

## APPENDIX A

### Section 404 Cost / Benefit Study Draft Questions for Survey

<u>Terms used in Survey</u>	<u>Definition</u>
Fiscal year (FY)	Represents fiscal years which begin in the year listed. For example, for a calendar year company, "FY 2007" would represent the fiscal year beginning on 1/1/07 and ending 12/31/07.
ICFR	Internal control over financial reporting
Management assessment	Management assessment of the effectiveness of ICFR under 404(a) of the Sarbanes-Oxley Act of 2002
External audit	External audit of the effectiveness of ICFR under 404(b) of the Sarbanes-Oxley Act of 2002
AS 5	PCAOB Auditing Standard No. 5

#### **GENERAL INFORMATION (All filers)**

1. Company name
2. CIK (Edgar identifier)
3. Position of individual completing survey
  - a. Chief Executive Officer
  - b. Chief Financial Officer
  - c. Chief Accounting Officer
  - d. Controller
  - e. Vice-President Finance
  - f. Audit committee member
  - g. Other (\_\_\_\_\_)
4. What is your fiscal year end?
5. How long has your company had an outside audit of ICFR as required under Section 404(b)? (The appropriate survey where respondent will be directed is in parentheses.)
  - a. Since FY 2004 (Accelerated Filer)
  - b. Since FY 2005 (Accelerated Filer)
  - c. Since FY 2006 (Accelerated Filer)
  - d. This is our first year having an outside audit as required under Section 404 (b).
    - i. Are you a foreign private issuer? Y/N (If Yes, Newly Accelerated Filer-Foreign else Newly Accelerated Filer-Domestic)
  - e. Our company has never had an outside audit as required under Section 404(b) but will furnish a management assessment of ICFR this year as required under Section 404(a). (Non-Accelerated Filer)
  - f. Our company has, in the past, conducted an ICFR as required under Section 404(b) but is no longer required to do so as our filing status has changed. (?)

- g. Our company voluntarily conducts an ICFR as required under Section 404(b) but is not required to do so by our filing status as a non-accelerated filer. (Accelerated Filer)

Question 5 will move the respondent to a separate survey that is modified according to their compliance with Section 404 for a total of 4 separate surveys (accelerated, newly accelerated (domestic), newly accelerated (foreign) and non-accelerated).

**AUDIT COSTS (Accelerated Filers)**

6. Did any of the following events have an impact on the level of total auditing costs for FY 2007 as compared to FY 2006? Please note whether any part of the change is attributable to the audit of ICFR. For each answer marked "YES" under the "Change" column, please estimate the percent increase/decrease in total audit costs associated with the change

Change in	<b><u>Change</u></b>	<b><u>Attributable to ICFR</u></b>	<b><u>Percent increase (+) or decrease (-) in audit costs</u></b>
Material Acquisition/Divestiture	Y/N/NA	Y/N/NA	
In the number of hours the auditor needed to conduct the audit			
In the average hourly rate billed by the auditor			
In the number of internal audit staff/employee hours			
In the work of others not listed			
Adoption of new accounting and auditing pronouncements			
Other material events (_____)			

7. Does the company have an internal audit department or a similar function?
- If yes, for each year, please indicate how many employees are in your internal audit department:
    - Number of employees: 2006
    - Number of employees: 2007
  - The company does not have an internal audit department.
8. How many FTEs (throughout your company) were used in compliance with Section 404 in FY 2006 and FY 2007?
- FTE employees used for compliance with Section 404: FY 2006
  - FTE employees used for compliance with Section 404: FY 2007
9. Has there been a change in the amount of work needed for the FY 2007 external audit of the company's ICFR in any of the following areas? If so, please indicate the appropriate effect on audit costs.
- Scoping, such as the accounts and processes selected for audit
    - Significantly reduced the audit costs
    - Moderately reduced the audit costs
    - Did not have an impact on audit costs
    - Moderately increased audit costs
    - Significantly increased audit costs
    - No change in the amount of work needed
  - The number of areas requiring walkthroughs
    - Significantly reduced the audit costs
    - Moderately reduced the audit costs
    - Did not have an impact on audit costs

- iv. Moderately increased audit costs
      - v. Significantly increased audit costs
      - vi. No change in the amount of work needed
    - c. The number of controls subject to testing
      - i. Significantly reduced the audit costs
      - ii. Moderately reduced the audit costs
      - iii. Did not have an impact on audit costs
      - iv. Moderately increased audit costs
      - v. Significantly increased audit costs
      - vi. No change in the amount of work needed
    - d. Number of company locations selected for audit
      - i. Significantly reduced the audit costs
      - ii. Moderately reduced the audit costs
      - iii. Did not have an impact on audit costs
      - iv. Moderately increased audit costs
      - v. Significantly increased audit costs
      - vi. No change in the amount of work needed
10. What percentage of your audit costs for FY 2007 do you estimate is attributable to the external audit of ICFR as required under Section 404(b)?
- a. Less than 5%
  - b. 5-10%
  - c. 11-20%
  - d. 21-30%
  - e. 31-40%
  - f. 41-50%
  - g. Greater than 50%
  - h. Cannot estimate
11. How has the percentage of audit costs attributable to the external audit of ICFR as required under Section 404(b) changed over the past fiscal year?
- a. The percentage of audit costs has significantly increased over the past fiscal year
  - b. The percentage of audit costs has moderately increased over the past fiscal year
  - c. The percentage of audit costs has not changed over the past fiscal year
  - d. The percentage of audit costs has moderately declined over the past fiscal year
  - e. The percentage of audit costs has significantly declined over the past fiscal year
12. To your knowledge, has your company's auditor implemented more of a risk-based approach to your audit of ICFR since the introduction of Auditing Standard No. 5?
- a. Initiated more of a risk-based approach
  - b. No change in the approach
  - c. Less of a risk-based approach
  - d. Do not know
13. Based on discussions with your auditor, have you experienced any changes in your audit costs in FY 2007 as a result of the adoption of AS 5?
- a. Audit costs are significantly reduced as a result of the adoption of AS 5
  - b. Audit costs are moderately reduced as a result of the adoption of AS 5
  - c. Audit costs remained the same as a result of the adoption of AS 5

- d. Audit costs are moderately increased as a result of the adoption of AS 5
- e. Audit costs are significantly increased as a result of the adoption of AS 5
- f. No information

**AUDIT COSTS (Newly Accelerated Filers-Domestic)**

14. 6. Did any of the following events have an impact on the change in the level of total auditing costs for FY 2007 as compared to FY 2006? Please note whether any part of the change is attributable to the audit of ICFR. For each answer marked “YES” under the “Change” column, please estimate the percent increase/decrease in total audit costs associated with the change

Change in	<u>Change</u>	<u>Attributable to ICFR</u>	<u>Percent increase (+) or decrease (-) in audit costs</u>
Material Acquisition/Divestiture	Y/N/NA	Y/N/NA	
In the number of hours the auditor needed to conduct the audit			
In the average hourly rate billed by the auditor			
In the number of internal audit staff/employee hours			
In the work of others not listed			
Adoption of new accounting and auditing pronouncements in the US			
Other material events (_____)			

7. If your company used the expertise of an outside consultant to prepare for the external audit of ICFR as required by Section 404(b), what type of consultant did you employ?
  - a. CPA firm
  - b. IT firm
  - c. SOX-specific consultant
  - d. Other
  - e. Did not use an outside consultant
  
8. Approximately how much money did the company spent on the services of an outside consultant that is related to compliance with Section 404(b)?
  - a. 0-\$25,000
  - b. \$25,001-\$50,000
  - c. \$50,001-\$100,000
  - d. \$100,000-\$250,000
  - e. Greater than \$250,000
  - f. The company did not use an outside consultant
  
9. Does the company have an internal audit department or a similar function?
  - a. If yes, for each year, please indicate how many employees are in your internal audit department:
    - i. Number of employees: FY 2006
    - ii. Number of employees: FY 2007
  - b. The company does not have an internal audit department.

10. How many FTEs (throughout your company) are used in compliance with Section 404(b) in 2007?
  - a. Answer only if any FTE employees used for compliance with Section 404(b) in FY 2006
  - b. FTE employees used for compliance with Section 404(b): FY 2007
  
11. Please rank the following tasks in order of the effect on audit costs associated with complying with Section 404(b).
  - a. Scoping, such as the accounts and processes selected for audit
  - b. The number of areas requiring walkthroughs
  - c. The number of controls subject to testing
  - d. Number of company locations selected for audit
  
12. What percentage of your audit costs for FY 2007 do you estimate is attributable to the external audit of ICFR as required under Section 404(b)??
  - a. Less than 5%
  - b. 5-10%
  - c. 11-20%
  - d. 21-30%
  - e. 31-40%
  - f. 41-50%
  - g. Greater than 50%
  - h. Cannot estimate

**AUDIT COSTS (Newly Accelerated Filers-Foreign)**

6. What percentage of your shares do you estimate are held by US investors?
  - a. less than 10%
  - b. 10-25%
  - c. 26-50%
  - d. Greater than 50%
  - c. Cannot estimate
  
7. Does your company distribute your management report and audit report on ICFR to shareholders? Y/N
  
8. Are you required by your home country rules and/or regulations to have a form of reporting on internal controls? If yes, how much overlap is there in between the requirements of your home country and the US?
  - a. The rules and/or regulations have significant overlap
  - b. The rules and/or regulations have moderate overlap
  - c. The rules and/or regulations have minor overlap
  - d. There is no overlap
  - e. Our company’s home country does not have any rules or regulations regarding internal control reporting.
  
15. 9. Did any of the following events have an impact on the change in the level of total auditing costs associated with compliance with US securities regulations for FY 2007 as compared to FY 2006? Please note whether any part of the change is attributable to the audit of ICFR. For each answer marked “YES” under the “Change” column, please estimate the percent increase/decrease in total audit costs associated with the change

Change in	<u>Change</u>	<u>Attributable to ICFR</u>	<u>Percent increase (+) or decrease (-) in audit costs</u>
Material Acquisition/Divestiture	Y/N/NA	Y/N/NA	
In the number of hours the auditor needed to conduct the audit			
In the average hourly rate billed by the auditor			
In the number of internal audit staff/employee hours			
In the work of others not listed			
Adoption of new accounting and auditing pronouncements			
Other material events (_____)			

10. If your company used the expertise of an outside consultant to prepare for the external audit of ICFR as required by Section 404(b), what type of consultant did you employ?
  - a. CPA firm
  - b. IT firm
  - c. SOX-specific consultant



- d. Other
  - e. Did not use an outside consultant
11. Approximately how much money did the company spent on the services of an outside consultant that is related to compliance with Section 404(b)?
- a. 0-\$25,000
  - b. \$25,001-\$50,000
  - c. \$50,001-\$100,000
  - d. \$100,000-\$250,000
  - e. Greater than \$250,000
  - f. The company did not use an outside consultant
12. Does the company have an internal audit department or a similar function?
- a. If yes, for each year, please indicate how many employees are in your internal audit department:
    - i. Number of employees: FY 2006
    - ii. Number of employees: FY 2007
  - b. The company does not have an internal audit department.
13. How many FTEs (throughout your company) are used in compliance with Section 404(b) in FY 2007?
- a. Answer only if any FTE employees used for compliance with Section 404(b) in FY 2006
  - b. FTE employees used for compliance with Section 404(b): FY 2007
14. Please rank the following tasks in order of the effect on audit costs associated with complying with Section 404(b).
- a. Scoping, such as the accounts and processes selected for audit
  - b. The number of areas requiring walkthroughs
  - c. The number of controls subject to testing
  - d. Number of company locations selected for audit
15. What percentage of your audit costs for FY 2007 do you estimate is attributable to the external audit of ICFR as required under Section 404(b)?
- a. Less than 5%
  - b. 5-10%
  - c. 11-20%
  - d. 21-30%
  - e. 31-40%
  - f. 41-50%
  - g. Greater than 50%
  - h. Cannot estimate

**AUDIT COSTS (Non-Accelerated Filers)**

16. 6. Did any of the following events have an impact on the change in the level of total auditing costs for FY 2007 as compared to FY 2006? For each answer marked “YES” under the “Change” column, please estimate the percent increase/decrease in total audit costs associated with the change

Change in	<u>Change</u>	<u>Percent increase (+) or decrease (-) in audit costs</u>
Material Acquisition/Divestiture	Y/N/NA	
In the number of hours the auditor needed to conduct the audit		
In the average hourly rate billed by the auditor		
In the number of internal audit staff/employee hours		
In the work of others not listed		
Adoption of new accounting and auditing pronouncements		
Other material events (_____)		

7. Is your company using the expertise of an outside consultant to prepare for a future external audit of ICFR as required under Section 404(b)? If so what type of consultant do you employ?
  - a. CPA firm
  - b. IT firm
  - c. SOX-specific consultant
  - d. Other
  - e. Did not use an outside consultant
  
8. Approximately how much money did the company spent on the services of an outside consultant that is related to future compliance with Section 404(b)?
  - a. 0-\$25,000
  - b. \$25,001-\$50,000
  - c. \$50,001-\$100,000
  - d. \$100,000-\$250,000
  - e. Greater than \$250,000
  - f. The company did not use an outside consultant
  
9. Are any of your audit costs due to preparation for a future compliance with Section 404(b)? If so, please estimate the percentage for FY 2007:
  - a. Less than 1%
  - b. 1-5%
  - c. 6-10%
  - d. 11-20%
  - e. Greater than 20%

- f. None of our company's audit costs are due to preparation for future compliance with Section 404 (b)
- g. Cannot estimate

**MANAGEMENT ASSESSMENT (All Accelerated Filers)**

The purpose of these questions is to determine the factors that influence management assessment of internal controls over financial reporting. Unless requested, please do not include auditor attestation of ICFR in your answer.

1. What percentage of management and company staff time was needed to conduct the company’s FY 2007 management assessment of ICFR? (Please note that the amount of time should add to 100%.) In addition, please note whether the amount of time spent on a particular task has increased, decreased or remain unchanged.

	<u>% of Time</u>	<u>Change</u>
Identifying risks to your company’s financial reporting		
Identifying controls that address the risks identified		
Documenting the controls identified that address the risk		
Evaluating (including testing) the operating effectiveness of controls		
Evaluating any identified deficiencies to determine if they were material weaknesses		
Developing disclosures or SEC filings related to management assessment		
OTHER (_____)		

2. To what degree did coordination with the external auditor influence the manner by which your company structured its management assessment of ICFR in FY 2007?
  - a. Significantly – i.e., attempted to maximize auditor reliance on assessment to minimize audit costs
  - b. Moderately
  - c. Minimally
  - d. Not at all – structured management assessment to minimize internal effort
  
3. How did the amount of coordination with the external auditor to conduct the management assessment change from FY 2006 to FY 2007?
  - e. The amount of coordination increased significantly
  - f. The amount of coordination increased moderately
  - a. The amount of coordination increased did not change
  - b. The amount of coordination decreased significantly
  - c. The amount of coordination decreased moderately
  - d. Did not coordinate with our external auditor
  
4. Please indicate the approximate number of employee/management hours required to conduct the management assessment of ICFR in FY 2006 and FY 2007:
  - a. FY 2006 (\_\_\_\_\_ response provided via drop down menu)
  - b. FY 2007(\_\_\_\_\_response provided via drop down menu)
  
5. Please indicate the change in the role of your company’s internal audit (or group with similar function) in management assessment process between FY 2006 and FY 2007

- a. The role of the internal audit department increased significantly – had primary responsibility for gathering evidence
  - b. The role of the internal audit department increased moderately
  - c. The role of the internal audit department did not change
  - d. The role of the internal audit department decreased moderately
  - e. The role of the internal audit department decreased significantly
  - f. The company does not have an internal audit department
6. If your company used the expertise of an outside consultant during the conduct of your management assessment in FY 2007, what type of consultant did you employ?
  - a. CPA firm
  - b. IT firm
  - c. SOX-specific consultant
  - d. Other
  - e. Did not use an outside consultant
7. What services did the consultant(s) provide? (more than one answer may be checked)
  - a. Identification of controls to be tested for the management assessment
  - b. Evaluating the effectiveness of the controls
  - c. Developing disclosures related to management assessment
  - d. Additional personnel hours need to conduct the management assessment
  - e. Changes in IT system needed to conduct the management assessment
  - f. Substitution of consultant hours for internal hours
  - g. Other
  - h. Did not use an outside consultant
8. Approximately how much money in FY 2007 did the company spent on the services of an outside consultant that is related management assessment?
  - a. 0-\$25,000
  - b. \$25,001-\$50,000
  - c. \$50,001-\$100,000
  - d. \$100,000-\$250,000
  - e. Greater than \$250,000
  - f. The company did not use an outside consultant
9. The following statements cover aspects management assessment that may have changed from 2006 to 2007 because of the issuance by the SEC of interpretive guidance for management in conducting its assessment of ICFR. Please indicate the extent of the change in the following:
  - a. The scope of your company’s management assessment, including the number of risks subject to testing.
    - i. Significantly reduced
    - ii. Moderately reduced
    - iii. No effect
    - iv. Moderately increased
    - v. Significantly increased
  - b. The number of locations included in your company’s management assessment (ignoring changes in your company’s operations).
    - i. Significantly reduced
    - ii. Moderately reduced

- iii. No effect
- iv. Moderately increased
- v. Significantly increased
- c. The level of documentation your company maintained in support of its assessment.
  - i. Significantly reduced
  - ii. Moderately reduced
  - iii. No effect
  - iv. Moderately increased
  - v. Significantly increased
- d. The number of controls subject to your company's management assessment.
  - i. Significantly reduced
  - ii. Moderately reduced
  - iii. No effect
  - iv. Moderately increased
  - v. Significantly increased
- e. The nature, timing and extent of evidence gathered as part of your assessment.
  - i. Significantly reduced
  - ii. Moderately reduced
  - iii. No effect
  - iv. Moderately increased
  - v. Significantly increased
- f. The extent to which the company utilized "daily interaction" to support its assessment that controls were operating effectively.
  - i. Significantly reduced
  - ii. Moderately reduced
  - iii. No effect
  - iv. Moderately increased
  - v. Significantly increased
- g. The extent to which management relied on evidence gained from self-assessments.
  - i. Significantly reduced
  - ii. Moderately reduced
  - iii. No effect
  - iv. Moderately increased
  - v. Significantly increased
- h. The extent to which management relied on evidence gained from direct testing.
  - i. Significantly reduced
  - ii. Moderately reduced
  - iii. No effect
  - iv. Moderately increased
  - v. Significantly increased

**MANAGEMENT ASSESSMENT (Non-Accelerated Filers)**

The purpose of these questions is to determine the factors that influence management assessment of internal controls over financial reporting. Unless requested, please do not include auditor attestation of ICFR in your answer.

1. What percentage of management and company staff time was needed to conduct the company’s FY 2007 management assessment of ICFR? (Please note that the amount of time should add to 100%.)

	<b><u>% of Time</u></b>
Identifying risks to your company’s financial reporting	
Identifying controls that address the risks identified	
Documenting the controls identified that address the risk	
Evaluating (including testing) the operating effectiveness of controls	
Evaluating any identified deficiencies to determine if they were material weaknesses	
Developing disclosures or SEC filings related to management assessment	
OTHER (_____)	

2. Please indicate the approximate number of employee/management hours required to conduct the management assessment of ICFR in FY 2007:
  
3. Does the company have an internal audit department or a similar function?
  - a. If yes, for each year, please indicate how many employees are in your internal audit department:
    - iii. Number of employees: FY 2006
    - iv. Number of employees: FY 2007.
  - b. The company does not have an internal audit department.
  
4. Please indicate the role of your company’s internal audit (or group with similar function) in management assessment process in FY 2007
  - a. Significant – had primary responsibility for gathering evidence
  - a. Moderate –
  - b. Minimal
  - c. The company does not have an internal audit department.
  
5. If your company used the expertise of an outside consultant during the conduct of your management assessment in FY 2007, what type of consultant did you employ?
  - a. CPA firm
  - b. IT firm
  - c. SOX-specific consultant
  - d. Other
  - e. Did not use an outside consultant

6. What services did the consultant(s) provide? (more than one answer may be checked)
  - f. Identification of controls to be tested for the management assessment
  - a. Evaluating the effectiveness of the controls
  - b. Developing disclosures related to management assessment
  - c. Additional personnel hours need to conduct the management assessment
  - d. Changes in IT system needed to conduct the management assessment
  - e. Substitution of consultant hours for internal hours
  - f. Other
  - g. Did not use an outside consultant
  
7. Approximately how much money in FY 2007 did the company spent on the services of an outside consultant that is related to management assessment?
  - a. 0-\$25,000
  - b. \$25,001-\$50,000
  - c. \$50,001-\$100,000
  - d. \$100,000-\$250,000
  - e. Greater than \$250,000
  - f. The company did not use an outside consultant
  
8. To what degree did the following influence the manner by which your company structured its management assessment of ICFR in FY 2007?
  - a. Coordination with your external auditor
    - i. Significantly i.e., attempted to maximize auditor reliance on assessment to minimize audit costs
    - ii. Moderately
    - iii. Minimally
    - iv. Not at all – structured management assessment to minimize internal effort
  - b. The consideration of entity-level controls and how they impacted the number of controls and level of evidence needed to support the assessment
    - i. Significantly
    - ii. Moderately
    - iii. Minimally
    - iv. Not at all
  - c. Reliance on evidence gained from self-assessments
    - i. Significantly
    - ii. Moderately
    - iii. Minimally
    - iv. Not at all
  - d. Reliance on evidence gained from direct testing
    - i. Significantly
    - ii. Moderately
    - iii. Minimally
    - iv. Not at all



**BENEFITS OF COMPLIANCE WITH SECTION 404 (All Filers)**

9. Based on the Company's experiences under Section 404 of the Sarbanes-Oxley Act, please indicate the extent to which you agree with the following the statement:
- a. Compliance with Section 404 has had a positive impact on the company's internal control structure.
    - i. Strongly agree
    - ii. Agree
    - iii. No opinion
    - iv. Disagree
    - v. Strongly disagree
  - b. Compliance with Section 404 has increased the audit committee's confidence in the company's ICFR.
    - i. Strongly agree
    - ii. Agree
    - iii. No opinion
    - iv. Disagree
    - v. Strongly disagree
  - c. Compliance with Section 404 has improved the quality of the company's financial reporting.
    - i. Strongly agree
    - ii. Agree
    - iii. No opinion
    - iv. Disagree
    - v. Strongly disagree
  - d. Compliance with Section 404 has increased the company's ability to prevent and detect fraud.
    - i. Strongly agree
    - ii. Agree
    - iii. No opinion
    - iv. Disagree
    - v. Strongly disagree
  - e. Compliance with Section 404 has reduced the company's cost of capital.
    - i. Strongly agree
    - ii. Agree
    - iii. No opinion
    - iv. Disagree
    - v. Strongly disagree
  - f. Other benefits of compliance not described above:
    - i. \_\_\_\_\_
    - ii. \_\_\_\_\_
    - iii. \_\_\_\_\_
10. In your opinion, has the SEC been responsive to the concerns of public companies and smaller public companies regarding the cost of complying with the Section 404 requirements?
- a. Very responsive
  - b. Somewhat responsive
  - c. No opinion

d. Not responsive

11. Please check the boxes below regarding any prior surveys in which you have participated on the costs of Section 404 compliance:

- a. FEI
- b. CRA International
- c. Foley and Lardner
- d. Deloitte
- e. Greater Boston Chamber of Commerce
- f. Independent Community Bankers of America
- g. NASDAQ
- h. AEA
- i. KPMG
- j. The Lord & Benoit Report
- k. Other \_\_\_\_\_
- l. Have not participated in any prior surveys

12. If you have additional information which you feel is relevant to any of the preceding questions, or if you have comments on what that you think the SEC can do to improve the costs of compliance associated with Section 404, please feel free to express your views below:

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13. Would you be willing to provide contact information so that we may follow up if necessary?

- a. Name (\_\_\_\_\_)
- b. Address (\_\_\_\_\_)
- c. Phone number (\_\_\_\_\_)
- d. Email address (\_\_\_\_\_)