

**THE SARBANES-OXLEY  
ACT OF 2002:  
EFFECT ON AUDIT COMMITTEE  
MEETINGS AT  
PUBLICLY TRADED COMPANIES**

**THE IIA RESEARCH FOUNDATION**

**MARCH 18, 2004**

## **Disclosure**

Copyright © 2004 by The Institute of Internal Auditors Research Foundation (IIARF), 247 Maitland Avenue, Altamonte Springs, Florida 32701-4201. All rights reserved. Printed in the United States of America. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means — electronic, mechanical, photocopying, recording, or otherwise — without prior written permission of the publisher.

The IIARF publishes this document for informational and educational purposes. This document is intended to provide information, but is not a substitute for legal or accounting advice. The IIARF does not provide such advice and makes no warranty as to any legal or accounting results through its publication of this document. When legal or accounting issues arise, professional assistance should be sought and retained.

The Institute of Internal Auditors' (IIA) International Professional Practices Framework for Internal Auditing (IPPF) comprises the full range of existing and developing practice guidance for the profession. The IPPF provides guidance to internal auditors globally and paves the way to world-class internal auditing.

The mission of The IIARF is to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally.

The IIA and The IIARF work in partnership with researchers from around the globe who conduct valuable studies on critical issues affecting today's business world. Much of the content presented in their final reports is a result of IIARF-funded research and prepared as a service to The Foundation and the internal audit profession. Expressed opinions, interpretations, or points of view represent a consensus of the researchers and do not necessarily reflect or represent the official position or policies of The IIA or The IIARF.

ISBN 978-0-89413-657-3

03/04 First Printing

05/09 Second Printing

Previously published as *Emerging Issues Series, Vol. 1, No. 1: The Sarbanes-Oxley Act of 2002: Effect on Audit Committees at Publicly Traded Companies*

## TABLE OF CONTENTS

Acknowledgments.....	iv
1. Introduction.....	1
2. Audit Committees are Meeting Longer .....	1
3. Membership on Individual Audit Committees is Changing; But on Average, Little has Changed Regarding Committee Members' Financial Expertise or Independence.....	2
4. Audit Committees are Taking on New Responsibilities — AND They are More Consistently Addressing Traditional Responsibilities .....	5
5. Internal Auditors are Supporting the Audit Committee in New Ways.....	11
6. Internal Auditors are Providing Valuable New Services, But These Services May Sometimes Come at the Expense of Other Traditional Audit Services.....	12
7. Resources for Additional Information .....	13
Appendix A: Profile of Survey Respondents.....	14
Appendix B: Audit Committee Membership and Meeting Schedules at Fortune 500 Companies .....	16
Appendix C: Audit Committee Agendas at Fortune 500 Organizations .....	17

## ACKNOWLEDGEMENTS

The Institute of Internal Auditors Research Foundation extends its sincere thanks and appreciation to all of the innovative internal auditors who participated in this study and contributed their ideas and insights. By sharing information about their auditing practices, these individuals have truly embodied The Institute of Internal Auditors' motto of "*Progress Through Sharing.*"

In particular, we would like to thank **General Motors Corporation** for its generous sponsorship of this project. Without the advice and financial support of the Audit Leadership Board, this publication would not have been possible.

The Foundation would also like to thank the *Global Auditing Information Network* ([GAIN](#)) department at The Institute of Internal Auditors. Much of the information included in this report was collected through a *Flash Survey* conducted as a part of the *GAIN* program. Chief audit executives worldwide use the *Flash Survey* program to ask questions of their peers on topical issues facing the audit profession. Audit executives participate in these surveys at no cost, and fees to sponsor new surveys are minimal. Please contact the *GAIN* department for information on internal audit benchmarking programs and surveys, or to sponsor your own audit survey or research project.



## 1. INTRODUCTION

No event in recent years has had more effect on audit committee charters, practices, and schedules than the passage of the U.S. Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley). Audit committees are taking on new responsibilities, they are meeting longer than in the past, and they are requiring new types of information and services from internal auditors.

In January 2004, The Institute of Internal Auditors conducted a survey to evaluate recent changes to audit committee practices. Titled *Sarbanes-Oxley Impact on Audit Committee Meetings*, the survey was also designed to provide audit executives with benchmarking information related to the changing roles of internal auditors in support of their audit committees. The survey drew 157 responses, including 88 responses from publicly traded organizations and 67 responses from nonpublic organizations. Fifty responses were from organizations that are included in *Fortune 500* listings.<sup>1</sup>

This report highlights recent changes in audit committee practices at publicly traded organizations. A separate report discussing changes to audit committee practices at nonpublic companies will also be available in the near future from The IIA Research Foundation.<sup>2</sup>

More specifically, this report:

- Describes recent changes to the frequency and length of audit committee meetings at publicly traded companies.
- Describes changes to audit committee membership brought about by Sarbanes-Oxley and other recent governance initiatives.
- Describes agendas of typical audit committees in 2004. For benchmarking purposes, the report lists common agenda items and the frequency with which organizations tend to schedule each item at Fortune 500 companies and at other publicly traded organizations.
- Evaluates changes to the way the internal audit function supports audit committees at publicly traded companies, including changes to the types of information provided to the audit committee about internal auditing.
- Makes specific suggestions for audit executives working in support of the audit committee.

---

<sup>1</sup> See Appendix A for additional demographic information about survey respondents.

<sup>2</sup> The Institute of Internal Auditors Research Foundation, Emerging Issues Series Vol. 1, No.2, *The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Organizations that are Not Publicly Traded*. (Available April 2004)

## 2. AUDIT COMMITTEES ARE MEETING LONGER

Given the sweeping regulatory changes and growing liability risks facing audit committee members, it is not surprising that audit committees are meeting longer than in the past. Since the advent of Sarbanes-Oxley, a few audit committees have more than doubled the number of hours they meet.

In the past, audit committee meetings were sometimes almost an afterthought, tacked on to board meeting schedules at the beginning or end of the day a few times each year. Today, audit committees are meeting longer and more often than before — but how long is long enough?

### **! ACTION ITEMS FOR AUDIT EXECUTIVES**

*Compare your organization's audit committee schedule to that of other publicly traded organizations using the table below or the table for Fortune 500 organizations found in Appendix B. If your audit committee meets significantly fewer hours than those at similar organizations, be prepared to discuss with the committee chair or forward benchmarking statistics to the committee for review, with suggestions for additional committee agenda items as appropriate.*

The answer seems to depend partly upon the size of the organization and upon whether or not the company is publicly traded. Even now, it might surprise some readers to know how few hours some audit committees meet. Survey respondents from Fortune 500 organizations report that their audit committees meet an average of 19.7 hours per year, up from 12.9 hours before passage of the Sarbanes-Oxley Act. At U.S. publicly traded companies not included in the Fortune 500, the average is 14.9 hours, up from 8.4 hours before Sarbanes-Oxley.

	BEFORE SARBANES-OXLEY			AFTER SARBANES-OXLEY		
	HIGH	LOW	MEAN	HIGH	LOW	MEAN
1. Number of face-to-face audit committee meetings (per year)	8	1	4.1	12	3	4.9
2. Length of audit committee meetings (in hours)	4	0	2.0	6	1	2.9
3. Number of telephonic audit committee meetings (per year)	8	1	3.5	12	1	4.3
4. Length of telephonic audit committee meetings (in hours)	6	0.5	1.1	3	.5	1.4
5. Total number of hours for audit committee meetings annually	26	2	11.2	39	4	17.9

*Based on results received from all survey respondents at U.S. publicly traded companies. See Appendix B for specific information about Fortune 500 organizations.*

### 3. MEMBERSHIP ON INDIVIDUAL AUDIT COMMITTEES IS CHANGING; BUT ON AVERAGE, LITTLE HAS CHANGED REGARDING COMMITTEE MEMBERS' FINANCIAL EXPERTISE OR INDEPENDENCE.

About a third of surveyed organizations reported that the composition of their audit committee had changed since the passage of the Sarbanes-Oxley Act. Due to recent events, some organizations are adding financial experts to their committees. Others are making changes because of independence issues. A few organizations that did not previously have an audit committee have created a new committee. Given recent events regarding audit committees responsibilities, however, it may come as a surprise how few fundamental changes have taken place.

- Despite the call for financial expertise on audit committees, there was no reported increase in the number of financial experts serving on committees.
- Despite questions about audit committee independence, there was no reported increase in the average number of independent audit committee members.
- Audit committees are meeting longer than ever before, but despite growing workloads, survey respondents reported no increase in the average number of audit committee members.

	BEFORE SARBANES-OXLEY				AFTER SARBANES-OXLEY			
	HIGH	LOW	MEAN	MEDIAN	HIGH	LOW	MEAN	MEDIAN
1. Number of audit committee members	10	3	4.42	4	10	3	4.39	4
2. Number of outside audit committee members (not employed by the company)	8	2	4.24	4	7	3	4.24	4
3. Number of audit committee financial experts	8	1	1.78	1	5	1	1.67	1

*Based on results received from all survey respondents at U.S. publicly traded companies. See Appendix B for specific information about Fortune 500 organizations.*

It is too soon to know the full impact of Sarbanes-Oxley on audit committees. Although the survey results indicate that, on average, the number of financial experts on audit committees has

not increased, many analysts predict that the number of experts serving on committees will increase in the near future. For now, however, the Sarbanes requirements might be causing a shifting of audit committee members between organizations rather than an overall increase in the number of financial experts serving on committees. Possibly more time is required to locate and recruit qualified financial experts, or possibly the longer working hours and increasing personal liability risks are working to lower the number of qualified candidates willing to serve on audit committees.

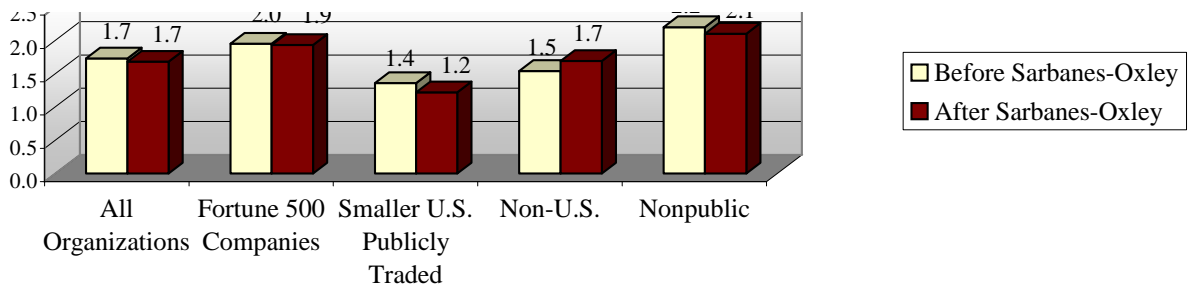
Financial expertise is essential to assure audit committee effectiveness; yet surveyed organizations averaged fewer than two financial experts per audit committee. For many organizations, therefore, a single change in audit committee membership could potentially mean that no financial expert serves on the committee. An unexpected health problem, a sudden resignation, or even the threat of a resignation could present difficulties in meeting audit committee requirements for organizations where only one financial expert serves on the committee.

**! ACTION ITEMS FOR AUDIT EXECUTIVES**

*Review your audit committee's requirements regarding financial expertise and independence. Analyze the effect of these and other requirements on audit committee succession planning.*

Section 407 of the Sarbanes-Oxley Act requires annual disclosure of whether at least one member of the audit committee is a financial expert, and the time needed to recruit qualified new board members with financial expertise seems to be growing. To assure continuing financial expertise, audit committees and boards may need to analyze the effect of Sarbanes-Oxley requirements on succession planning.

**AVERAGE NUMBER OF AUDIT COMMITTEE FINANCIAL EXPERTS**



*Survey respondents report that the membership of their audit committees is changing, but the Sarbanes-Oxley requirement for audit committee financial expertise may or may not be increasing the average number of financial experts serving on public company audit committees.*

#### 4. AUDIT COMMITTEES ARE TAKING ON NEW RESPONSIBILITIES — AND THEY ARE MORE CONSISTENTLY ADDRESSING TRADITIONAL RESPONSIBILITIES.

Today's audit committees face growing liability risks, stringent new stock exchange listing requirements, and rapidly evolving legislation and regulation. It is not surprising, therefore, to find that audit committee processes are changing. In response to recent events related to corporate governance, best practices for audit committees are being redefined.

Survey responses show that substantial changes are taking place in the types of agenda items scheduled by public company audit committees. Because of Sarbanes-Oxley, several items are new on most public company audit committee agendas. Regulatory updates, reviews of whistleblower allegations and whistleblower processes, and reviews of fees charged by the external audit firm for audit and non-audit services, are now standard agenda items. As one survey participant stated, "[The] agenda is much more structured to identify Sarbanes-Oxley requirements that need to be met."

The biggest change to audit committee agendas, however, may not be directly related to any of the specific requirements in Sarbanes-Oxley. Rather, the change is in how consistently audit committees schedule discussion of an entire range of activities, regardless of specific requirements. Public company audit committees are regularly scheduling various agenda items that often were overlooked in the past. The survey listed 41 commonly scheduled agenda items, and for every type of agenda item listed in the survey, some companies reported that the item was not scheduled for discussion until after the advent of Sarbanes-Oxley.

#### **! ACTION ITEMS FOR AUDIT EXECUTIVES**

- *Review new audit committee requirements, using tools such as IIA's free [Assessment Guide for US Legislative, Regulatory, and Listing Exchange Requirements Affecting Internal Auditing](#).*
- *Compare your organization's audit committee agendas to typically scheduled activities, using the table below or the table in Appendix B for Fortune 500 companies. Identify possible new agenda items as appropriate.*
- *Pay special attention to internal audit issues on the list of common agenda items. If not already provided to your audit committee, compile and analyze [benchmarking data](#), reviews of plans vs. results, and other information that audit committees frequently request about internal auditing.*
- *Be prepared to furnish the audit committee with specific tools related to new agenda items. For example, if your committee schedules a review of whistleblower processes, provide copies of IIA's free [Implementation Guide](#) for Sarbanes-Oxley §301.4 (Complaints/Whistleblowing).*

The following table indicates the frequency with which audit committees at U.S. publicly traded companies schedule discussion of common agenda items.<sup>3</sup> It also indicates whether items were added to agendas after the advent of Sarbanes-Oxley, or whether they were also included on agendas in previous years.

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES) <sup>4</sup>	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI-ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/ AD Hoc	N/A
1. Sarbanes-Oxley and Other Regulatory Updates and Company Responses.	70.8%	24.4%	39.5%	1.2%	2.3%	2.3%	69.8%	23.3%	7.0%
2. Review of Whistleblower Allegations and Actions Taken, Including Report on Complaints re: Accounting, Audit, or Significant Fraud.	67.6%	33.3%	28.7%	1.1%	2.3%	8.0%	73.6%	16.1%	10.3%
3. Review of Whistleblower Processes.	66.7%	6.9%	12.6%	1.1%	5.7%	55.2%	81.6%	6.9%	11.5%
4. Approval of External Audit/ Non-Audit Services and Fees.	64.4%	26.4%	20.7%	0.0%	1.1%	33.3%	81.6%	17.2%	1.1%
5. Review of Form 10-Q (Pre-release).	33.8%	1.2%	75.3%	2.4%	0.0%	4.7%	83.5%	2.4%	14.1%

<sup>3</sup> See Appendix C for similar information about Fortune 500 companies. For information about other organizations, see The IIA Research Foundation's upcoming report, *The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Nonpublic Organizations*.

<sup>4</sup> Percentage is based only upon companies who currently schedule the agenda item.

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES) <sup>4</sup>	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI-ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/AD HOC	N/A
6. Review of Control Self-Assessment Process and Results.	29.8%	3.5%	8.1%	0.0%	1.2%	9.3%	22.1%	9.3%	68.6%
7. Review of Earnings Releases.	29.3%	1.1%	80.5%	1.1%	5.7%	3.4%	92.0%	3.4%	4.6%
8. Review of Overall Assessment of Control Environment.	28.4%	5.7%	19.5%	1.1%	9.2%	43.7%	79.3%	4.6%	16.1%
9. Review of Ethics Policy.	27.7%	3.4%	5.7%	1.1%	1.1%	56.8%	68.2%	13.6%	18.2%
10. Approval of Annual Update of Audit Committee Charter and Meeting Agenda.	24.3%	1.1%	1.1%	1.1%	1.1%	87.5%	92.0%	5.7%	2.3%
11. Highlights of Significant Special Investigation (i.e., Fraud) cases.	23.6%	31.0%	17.2%	3.4%	3.4%	6.9%	62.1%	31.0%	6.9%
12. Executive Sessions with Legal Counsel.	23.3%	9.4%	10.6%	0.0%	1.2%	7.1%	28.2%	25.9%	45.9%
13. Executive Session with Senior Management.	20.7%	17.0%	28.4%	2.3%	5.7%	12.5%	65.9%	19.3%	14.8%
14. Key Business/Control Risks Presented by Senior Management.	20.0%	5.8%	19.8%	2.3%	4.7%	19.8%	52.3%	14.0%	33.7%

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES) <sup>4</sup>	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI-ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/AD HOC	N/A
15. Review of Accounting and Reporting Requirements and Processes.	15.7%	14.8%	39.8%	3.4%	8.0%	15.9%	81.8%	9.1%	9.1%
16. Appointment of Independent Auditors.	15.3%	1.2%	0.0%	0.0%	0.0%	90.7%	91.9%	4.7%	3.5%
17. Independence Discussion with External Audit.	15.1%	10.3%	12.6%	0.0%	12.6%	57.5%	93.1%	4.6%	2.3%
18. Key Project Status Update Presented by Senior Management.	14.8%	10.6%	22.4%	1.2%	3.5%	3.5%	41.2%	27.1%	31.8%
19. Audit Committee Recommendation to the Board Regarding the 10-K Report.	14.5%	1.1%	10.3%	1.1%	2.3%	69.0%	83.9%	1.1%	14.9%
20. Approval of Audit Committee Report for Inclusion in Proxy Statement.	14.1%	0.0%	4.7%	0.0%	0.0%	76.7%	81.4%	3.5%	15.1%
21. Review of Audited Financial Statements and Footnotes on Form 10-K.	13.9%	2.3%	10.3%	0.0%	1.1%	77.0%	90.8%	1.1%	8.0%
22. Summary of Internal Audit Findings by Risk Types.	13.5%	5.7%	19.5%	1.1%	8.0%	14.9%	49.4%	3.4%	47.1%

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES) <sup>4</sup>	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI-ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/AD HOC	N/A
23. Benchmarking Comparison with Other Internal Audit Departments.	12.7%	0.0%	0.0%	0.0%	0.0%	28.7%	28.7%	17.2%	54.0%
24. Summary of IA Results and Distribution of Control Ratings.	12.1%	11.4%	42.0%	4.5%	9.1%	11.4%	78.4%	1.1%	20.5%
25. Executive Sessions with External Audit.	11.7%	31.0%	43.7%	2.3%	5.7%	11.5%	94.3%	4.6%	1.1%
26. Review of External Audit Plan.	10.8%	2.3%	2.3%	0.0%	0.0%	89.7%	94.3%	2.3%	3.4%
27. Review of Internal Audit Department Budget vs. Actual.	9.7%	1.1%	9.1%	0.0%	3.4%	39.8%	53.4%	6.8%	39.8%
28. Review of Internal Audit Objectives Plan vs. Actual.	9.7%	8.1%	17.4%	0.0%	9.3%	37.2%	72.1%	1.2%	26.7%
29. Executive Sessions with Internal Audit.	9.5%	31.8%	38.6%	3.4%	4.5%	13.6%	92.0%	5.7%	2.3%
30. Report on Year-end Significant Accounting Changes and Extraordinary items.	8.6%	5.7%	14.8%	1.1%	5.7%	62.5%	89.8%	0.0%	10.2%
31. Review of Number of Significant Findings and Corrective Action Status.	7.7%	20.7%	39.1%	2.3%	13.8%	6.9%	82.8%	3.4%	13.8%

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES) <sup>4</sup>	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI-ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/AD HOC	N/A
32. Business Update Presented by Senior Management.	7.0%	9.3%	22.1%	1.2%	3.5%	7.0%	43.0%	15.1%	41.9%
33. Highlight of Unsatisfactory Rated Audit Reports/Significant Internal Audit Findings.	6.9%	27.3%	45.5%	2.3%	6.8%	3.4%	85.2%	4.5%	10.2%
34. Review of Percentage of Completion vs. Annual Internal Audit Plan.	6.6%	14.8%	44.3%	1.1%	6.8%	22.7%	89.8%	3.4%	6.8%
35. Review of Internal Audit Balanced Scorecard Plan vs. Actual.	6.5%	1.1%	8.0%	0.0%	2.3%	16.1%	27.6%	1.1%	71.3%
36. Approval of Annual Internal Audit Plan & Budget.	6.5%	0.0%	3.4%	0.0%	1.1%	93.2%	97.7%	0.0%	2.3%
37. Review of Internal Control Recommendations by External Audit.	5.6%	3.5%	10.5%	1.2%	4.7%	74.4%	94.2%	1.2%	4.7%
38. Review of Changes in Internal Audit Plan.	5.2%	17.0%	39.8%	0.0%	12.5%	6.8%	76.1%	18.2%	5.7%

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES) <sup>4</sup>	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI-ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/AD HOC	N/A
39. Report on Completion of External Audit Work.	4.2%	10.2%	19.3%	2.3%	9.1%	51.1%	92.0%	1.1%	6.8%
40. Approval of Audit Committee Minutes.	4.1%	58.1%	30.2%	2.3%	1.2%	3.5%	95.3%	1.2%	3.5%
41. Summary of Recoveries and/or Savings Identified by Internal Audit.	1.8%	3.4%	8.0%	1.1%	4.5%	13.6%	30.7%	8.0%	61.4%

## 5. INTERNAL AUDITORS ARE SUPPORTING THE AUDIT COMMITTEE IN NEW WAYS

Corporate governance practices are evolving rapidly, and it can be challenging to keep up with new requirements and recommended practices. In many cases, audit committees are turning to the internal audit function to help ensure that the committee fulfills its responsibilities. "Internal Audit is charged with identifying new requirements and ensuring that the Committee meets all existing requirements through management of the audit agenda, meeting schedule, etc.," noted a survey participant.

### **! ACTION ITEMS FOR AUDIT EXECUTIVES**

*Look for new ways to enhance audit committee support, strengthen relationships, and improve the effectiveness of communications between the audit committee and internal audit. Compare audit committee support provided by internal audit at other organizations to that provided by your internal audit function.*

When asked to "explain changes made to the way the internal audit function supports the audit committee based on Sarbanes-Oxley or other recent events related to corporate governance," about two-thirds of survey respondents reported enhancements to audit committee support. The types of changes to audit committee support mentioned most frequently involved improvements to the quality or quantity of communications between the audit committee and internal audit. One participant noted, for example, that the audit committee and internal audit are having "more, and more candid, dialogue." Another survey participant stated, "Have received much more one-on-one time with the audit committee chairman. He expects an overview and evaluation at a deeper level than [he receives] from management and wants my personal opinion."

Other reported changes to audit committee support included activities such as:

- Assisting with orientation of new audit committee members;
- Assisting with audit committee self-assessments;
- Assisting with development of the audit committee's meeting agenda;
- Providing updates on regulatory developments;
- Providing enhanced reporting to the audit committee on internal controls;
- Involvement with whistleblowing processes; and
- Assisting with maintenance of the audit committee charter, especially regarding compliance with new legislation or stock exchange listing requirements.

## 6. INTERNAL AUDITORS ARE PROVIDING VALUABLE NEW SERVICES, BUT THESE SERVICES MAY SOMETIMES COME AT THE EXPENSE OF OTHER TRADITIONAL AUDIT SERVICES

Recent events have brought about a new appreciation of the role of internal auditing in effective corporate governance processes. Survey responses indicate that, concurrently with providing new value-added services, many chief audit executives have developed stronger working relationships with senior management and the audit committee. These are very positive changes; however, recent changes have also caused disruptions to many organization's risk-based audit plans and schedules.

### **! ACTION ITEMS FOR AUDIT EXECUTIVES**

*If you have not already done so, analyze the impact of Sarbanes-Oxley requirements on your organization's risk-based audit plans. If high-priority internal audit activities are being delayed or canceled due to resource constraints, inform senior management and the audit committee.*

Internal audit services are changing in a variety of ways, but in particular, audit functions are dedicating resources to Sarbanes-Oxley related initiatives. Activities such as helping with controls documentation, focusing on compliance issues, and providing new updates to audit committees are causing significant shifts in the ways internal audit resources are allocated. Survey comments indicate that the effect of these initiatives on audit plans, budgets, and schedules is often extensive:

- "Working mainly on [Sarbanes-Oxley] §404 instead of usual audits this year."
- "Significant involvement in §404 risk/control identification and testing, which has reduced other audit efforts."
- "Internal audit will spend 30 to 50 percent of its time on Sarbanes-Oxley implementation during 2004."

Sarbanes-Oxley and other recent governance initiatives are bringing about significant improvements to controls at many publicly listed companies. These improvements are not coming about without certain risks, however. Because organizations are actively involved in improving their internal controls, many controls are in transition. The ongoing process of evaluating and improving internal controls is essential, but breakdowns in internal control are often most likely to occur when controls are changing. As audit executives find new and important ways to support the audit committee and add value to their organizations, they are encouraged to review the impact of recent changes on their risk-based audit plans, budgets, and schedules. If high-priority internal audit activities are being postponed or canceled due to resource constraints, they are also encouraged to report the potential impact of resource limitations to senior management and the board.

## **7. RESOURCES FOR ADDITIONAL INFORMATION**

Additional resources and information related to corporate governance, audit committees, and the relationship between internal auditors and audit committees can be found on the IIA website at:

<http://www.theiaa.org/guidance/additional-resources/audit-committees-board-of-directors/>

## APPENDIX A: PROFILE OF SURVEY RESPONDENTS

In January 2004, The Institute of Internal Auditors published a survey titled *Sarbanes-Oxley Impact on Audit Committee Meetings*. The survey drew 157 responses, including 88 responses from individuals employed by publicly traded organizations and 67 from individuals at nonpublic organizations. Fifty responses were from organizations that are included in *Fortune 500* listings. This report is based upon responses from individuals at publicly traded companies only.

These surveys are hosted by The Institute of Internal Auditors' *Flash Survey* program and are designed to provide information about new and emerging subjects related to the profession of internal auditing. Most participants in *Flash Surveys* are chief audit executives; thus, the surveys reflect the thinking of audit executives within a variety of organizations. *Flash Surveys* are intended to detect general trends, but they normally are not statistically random samples and may not be of statistically significant size. In particular, information in this report relating to non-US organizations is based upon a very small sample of organizations, and readers should use judgment in reading and interpreting this information. Respondents from Australia, Bahrain, Canada, Denmark, France, Great Britain, India, Portugal, South Africa, Sweden, Ukraine, United States, and Zimbabwe participated in the survey.

Although survey participants were not randomly selected, the participants represented a wide number of industries and varied considerably by size of organization. Public companies in the survey had total annual revenues ranging from less than US\$500 million to more than US\$100 billion, with total employees from fewer than 500 to over 100,000.

TOTAL NUMBER OF EMPLOYEES WORLDWIDE	
Under 500	1%
501 to 1,000	3%
1,001 to 2,500	13%
2,501 to 5,000	23%
5,001 to 10,000	23%
10,001 to 25,000	0%
25,001 to 50,000	20%
50,001 to 100,000	7%
Over 100,000	10%

WORLDWIDE ANNUAL REVENUES (\$US)	
Under \$500 Million	5%
\$500 Million to \$1 Billion	16%
\$1 Billion to \$5 Billion	38%
\$5 Billion to \$10 Billion	17%
\$10 Billion to \$20 Billion	11%
\$20 Billion to \$50 Billion	9%
\$50 Billion to \$100 Billion	0%
Over \$100 Billion	3%

Manufacturing firms and utilities were among the largest groups of survey respondents. Twenty-two percent of all U.S. publicly traded firms in the survey were from the manufacturing sector, and 13 percent were from utilities. Among the Fortune 500 companies, 19 percent of participants were from manufacturing firms, and 15 percent were from utilities.

PRIMARY INDUSTRY – U.S. PUBLICLY TRADED COMPANIES	
Manufacturing	22%
Utilities	13%
Retail, Wholesale	10%
Insurance	8%
Services	8%
Computer, High Technology	7%
Finance, Real Estate	6%
Telecommunications	5%
Agriculture, Construction, Mining	3%
Petroleum	3%
Aerospace, Defense	2%
Banking	2%
Chemical, Drug	2%
Consumer Products	2%
Transportation	2%
Communications	1%
Other	1%

PRIMARY INDUSTRY – FORTUNE 500 COMPANIES	
Manufacturing	19%
Utilities	15%
Retail, Wholesale	11%
Computer, High Technology	9%
Insurance	9%
Petroleum	6%
Aerospace, Defense	4%
Agriculture, Construction, Mining	4%
Finance, Real Estate	4%
Services	4%
Telecommunications	4%
Transportation	4%
Chemical, Drug	2%
Consumer Products	2%

## APPENDIX B – AUDIT COMMITTEE MEMBERSHIP AND MEETING SCHEDULES AT FORTUNE 500 COMPANIES

	BEFORE SARBANES-OXLEY				AFTER SARBANES-OXLEY			
	HIGH	LOW	MEAN	MEDIAN	HIGH	LOW	MEAN	MEDIAN
1. Number of audit committee members	10	3	4.5	4	10	3	4.4	4
2. Number of outside audit committee members (not employed by the company)	8	3	4.4	4	7	3	4.3	4
3. Number of audit committee financial experts	8	1	1.9	1	5	1	1.9	2
4. Number of face-to-face audit committee meetings (per year)	8	1	4.4	4	12	3	5.2	5
5. Length of audit committee meetings (in hours)	4	0	2.0	2	6	1	2.9	3
6. Number of telephonic audit committee meetings (per year)	8	1	3.5	4	8	1	4.2	4
7. Length of telephonic audit committee meetings (in hours)	6	0.5	1.2	1	12	0.5	1.5	1
8. Total number of hours for audit committee meetings annually	26	4	12.9	12	39	4	19.7	18

## APPENDIX C: AUDIT COMMITTEE AGENDAS AT FORTUNE 500 ORGANIZATIONS

The following table indicates the frequency with which audit committees at Fortune 500 schedule discussion of 41 common agenda items. It also indicates whether items were added to agendas after the advent of Sarbanes-Oxley, or whether they were also included on audit committee agendas in previous years.

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES)	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI- ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/ AD HOC	N/A
1. Sarbanes-Oxley and Other Regulatory Updates and Company Responses.	75.6%	26.5%	38.8%	2.0%	2.0%	2.0%	71.4%	28.6%	0.0%
2. Review of Whistleblower Processes.	70.5%	4.0%	14.0%	0.0%	4.0%	70.0%	92.0%	8.0%	0.0%
3. Review of Whistleblower Allegations and Actions Taken, Including Report on Complaints re: Accounting, Audit or Significant Fraud.	68.9%	40.0%	26.0%	0.0%	4.0%	10.0%	80.0%	20.0%	0.0%
4. Approval of External Audit/Non-Audit Services and Fees.	65.1%	28.6%	14.3%	0.0%	0.0%	36.7%	79.6%	20.4%	0.0%
5. Review of Form 10-Q (Pre-release).	38.6%	0.0%	83.3%	2.1%	0.0%	8.3%	93.8%	4.2%	2.1%
6. Review of Earnings Releases.	35.6%	0.0%	85.7%	0.0%	2.0%	4.1%	91.8%	6.1%	2.0%
7. Review of Control Self-Assessment Process and Results.	33.3%	6.1%	10.2%	0.0%	2.0%	12.2%	30.6%	10.2%	59.2%
8. Review of Overall Assessment of Control Environment.	26.8%	8.0%	20.0%	0.0%	8.0%	48.0%	84.0%	4.0%	12.0%
9. Approval of Annual Update of Audit Committee Charter and Meeting Agenda.	24.4%	0.0%	2.0%	0.0%	0.0%	92.0%	94.0%	6.0%	0.0%
10. Executive Session with Senior Management.	22.9%	26.0%	22.0%	2.0%	4.0%	18.0%	72.0%	18.0%	10.0%
11. Review of Ethics Policy.	22.0%	4.0%	6.0%	0.0%	0.0%	66.0%	76.0%	14.0%	10.0%
12. Key Business/Control Risks Presented by Senior Management.	21.6%	10.2%	18.4%	2.0%	4.1%	20.4%	55.1%	12.2%	32.7%
13. Highlights of Significant Special Investigation (i.e., Fraud) cases.	20.5%	36.0%	16.0%	0.0%	6.0%	6.0%	64.0%	36.0%	0.0%

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies  
Appendix C

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES)	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI- ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/ AD HOC	N/A
14. Review of Accounting and Reporting Requirements and Processes.	16.3%	18.0%	42.0%	2.0%	4.0%	20.0%	86.0%	8.0%	6.0%
15. Approval of Audit Committee Report for Inclusion in Proxy Statement.	16.3%	0.0%	0.0%	0.0%	0.0%	96.0%	96.0%	2.0%	2.0%
16. Executive Sessions with Legal Counsel.	16.0%	8.3%	6.3%	0.0%	0.0%	10.4%	25.0%	35.4%	39.6%
17. Audit Committee Recommendation to the Board Regarding the 10-K Report.	13.6%	0.0%	4.0%	0.0%	0.0%	88.0%	92.0%	2.0%	6.0%
18. Key Project Status Update Presented by Senior Management.	13.2%	12.5%	16.7%	0.0%	2.1%	6.3%	37.5%	31.3%	31.3%
19. Benchmarking Comparison with Other Internal Audit Departments.	11.4%	0.0%	0.0%	0.0%	0.0%	34.0%	34.0%	18.0%	48.0%
20. Summary of Internal Audit Findings by Risk Types.	10.0%	10.0%	16.0%	0.0%	10.0%	8.0%	44.0%	4.0%	52.0%
21. Appointment of Independent Auditors.	9.3%	2.1%	0.0%	0.0%	0.0%	95.8%	97.9%	2.1%	0.0%
22. Review of Audited Financial Statements and Footnotes on Form10-K.	8.9%	2.0%	4.1%	0.0%	0.0%	91.8%	98.0%	2.0%	0.0%
23. Executive Sessions with External Audit.	8.1%	40.8%	34.7%	0.0%	4.1%	14.3%	93.9%	6.1%	0.0%
24. Review of Internal Audit Department Budget vs. Actual.	7.9%	2.0%	0.0%	0.0%	2.0%	54.0%	58.0%	6.0%	36.0%
25. Summary of IA Results and Distribution of Control Ratings.	7.5%	20.0%	42.0%	2.0%	10.0%	10.0%	84.0%	0.0%	16.0%
26. Report on Year-end Significant Accounting Changes and Extraordinary items.	7.1%	4.0%	16.0%	0.0%	4.0%	66.0%	90.0%	0.0%	10.0%
27. Independence Discussion with External Audit.	7.0%	6.1%	12.2%	0.0%	14.3%	63.3%	95.9%	4.1%	0.0%
28. Business Update Presented by Senior Management.	5.7%	14.3%	16.3%	0.0%	2.0%	8.2%	40.8%	16.3%	42.9%
29. Review of Internal Audit Objectives Plan vs. Actual.	5.3%	14.3%	10.2%	0.0%	8.2%	42.9%	75.5%	2.0%	22.4%
30. Review of External Audit Plan.	4.5%	2.0%	0.0%	0.0%	0.0%	98.0%	100.0%	0.0%	0.0%
31. Approval of Audit Committee Minutes.	4.4%	73.5%	20.4%	0.0%	0.0%	4.1%	98.0%	2.0%	0.0%

The Sarbanes-Oxley Act of 2002: Effect on Audit Committee Meetings at Publicly Traded Companies  
Appendix C

AGENDA ITEM	IF SCHEDULED, ADDED AFTER SARBANES? (% OF "YES" RESPONSES)	FREQUENCY							
		ALL MEETINGS	QUARTERLY	THREE PER YEAR	SEMI- ANNUALLY	ANNUALLY	AT LEAST ANNUALLY	OTHER/ AD HOC	N/A
32. Review of Internal Audit Balanced Scorecard Plan vs. Actual.	3.4%	2.0%	4.1%	0.0%	0.0%	22.4%	28.6%	0.0%	71.4%
33. Executive Sessions with Internal Audit.	2.6%	40.0%	34.0%	0.0%	2.0%	18.0%	94.0%	6.0%	0.0%
34. Review of Number of Significant Findings and Corrective Action Status.	2.6%	26.0%	38.0%	0.0%	12.0%	6.0%	82.0%	2.0%	16.0%
35. Highlight of Unsatisfactory Rated Audit Reports/Significant Internal Audit Findings.	2.3%	38.0%	40.0%	0.0%	8.0%	4.0%	90.0%	6.0%	4.0%
36. Review of Percent of Completion vs. Annual Internal Audit Plan.	2.2%	22.0%	38.0%	0.0%	4.0%	28.0%	92.0%	4.0%	4.0%
37. Approval of Annual Internal Audit Plan & Budget.	2.2%	0.0%	4.0%	0.0%	2.0%	92.0%	98.0%	0.0%	2.0%
38. Summary of Recoveries and/or Savings Identified by Internal Audit.	0.0%	4.0%	8.0%	0.0%	6.0%	20.0%	38.0%	8.0%	54.0%
39. Report on Completion of External Audit Work.	0.0%	12.0%	18.0%	2.0%	6.0%	54.0%	92.0%	0.0%	8.0%
40. Review of Internal Control Recommendations by External Audit.	0.0%	6.1%	4.1%	0.0%	4.1%	79.6%	93.9%	2.0%	4.1%
41. Review of Changes in Internal Audit Plan.	0.0%	24.0%	26.0%	0.0%	10.0%	10.0%	70.0%	26.0%	4.0%

## ***UNDERSTAND, SHAPE, ADVANCE***

*The IIA Research Foundation is a 501(c)(3) corporation formed to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally.*

*Through its research reports, Bookstore products, and GAIN Knowledge Services, The Foundation provides resources that help understand, shape, and advance the global profession of internal auditing by initiating and sponsoring intelligence gathering, innovative research, and knowledge-sharing in a timely manner.*

*To learn more, visit [www.theiia.org/research](http://www.theiia.org/research)*

**ISBN 978-0-89413-657-3**

**Item #2002.dl**

**Free to IIA Members**

**Non-members: US\$15**

