



404 INSTITUTE

Maintaining Your Control Environment in Turbulent Times

Fifth Annual Benchmark Study

2009

KPMG LLP

A Letter to Institute Members



While the scope of the 404 Institute has been broadened to encompass a variety of thought leadership and guidance on financial issues, we remain committed to helping organizations stay current with the challenges related to Sarbanes-Oxley section 404 (S-O 404) compliance.

In spring 2009, the 404 Institute conducted its Fifth Annual Benchmark Survey—*Maintaining Your Control Environment in Turbulent Times*. This year's survey was designed to help respondents see what practices companies are using to manage risk and compliance as well as to shed light on the progress organizations are making as they navigate the current economic environment.

Topics like these, as well as the fundamental compliance questions we have followed since S-O 404 was introduced—such as the cost of compliance, resources used in testing, and the results of these efforts—are the focus of the fifth annual survey.

The survey results show that in 2009, a group of leading companies continues to stand out from the rest of the survey population in the efficiency and effectiveness of its efforts to achieve compliance with S-O 404. How leading companies achieved those results is the subject of this report. The report also considers the effects of the struggling economy and the expected impact on compliance activities, risks, and resources.

KPMG's 404 Institute extends its thanks to the more than 1,000 members who took the time to participate in our survey. As you consider how your compliance program should continue to evolve in the maturing S-O 404 environment, I hope you find these survey results useful.

Over the coming months, the Institute will continue to explore the evolution of risk and controls while broadening our mission to satisfy your requests for more guidance and thought leadership on financial management issues that affect you. As we expand the Institute beyond section 404 compliance-related issues, we invite you to visit our Web site to find out more about these efforts.

As always, I encourage your feedback. If you have any questions or comments about the survey or the ongoing mission of the Institute, please do not hesitate to contact me.

Lawrence S. Raff
National Partner in Charge
KPMG's 404 Institute
212-872-3387
lraff@kpmg.com

What We Have Learned: Leading companies continue to stand out using fewer resources and gaining better coverage, and expect less disruption in compliance activities due to the struggling economy



Leading companies continue to achieve compliance in significantly less time and at half the cost compared to their peers. Economic conditions are expected to have a mixed impact on headcount and control monitoring.

Like last year, leading companies continue to get more done with fewer hours and lower costs than other respondents focused on S-O 404 compliance.

Nonetheless, the results show that leading companies are more efficient than the respondent group overall: They report fewer deficiencies and are expending fewer hours to conduct a similar level of key control testing.

Why? Automation is an important part of the explanation. While both leading companies and respondents overall perceive their information technology (IT) groups as effective, leading companies are using more automated controls. What's more, the number of key controls leading companies intended to test in 2009 was expected to remain stable, while the other respondents expect their organizations to reduce the number of key controls they are testing as well as make other adjustments—including using more automated controls than in the past.

A Look at Leading Companies

Leading companies continue to achieve better coverage with fewer resources while experiencing fewer deficiencies than their industry peers. While leading companies had approximately the same number of business locations than other comparably sized companies, they were able to cover more locations in their compliance testing.

In general, leading companies tend to have a higher percentage of automated controls than respondents from other organizations, perhaps contributing to their ability to test more controls at a lower cost and in fewer hours.



Leading companies and their industry peers were found to be alike in:

- Making minor adjustments to their risk assessment in 2008 versus 2007
- Having a similar breakdown of testing efforts by quarter and a similar number and percentage of internal groups that managed their organization's testing
- The need to automate more of their controls – for leading companies, to fully automate their control testing, and for peer companies, to increase their level of automation.

Looking Ahead: The Effect of the Economic Environment

Leading companies expect less of an impact to their control environment than do their industry peers as a result of challenges brought on by the economic downturn. Although they anticipated a continuing downturn in the business environment, leading companies are planning to keep the number of controls they test in 2009 consistent with 2008 totals. All other respondents anticipate a reduction in the number of controls tested in 2009.

Also, leading companies did not expect to see many reductions in resources dedicated to their control environment in 2009 compared to a drop in resources expected by the larger group of respondents.

Survey Details



Conducted in spring 2009, this Web-based survey brought responses from more than 1,000 representatives of companies from a variety of industries. Respondents either have direct oversight of or overall responsibility for the Sarbanes-Oxley section 404 (S-O 404) compliance efforts within their organization or are actively engaged in those efforts.

Respondents were evenly divided among four revenue groups: companies with less than \$250 million in revenue, companies with \$250 million to \$1 billion in revenue, companies with \$1 billion to \$5 billion in revenue, and companies with more than \$5 billion in revenue.

What is the footprint of your company?

RESPONDENT DEMOGRAPHICS

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
United States only	59%	42%	40%	16%	35%
Operations in 2–5 countries	28%	29%	21%	18%	22%
Operations in 6–20 countries	13%	23%	23%	12%	18%
Operations in more than 20 countries	0%	6%	16%	54%	25%

What is the estimated percentage of your company's manual key controls versus automated key controls? (A manual control is a control performed by an individual whereas an automated control is performed with programmed technology.)

CONTROL ENVIRONMENT

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
100% Automated	0%	0%	1%	0%	0%
80% Automated vs. 20% Manual	7%	1%	2%	6%	4%
60% Automated vs. 40% Manual	4%	11%	3%	8%	6%
50% vs. 50%	7%	8%	13%	8%	10%
40% Automated vs. 60% Manual	15%	26%	27%	24%	24%
20% Automated vs. 80% Manual	65%	50%	53%	52%	53%
100% Manual	2%	3%	2%	2%	2%

Which most closely describes your company's review and update of the 404 account-level risk assessment in 2008?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
We reviewed the risk assessment and made no significant changes	35%	36%	26%	22%	28%
We reviewed the risk assessment and made some minor updates	46%	46%	56%	64%	55%
We reviewed the risk assessment and made a major update	11%	13%	14%	12%	13%
We did not review the risk assessment	9%	5%	4%	3%	4%

NOTE: Throughout the tables, results may not total 100% due to rounding or acceptance of multiple answers.

404 TESTING

How many separate locations or operating entities does your company have in total?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
0-100	96%	94%	93%	75%	88%
101-200	4%	1%	2%	13%	6%
201-300	0%	1%	1%	1%	1%
301-400	0%	0%	1%	1%	1%
401-500	0%	0%	1%	2%	1%
More than 500	0%	4%	3%	7%	4%

Of these locations, what percentage was included in scope for testing?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
0% to 25%	20%	24%	30%	33%	29%
26% to 50%	11%	18%	10%	20%	15%
51% to 75%	15%	6%	15%	17%	14%
76% to 100%	54%	52%	45%	31%	43%

How many unique key controls did you have in 2008? (Key controls are defined as the controls deemed important enough to test.)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
100-500	98%	93%	80%	43%	73%
501-1,000	0%	6%	15%	29%	16%
1001-1,500	0%	0%	4%	12%	5%
1501-2,000	2%	0%	1%	8%	3%
2001-2,500	0%	0%	0%	3%	1%
More than 2,500	0%	1%	1%	4%	2%

How do you expect the number of unique key controls to change for fiscal 2009?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Increase by more than 20%	0%	1%	0%	1%	1%
Increase by 11% to 20%	2%	1%	2%	1%	2%
Increase by 1% to 10%	17%	18%	16%	14%	16%
No change	35%	29%	21%	25%	25%
Decrease by 1% to 10%	35%	36%	47%	44%	43%
Decrease by 11% to 20%	7%	8%	10%	12%	10%
Decrease by more than 20%	4%	6%	5%	1%	4%

404 TESTING (continued)

What percentage of your company's total 404 testing hours was allocated among each quarter during 2008?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Quarter 1	14%	9%	9%	10%	10%
Quarter 2	23%	21%	20%	22%	21%
Quarter 3	30%	35%	40%	37%	37%
Quarter 4	33%	35%	32%	30%	32%

Does your company use embedded testing? (Embedded testing is defined as ongoing testing by process owners throughout the year rather than testing by a separate group such as compliance, risk management, or internal audit.)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Yes	22%	16%	25%	41%	28%
No, but have plans to begin using embedded testing within the next year	4%	3%	9%	8%	7%
No, but have plans to begin using embedded testing eventually (not necessarily within the next year)	20%	25%	25%	22%	23%
No, and have no plans to begin using embedded testing	54%	56%	42%	29%	42%

404 HOURS/COST

Excluding external audit hours, approximately how many total hours were spent during 2008 associated with all Sarbanes-Oxley section 404 compliance efforts (including internal hours spent by the company and hours spent by outside service providers)?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
1–1,500 Hours	22%	15%	11%	3%	10%
1,501–3,000	39%	36%	14%	6%	19%
3,001–4,500	20%	16%	11%	4%	11%
4,501–6,000	13%	15%	16%	10%	13%
6,001–7,500	4%	4%	8%	3%	5%
7,501–9,000	0%	3%	5%	4%	4%
More than 9,000 Hours	2%	11%	35%	70%	38%

Of the total hours spent in 2008 on all S-O 404 compliance efforts, what percentage was performed by each of the following functions?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Internal audit	43%	57%	48%	27%	43%
Business units	15%	14%	18%	32%	21%
Compliance group	17%	13%	18%	27%	20%
External service providers	20%	13%	11%	10%	12%
Other	6%	3%	5%	3%	4%

404 HOURS/COST (continued)

What percentage of your company's annual external audit fee do you believe is S-O 404 related?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
10% to 25%	37%	31%	41%	53%	42%
26% to 50%	54%	58%	55%	46%	53%
51% to 75%	9%	6%	4%	1%	4%
76% to 100%	0%	4%	1%	0%	1%

Of the total hours worked by Internal Audit in 2008, what percentage was spent on Sarbanes-Oxley section 404 compliance?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
0% to 25%	30%	27%	44%	70%	47%
26% to 50%	19%	31%	36%	26%	30%
51% to 75%	23%	17%	15%	4%	12%
76% to 100%	28%	25%	6%	1%	10%

SOX TESTING RESULTS

How many deficiencies, significant deficiencies, and material weaknesses did your organization have at the time of your 2008 certification? (Percentage of respondents reporting these conditions)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Deficiencies	96%	94%	95%	91%	94%
Significant Deficiencies	28%	31%	38%	42%	37%
Material Weaknesses	9%	6%	3%	3%	4%

IT GOVERNANCE AND EFFECTIVENESS

Does your company currently have a defined, documented information technology (IT) strategy?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Yes	78%	76%	83%	88%	83%
No	22%	24%	17%	12%	17%

To what extent are there opportunities to further automate your company's IT processes? Use a 1–5 scale where 1 means "No opportunities to further automate" and 5 means "Significant opportunities to further automate."

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
1–2	13%	19%	14%	16%	16%
3	41%	34%	40%	37%	38%
4–5	46%	47%	46%	47%	46%

IT GOVERNANCE AND EFFECTIVENESS (continued)

Rate the effectiveness of your company's IT systems for **Financial Reporting**.

Use a scale of 1–5 where 1 means "Not effective" and 5 means "Very effective."

If a functional area does not have a dedicated IT system, please indicate.

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
No dedicated IT system	2%	4%	0%	0%	1%
1–2	13%	11%	7%	3%	7%
3	37%	25%	27%	25%	27%
4–5	48%	60%	66%	72%	65%

Rate the effectiveness of your company's IT systems for

Operations. Use a scale of 1–5 where 1 means "Not effective" and 5 means "Very effective." If a functional area does not have a dedicated IT system, please indicate.

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
No dedicated IT system	4%	6%	1%	0%	2%
1–2	7%	14%	9%	3%	8%
3	43%	39%	35%	41%	39%
4–5	46%	41%	54%	55%	51%

Rate the effectiveness of your company's IT systems for **Risk and Compliance**.

Use a scale of 1–5 where 1 means "Not effective" and 5 means "Very effective."

If a functional area does not have a dedicated IT system, please indicate.

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
No dedicated IT system	35%	32%	31%	19%	28%
1–2	24%	25%	19%	23%	22%
3	26%	27%	28%	30%	28%
4–5	15%	16%	23%	27%	22%

To what extent are your company's various enterprise resource planning (ERP) system modules integrated? (ERP system refers to (1) any third-party ERP software package such as SAP, Oracle, or PeopleSoft; or (2) any series of operating systems linked to the general ledger/financial accounting system.)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Completely integrated	7%	13%	19%	17%	16%
Somewhat integrated	50%	68%	60%	74%	65%
Not integrated at all	22%	11%	8%	3%	8%
Company has not implemented an ERP system	22%	8%	13%	6%	11%

IT GOVERNANCE AND EFFECTIVENESS (continued)

Consider your largest, most significant IT implementation project(s). Do you expect that the current economic climate will result in delays or reductions in your organization's IT spending for these projects?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Expect up to a six-month delay	7%	18%	19%	15%	16%
Expect a delay of more than six months	18%	23%	26%	25%	24%
Expect these projects to be cancelled or postponed indefinitely	13%	8%	10%	8%	9%
Do not expect delays	51%	42%	43%	52%	46%
Do not have any IT implementation projects	11%	8%	2%	1%	4%

DOCUMENTATION/LEVERAGING OF S-O 404 PROCESSES AND CONTROLS

What is the status of your company's enterprise risk management (ERM) process implementation? (ERM is defined as a comprehensive, centralized risk management process that includes not just risks associated with accidental losses, but also financial, strategic, operational, and other risks.)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Have fully implemented	17%	11%	17%	21%	17%
Have partially implemented	37%	37%	41%	51%	43%
Investigating the concept	41%	42%	36%	23%	34%
Decided not to implement or not applicable	4%	11%	7%	5%	7%

Rate the effectiveness of your company's IT systems in each of the following functional areas. For each area, use a scale of 1–3 where 1 means "Not at all," 2 means "Somewhat," and 3 means "Extensive."

	1 (Not at all)	2 (Somewhat)	3 (Extensive)
Internal audit	7%	48%	45%
Regulatory compliance	25%	61%	14%
Risk management	18%	70%	11%
Operations – Improvement initiatives	25%	64%	10%
Operations – New IT systems/ process implementations	25%	61%	14%
ERM implementations	25%	65%	10%

LOOKING AHEAD/IMPACT OF ECONOMIC ENVIRONMENT

Over the next 12 months, do you expect your organization's overall headcount to increase, decrease, or stay the same?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Increase by more than 20%	0%	0%	1%	0%	0%
Increase by 11% to 20%	2%	2%	1%	1%	1%
Increase by 1% to 10%	24%	14%	8%	7%	10%
No change	33%	30%	32%	31%	31%
Decrease by 1% to 10%	33%	41%	43%	49%	44%
Decrease by 11% to 20%	7%	13%	13%	9%	11%
Decrease by more than 20%	2%	1%	2%	3%	2%

Among the respondents in the previous question who indicated their organization's overall headcount would decrease, how much negative impact will the decrease in headcount have on the integrity of your controls environment? Use a 1–5 scale where 1 means “No negative impact” and 5 means “Extremely high negative impact.”

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
1–2 (No/low negative impact)	63%	54%	45%	57%	52%
3	26%	31%	37%	28%	32%
4–5 (High/extremely high negative impact)	11%	15%	18%	16%	16%

Compared with the past 12 months, what is your outlook for the amount of resources (in dollars, including the value of staffed full-time equivalents (FTEs)) your organization will be dedicating to your controls environment in the next 12 months? (Controls environment is defined as your compliance, risk management, and/or internal audit functions.)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Increase by more than 20%	0%	0%	2%	1%	1%
Increase by 11% to 20%	0%	4%	0%	1%	1%
Increase by 1% to 10%	13%	13%	16%	8%	13%
No change	50%	52%	45%	46%	47%
Decrease by 1% to 10%	26%	21%	27%	34%	28%
Decrease by 11% to 20%	0%	6%	7%	6%	6%
Decrease by more than 20%	11%	4%	3%	3%	4%

LOOKING AHEAD/IMPACT OF ECONOMIC ENVIRONMENT (continued)

In the next 12 months, do you expect the outsourced portion of your company's total workforce (based on FTEs) to increase, decrease, or stay the same?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Increase by more than 20%	0%	0%	0%	1%	1%
Increase by 11% to 20%	0%	1%	2%	3%	2%
Increase by 1% to 10%	4%	6%	15%	18%	13%
No change	57%	50%	50%	42%	48%
Decrease by 1% to 10%	24%	21%	21%	21%	21%
Decrease by 11% to 20%	4%	10%	6%	8%	7%
Decrease by more than 20%	11%	11%	6%	7%	8%

In the next 12 months, do you expect the outsourced portion of your company's workforce that is directly involved in controls monitoring and testing only (based on FTEs) to increase, decrease, or stay the same?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Increase by more than 20%	0%	0%	1%	1%	1%
Increase by 11% to 20%	0%	1%	1%	1%	1%
Increase by 1% to 10%	2%	4%	6%	7%	6%
No change	67%	59%	66%	64%	64%
Decrease by 1% to 10%	13%	17%	13%	16%	15%
Decrease by 11% to 20%	0%	4%	7%	3%	4%
Decrease by more than 20%	18%	15%	7%	8%	10%

Over the next 12 months, do you expect risk levels affecting your organization's operations to increase, decrease, or stay the same?

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Increase	70%	72%	73%	67%	70%
Stay the same	28%	26%	25%	30%	27%
Decrease	2%	2%	2%	3%	3%

LOOKING AHEAD/IMPACT OF ECONOMIC ENVIRONMENT (continued)

Given the changes in the economic climate, on what areas of the controls environment will your organization focus over the next 12 months?
(Select all that apply)

	Less Than \$250 Million	\$250 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion or More	All Respondents (2009 Survey)
Closer cooperation between IT, internal audit, risk management, and compliance groups	50%	66%	55%	56%	57%
Consolidation and standardization of business processes	48%	55%	59%	57%	57%
Increased oversight by control groups (risk, compliance, audit)	50%	57%	56%	56%	55%
Improved quality of controls	43%	51%	54%	53%	52%
Better communication efforts between functional areas	54%	45%	56%	51%	52%
Increased management oversight	59%	34%	51%	51%	48%
Reduction in number of controls being tested	39%	49%	47%	49%	47%
More process and control automation	65%	48%	43%	43%	46%
Improved documentation of controls and processes	30%	46%	42%	35%	39%
Better tools/technology to automate and simplify compliance monitoring and enforcement	39%	36%	41%	40%	39%
Improved definition of control and risk	28%	35%	41%	42%	39%
More education/training of management and staff	41%	34%	37%	40%	38%
Implementation of antifraud activities	26%	31%	37%	30%	32%
Elimination of certain in-scope processes for review and testing	46%	27%	29%	34%	32%
More participation by the board and the audit committee	33%	29%	27%	25%	27%
Improved audit trails	33%	28%	22%	22%	24%
Implementation of AS5 guidance	17%	31%	25%	18%	23%
Introduction of a common language, tools, and reports across the organization	20%	18%	20%	23%	20%
Reduction in frequency of testing	17%	26%	13%	17%	17%
Reduction of sample sizes used for controls testing	22%	19%	17%	15%	17%
Reduction in scope of locations or entities tested	13%	14%	17%	13%	15%
More control over the recording of journal entries	9%	14%	15%	10%	12%
Other	7%	3%	6%	8%	6%

NOTE: Multiple responses allowed



About the KPMG 404 Institute

KPMG established the 404 Institute (www.404institute.com) to provide a platform for members to learn about the challenges and opportunities related to section 404. Since then, 404 compliance has evolved to be an ongoing, integrated part of the finance organization's compliance structure.

The next evolutionary step in the Institute's growth involves integrating a broader range of critical risk, control, and reporting issues. As a natural progression of our Institute, now 28,000 members strong, and to satisfy member requests for more guidance and thought leadership on financial management issues that affect them, we are expanding the Institute's mission beyond section 404 compliance to include information on a wider range of topics. This effort should enable us to continue providing members with an open forum where ideas can be exchanged and leading practices developed on issues that are important to our member community.

Contact Us

For more information about the 404 Institute and membership opportunities, please visit www.404institute.com or contact:

Larry Raff
National Partner in Charge
KPMG's 404 Institute
212-872-3387
lraff@kpmg.com

Cort Steel
Marketing Director
KPMG's 404 Institute
201-505-3706
cjsteel@kpmg.com

