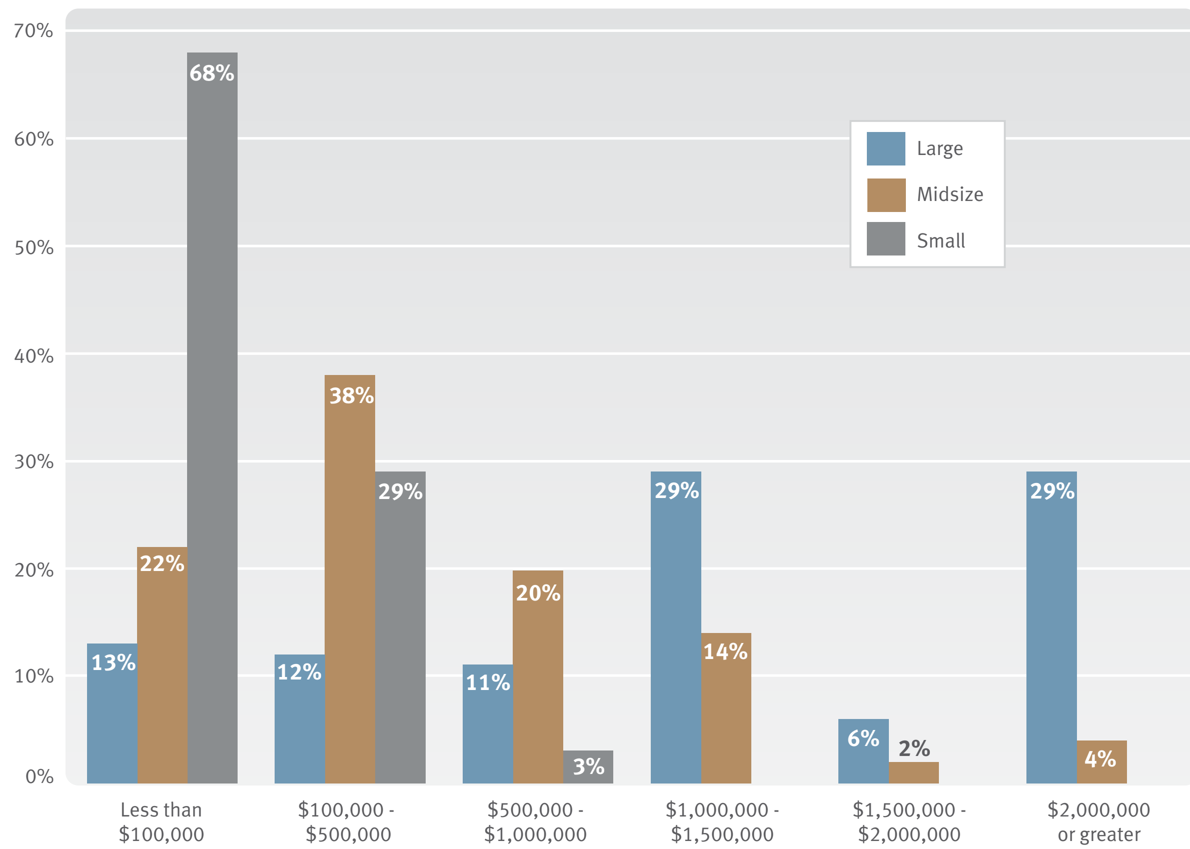
Compliance Budgets for Coming Fiscal Year

Respondents were asked to project their compliance budget for the coming fiscal year, again excluding external audit-related fees but considering incremental costs for internal audit and third-party service providers.

Companies, regardless of size or year of compliance, plan to hold steady with their projected compliance spend. This could be another indication that organizations believe they have the compliance process well-managed and under control. As more organizations move beyond Year Four, the ability to reduce these costs becomes harder and harder, if not impossible or impractical. While many organizations may have opportunities to improve processes (such as automating more controls) and achieve incremental cost savings, drastic changes (including costs) likely are a thing of the past.

Estimated Sarbanes-Oxley compliance budget for the coming fiscal year, excluding external audit-related fees

Base: All respondents



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

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

External Auditors – Costs and Reliance on Work of Others

While most companies, regardless of size or industry, believe external audit costs would decrease if compliance with Sarbanes-Oxley Section 404(b) was not required, one in four organizations believe their external audit fees would stay the same. Nearly 20 percent believe their costs would decrease 20 to 30 percent. These trends remain steady when examining the results of large, midsize and small organizations.

Change in external audit fees

Base: All respondents

	Large	Midsize	Small
Increase more than 30%	4%	3%	4%
Increase 20-30%	4%	3%	0%
Increase 10-19%	4%	5%	11%
Increase less than 10%	3%	4%	0%
Stay the same	23%	26%	38%
Decrease less than 10%	14%	10%	4%
Decrease 10-19%	11%	18%	11%
Decrease 20-30%	20%	17%	25%
Decrease more than 30%	17%	14%	7%

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

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

According to the survey results, 72 percent are satisfied that external audit firms are maximizing their reliance on work performed by others for low-risk processes, and 67 percent of respondents expressed this same satisfaction with regard to moderate-risk processes. For both types of processes, this represents a slight decrease in satisfaction from last year's results (even though satisfaction remains high).

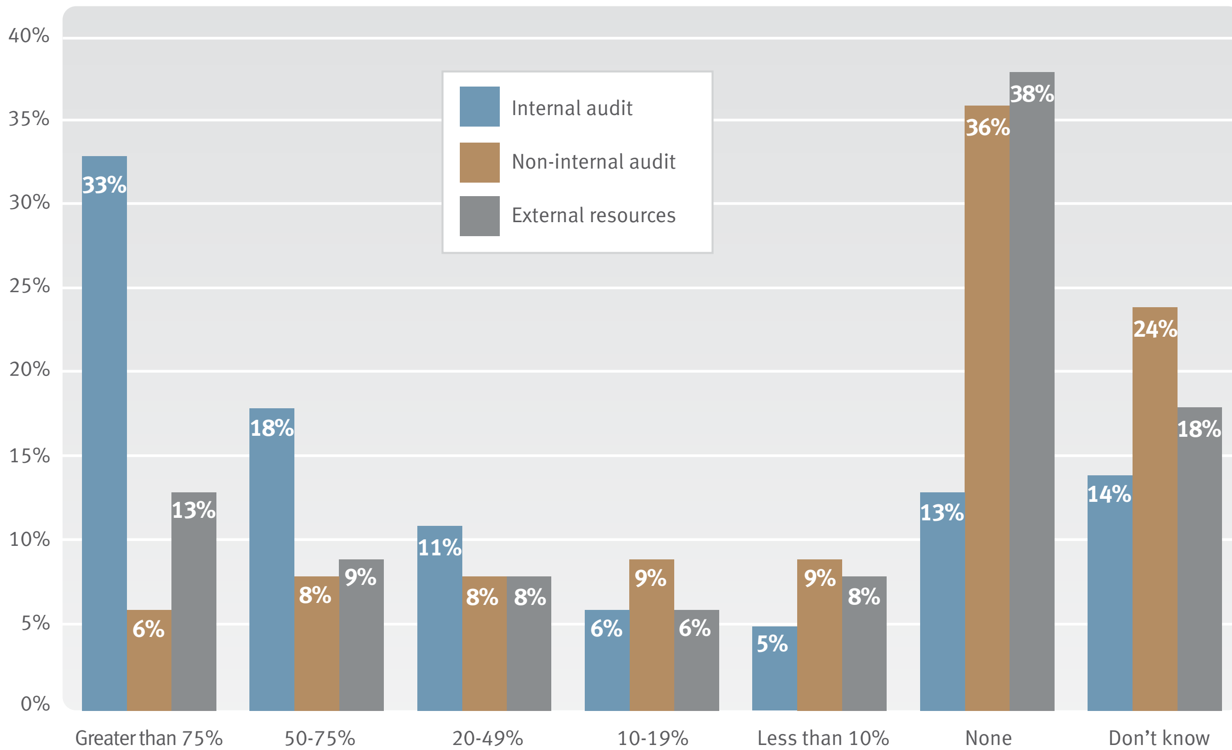
Similar to the results from previous years of this study, for both low- and moderate-risk processes, most of the work relied upon by external auditors is performed by the internal audit function. When examining the results by company size, internal audit remains the "go-to" group for the external auditors. This underscores the importance of a strong internal audit function in supporting the external auditor's review, which will increase efficiency in the compliance process and help reduce overall compliance costs.

(Note: By their very nature, high-risk processes generally receive more attention from and effort by the external auditor. Such emphasis is generally required by the PCAOB's AS5. Thus, the work of others is not relied upon at all or as much for those processes as compared to low- and moderate-risk processes.)

One key point: These responses were compiled in late 2011 and early 2012, prior to the release of more recent PCAOB inspection results that are driving external audit firms to re-examine their audit processes and potentially perform more work on their audits of financial statements and the effectiveness of internal control over financial reporting going forward. Time will tell whether these expanded audit procedures will be performed by the auditor with very little reliance on the work of others.

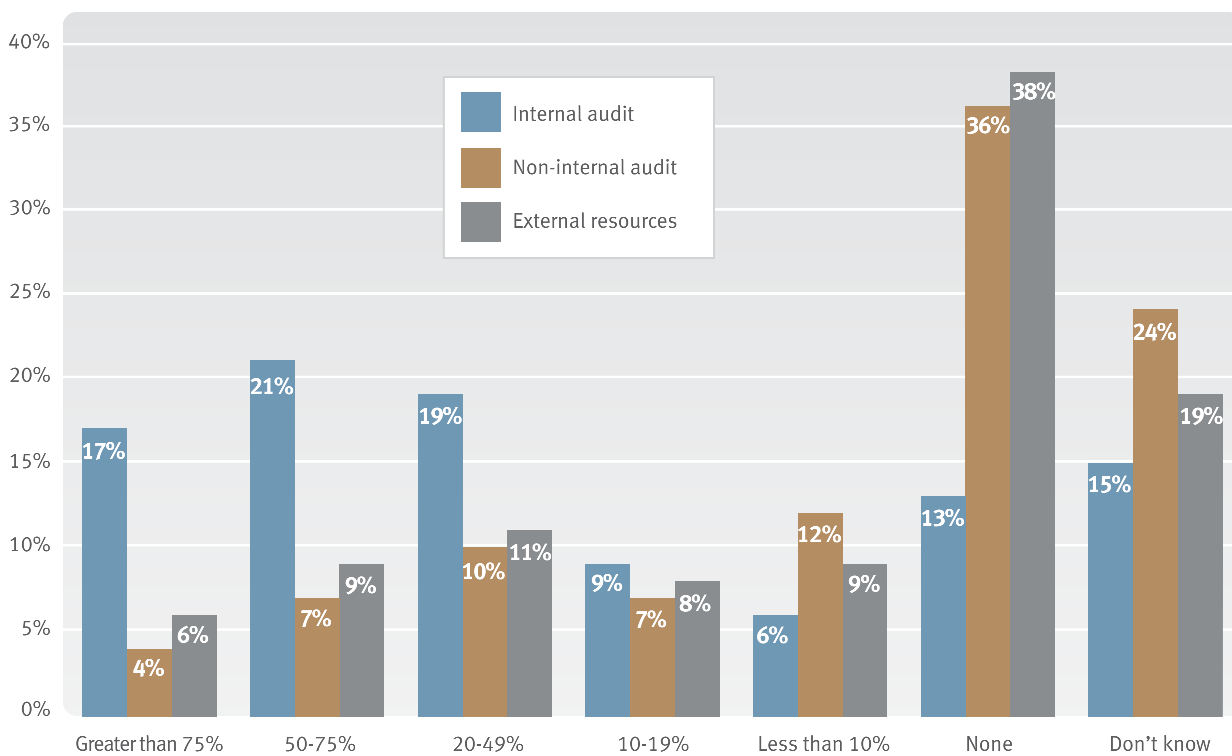
For low-risk processes, what percentage of Sarbanes-Oxley compliance work completed by your organization does your external auditor rely upon?

Base: All respondents



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

Base: All respondents



Monitoring Compliance Time and Costs

Respondents were asked if their organizations track and report hours and costs required to comply with Sarbanes-Oxley each year. Compared to last year's survey results, there is a slight downward trend in organizations tracking this information. This could be due to the process becoming routine and organizations believing they have the compliance process under control.

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

- Not surprisingly, just 18 percent of small companies track and report on hours and costs, while the percentages for midsize companies mirror the overall results (37 percent versus 38 percent), and large companies are higher at 49 percent. These findings support the prevailing view that midsize and large companies are more likely to implement a project management discipline over the compliance effort (although fewer midsize organizations appear to be tracking this information compared to last year).
- A smaller number of Year One and pre-Year One organizations track hours and costs. By Year Four – perhaps a time when organizations begin delving more deeply into opportunities for cost savings and greater efficiencies in the compliance process – almost half track hours and costs. These results remain the same for those beyond the fourth year of compliance.

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

Base: All respondents

	Overall		Large		Midsize		Small	
	2012	2011	2012	2011	2012	2011	2012	2011
Yes	38%	45%	49%	44%	37%	47%	18%	18%
No	62%	55%	51%	56%	63%	53%	82%	82%

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

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

	Overall		Pre-1st year		1st year		2nd year		3rd year		4th year		Beyond 4th year	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Yes	38%	45%	10%	18%	20%	38%	14%	58%	21%	75%	43%	37%	44%	47%
No	62%	55%	90%	82%	80%	62%	86%	42%	79%	25%	57%	63%	56%	53%

Key Strategies and Metrics for Improving the Compliance Process

We have streamlined our processes to focus on high-risk and material/significant exposure to our financial statements.

Chief audit executive, midsize manufacturing company

Now that most organizations have reached the point at which they are refining the Sarbanes-Oxley compliance process, it is important to examine the make-up of the internal control structure. How did organizations reach this point of tweaking processes versus drastically changing them? Are internal controls still heavily manual in nature? Or have organizations evolved in relying upon entity-level controls and automated controls?

Internal Control Population Metrics

Respondents were asked to compare the number of entity-level controls versus the number of process-level controls they documented for the first year of compliance and for fiscal year 2011. The results indicate that the number of entity-level and process-level controls dropped significantly during this timeframe. With the emphasis on a top-down, risk-based approach supported by the SEC narrowing the focus to what really matters, this downward trend in the controls population is to be expected. The PCAOB's AS5 supports this approach.

Entity-level vs. process-level controls

Base: All respondents

	Entity-level controls	Process-level controls
First year of compliance	173	824
Fiscal year 2011	91	401

When asked what percentage of these process controls were classified as "key controls" for the purpose of evaluating the effectiveness of internal control over financial reporting, respondents also reported significant drop off between the first year of compliance and fiscal year 2011 (see table on following page). In the initial years of Sarbanes-Oxley compliance, organizations were new to the process and understandably lacked knowledge in how to determine which controls were key. Once they grew more experienced and their Sarbanes-Oxley compliance processes matured, companies became better at planning and scoping the compliance process and recognizing which controls have a more material impact.

The Key Role of Entity-Level Controls

Entity-level controls are the foundation for internal control, providing discipline and structure to the organization. These controls can take different shapes through the control environment, information and communication process, monitoring, risk assessment process, and fraud prevention. If entity-level controls are strong and supported with effective analytics and monitoring applied in specific areas affecting significant financial reporting elements, the scope-setting stage of the project should consider this fact. Such controls could reduce reliance on the more detailed process controls and reduce testing requirements, thus driving organizations further down the path of cost and project efficiencies.

What percentage of Sarbanes-Oxley-related process controls are classified as "key controls" for purposes of evaluating the effectiveness of internal control over financial reporting?

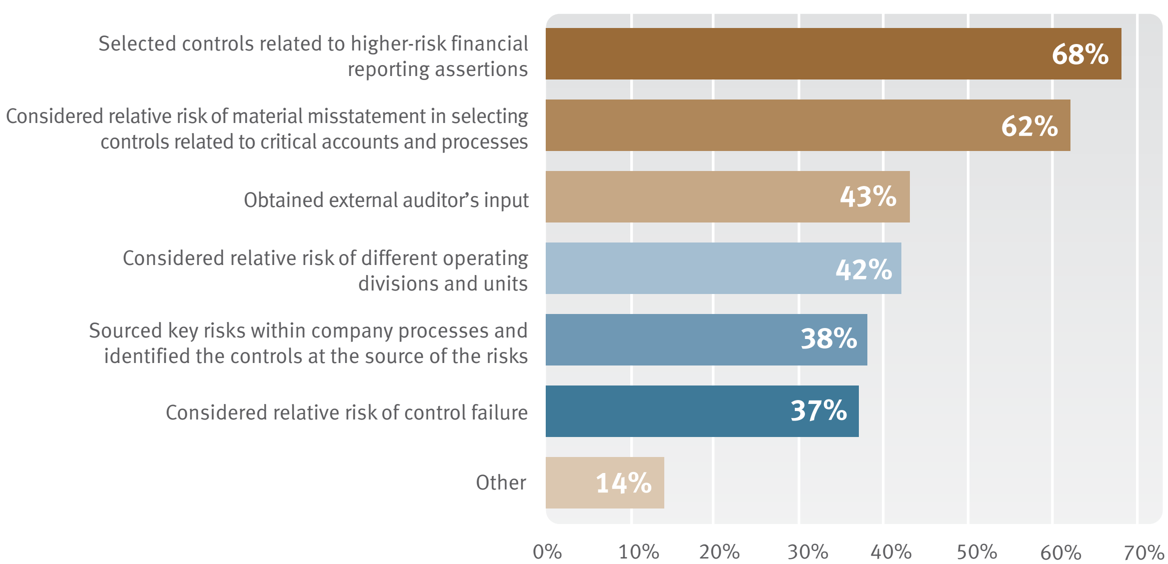
Base: All respondents

	First year of compliance	Fiscal year 2011
Greater than 75%	45%	38%
50-75%	19%	21%
20-49%	10%	18%
10-19%	3%	6%
Less than 10%	1%	1%
None	3%	3%
Don't know	19%	13%

When asked how their organizations reduced the overall controls population to the present number of key controls, respondents most frequently cited identifying controls related to high-risk areas affecting the financial statements along with controls related to critical accounts where material misstatement is highly possible. Both reflect the top-down, risk-based approach supported by the SEC's interpretive guidance and PCAOB AS5. While at first such actions may seem to increase risk, it is likely that organizations instead are eliminating redundancies and inefficiencies in their control populations.

How did your organization reduce the overall controls population to the present number of key controls?

Base: All respondents



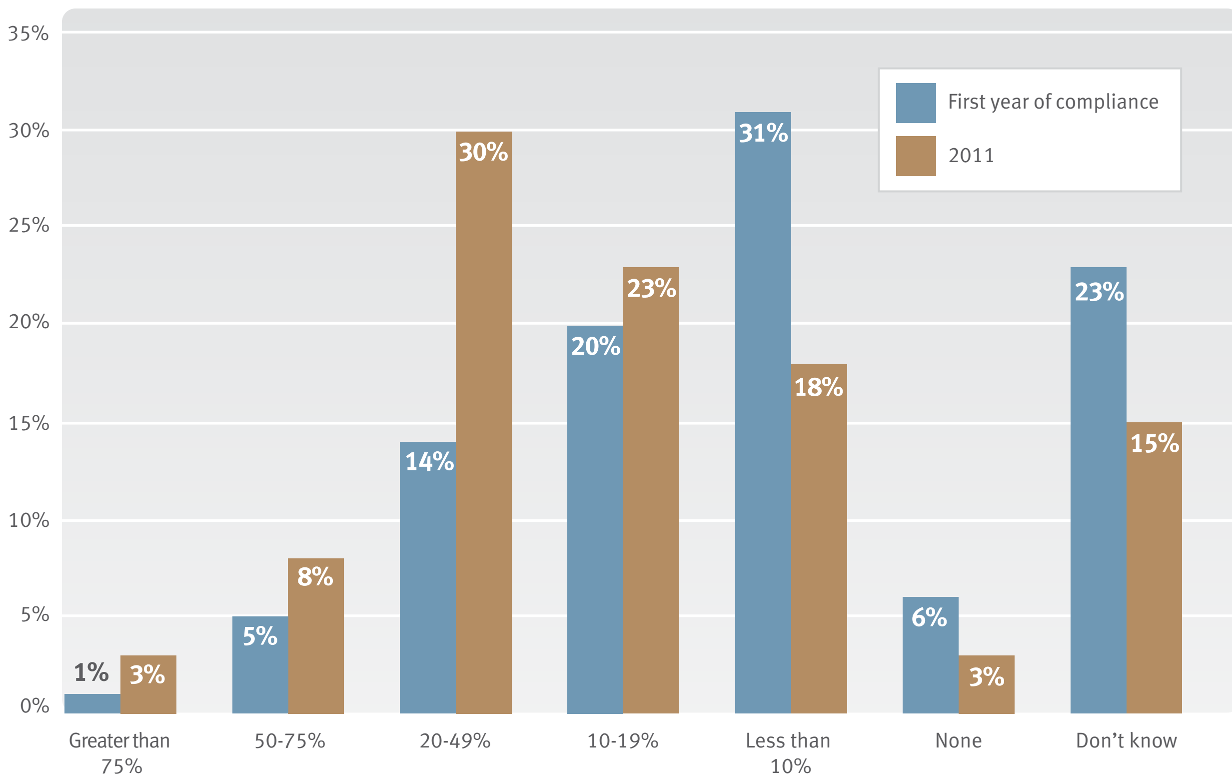
Automation of Processes and Controls

There continue to be opportunities for organizations to automate more of their key controls, which establishes a proactive/preventive tone to the internal control environment and supports the mission to simplify and streamline business processes. Moreover, automating more controls may represent the "final frontier" in terms of significant process improvement and cost savings. Automation of controls makes sense when there are opportunities to support a mission to simplify and streamline business processes in addition to establishing a proactive and preventive tone to the design of internal controls. Accordingly, automation is both a quality and efficiency play.

In a positive development, the results show a significant increase in the number of key controls that were automated controls for organizations during the last fiscal year of compliance compared to the first year of compliance. Specifically, 41 percent of companies show that at least 20 percent of their key controls currently are automated compared to 20 percent of companies in the first year of compliance.

Percentage of automated key controls compared to total key controls

Base: All respondents



To what extent do organizations plan to further automate their manual processes and controls? Overall, only 12 percent of respondents indicated significant plans are in place to automate a broad range of IT processes and controls. But, as noted in the accompanying chart (see page 23), most organizations do have plans to automate at least some processes and controls.

While they are the most in need of automation, small organizations seem hesitant to invest in this area. On the other hand, close to half of all midsize and large organizations, most of which are more mature in their Sarbanes-Oxley compliance processes than are small companies, have significant or moderate plans to continue down the automation path. Smaller companies may have more limitations on the degree of controls automation they can ultimately achieve due to having less pervasive IT systems and more financial reporting and accounting processes that are highly manual.

Plans to automate manual processes and controls

Base: All respondents

	Overall			Large			Midsize			Small		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
No plans to automate any further	17%	20%	22%	15%	14%	12%	16%	18%	22%	35%	53%	43%
Minimal plans to automate selected IT processes and controls	37%	45%	44%	33%	44%	45%	39%	47%	45%	31%	29%	31%
Moderate plans to automate numerous IT processes and controls	34%	27%	28%	36%	35%	33%	33%	26%	27%	34%	18%	24%
Significant plans to automate a broad range of IT processes and controls	12%	8%	6%	16%	7%	10%	12%	9%	6%	0%	0%	2%

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

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

Current and Planned Strategies to Improve the Control Structure

Respondents were provided a list of various Sarbanes-Oxley compliance strategies and asked to identify those they are employing or planning to employ.

For the current year, the strategies used by at least 40 percent of respondents to streamline the control structure and compliance process are:

- Maximize lessons learned from previous years/peers (54 percent)
- Use of a risk-based testing approach (52 percent)
- Establish process owner accountability (51 percent)
- Tighten overall assessment scope (44 percent)
- Deploy top-down validation approach beginning with entity-level controls and monitoring (43 percent)
- Eliminate the root cause of exceptions and errors to “build in” quality to the process (42 percent)
- Eliminate activities and tasks that are unnecessary or add no value (41 percent)
- Reduce number of key controls (40 percent)
- Reduce the total population of controls (40 percent)

> [Planned changes for 2012 include] reducing scope and testing level for non-key controls; incorporating more automation into controls; attempting to get external auditor to increase reliance on PMO and self-assessment work.
>
> Corporate Sarbanes-Oxley/PMO leader, midsize utilities company

With respect to the tactics that significantly or moderately decreased compliance costs, the approaches used by at least 25 percent of the respondents are:

- Reduce number of key controls (36 percent)
- Reduce the total population of controls (34 percent)
- Tighten overall assessment scope (32 percent)
- Decrease the number of manual controls (30 percent)
- Increase the number of automated controls (29 percent)
- Centralize common processes and functions (26 percent)
- Consolidate IT processes, platforms and systems (25 percent)

These results are understandable given their focus on achieving greater efficiency, effectiveness and continuous improvement in the Sarbanes-Oxley compliance process and internal control environment. While the above findings will not surprise those who are highly experienced with Section 404 compliance, they do provide insight as to what many companies are doing.

A decade after passage of the Sarbanes-Oxley Act, companies are still learning and working to improve continuously the quality of their internal controls as well as the effectiveness and efficiency of their compliance processes. Strategies cited most frequently by respondents as ones they are planning to employ in 2012 or beyond include:

- Decrease in number of manual controls
- Increase in number of automated controls
- Increase in number of monitoring controls

These strategies support the goal to increase automation, as discussed earlier. Transitioning from manual to automated controls and implementing entity- and process-level monitoring techniques show that organizations are recognizing the importance of streamlining process reviews through monitoring techniques.

Strategies that most organizations have no plans to employ include:

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

To illustrate further, the top 15 approaches respondents plan to employ in 2012 and beyond to streamline the control structure and compliance process are presented in the following table (percent planning to employ the approach noted):

Strategies – current vs. planned

Base: All respondents

	Planning to employ in 2012	Planning to employ beyond 2012
Increase number of automated controls	20%	15%
Decrease number of manual controls	20%	12%
Increase number of monitoring controls	18%	8%
Reduce the total population of controls	17%	3%
Reduce/streamline level/quality of documentation	16%	6%
Reduce number of key controls	16%	5%
Tighten overall scope	16%	3%
Use continuous monitoring tools or techniques	13%	14%
Consolidate IT processes, platforms and systems	13%	12%
Eliminate activities and tasks that are unnecessary or add no value	13%	7%
Use data mining and analytics to increase understanding of process performance	12%	10%
Improve quality and compression of time in business processes affecting financial reporting	11%	8%
Simplify activities, workflow and tasks for key processes affecting financial reporting	11%	7%
Align compliance strategies with business strategies	11%	6%
Accelerate the timing of selected control tests	11%	4%

Interestingly, automation is at the top of the list. The study indicates that a significantly higher number of large companies report they are at or near the end of their efforts to improve the maturity of their Sarbanes-Oxley compliance processes. This is to be expected given the amount of time these organizations, as large accelerated filers, have invested in compliance relative to accelerated and nonaccelerated filers. However, as noted earlier, automation provides significant improvement opportunities in terms of greater efficiencies and long-term cost savings for companies that have been complying with Sarbanes-Oxley for years.

Finally, respondents were asked about the impact of these strategies in terms of cost. Appropriately, the top-ranked areas with regard to expected or projected cost savings were reduction in the number of key controls and tightening of overall scope – areas that cause Sarbanes-Oxley costs to skyrocket during the initial years of compliance. This is consistent with the 2011 results. Clearly, the top cost driver in the compliance process is the number of key controls. Increase in number of automated controls comes in at a close third.

These three strategies support the focus to eliminate waste. Organizations now appear focused on quality and efficiency and how they can effect positive changes in areas beyond internal control over financial reporting.

Value and Benefits

Primary Benefits of Sarbanes-Oxley Compliance

WE CONSTANTLY LEVERAGE SOX COMPLIANCE TO DRIVE CONTINUOUS IMPROVEMENT EFFORTS AND TO KEEP THE FOCUS ON OUR CONTROL ENVIRONMENT.

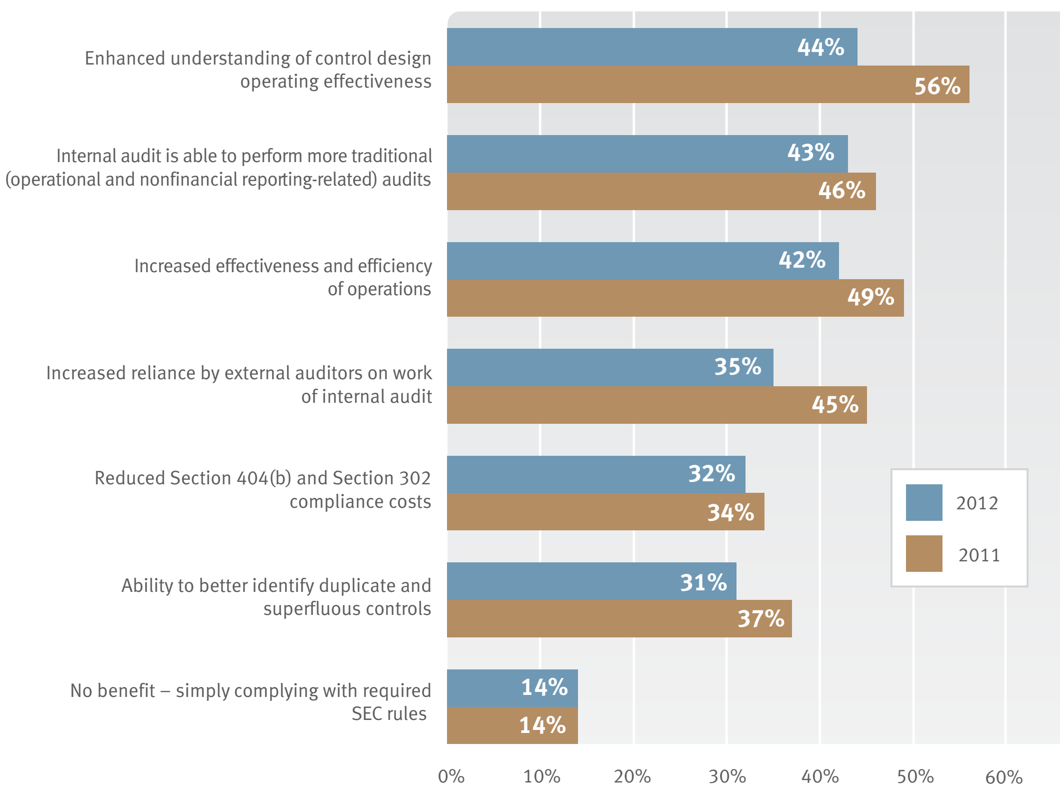
Audit director, midsize utilities company

Similar to findings from previous years of the study, the most notable benefits of Sarbanes-Oxley compliance are viewed to be an enhanced understanding of control design and operating effectiveness, internal audit's ability to perform more traditional audits, and increased effectiveness and efficiency of operations.

Of note, the percentage of responses in these top categories is markedly lower than those from the 2011 survey. While this may be a statistical anomaly, it does underscore a general trend seen throughout the findings of this year's survey showing that organizations may be deriving fewer benefits and less value from their Sarbanes-Oxley compliance processes than in previous years, or at least perceive this as such.

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

Base: All respondents



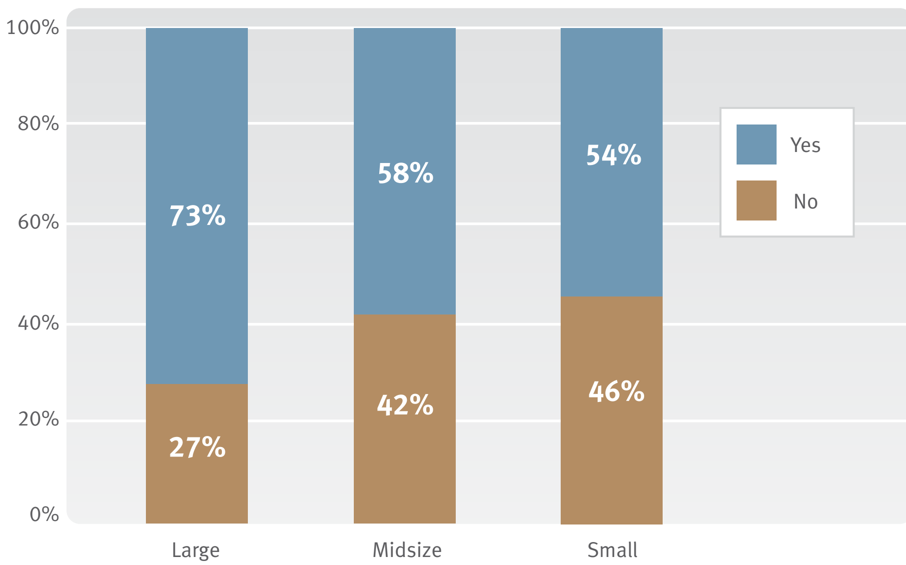
Leveraging Sarbanes-Oxley to Drive Continuous Improvement Efforts

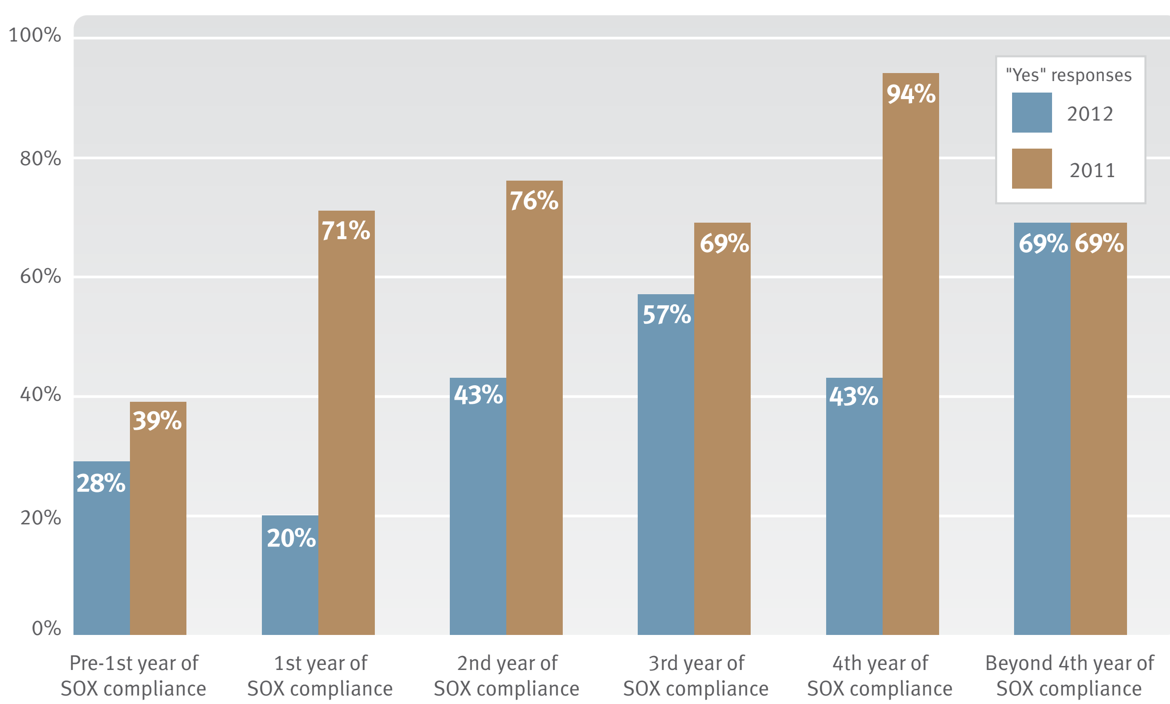
As expected, compared to small and midsize companies, more large organizations (73 percent) leverage their Sarbanes-Oxley compliance efforts to drive continuous improvement in business processes that affect financial reporting. And a significant majority of organizations that are beyond their fourth year of compliance (69 percent) do so.

The results do indicate a significant drop-off in these efforts compared to those reported in the 2011 survey, and even in previous years of the study.

Does your organization currently leverage Sarbanes-Oxley compliance efforts to drive continuous improvement of business processes that affect financial reporting?

Base: All respondents





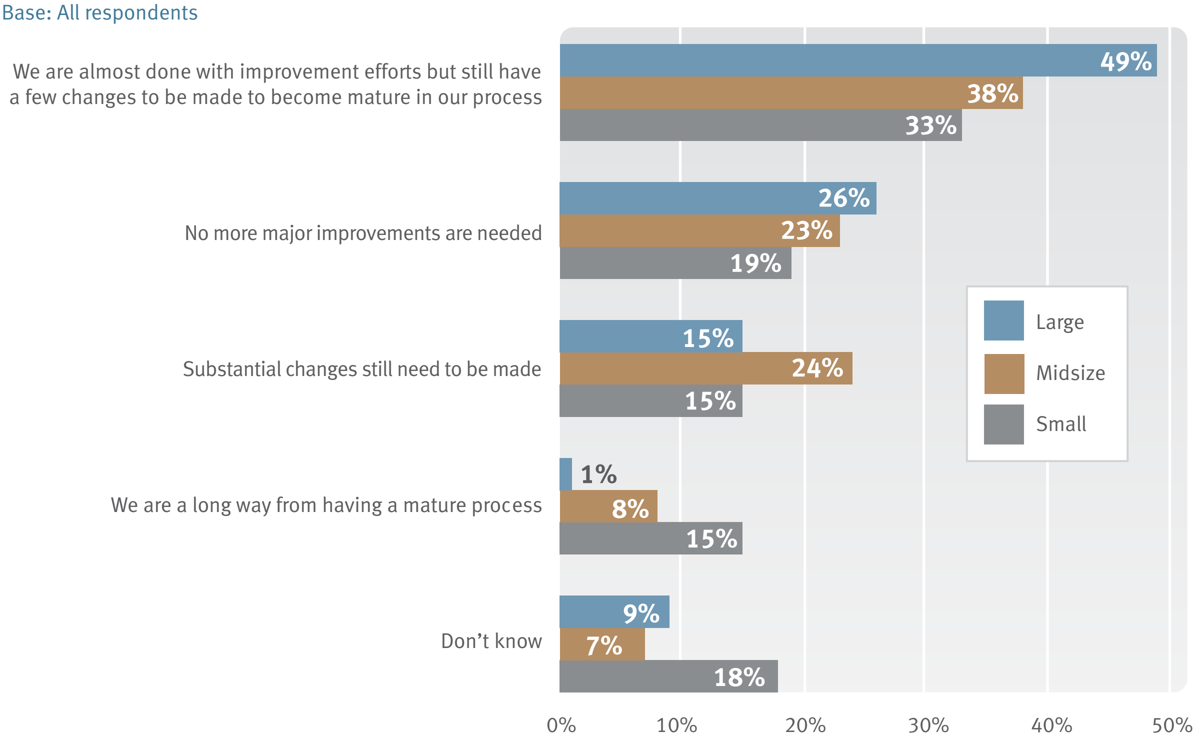
> The value is in how you build SOX into the culture of your organization. Process owners need to realize they own the process/controls (not internal audit) and the documentation needs to be multipurpose (training tool for employees, supports management conclusions, and usable by external auditors).
>
> Chief audit executive, midsize hospitality company

In addition, compared to the overall results, a significantly higher number of large companies report they are at or near the end of efforts to improve the maturity of their Sarbanes-Oxley compliance processes. This is to be expected given the amount of time these organizations, as large accelerated filers, have spent on Sarbanes-Oxley compliance relative to accelerated and nonaccelerated filers.

The findings are similar when viewing the results by year of Sarbanes-Oxley compliance.

How would you describe the overall status of your efforts to improve the maturity of your Sarbanes-Oxley compliance process?

Base: All respondents



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Small = Companies with revenues less than $100 million

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

How would you describe the overall status of your efforts to improve the maturity of your Sarbanes-Oxley compliance process?

Base: All respondents

	Pre-1st year		1st year		2nd year		3rd year		4th year		Beyond 4th year	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
We are almost done with improvement efforts	11%	10%	30%	29%	14%	61%	21%	44%	64%	44%	45%	52%
Substantial changes still need to be made	19%	19%	60%	71%	43%	22%	36%	19%	21%	6%	19%	16%
We are a long way from having a mature process	35%	14%	10%	0%	0%	6%	14%	13%	7%	11%	3%	3%
No more major improvements are needed	5%	19%	0%	0%	14%	11%	21%	19%	0%	33%	29%	24%
Don't know/Other	30%	38%	0%	0%	29%	0%	8%	5%	8%	6%	4%	5%

Evolving Maturity of the Compliance Process

Sarbanes-Oxley Compliance Process Becomes More Sustainable

Survey participants were asked about the sustainability of their organization's Sarbanes-Oxley compliance program using the Capability Maturity Model (this model, adapted from the Carnegie Mellon Institute, is explained in detail in Appendix A). Respondents provided this rating collectively for all fiscal years prior to 2010, as well as for 2010, 2011 and plans for 2012.

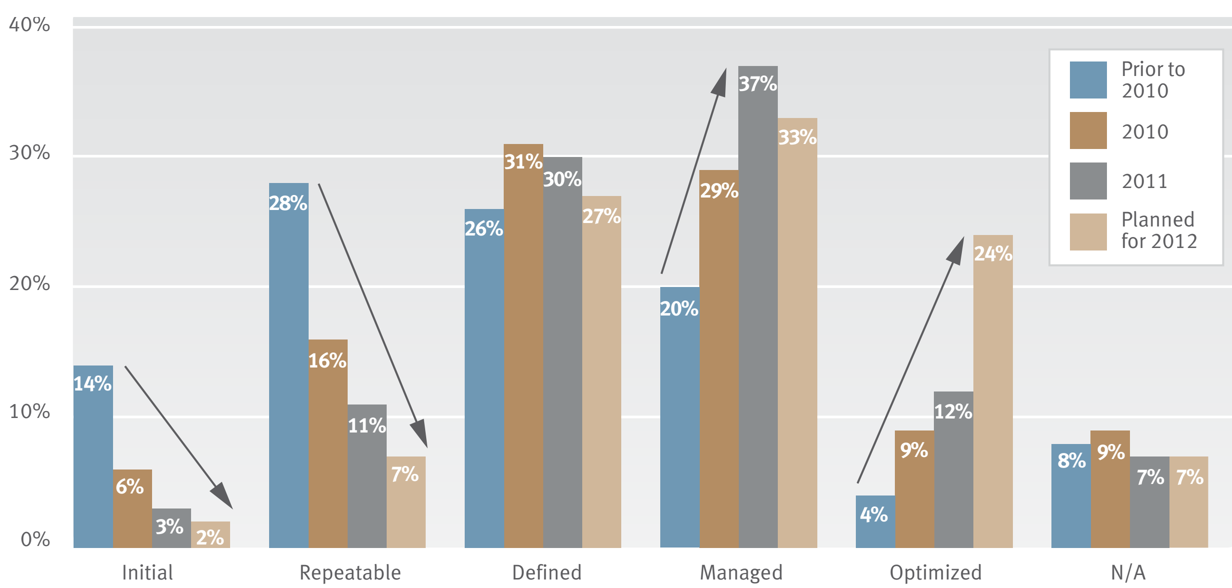
Among the more notable findings, nearly one in four organizations (24 percent) plan to optimize their Sarbanes-Oxley compliance programs in 2012. Also evident are positive downward and upward trends over time in the Initial, Repeatable and Optimized stages. For example, 28 percent of organizations report that their compliance program was at the Repeatable stage in the years prior to 2010, while just 7 percent plan to achieve that stage in 2012. Conversely, for the Optimized stage, just 4 percent had achieved that level prior to 2010 and 24 percent have targeted it for 2012. These trends are denoted with the arrows in the chart. These findings convey a clear trend toward improving the maturity of the internal control structure and compliance process over time.

Interestingly, in comparing these results to those from the 2011 survey, there are significant differences.[6] Specifically, according to the 2012 findings, fewer organizations appear to be looking to Optimize, while more are planning to reach the Defined and Managed stages.

Achieving an Optimized state of Sarbanes-Oxley compliance can be an expensive endeavor – and one that may not be needed if there is a point of diminishing returns. For many organizations, a Sarbanes-Oxley compliance program at the Defined or Managed state is sufficient to achieve their goals and drive commensurate value from these efforts. This is an important and flexible aspect to applying the Capability Maturity Model, as companies are free to decide the appropriate level of capability necessary to achieve their financial reporting objectives based on their unique circumstances.

How would you rate the sustainability of your organization's Sarbanes-Oxley compliance program for each of the following fiscal years?[7]

Base: All respondents



[6] To view last year's results, read Protiviti's *2011 Sarbanes-Oxley Compliance Survey*, available at **www.protiviti.com/SOXsurvey**.

[7] Using the Capability Maturity Model (adapted from the Carnegie Mellon Institute).

Sarbanes-Oxley Efforts Have Largely Moved In-House

Respondents were asked how many outside organizations their companies use as Sarbanes-Oxley advisers to assist with the compliance process. Interestingly, the results show that after a significant increase in bringing work in-house in 2011 (as well as in prior years, as evidenced in previous editions of this survey), the trend reversed this year, most notably within large companies. For example, within these organizations, there was a 16 percent drop off among those reporting they perform all Sarbanes-Oxley work internally, and an 18 percent increase among those that use two to three organizations.

These findings may represent a statistical anomaly that will correct itself in next year's survey, or perhaps suggest a trend in which some companies are beginning to rely more on external service providers to assist with Sarbanes-Oxley compliance work so that internal teams can focus more on higher-level and strategic initiatives.

Regarding Sarbanes-Oxley compliance in the last fiscal year, how many outside organizations did you use as Sarbanes-Oxley advisers to assist with completing this work?

Base: All respondents

	Large		Midsize		Small	
	2012	2011	2012	2011	2012	2011
None – All work performed internally	51%	67%	45%	48%	53%	55%
Used one organization exclusively	24%	28%	35%	37%	33%	19%
Used two to three organizations	23%	5%	17%	13%	7%	21%
Used more than three organizations	2%	0%	3%	2%	7%	5%

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

Internal Audit Still Has Primary Responsibility

Consistent with results from previous years of the study, the 2012 survey findings show that, more than any other department, the internal audit function within organizations has primary responsibility for overseeing and organizing Sarbanes-Oxley compliance efforts.

Not surprisingly, there are some notable differences when looking at the results by company size. For example, within large companies, 25 percent have assigned oversight and organizational responsibilities for Sarbanes-Oxley work to a project management office (PMO), whereas just 8 percent of midsize companies have a PMO in place for this purpose (and no small companies report having one in place). Also, large companies tend to spread oversight and organizational responsibilities for Sarbanes-Oxley compliance among various functions in the company – though internal audit maintains these responsibilities more than any other function, there are still more than two out of three large companies that have other functions managing these duties.

Of course, it is important to note that, with regard to internal audit, its Sarbanes-Oxley compliance-related role should be on oversight and organizational-related activities, not on doing the actual compliance work, performing controls or making management decisions. Internal control is the responsibility of every function in the organization, starting with management and process owners and including, from an oversight perspective, the board of directors.

The overall results, as well as those for large and midsize companies, are largely consistent with the results reported in 2011. The results for small companies show a noticeable jump in responsibility allocated to internal audit, signaling that more of these companies may be establishing an internal audit function. The finding relating to a PMO makes sense as larger and more complex compliance requirements call for a strong project management discipline.

Who in your company has primary responsibility for overseeing/organizing Sarbanes-Oxley compliance efforts?

Base: All respondents

	Overall		Large		Midsize		Small	
	2012	2011	2012	2011	2012	2011	2012	2011
Internal audit	42%	46%	30%	29%	48%	54%	27%	0%
Audit committee	13%	12%	10%	11%	14%	12%	10%	19%
Executive management	13%	10%	13%	6%	10%	8%	33%	38%
Project management office (PMO)	11%	9%	25%	24%	8%	7%	0%	0%
Management and/or process owners	8%	7%	13%	14%	7%	6%	7%	5%
Business/financial controls unit	7%	6%	8%	10%	7%	4%	7%	10%
External auditor	1%	1%	0%	0%	0%	1%	7%	4%
General counsel	1%	-	1%	-	0%	-	3%	-
Third-party service provider	0%	1%	0%	0%	0%	1%	0%	0%
Other	4%	8%	0%	6%	6%	7%	6%	24%

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

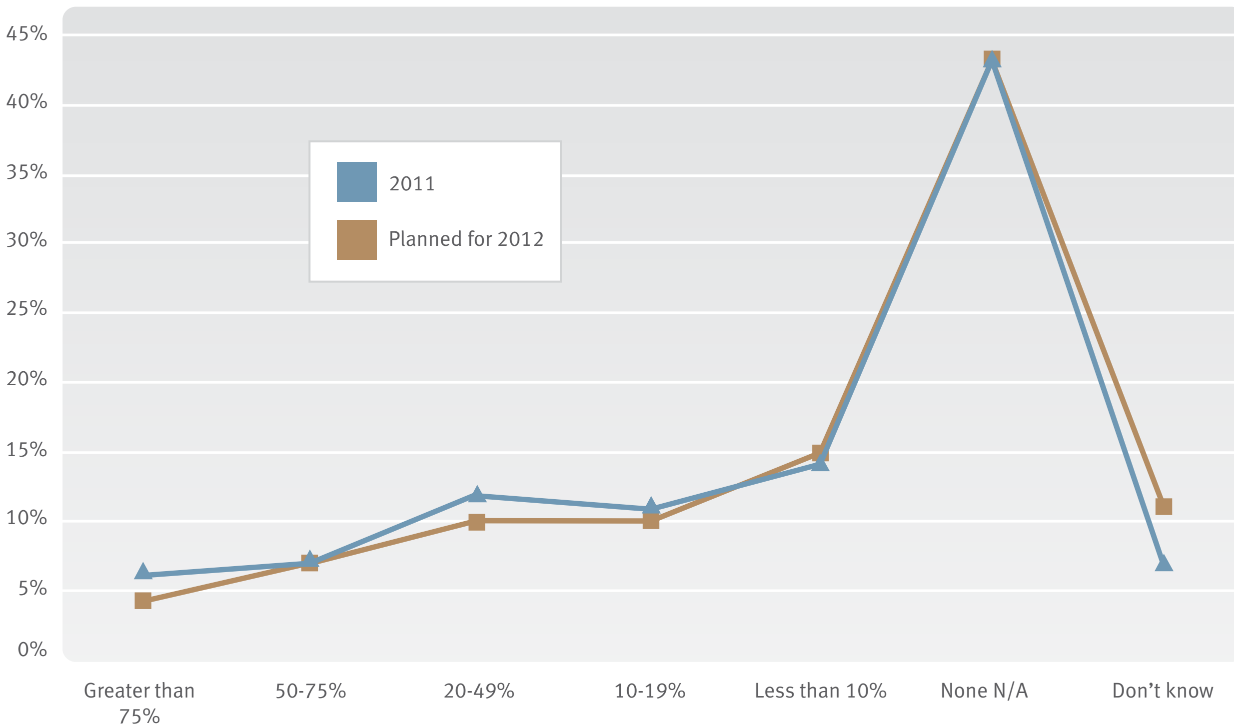
Outsourcing Trends

Respondents were asked about the extent to which their organizations outsourced Sarbanes-Oxley compliance efforts to external service providers (excluding the external audit firm) in 2011, as well as plans in place to outsource these activities in 2012. They also were asked how much of these efforts are outsourced specifically to their external audit firm.

As indicated in the graph below, there is a high level of consistency around what was done in 2011 and what is planned for 2012. For both years, 43 percent of companies did not and will not outsource any of this work (this is relatively consistent with the results reported in the previous section, "Sarbanes-Oxley Efforts Have Largely Moved In-House"). One in four outsource less than 20 percent of their Sarbanes-Oxley compliance activities. As noted, a small number of organizations do outsource a significant percentage of this work.

Sarbanes-Oxley outsourcing trends

Base: All respondents



Survey participants also were asked if there had been any change in their organization's use of outside resources specifically for Sarbanes-Oxley Section 404(b)-related activities in 2011 as compared to 2010.

- 70 percent reported no change.
- 19 percent decreased their use of outside resources.
- 11 percent increased use of outside resources.

These results are comparable to those from 2011. There are, however, some notable year-over-year differences in the reasons cited for increasing or decreasing the use of outside resources.

Reasons for decreasing use of outside resources for Sarbanes-Oxley Section 404(b)-related activities

- 66 percent cited bringing more activities in-house (compared to 34 percent in 2011).
- 40 percent cited hiring more in-house resources (compared to 17 percent in 2011).
- 31 percent cited decreasing the scope of Section 404(b) work – number of controls, locations, etc. (compared to 19 percent in 2011).

These results are relatively consistent across company size.[8]

Reasons for increasing use of outside resources for Sarbanes-Oxley Section 404(b)-related activities

- 35 percent cited trading the use of in-house resources with outside resources (compared to 22 percent in 2011).
- 33 percent cited increasing the scope of Section 404(b) activities (compared to 22 percent in 2011).

Here, there are some interesting differences among the company-size results. Specifically, 50 percent of respondents from large companies reported the reasons noted above, as well as reductions in in-house personnel, to explain why they had increased their use of outside resources to assist with Sarbanes-Oxley-related work.

It is intriguing to see apparent increases in the use of outside resources for Sarbanes-Oxley efforts related to the auditor attestation requirements, as well as the number of companies that are increasing the scope of their Section 404(b) activities. With regard to the increased use of outside resources, it is possible that organizations are beginning to recognize there may be better uses of the time of their internal staff than spending it on Sarbanes-Oxley compliance work, which becomes more mundane and procedural once organizations move beyond their fourth year of compliance.

One factor that may impact the above trends going forward is the potential for increased audit scopes by the external auditor as a result of feedback the audit firms are receiving from the PCAOB inspection process. The findings of the PCAOB inspections are driving some firms to re-examine their audit approaches in specific areas. For example, the following 10 areas are ones we are aware audit firms are discussing with their audit clients and may be attributable to PCAOB inspection findings:

1. Increased focus on process documentation, control design assessments and testing for high-risk processes, e.g., revenue and inventory
2. Increased procedures around gaining and documenting an understanding of key business processes, including more focused reviews of walkthroughs
3. Understanding and documenting the likely sources of misstatements
4. With respect to (3), increased use of flowcharts in high-risk areas to facilitate sourcing risks of misstatements
5. A fresh assessment of the extent of coverage of multiple locations and/or business units, particularly internal locations
6. Testing of entity-level controls designed to monitor results of operations
7. Testing of controls over application of revenue recognition policies
8. Testing of controls over management judgments and estimates
9. Evaluation of the timing of testing, i.e., preliminary testing in earlier quarters and then year-end roll-forward testing
10. Testing to justify using the work of others

[8] Upon request, Protiviti can provide additional and more detailed reporting by company size.

While this list is certainly not intended as all-inclusive, it represents areas that some audit firms are discussing with their audit clients. Undoubtedly, there are other areas. And to some extent, these discussions are being driven by PCAOB inspection results. The point is that, as the audit firms expand their scopes, some companies may reconsider the extent to which they are deploying additional assistance from outside resources.

Outsourcing to the External Auditor

Survey results detailed in the table below show that very few companies are outsourcing any Sarbanes-Oxley compliance work to external auditors. However, while there is only a small percentage of organizations that report outsourcing some of this work to their external auditors, a note of caution is still appropriate. It is very important for both a company and its external auditor to ensure there is the proper level of independence in the audit process. Auditors should not be placed in a position of auditing their own work, which can easily occur if they are performing any Sarbanes-Oxley compliance-related activities.

How much of your Sarbanes-Oxley compliance effort was outsourced to your external audit firm?

Base: All respondents

	2011	Planned for in 2012
Greater than 75%	1%	1%
50-75%	1%	1%
20-49%	2%	2%
10-19%	4%	3%
Less than 10%	7%	7%
None/NA	76%	75%
Don't know	9%	11%

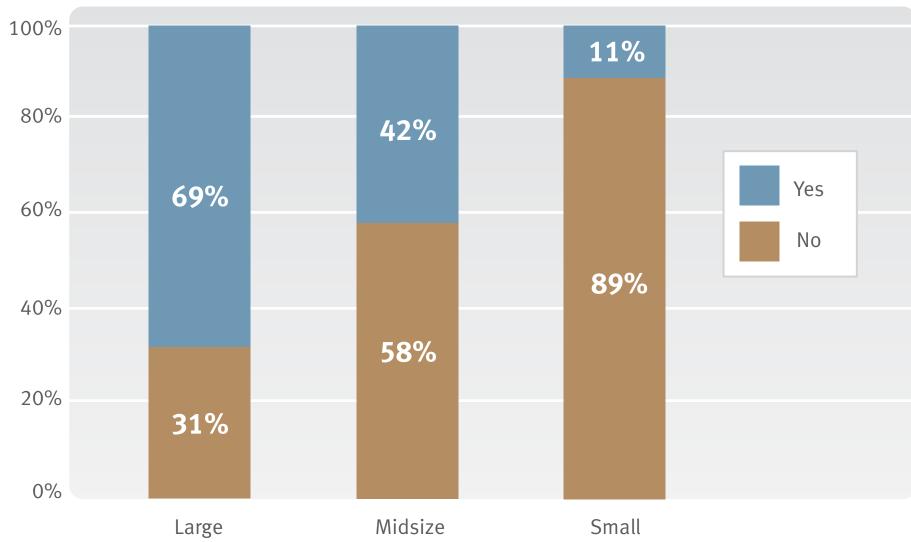
Benchmarking

As part of their continuous improvement efforts to build greater efficiencies into their Sarbanes-Oxley compliance processes, extract further value from these efforts and understand where options like outsourcing might be feasible, many organizations have begun to benchmark their Sarbanes-Oxley compliance functions on a regular basis.

Not surprisingly, according to the survey results, a higher number of large organizations have conducted such benchmarking, while relatively few small companies have done so.

Have you benchmarked your Sarbanes-Oxley compliance process activities against other organizations?

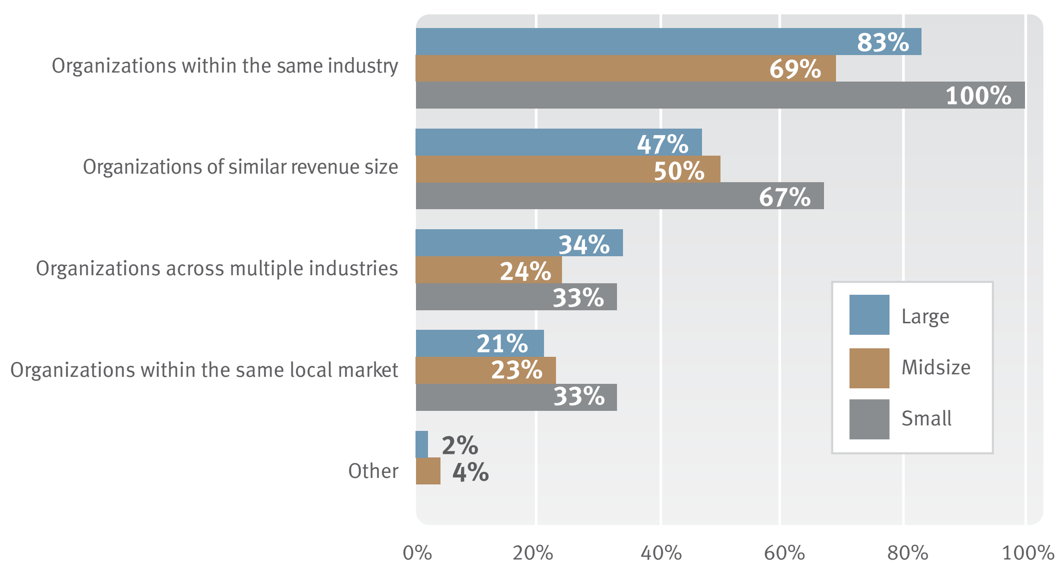
Base: All respondents



The results also confirm that many companies are focusing their benchmarking efforts on organizations within the same industry and similar revenue size category.

Type of organizations benchmarked against

Base: Respondents whose organizations have benchmarked Sarbanes-Oxley compliance process activities



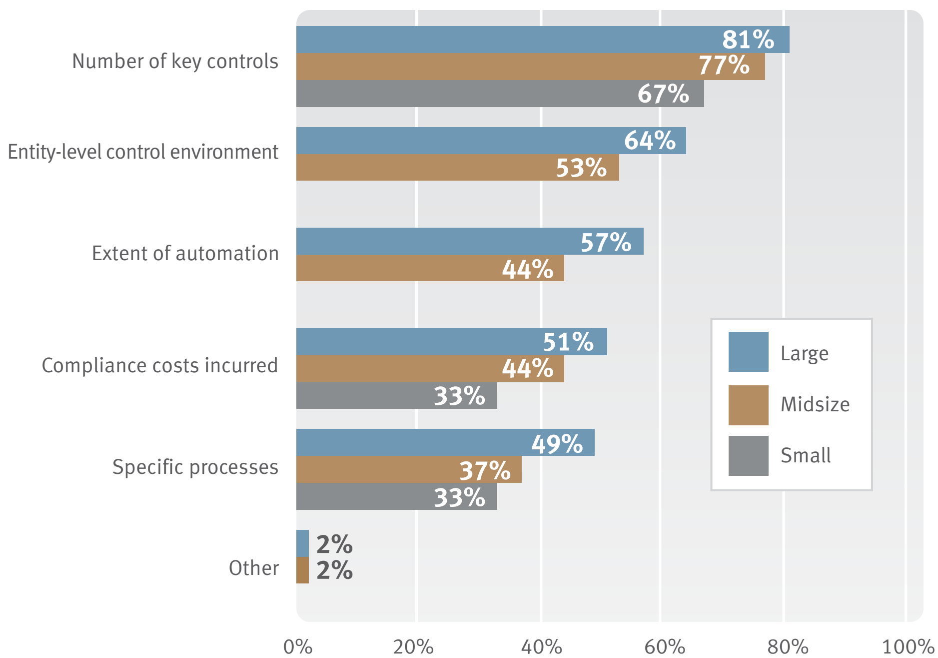
Benchmarking analyses focus primarily on:

- Number of key controls
- Entity-level control environment
- Extent of automation
- Compliance costs incurred

The results below show a breakdown of these results by company size. Of note, for every company category, the top area of focus of the benchmarking effort involves the number of key controls, while compliance costs incurred – widely seen as an area of key interest among organizations complying with Sarbanes-Oxley – is further down the list. This makes sense because the three areas on the list that are of greater importance to the benchmarking effort than the compliance costs incurred are, in and of themselves, drivers of cost.

Focus of benchmarking effort

Base: Respondents whose organizations have benchmarked Sarbanes-Oxley compliance process activities



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

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

Finally, virtually all organizations rate the benchmarking experience to be extremely or somewhat valuable.

Using a Project Management Office

In addition to the effective monitoring of the SOX assessment, our PMO has become more of a partner with control owners, advising on controls as processes are changed or enhanced. This added value to the company better supports the cost.

Chief compliance officer, midsize technology company

Similar to last year's survey results, a majority of organizations – 62 percent overall – do not employ a PMO to organize and manage their Sarbanes-Oxley compliance activities related to Section 404(b). As expected, more large companies use a PMO for these purposes, while fewer small organizations do so.

Do you currently utilize a project management office (PMO) concept related to your Sarbanes-Oxley Section 404(b) activities?

Base: All respondents

	Overall	Large	Midsize	Small
Yes	38%	57%	34%	19%
No	62%	43%	66%	81%

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

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

Storage of Process and Testing Documentation

According to the results, more than half of all companies – 51 percent – are storing their Sarbanes-Oxley Section 404(b) process and testing documentation in an electronic repository specifically designed for this purpose, either purchased from a vendor or developed internally. This is up from 45 percent as reported in 2011.

Of note, 81 percent of large companies are now using such a repository while just 8 percent are relying on a corporate server to store this information. This is a positive development, reflecting the growing priority, challenges and complexities of secure data storage and privacy, along with the significant efficiencies that can be achieved by storing this information in a secure and well-organized repository that facilitates the inevitable updates required over time as processes and controls change.

Where does your organization primarily store its Sarbanes-Oxley Section 404(b) process and testing documentation?

Base: All respondents

	Overall			Large			Midsize			Small		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
An electronic repository specifically designed for Sarbanes-Oxley compliance (purchased from a vendor)	35%	30%	32%	54%	56%	40%	31%	26%	31%	22%	0%	19%
Corporate server	33%	35%	34%	8%	13%	25%	39%	40%	36%	53%	41%	38%
An electronic repository specifically designed for Sarbanes-Oxley compliance (internally developed)	16%	15%	16%	27%	20%	23%	14%	14%	14%	9%	6%	10%
Manual files	7%	8%	9%	7%	0%	7%	7%	8%	9%	3%	29%	17%
PC hard drives	2%	2%	4%	0%	2%	1%	2%	3%	4%	3%	0%	14%
Other	7%	10%	5%	4%	9%	4%	7%	9%	6%	10%	24%	2%

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

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

Appendix A: Capability Maturity Model

The Capability Maturity Model (CMM) is a framework that describes an improvement path from an ad hoc process to a mature, disciplined process focused on continuous improvement. The CMM defines the state of a process using a common language that is based on the Carnegie Mellon Software Engineering Institute Capability Maturity Model.

The CMM consists of a continuum of five process maturity levels, enabling process owners to rate the state, or maturity, of a given process as Initial, Repeatable, Defined, Managed or Optimizing. It applies to any process within an organization and, when applied effectively, improves the ability of organizations to meet goals for cost, schedule, functionality and quality, and is a useful tool when communicating with stakeholders. This model establishes a yardstick against which to determine and pursue opportunities for improved performance.

When applying the CMM, the process must meet all criteria to rate at a given level within the model. A process is either at a stage of maturity within the CMM or it isn't. There are no "pluses" or "minuses" when applying the CMM. Management must apply the criteria based upon the facts provided by the current state analysis to rate the maturity of the process. Reasonable interpretation will be needed at times when applying the model, requiring the process owner and evaluator to use professional judgment.

PROCESS

CONTINUUM	CHARACTERISTICS OF CAPABILITY	METHOD OF ACHIEVEMENT
OPTIMIZING	OPTIMIZING FEEDBACK Issue management a source of competitive advantage	• Issue resolution strategy • Increased emphasis on taking and exploiting opportunities
MANAGED	QUANTITATIVE Issue measured/managed quantitatively and aggregated enterprisewide	• Rigorous management • Methodologies/analysis • Intensive debate on trade-off issues
DEFINED	QUALITATIVE/QUANTITATIVE Policies, processes and standards defined and institutionalized	• Uniform process • Remaining components of infrastructure • Rigorous methodologies
REPEATABLE	INTUITIVE Process repeatable, but dependent on individuals	• Common language • Qualify people assigned • Defined tasks • Initial infrastructure
INITIAL	AD HOC/CHAOTIC Dependent on heroics, institutional capability lacking	• Undefined tasks • Relies on initiative • "Just do it" • Reliance on key people

Source: Carnegie Mellon Software Engineering Institute Capability Maturity Model

Appendix B: Congress Passes JOBS Act, Reducing Regulatory Requirements for Startups

(Protiviti Flash Report, March 29, 2012)

On March 27, the House of Representatives of the U.S. Congress overwhelmingly passed the Senate-amended "Jumpstart Our Business Startups Act" (the "JOBS Act") designed to make it easier for small businesses and entrepreneurs to attract investors and access capital while complying with U.S. securities laws. President Barack Obama is expected to sign the new bipartisan legislation into law. The new law is intended to make several significant changes to the securities laws by (1) encouraging initial public offerings (IPOs) by "emerging growth companies," and (2) facilitating the ability of companies to raise capital in private and small public offerings without registration with the Securities and Exchange Commission (SEC), thereby reducing the costs and red tape associated with raising capital. The legislation passed by both houses of Congress is identical to the version initially passed by the House on March 8, with the exception of certain provisions amended to provide for additional investor protections.

The legislation creates a new category of companies – "emerging growth companies." Under the legislation, these companies are defined as having total annual gross revenue of less than $1 billion and are exempted from certain regulatory requirements until the earliest of four dates we will describe later in this Flash Report. These firms would not have to comply with Section 404(b) of the Sarbanes-Oxley Act (SOX).

During the legislative process, the bill experienced opposition. Some senators tried to reinstate across-the-board investor protections and were successful in adding one amendment that requires websites involved in crowdfunding[1] to register with the SEC and demands that companies seeking to raise money in this manner provide information on their financial status, business plans and shareholder risks. SEC chairman Mary Schapiro, institutional investors and consumer advocacy groups expressed concerns that the legislation goes too far in removing SEC oversight, opening the door to repeats of the Enron scandal. The issue expressed is that the new legislation may create greater risks for investors and ultimately could erode confidence in the capital markets.

Determining Eligibility under the Act

The JOBS Act includes easier reporting rules for businesses with less than $1 billion in sales or market capitalization preparing to go public. These "emerging growth companies" would not have to comply with Section 404(b) of the Sarbanes-Oxley Act of 2002 for up to five years. They would also need to submit two years of audited financials instead of three when they file registration statements with the SEC, and would not be required to submit the required five years of financial data, which is also currently required.

The term, emerging growth company (EGC), is defined as follows:

An issuer that had total annual gross revenues of less than $1 billion during its most recently completed fiscal year. Once designated an emerging growth company, a company retains that status until the earliest of:

a. The last day of the fiscal year of the issuer following the fifth anniversary of the date of the company's initial public offering of common equity securities;
b. The last day of the fiscal year during which the issuer had total annual gross revenues of $1 billion or more;

[1] "Crowdfunding" is a new outgrowth of social media that provides an emerging source of funding for a variety of ventures. Sometimes called "crowdsourced funding," it focuses on pooling money from individuals who have a common interest to support disaster relief, charitable causes or political campaigns, and are willing to provide small contributions toward the venture, usually via the Internet. When the goal of crowdfunding is commercial in nature and there is an opportunity for crowdfunding participants to share in the venture's profits, federal and state securities laws will likely apply. The context under the JOBS Act is to support raising money for a startup company.

c. The date on which the issuer has, during the previous three-year period, issued more than $1 billion in nonconvertible debt; or

d. The date on which such issuer is deemed to be a "large accelerated filer."[2]

The earliest of these four dates defines the limits to the duration of a company's EGC status. The JOBS Act requires that the SEC adjust the above definition for inflation every five years. While it is possible the SEC could provide them, we do not see any transitional provisions in the JOBS Act when a company loses its EGC status. For instance, assume an EGC is a December 31 year-end reporting company and, because of an unusual one-time event that was not anticipated, its revenues spiked in the fourth quarter, causing it to exceed the $1 billion threshold. Based on the language included in the JOBS Act, the annual revenue test is as of the last day of the company's fiscal year. If the company fails to meet that test by exceeding the $1 billion threshold, it loses its EGC status as of the end of that year, which would subject it to the attestation requirements of Section 404(b) for that year unless it is exempted as a nonaccelerated filer. These circumstances would require a very keen sense of anticipation, some advance preparation, as well as quick and nimble action on very short notice for the company to engage its external auditor in the Section 404(b) attestation process.[3]

The effective date of determining an EGC's status is set forth as follows:

> … an issuer shall not be an emerging growth company … if the first sale of common equity securities of such issuer pursuant to an effective registration statement under the Securities Act of 1933 occurred on or before December 8, 2011.

In summary, for purposes of determining EGC status, the provisions of the JOBS Act state that it is to be applied prospectively to all IPOs after December 8, 2011. Therefore, it does not apply to current public companies, i.e., a company cannot be an EGC if it first sold common equity in a registered offering on or before December 8, 2011. Nor would it be applied retroactively to recent new registrants below the thresholds that have not yet filed their second Annual Report on Form 10-K. In essence, the JOBS Act does not affect existing public companies, including small cap, nonaccelerated filers. In many respects, the JOBS Act, in effect, gives larger newly public companies qualifying as an EGC the same status as current small cap, nonaccelerated filers. The JOBS Act also applies to new foreign filers.

An issuer qualifying for EGC status may forego reliance on any exemption available to it. For example, if the issuer has competitors that are already reporting companies, for competitive reasons, it may choose to provide more robust disclosures. However, if the EGC chooses to comply with financial reporting requirements applicable to nonemerging growth companies, it must comply with all of the requirements. In other words, it cannot opt in or opt out of specific requirements – it is either all in or all out, with no ability to cherry-pick compliance. Furthermore, any election by the company to take advantage of its right to claim EGC status must be made at the time it files its first registration statement or Exchange Act report. If the company chooses to disclose beyond what is required of an EGC, it cannot revert back to claim an EGC exemption later on.

A Synopsis of the Act's Requirements

In effect, the JOBS Act exempts EGCs for up to their first five years on the public market from the compliance burdens of SOX Section 404(b), which is the attestation requirement of the internal controls provisions of SOX. These companies will still have to comply with Section 404(a), meaning they must file an internal

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[2] A "large accelerated filer" is an issuer that meets the following requirements at the end of its fiscal year: The issuer had an aggregate worldwide market value of the voting and nonvoting common equity held by its nonaffiliates of $700 million or more, as of the last business day of the issuer's most recently completed second fiscal quarter; the issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least 12 calendar months; the issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and the issuer is not eligible to use the requirements for smaller reporting companies in Part 229 of the Exchange Act for its annual and quarterly reports.

[3] It is possible the SEC staff may issue interpretations providing a transitional period in the case of the dates triggering the Section 404(b) attestation requirement. Unless there is such a transitional period, instances may arise where a company will be placed in very difficult circumstances. Companies and their advisers should watch for any interpretations issued by the SEC staff on these or other matters.

control report beginning with their second annual report following going public, and comply with other provisions requiring disclosures and certifications pertaining to the control environment (these disclosures and certification requirements are discussed later).

In addition to SOX, the JOBS Act is intended to reduce the costs of going public by providing newly public companies with a temporary reprieve from other SEC regulations by phasing in certain regulations over a five-year period, thereby allowing smaller companies to go public sooner and permitting a more streamlined reporting approach for smaller issuers. With respect to going public, the JOBS Act:

- Expands the eligibility requirements of SEC Regulation A to include companies conducting direct public offerings of up to $50 million, meaning the aggregate share offering amount a company can make before it must register the offering with the SEC has been increased from the prior threshold of $5 million.
- Requires the SEC to revise Rule 506 of Regulation D, which bans general solicitation and advertising in offerings that are exempt from registration under this rule, to permit general solicitation in direct public offerings, thereby broadening the investor base.
- Allows an EGC to engage in oral or written communications with qualified institutional buyers and institutional accredited investors (as defined in Rule 501 of the Securities Act) in order to gauge their interest in a proposed IPO either prior to or following the first filing of the IPO registration statement.
- Exempts from registration under the 1933 Securities Act transactions involving the offer or sale of securities by an issuer over a 12-month period of either (a) $1 million or less, or (b) if the issuer provides potential investors with audited financial statements, $2 million or less, with both amounts adjusted by the SEC for inflation.[4]
- Removes SEC regulations preventing small businesses from using advertisements to attract investors and increases the number of shareholders that can invest in a private company to 2,000, or 500 who are not accredited investors, without triggering SEC reporting requirements.[5]

The above provisions provide more flexibility for companies to "test the waters" in the investor community. During the time it takes to pursue an IPO, an issuer may need to conduct a private placement in order to raise capital to permit it to continue to carry out its business plans and to cover the expenses associated with preparing for the IPO. While the SEC has provided additional interpretive guidance that has provided greater certainty for issuers that must complete a private placement to institutional investors while they are pursuing an IPO, the ability to "test the waters" adds further flexibility, particularly as market conditions change.

With respect to reporting to the SEC, the JOBS Act:

- Permits the EGC to submit a draft registration statement on a confidential basis to the SEC staff for confidential nonpublic review prior to public filing, so long as the initial confidential submission, and any required amendments, are made public at least three weeks before the issuer's commencement of a road show.
- Permits an equity IPO registration statement with two years of audited financial statements (versus the prior three-year audited financial statement requirement).[6]
- Omits selected financial data (which is currently required for up to five years of data) for any periods preceding the earliest audited financial statements included in the initial registration statement, including within its selected financial data or in its MD&A disclosure for those periods.[7]

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[4] This refers to the so-called "crowdfunding exemption," which includes many other provisions that are beyond the scope of this Flash Report.

[5] "Non-accredited investors" are investors who purchased their shares in a "crowdfunding" transaction and investors who received their shares through employee compensation plans.

[6] This provision only applies to an equity IPO registration statement. It would not apply to other registration statements or to periodic reports such as the Annual Report on Form 10-K under the 1934 Exchange Act.

[7] This provision would apply to future registration statements and periodic reports such as the Annual Report on Form 10-K under the 1934 Exchange Act.

- Allows an EGC to adopt any new or revised accounting standards using the same timeframe as private companies if the standard applies to private companies.[8]
- Provides that an EGC may comply with the SEC's executive compensation disclosure requirements on the same basis as a smaller reporting company (generally public float less than $75 million).[9]
- Exempts an EGC from certain provisions of the Dodd-Frank Act, including current and future executive compensation-related disclosures, e.g., the "say-on-pay" vote requirement, the advisory vote on golden parachute payments requirement ("say-on-golden-parachutes"), the requirement to disclose the relationship between executive compensation and the financial performance of the company ("pay-for-performance"), and the CEO pay-ratio disclosure requirement.
- So long as it retains its EGC status, exempts the issuer from complying with:
  - The internal control attestation requirements of Section 404(b) of SOX.[10]
  - Any future PCAOB rules that might be adopted relating to mandatory audit firm rotation or supplemental auditor discussion and analysis reporting.

The JOBS Act would also implement a number of changes relating to research reports and other communications relating to EGCs.

If enacted, the JOBS Act would also amend the securities laws in ways that may impact other companies (i.e., the changes would not be restricted to EGCs). For example, the legislation would raise the thresholds for a nonlisted bank or bank holding company to terminate its Exchange Act registration from 300 shareholders of record to 1,200 shareholders of record (the same thresholds would apply for automatic suspension of a nonlisted bank's or bank holding company's reporting obligations arising from registration under the Securities Act).

The JOBS Act requires the SEC to study and report its findings to Congress on the following (the deadline for reporting to Congress is noted parenthetically below and represents the timeframe after enactment of the Act):

- The effects that trading and quoting securities in $.01 increments (known as decimalization) has had on IPOs and the liquidity of small- and mid-capitalization securities (within 90 days);
- The SEC's nonfinancial statement disclosure requirements included in Regulation S-K to determine how they can be revised to simplify the registration process and reduce the costs for EGCs (within 180 days); and
- The SEC's authority to enforce its rules relating to the determination of "holders of record" (within 120 days).

In addition, the SEC is required to provide online education and conduct outreach to inform relevant constituencies in the marketplace about the impact of the JOBS Act.

Also, Congress has mandated the U.S. Comptroller General to study the impact of state securities regulations (i.e., the so-called "Blue Sky Laws") on public offerings by private companies under Regulation A. The Comptroller General is required to submit its findings to Congress within three months after enactment of the Act.

[8] This provision would apply to future registration statements and periodic reports such as the Annual Report on Form 10-K under the 1934 Exchange Act; sometimes new accounting standards provide for a less-demanding timeline for private companies (compared to public companies) in transitioning to, and implementing, the new standard.

[9] A "smaller reporting company" is generally defined as an issuer with a public float of less than $75 million or, in the case of an issuer that has no public float (e.g., an IPO registrant), has annual revenues of less than $50 million.

[10] Note that this temporary exemption does not apply to management's responsibility to file an internal control report pursuant to Section 404(a) of SOX and to make other disclosures related to the control environment as required by the filing of quarterly and annual reports under the 1934 Exchange Act.

Impact on Prospective IPO Candidates

Companies planning an IPO need to pay attention to the JOBS Act requirements. For purposes of the Section 404(b) exemption, it would be a mistake to presume a five-year exemption is a given. A company that qualifies as an EGC needs to understand what is likely to happen to its business during the five-year exemption period. The EGC status only applies until the earliest of four dates – the five-year anniversary of the IPO, the year the company reports annual revenues of $1 billion or more, the date the company can look back on having issued more than $1 billion in nonconvertible debt over a three-year period, or the year the company is deemed to be a "large accelerated filer." Therefore, if a company exceeds the threshold of one of the EGC tests in Year 3 after going public, it will need to be prepared to comply with Section 404(b) unless the SEC provides interpretive relief in the form of a transition period. Accordingly, a prospective IPO candidate expecting to qualify as an EGC will want to evaluate its plan for growing the business after going public to ascertain if and when it might lose its EGC status prior to the five-year anniversary date, and to put monitoring processes in place to be able to react to changes, midyear, so that it is able to comply in the first year for which compliance is required. We believe a proactive stance is the preferred approach.

With respect to an IPO candidate, the JOBS Act does not take away the need for preparedness on the following:

- Proactively preparing the financial reporting close process and the effectiveness of upstream processes, systems and internal controls in ensuring the quality of financial reports and ability to function as a public company. To this end, following are some examples of relevant considerations:
  - Ensuring requisite skills to forecast effectively and technical acumen to understand the application of relevant accounting principles
  - Ensuring there is a reliable and efficient financial close process
  - Ensuring the company has a robust regulatory and corporate governance understanding and an efficient internal control environment so that initial and ongoing SOX compliance can be achieved
  - Reviewing the IT systems environment and infrastructure to ensure the company is able to handle its projected growth in the business
  - Ensuring the registration statement process is managed effectively and does not distract from running the business
  - Reviewing key functions and skills needed to facilitate anticipated sustainable, scalable growth as a public company
- The JOBS Act does not absolve an EGC of its responsibilities under SOX Sections 302 and 906, nor does it relieve management of the responsibility to comply with Section 404(a) of SOX. Following is a thumbnail sketch of management's responsibilities:
  - Upon going public, the disclosures and executive certifications required by Sections 302 and 906 must be filed in quarterly and annual filings under the 1934 Exchange Act, effective immediately. The initial focus of these requirements is on disclosure controls and procedures.
  - Regarding internal control over financial reporting, management must disclose each quarter any material changes occurring in the internal control environment.
  - Beginning with the second Annual Report on Form 10-K filing after going public, management must issue its internal control report, pursuant to the requirements of Section 404(a), which includes the company's assertion on the effectiveness of internal control over financial reporting.
  - Once the first internal control report is issued, subsequent executive certifications issued quarterly, as required by Section 302, must incorporate language regarding internal control over financial reporting, in effect adding additional certifications for management to make.

The message is clear. IPO aspirants still must prepare themselves for "prime time." For critical processes, they should conduct walkthroughs to ensure that the key controls are identified. Testing the operating effectiveness of controls should be conducted in high-risk areas. And appropriate documentation should be created to support management's assertion that internal control over financial reporting is effective. While not as rigorous as the attestation requirements of Section 404(b), there are nonetheless important disclosure and certification requirements for companies qualifying as an EGC. The only difference is they will not be subject to the demands of the attestation process for up to five years, so long as they retain their status as an EGC during that period.

- Like operating processes, financial reporting processes can accomplish stated objectives either efficiently or inefficiently. IPO aspirants would still benefit from a top-down, risk-based approach, and often need advice on how to implement it. Not only would this approach support management's assertions in the annual internal control report, but the improved efficiencies in the financial reporting process and the upstream business processes providing "feeds" into the financial reporting process will conserve time, improve quality and save money.
- Historically, nonaccelerated filers that are not subject to the attestation requirements of Section 404(b) often need advice on how to streamline their documentation. This opportunity also applies to prospective IPO candidates expecting to qualify as an EGC.
- Depending on the IPO aspirant's longer-term growth objectives, it may still want to go through the SOX compliance exercise in a thorough manner, particularly if it expects to exit its EGC status sooner than five years. This means its SOX compliance process will likely be subject to attestation when the company is no longer an EGC. Waiting for that day to come without advance preparation makes little sense and can present some significant problems. These companies will likely need someone to advise them on the path to follow, particularly if their external auditors make any requests or provide any observations regarding internal control matters in the interim.
- With respect to filing an internal control report, the question often arises as to the effort expected of the company by the SEC staff for management to be in a position to support its assertion regarding the effectiveness of internal control over financial reporting. The answer is no different from any small cap company, and is provided by the SEC staff in its interpretive guidance to management on complying with Section 404.[11]

Given the above considerations, we advise a company to prepare for current and future compliance and to have its house in order. There are many factors and preparations that contribute to an organization's success in reaching a state of confidence around public company readiness. From transparency, to the pace and complexity of changing regulations, to all that's required from an infrastructure and back-office perspective, the checklist to prepare appropriately for an IPO today can seem endless. While the JOBS Act provides some relief for companies qualifying as an EGC, the CEO and CFO must still certify the financial statements in accordance with Sections 302 and 906 of SOX. The company must still file an internal control report in accordance with Section 404(a) of SOX. The company's financial statements are still subject to audit, and auditors can conclude that a material weakness in internal control exists if they propose material adjustments to the company's financial statements. Last, but certainly not least, the company can lose its EGC status within the five-year period following going public. If it does, it will want to be ready for the rigor of the attestation process under Section 404(b) as and when required, and to evaluate changes that could accelerate the need to comply.

At the end of the day, management credibility is the key variable in terms of historical performance and providing an achievable business plan. It is important to recognize up front the time commitment of the IPO process and plan accordingly (e.g., additional personnel). The JOBS Act notwithstanding, we caution companies against taking shortcuts with respect to their financial reporting processes and internal controls. Get it right. Make no mistake, even for an EGC, there will be intense scrutiny on disclosure. Airtight financials,

[11] See **http://www.sec.gov/rules/interp/2007/33-8810.pdf** on the SEC website.

appropriate registration statement disclosures, effective IPO disclosure and credible financial presentations set the standard for future disclosure as a public company. That is why it would be prudent to consider the necessary steps around some type of reasonable SOX compliance approach, taking into consideration the high-risk areas, to reduce the risk of future errors or unwanted surprises to an acceptable level. Leaders willing to take on financial reporting risk without an appropriate review process are exposing themselves and their companies to unnecessary reputation risk.

Summary

The intent of the JOBS Act is to ease regulatory burdens on smaller companies and facilitate capital formation. It aims to ease the access to capital for very small companies, improving the availability and flow of information for investors before and after an IPO. It streamlines the reporting to the SEC for companies that complete IPOs and qualify as EGCs, providing them an "on-ramp" (or phasing-in of disclosure requirements). It mandates that the SEC educate prospective issuers about how to succeed in this new capital markets environment.

Companies planning an IPO should continue to be proactive in preparing their financial reporting close processes and improving the effectiveness of their upstream processes, systems and internal controls in ensuring the quality of financial reports. A critical first step in this proactive approach is an initial assessment of the necessary pre-IPO activities through the establishment of a sustainable compliance function that addresses the company's regulatory requirements. Such an approach also necessitates a sustainable infrastructure to support anticipated growth and the ongoing and evolving reporting and compliance requirements of a public company. The JOBS Act does not change the need for a balanced review of a company's IPO readiness and the remediation of identified issues that address core risk areas specific to both the company and the broader industry. These risk areas may apply to many dimensions of the company's processes, systems and internal controls. To sum it up: While the JOBS Act makes the "job" of going public easier, there is still a "job" to do.

SURVEY DEMOGRAPHICS

Close to 600 respondents participated in the survey, which was conducted online in the fourth quarter of 2011 and first quarter of 2012. All demographic information was provided voluntarily and not all participants provided data for every demographic question.

Position

Chief Audit Executive	14%
Chief Executive Officer	1%
Chief Financial Officer	3%
Chief Compliance Officer	2%
Chief Risk Officer	1%
Audit Director	17%
Corporate Sarbanes-Oxley Leader/PMO Leader	9%
Audit Manager	17%
Audit Staff	10%
Corporate Controller	6%
Business Unit Control Leader	2%
Other	18%

Industry

Manufacturing	16%
Financial Services	15%
Technology	9%
Energy	9%
Retail	8%
Services	8%
Government/Education/Not-for-profit	5%
Insurance	4%
Healthcare Provider	4%
Utility	3%
Media	3%
Life Sciences/Biotechnology	3%
Other	13%

Size of Organization (by gross annual revenue)

$20 billion or greater	14%
$10 billion - $19.99 billion	9%
$5 billion - $9.99 billion	12%
$1 billion - $4.99 billion	27%
$500 million - $999.99 million	12%
$100 million - $499.99 million	18%
Less than $100 million	8%

Type of Organization

Public	71%
Private	18%
Not-for-profit	6%
Government	3%
Other	2%

Fiscal Year-End

December	75%
November	0%
October	1%
September	5%
August	1%
July	1%
June	5%
May	2%
April	1%
March	5%
February	1%
January	3%

Certification

Certified Public Accountant (CPA)/Chartered Accountant (CA)	37%
Certified Internal Auditor (CIA)	22%
Certified Information Systems Auditor (CISA)	10%
Certified Fraud Examiner (CFE)	8%
Certified Financial Services Auditor (CFSA)	3%
Other	20%

Experience (in current position)

Greater than 10 years	11%
5-10 years	39%
1-4 years	41%
Less than 1 year	9%

Organization Headquarters

North America	93%
Europe	4%
Asia-Pacific	2%
Middle East	1%

ABOUT PROTIVITI

Protiviti (**www.protiviti.com**) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE® 1000 and Global 500 companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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

Protiviti is a wholly owned subsidiary of Robert Half International Inc. (NYSE: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

Internal Audit and Financial Controls

We work with audit executives, management and audit committees at companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills. Protiviti professionals have assisted hundreds of companies in establishing first-year Sarbanes-Oxley compliance programs as well as ongoing compliance. We help organizations transition to a process-based approach for financial control compliance, identifying effective ways to appropriately reduce effort through better risk assessment, scoping and use of technology, thus reducing the cost of compliance. Reporting directly to the board, audit committee or management, as desired, we have completed hundreds of discrete, focused financial and internal control reviews and control investigations, either as part of a formal internal audit activity or apart from it.

One of the key features about Protiviti is that we are not an audit/accounting firm, thus there is never an independence issue in the work we do for clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas. In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services we provide are:

- Internal Audit Outsourcing and Co-Sourcing
- Financial Control and Sarbanes-Oxley Compliance
- Internal Audit Quality Assurance Reviews and Transformation
- Audit Committee Advisory

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

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About the Protiviti Governance Portal

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

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

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

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

Benefits of Using the Governance Portal

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

- **Start quickly** – Using the MS Excel-based content utility and leveraging out-of-the box GRC solutions, diagnostics to quickly determine the areas requiring focus, and templates to provide guidance, organizations are able to implement the Governance Portal with less deliberation and shorter lead times, thus reducing implementation costs.
- **Execute efficiently** – The proprietary GRC content within the Governance Portal provides industry normative guidance at no additional cost. Organizations just getting started or those well down the GRC track can use this information to benchmark and check the completeness of their analyses.
- **Create sustainability** – The Governance Portal adapts to your organization and allows you to maintain your GRC program requirements. Configuration allows you to personalize the system to your methodology and terminology so you can meet your specific business requirements. Through workflow, you can involve business users in the management of GRC. With easy-to-use templates, you can create repeatability and predictability in your program. Year after year, the Governance Portal will help you optimize your GRC efforts.
- **Add value** – The Governance Portal is a complete GRC solution that supports the convergence of multiple GRC activities. Real-time reporting and dashboards provide your executives with a holistic view of your organization's GRC efforts. Leveraging and sharing information within a single platform allows your GRC teams to collaborate more efficiently and focus on true operational challenges.

Other Thought Leadership from Protiviti

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

- **Guide to the Sarbanes-Oxley Act: Internal Control Reporting Requirements** (Fourth Edition)
- **Guide to Internal Audit: Frequently Asked Questions About Developing and Maintaining an Effective Internal Audit Function** (Second Edition)
- **Internal Audit Capabilities and Needs Survey** (2006-2012)
- **2011 IT Audit Benchmarking Survey**
- **Internal Audit's Role in Cloud Computing**
- **Internal Auditing Around the World** (Volumes 1-7)

KnowledgeLeader℠ provided by protiviti®

Powerful Tools for Business Risk & Internal Audit

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

- **Audit Programs** – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeader. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.
- **Checklists, Guides and Other Tools** – More than 800 checklists, guides and other tools are available on KnowledgeLeader. They include questionnaires, best practices, templates, charters and more for managing risk, conducting internal audits and leading an internal audit department.
- **Policies and Procedures** – KnowledgeLeader provides more than 300 sample policies to help in reviewing, updating or creating company policies and procedures.
- **Articles and Other Publications** – Informative articles, survey reports, newsletters and booklets produced by Protiviti and other parties (including Compliance Week and Auerbach) about business and technology risks, internal audit and finance.
- **Performer Profiles** – Interviews with internal audit executives who share their tips, techniques and best practices for managing risk and running the internal audit function.

Key topics covered by KnowledgeLeader:

- Audit Committee and Board
- Business Continuity Management
- Control Self-Assessment
- Corporate Governance
- COSO
- Fraud and Ethics
- IFRS
- Internal Audit
- IT Audit
- IT Governance
- Sarbanes-Oxley

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

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

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

KnowledgeLeader members have the option of upgrading to KLplus℠. KLplus is the combined offering of KnowledgeLeader's standard subscription service plus online CPE courses and risk briefs. The courses are a collection of interactive, Internet-based training courses offering a rich source of knowledge on internal audit and business and technology risk management topics that are current and relevant to your business needs.

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