2008 Internal Audit Capabilities and Needs Survey

Assessing General Technical Knowledge,
Audit Process Knowledge, and Personal Skills
and Capabilities of Internal Auditors

protiviti ®

Independent Risk Consulting

INTRODUCTION

"Our work is the presentation of our capabilities." – Edward Gibbon

Ongoing professional development is essential for today's internal auditors, who not only are taking on a greater role in many aspects of governance, risk and compliance, but also enjoy a much broader range of career paths and opportunities in the global business environment. Now, more than ever, the internal audit profession needs innovative thinkers who are ready to meet a wide range of challenges, explore new technologies, identify and help to mitigate emerging risks, develop creative solutions to complex business challenges, and encourage their organizations to embrace best practices that can enhance all business functions.

For internal auditing professionals to achieve all of this – and more – a strong level of competency in key knowledge areas is required. To gauge how those in the profession perceive their present capabilities, Protiviti recently conducted its second survey of internal auditing professionals, including chief audit executives (CAEs) – who represented the largest group of respondents – as well as internal audit directors, managers and other auditing professionals. Survey participants were asked to answer more than 70 questions in three subject areas: General Technical Knowledge, Audit Process Knowledge, and Personal Skills and Capabilities. Their answers underscore which areas of competency they believe require the most improvement and reveal how they prioritize those needs.

The respondents to our survey represent all sectors of industry, including financial services, insurance and real estate; manufacturing, distribution and technology; energy and utilities; healthcare and life sciences; and many others. Most respondents to this year's survey work for publicly traded companies. The second largest group represents the private sector, while the rest of the participants indicated that they are at government, not-for-profit or other types of organizations. With regard to size, most work for corporations generating gross annual revenues between $1 billion and $4 billion; other respondents are at companies with yearly revenues ranging from less than $100 million to in excess of $20 billion.

This year's findings reveal that many internal auditing professionals – after years of working overtime to meet the intense demands of Sarbanes-Oxley compliance – are now moving to "rebalance" and refocus their attention and energy on more traditional auditing responsibilities as well as expanding their roles across the broader governance, risk and compliance landscape. They are looking more seriously at technological solutions, including Computer-Assisted Audit Techniques (CAATs) that can help them automate activities such as ongoing monitoring of certain internal controls and free them to lend their expertise to their organizations in other ways. Many also reported they are trying to improve their interpersonal skills, such as public speaking, which have become so essential to internal auditors, who now must communicate with a wide range of individuals both within and outside of their organization about complex risk-related, operational, compliance and financial matters.

We believe the findings and analysis of this survey will be enlightening and useful to local as well as global organizations of all types (a version of this survey also was conducted in China and selected other countries), across all industries that are working to enhance their internal audit functions and provide leadership and educational opportunities for their auditing professionals. Our inaugural Internal Audit Capabilities and Needs Survey in 2006 was well received not just by practitioners, but also by audit committees, boards of directors, CEOs, CFOs, CIOs and other company executives and professionals who understand that a nimble, continuously improving and well-supported internal audit function is vital to their organization's success. We hope they find the results in our latest survey to be even more valuable.

We wish to extend our thanks and appreciation to the more than 500 internal auditing professionals who participated in our survey. We also would like to acknowledge The Institute of Internal Auditors (IIA) for its continued guidance, which has increased the stature of the profession worldwide. At Protiviti, we are proud to be part of this innovative community through our more than 1,000 members of and Principal Partner status in The IIA, and we know that the future never has been brighter.

Protiviti Inc.
March 2008

I. ASSESSING GENERAL TECHNICAL KNOWLEDGE

Key Findings

- Overall, the greatest need to improve is with ISO 27000, for which respondents reported one of the lowest competency levels.
- Consistent with the 2006 survey, there still is a strong desire to improve ERM, FRM and the COSO ERM Framework, despite relatively high competency levels.
- FAS 159 also is identified as a top "Need to Improve" area.

Table 1 lists the five highest-ranked areas based on "Need to Improve" ratings.

Table 1: Overall Results, General Technical Knowledge

"Need to Improve" Rank	General Technical Knowledge	Competency (5-pt. scale)
1	ISO 27000	2.0
2	Enterprise Risk Management (ERM)	3.3
3	Fraud Risk Management (FRM)	3.3
4	COSO Enterprise Risk Management Framework	3.3
5	Fair Value Accounting (FAS 159)	2.4

Respondents were asked to assess, on a scale of one to five, their competency in 25 areas of technical knowledge important to internal audit, with one being the lowest level of competency and five being the highest. They then were asked to indicate whether they believed they possess an adequate level of competency or if there is need for improvement, taking into account the circumstances of their organization and the nature of its industry. (For the areas of knowledge under consideration, see sidebar on page 3.) Figure 1 depicts a comparison of "Need to Improve" vs. "Competency" ratings in a General Technical Knowledge landscape.

Information security remains a critical risk for organizations today, thus it is natural to find the new ISO 27000 international standard series topping the survey's General Technical Knowledge list as the area in greatest need of improvement. Developed by the International Organization for Standardization (ISO), ISO 27000 is the certification standard for information security. The ISO 27000 series incorporates the already existing ISO 17999 (renaming it to ISO 27002) – an implementation framework for information security best practices and controls that was originally based on the British Standard Institute (BSI) Information Security Management standard BS-7799. ISO designed the ISO 27000 series of standards to add clarity and structure to ISO 17999 so that organizations can use them to address all risk, compliance and governance issues related to information security so as to create effective and adequately protected information systems.

Figure 1: General Technical Knowledge – Perceptual Map
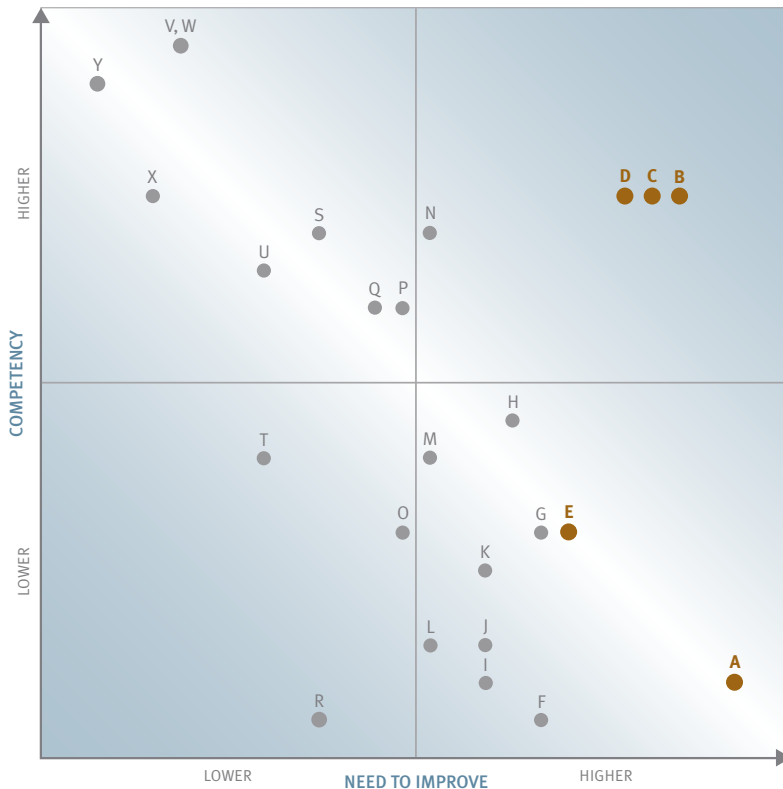
● Denotes areas identified to be in greatest need of improvement.

Consistent with the previous study, FRM, ERM and the COSO ERM Framework are again ranked among the top five areas in need of improvement. According to the findings, more companies are successfully streamlining their Sarbanes-Oxley compliance activities[1] and have begun focusing on anti-fraud activities. This, along with developing an enterprisewide view of the risks impacting the organization, ranks among the top areas in which internal audit functions need to improve skill sets and capabilities.

Also making this year's list: Fair Value Accounting (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities,* issued by the Financial Accounting Standards Board (FASB) in February 2007, which "permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value." In addition, in 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which "defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements." With limited exceptions, these new fair value standards are generally effective for calendar-year companies beginning in 2008, and as such these pervasive changes to existing accounting rules are being reported as a significant financial reporting competency improvement area for many respondents.

Areas Evaluated by Respondents*

A	ISO 27000
B	Enterprise Risk Management (ERM)
C	Fraud Risk Management (FRM)
D	COSO ERM Framework
E	FAS 159 (Financial Accounting Standards Board Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*)
F	ISO 14000
G	IFRS (International Financial Reporting Standards)
H	COBIT (Control Objectives for Information and Related Technology)
I	Basel II
J	FIN 48 (Financial Accounting Standards Board Interpretation No. 48)
K	Six Sigma
L	GLBA (Gramm-Leach-Bliley Act)
M	AU Section 322 (the auditor's consideration of the internal audit function in an audit of financial statements)
N	PCAOB Auditing Standard No. 5 (audit of IFCR performed in conjunction with an audit of financial statements)
O	ISO 9000
P	ICFR (Internal Control over Financial Reporting)
Q	U.S. GAAP (Generally Accepted Accounting Principles)
R	FDICIA (The Federal Deposit Insurance Corporation Improvement Act)
S	Corporate Governance Standards
T	Tax Laws (applicable to the relevant region/country)
U	Sarbanes-Oxley Section 301 (complaints regarding accounting, internal controls or auditing matters)
V	The IIA Standards (Standards for the Professional Practice of Internal Auditing)
W	COSO Internal Control Framework
X	Sarbanes-Oxley Section 302 (disclosure controls and procedures)
Y	Sarbanes-Oxley Section 404 (ICFR)

*Note: Letters correspond to text in Figure 1.

[1]For more information, see Protiviti's *Moving Internal Audit Back into Balance: A Post-Sarbanes-Oxley Survey*, available at **www.protiviti.com**.

Of note, in comparison to the first survey's results, International Financial Reporting Standards (IFRS) and the Six Sigma methodology fell from the top five list of areas in need of improvement – in fact, both saw a positive change in the "Need to Improve" area compared to previous survey findings. The marked improvement in IFRS knowledge is likely due to companies taking more seriously the possibility that IFRS and U.S. GAAP are likely to converge over the next two to three years. For much of Europe, it is already the standard of choice for financial reporting. In other countries, there are so-called "national flavors" of IFRS. Accordingly, many U.S. companies have had to become familiar with IFRS, or variations thereof, simply because they have operations in other countries.

Currently, domestic U.S. issuers are required to use U.S. GAAP – although the SEC will allow foreign companies to use either IFRS (but not "national flavors") or U.S. GAAP beginning in March 2008. Eventually, the SEC likely will give U.S. issuers the same flexibility of choice, but only after there has been sufficient convergence between the two accounting models. If and when this convergence occurs, it would affect all aspects of the financial reporting model – from fair value measurement to income taxes. Over time, convergence of these two competing accounting systems ultimately could lead to a global financial reporting standard. No doubt, many companies as well as internal auditors have been learning about IFRS so they can assess competently the benefits and costs of convergence and potential impacts on a variety of affected parts of the organization.[2]

Trends by Company Size and Industry[3]

ISO 27000 ranked as the technical area most in need of improvement across organizations of all sizes, with companies generating more than $10 billion and those with less than $1 billion in annual revenues ranking it as their primary concern. (Companies in the $1 billion to $9 billion range listed three areas: ERM, ISO 27000 and FRM.)

Among industry sectors, however, only respondents from companies in the financial services and manufacturing sectors – which were the two industry sectors with the greatest representation in the survey – identified ISO 27000 as one of the top areas in need of improvement. Meanwhile, respondents from the energy and utilities industry – another group with notable representation in the survey – indicated that their organizations need to focus on improving FRM. Perhaps this concern can be attributed to the sector's particularly heightened sensitivity to fraud due to recent corporate scandals in the industry, and to the need for energy companies to prove their vigilance and accountability to regulators and investors. Also, given that the energy industry is a global, highly complex business, the potential for fraud is inherent. Many respondents in this sector also listed IFRS as an area in need of improvement – no doubt because of the global nature of the industry.

FOCUS ON CHIEF AUDIT EXECUTIVES

As was the case in the 2006 survey, CAEs reported higher competency levels and less need for improvement for nearly all areas than those respondents in positions of less seniority (see Table 2). Like less experienced respondents, CAEs also ranked ISO 27000 as the top area in need of improvement. CAEs surveyed ranked the COSO ERM Framework, FRM and ERM highest on the competency scale, but also listed each area among the top three in need of improvement. Generally, CAEs' top five list mirrored that of the total sample of respondents, with the exception of CAEs identifying a greater need for knowledge enhancement in the areas of the PCAOB Standard No. 5 (AS5) regarding audits of ICFR – approved last year as a replacement for Auditing Standard No. 2 (AS2) – and the Gramm-Leach-Bliley Act of 1999 (GLBA), which includes provisions to protect consumers' personal financial information.

In addition, compared to the overall response, CAEs reported needing less improvement in General Technical Knowledge in areas such as The IIA Standards; Sarbanes-Oxley Sections 301, 302 and 404; and AU Section 322.

Table 2: General Technical Knowledge Results for CAEs

"Need to Improve" Rank	General Technical Knowledge	Competency (5-pt. scale)
1	ISO 27000	2.3
2 (tie)	COSO Enterprise Risk Management Framework	3.5
	Fraud Risk Management (FRM)	3.4
3	Enterprise Risk Management (ERM)	3.5
4	Fair Value Accounting (FAS 159)	2.5
5 (tie)	PCAOB Auditing Standard No. 5 (AS5)	3.3
	Gramm-Leach-Bliley Act (GLBA)	2.3

Comments from respondents:

"Need to advance ERM beyond risk assessment."

– Vice president, internal audit; manufacturing, distribution and technology industries; $5-$9 billion in gross annual revenues

II. ASSESSING AUDIT PROCESS KNOWLEDGE

Key Findings

- Computer-Assisted Audit Techniques, or CAATs, is perceived as the area in greatest need of improvement.
- Continuous Auditing, Data Analysis Tools: Data Manipulation, and Data Analysis Tools: Statistical Analysis rank highly as areas in need of improvement.
- The five areas of Auditing IT – Program Development, Change Control, Computer Operation, Security and Continuity – are still important, although no longer the topmost concerns (compared to 2006 study).

Table 3 shows the five highest-ranked areas based on "Need to Improve" ratings.

Table 3: Overall Results, Audit Process Knowledge

"Need to Improve" Rank	Audit Process Knowledge	Competency (5-pt. scale)
1	Computer-Assisted Audit Techniques (CAATs)	3.0
2	Continuous Auditing	3.1
3	Data Analysis Tools: Data Manipulation	3.0
4	Data Analysis Tools: Statistical Analysis	3.0
5	Auditing IT: Program Development	2.9

Respondents were asked to assess their competency in various skills and areas of knowledge on a scale of one to five, with one being the lowest level of competency and five the highest. They then were asked to indicate whether their level of competency is adequate or in need of improvement – taking into account the circumstances of their company and the nature of its industry. (See sidebar on page 7 for the 47 knowledge areas under consideration.) Some skill areas, such as Assessing Controls Design and Assessing Controls Operating Effectiveness, were subdivided and considered from multiple aspects and at different levels. In Figure 2, a comparison of "Need to Improve" vs. "Competency" ratings are depicted in an Audit Process Knowledge landscape.
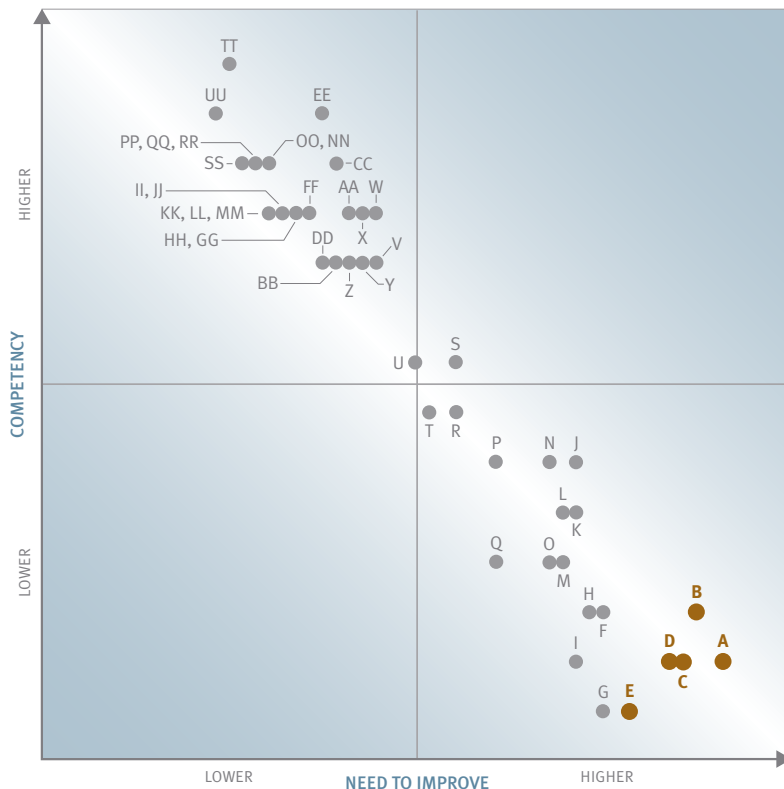
CAATs, which were not included in the 2006 survey, have been in use for many years but are becoming increasingly prevalent as companies work to automate and streamline internal audit processes and "rebalance"[4] their IA department. More organizations are seeking to alleviate some of the burden on audit personnel, who over the past few years have been tasked with monitoring continuously for fraudulent activity and internal control weaknesses – many times on a less than fully automated basis. Because internal auditors have been so focused on such activities, they have devoted less attention to many day-to-day – but vital – general internal control-related tasks and other traditional internal audit responsibilities, including operational auditing. CAATs enable real-time, automated independent testing of critical enterprise data; however, as is the case with most technology, there can be a significant initial investment involved, as well as training and implementation time.

Figure 2: Audit Process Knowledge – Perceptual Map

● Denotes areas identified to be in greatest need of improvement.

Therefore, it is understandable why so many respondents indicated they are eager to improve their competency level in CAATs. It also likely explains why Continuous Auditing ranked second – technology enables the audit process, and allows for control and risk assessments to be performed automatically, continuously and without any substantial recurring efforts. Furthermore, respondents also cited the need to improve their competency in Data Analysis Tools for Data Manipulation and Statistical Analysis, and Auditing IT: Program Development. This suggests a clear trend within many organizations to rebalance their internal audit departments and allow state-of-the-art technology to assist with continuous monitoring of controls and fraud detection.

Given that respondents did not assign a low ranking to their competency levels in any of the top five items on the list, most may believe that while they have a good understanding of these Audit Process Knowledge areas, they recognize the need for continuing to build their expertise and further leverage technology to their advantage.

II. ASSESSING AUDIT PROCESS KNOWLEDGE (cont.)

Along with Auditing IT: Program Development, respondents ranked all other competency areas related to Auditing IT – Change Control, Computer Operation, Security and Continuity – as low-competency. Although capabilities such as CAATs have emerged as more important knowledge areas for internal audit, competency levels have not improved much in any of the Audit Process Knowledge areas related to Auditing IT (see Figure 2). One reason for this lower overall competency rank may be that audit positions focused in these areas tend to be held and maintained by IT auditors with highly specialized skills. With this in mind, auditors, who for general purposes are financial and operationally focused auditors, may not see it as a priority to develop or maintain these deeper and highly specific audit skills.

Trends by Company Size and Industry[5]

Primarily citing CAATs as a priority for improvement were companies with less than $1 billion in annual revenues. Overall, the survey findings show that small organizations need to improve across nearly all areas, including Auditing IT, Data Analysis Tools and Marketing IA Internally.

Firms with more than $10 billion in annual revenues appear to require less improvement in most Audit Process Knowledge competency areas – particularly:

- Auditing IT
- Top-Down, Risk-Based Approach
- Internal and External Quality Assessment
- Fraud: Fraud Detection and Investigation and Monitoring

The findings reveal that respondents from financial services and manufacturing industries – very transaction-oriented businesses – are concerned about improving their Audit Process Knowledge related to CAATs. For example, most financial services companies likely have reached a point with their compliance activities at which they can automate portions of their internal controls monitoring activities, and are eager to devote more of their internal audit resources toward other business initiatives, such as assessing risk. Manufacturing companies, which often deal with large and detailed transactions that include several parties (e.g., suppliers, distributors, sales), must track costs through many steps of the manufacturing process; likely, these organizations are looking to take advantage of the real-time data analysis enabled by technology such as CAATs.

Respondents working in government listed both Continuous Auditing and CAATs as areas of top concern. Only those respondents working in the energy and utilities industry cited Fraud: Monitoring as a top area in need of improvement along with Continuous Monitoring.

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[5]Industry findings are directional given the limited sample size for some groups.

FOCUS ON CHIEF AUDIT EXECUTIVES

CAEs identified Continuous Auditing as the Audit Process Knowledge area in which they believe they require the greatest improvement. This is most likely because they are taking the lead on internal audit rebalancing activities within their organizations and are looking for ways to automate and improve fraud detection and controls monitoring processes. Also, the top five list for CAEs was very similar to that of the total sample of respondents, although the former did cite a stronger need for improvement in Fraud: Monitoring and other fraud-related competency areas. Again, these results could be attributed to the CAATs trend (see analysis for Table 3) because CAEs are looking to enhance their fraud detection activities through better use of technology. As expected, CAEs reported higher competency levels in all areas than those respondents with less seniority, as well as less need for improvement in all areas.

Table 4: Audit Process Knowledge Results for CAEs

"Need to Improve" Rank	Audit Process Knowledge	Competency (5-pt. scale)
1	Continuous Auditing	3.2
2	Data Analysis Tools: Data Manipulation	3.2
3	Computer-Assisted Audit Techniques (CAATs)	3.2
4	Data Analysis Tools: Statistical Analysis	3.1
5	Fraud: Monitoring	3.5

III. PERSONAL SKILLS AND CAPABILITIES

More than ever, boards and their committees seek complete transparency into company operations and the findings of internal audit's ongoing activities to monitor key areas. Internal audit leaders who are reporting to these groups must be able to present and communicate clearly the status of the company's internal auditing activities along with key issues and risks that have been identified.

Key Findings

- As in 2006, Developing Other Board Committee Relationships is the area in greatest need of improvement.
- Presenting (Public Speaking), Developing Audit Committee Relationships and Developing Outside Contacts/Networking rank next highest as areas for improvement.

Table 5 shows the highest-ranked areas based on "Need to Improve" ratings.

Table 5: Overall Results, Personal Skills and Capabilities

"Need to Improve" Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Developing Other Board Committee Relationships	3.5
2	Presenting (Public Speaking)	3.7
3 (tie)	Developing Audit Committee Relationships	3.3
	Developing Outside Contacts/Networking	3.6
4 (tie)	Developing Rapport with Senior Executives	3.6
	Time Management	3.9
5 (tie)	Change Management	3.5
	Creating a Learning IA Function	3.5
	Leadership (within the IA Profession)	3.6
	Negotiation	3.6

Respondents were asked to assess on a scale of one to five – with one being the lowest level of competency and five the highest – their competency in 18 types of Personal Skills and Capabilities. They were then asked to indicate whether they believe their competency level is adequate or requires improvement, taking into account the circumstances of their organization and the nature of its industry. (See sidebar on page 11 for a list of the 18 areas of knowledge under consideration.) Figure 3 depicts a comparison of "Need to Improve" vs. "Competency" ratings in a Personal Skills and Capabilities landscape.

Managing Relationships with Multiple Constituents Remains Primary Concern

Similar to results from the 2006 survey, developing and managing relationships with the other committees of the board of directors, in addition to the audit committee, company executives and external contacts, remain the areas of priority for internal auditors in terms of personal or "soft" skills.

This is not surprising, particularly in regard to working with the board and its various committees. More than ever, they seek complete transparency into company operations and the findings of internal audit's ongoing activities to monitor key areas. Internal audit leaders who are reporting to these groups must be able to present and communicate clearly the status of the company's internal auditing activities along with key issues and risks that have been identified. Further, internal audit must demonstrate to the board and its committees – with a high level of confidence – that these activities are being conducted and will continue in accordance with the internal audit plan that the board has approved.

Figure 3: Personal Skills and Capabilities – Perceptual Map

● Denotes areas identified to be in greatest need of improvement.

Moreover, company board committees each have their own respective written charters, many of which require a multitude of actions and assessments to be completed each year. Internal audit has valuable expertise and capacity to help these committees to meet, validate and report on the many requirements they each must complete. The survey findings completely support this as another expanded role for internal audit.

It also is important for internal audit to maintain effective working relationships with company executives. As with the board and its various committees, management today is keenly aware of the importance of identifying and managing the company's risks, and relies on the internal audit function to assist in this effort.

Interestingly, respondents from midsized companies ($1 billion to $9 billion) indicated a higher competency than large companies for most Personal Skills and Capabilities areas; most notably is Developing Other Board Committee Relationships.

Networking and developing outside contacts remains a priority for internal audit professionals as well. Along with the well-documented benefits of continuing education and keeping up-to-date on key industry trends and developments in the profession, outside experts and other external parties also are becoming more and more involved in the day-to-day operations of companies. For example, if an outside consultant has an integral role with the organization, it is incumbent upon the internal audit function to have a strong working relationship with the consulting company and, if necessary, to coordinate closely with or include it as part of its ongoing internal audit activities. Building and maintaining strong relationships with outside parties will facilitate this process along with enhancing knowledge of the internal audit efforts being undertaken in other organizations.

Trends by Company Size and Industry[6]

Interestingly, respondents from midsized companies ($1 billion to $9 billion) indicated a higher competency than large companies for most Personal Skills and Capabilities areas; most notably is Developing Other Board Committee Relationships. Respondents from smaller companies generally have the greatest need for improvement and a lower competency level across the range of Personal Skills and Capabilities – particularly, Leveraging Others' Expertise, Written Communication, and Leadership (within the IA Profession).

There clearly is dissatisfaction about communication that is occurring – or not – between internal audit and those at the board level, as developing better relationships with board-level committees was cited as a primary concern by respondents in financial services, insurance and real estate; manufacturing, distribution and technology; and government. Many of those from the energy and utilities sector specifically cited a need for improvement in their relationship with the audit committee. And respondents working in government ranked both Developing Other Board Committee Relationships and Presenting high on their list of activities that require greater focus. Healthcare and life sciences industry respondents identified Developing Other Board Committee Relationships as an area requiring the most improvement, along with Creating a Learning IA Function.

[6]Industry findings are directional given the limited sample size for some groups.

FOCUS ON CHIEF AUDIT EXECUTIVES

As expected, compared to those who have less seniority, CAEs have higher competency levels and a much lower perceived need to improve their Personal Skills and Capabilities across all areas. However, the survey findings do indicate that CAEs want to improve their abilities in the area of Developing Other Board Committee Relationships, even though they assigned a high ranking to their level of competency on this front. They are not alone. Developing Other Board Committee Relationships also was cited by directors and managers, as well as many other types of auditing professionals who participated in the survey, as a competency area most in need of improvement.

CAEs do appear to be making big strides with their interpersonal skills, as respondents did not cite Negotiation, Creating a Learning IA Function, and Leadership within Your Organization as being areas of great concern, although they were in the 2006 survey. And just like those who have less seniority, CAEs are looking to improve their public speaking skills (Presenting), even though they believe their competency level in this area is already quite high.

Table 6: Personal Skills and Capabilities Results for CAEs

"Need to Improve" Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Developing Other Board Committee Relationships	4.0
2	Presenting (Public Speaking)	4.0
3	Developing Outside Contacts/Networking	4.0
4 (tie)	Time Management	4.1
4 (tie)	Written Communication	4.2
5 (tie)	Developing Audit Committee Relationships	3.7
5 (tie)	Leadership (within the IA Profession)	3.9

MEETING TODAY'S CHALLENGES

Keeping pace with regulatory changes and advancing technology and monitoring the wide array of risks – internally and externally – that can affect enterprises in today's global business environment are ongoing challenges for internal auditing professionals, but ones they are embracing. This year's survey results indicate these individuals understand they must seek out and refine knowledge and skills continuously, whether it is learning new technology that can improve the way their organization monitors internal controls, or refining the approach they take to communicating complex operational, risk, compliance, governance and financial matters to board-level committees. Today's internal auditing professionals clearly recognize that by applying their capabilities in meaningful ways to their organization, they can help to create value for the entire enterprise.

The survey results show these professionals are committed to their continuing education to further enhance their skill sets, specifically by taking formal training as well as attending seminars, conferences and workshops. According to the survey, less-experienced personnel find value in formal training, while more senior personnel prefer to attend seminars, workshops and conferences. However, regardless of a professional's learning preferences, success in internal auditing requires a commitment to ongoing improvement of one's capabilities.

Protiviti anticipates conducting future surveys to ascertain how perceived skill levels and priorities for improvement change for those working in the internal auditing profession. As internal auditors continue to grow in their newly heightened roles as key players at their company's executive table, providing advice and insight on everything from corporate governance to overall business development, we will continue to monitor and report on their capabilities and needs.

For organizations interested in conducting this survey within their internal audit function or other departments, please contact:

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METHODOLOGY

More than 500 respondents submitted completed surveys for Protiviti's Internal Audit Capabilities and Needs Survey, which was conducted from July 2007 through October 2007. The survey, which was based on the 2006 inaugural survey, consisted of a series of questions grouped into three divisions: General Technical Knowledge, Audit Process Knowledge, and Personal Skills and Capabilities. Participants were asked to assess their skills and competency by responding to questions concerning 90 topic areas. The purpose of this survey was to elicit responses that would illuminate the current perceived levels of competency in the many skills necessary to today's internal auditors, and determine which knowledge areas require the most improvement.

Survey participants also were asked to provide demographic information about the nature, size and location of their businesses, and their titles or positions within the internal audit department. These details were used to help determine whether there were distinct capabilities and needs among different sizes and sectors of business, or among individuals with different levels of seniority within the internal audit profession. All demographic information was provided voluntarily by respondents.
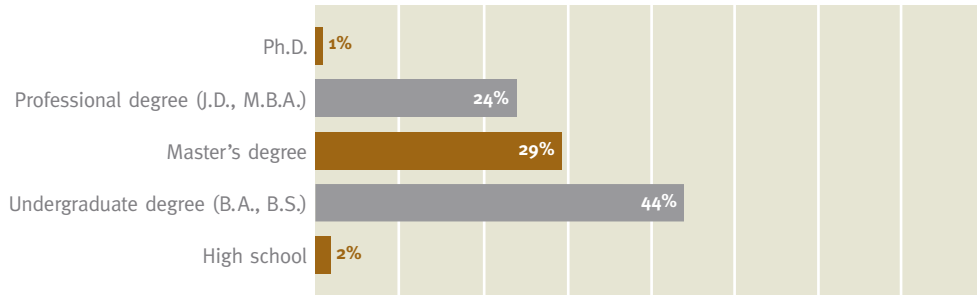
Sources of Respondents

- 66th Annual IIA International Conference in Amsterdam, The Netherlands (July 8-10, 2007). This conference is the largest annual conference for internal audit professionals. Survey forms were distributed to attendees at The IIA Conference. Completed forms were returned to the Protiviti booth at the conference, as well as by mail or fax to Protiviti's office locations.

- The IIA All-Star Conference in Las Vegas, Nevada (October 22-24, 2007). This event features the speakers rated highest by attendees of select IIA headquarters-sponsored conferences throughout the year. Survey forms were distributed to the attendees on the first day of the conference. Completed forms were returned to the Protiviti booth at the conference.

- Web-based survey at KnowledgeLeader[SM]. Electronic surveys were made available online to Knowledge-Leader subscribers, including those with trial subscriptions. KnowledgeLeader is a subscription-based Protiviti website designed to assist internal audit professionals with finding information, tools and best practices they can use to improve the efficiency and quality of their work.

- Electronic surveys. Surveys also were forwarded to other internal audit professionals who expressed an interest in participating.
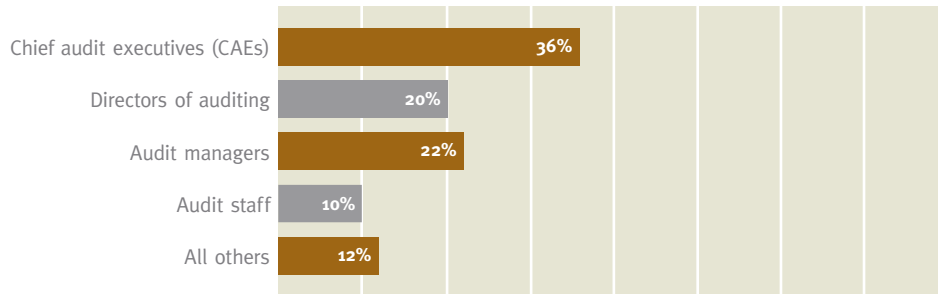
SURVEY DEMOGRAPHICS

A total of 516 respondents (18 percent of whom participated in the 2006 survey) participated in Protiviti's latest Internal Audit Capabilities and Needs Survey. Responses to demographic questions were voluntary. Please note that the percentages listed below correspond only to those answering each demographic question, and not the total sample of respondents.

Education:

Ph.D.	1%
Professional degree (J.D., M.B.A.)	24%
Master's degree	29%
Undergraduate degree (B.A., B.S.)	44%
High school	2%

Position:

Chief audit executives (CAEs)	36%
Directors of auditing	20%
Audit managers	22%
Audit staff	10%
All others	12%

Years in current position:

›10 years	17%
5-10 years	23%
1-4 years	47%
‹1 year	13%

Industry:

- Financial services, insurance and real estate — **26%**
- Manufacturing, distribution and technology — **19%**
- Government, nonprofit and education — **13%**
- Energy and utilities — **9%**
- Healthcare and life sciences — **9%**
- Media, hospitality and professional services — **7%**
- Consumer products and retail — **5%**
- Communications — **2%**
- Other — **10%**

Type of organization:

- Publicly traded — **47%**
- Private — **28%**
- Government — **12%**
- Not-for-profit — **11%**
- Other — **2%**

Size of organization (gross annual revenues):

- ≥$20 billion — **14%**
- $10 billion - $19 billion — **6%**
- $5 billion - $9 billion — **11%**
- $1 billion - $4 billion — **30%**
- $500 million - $999 million — **12%**
- $100 million - $499 million — **15%**
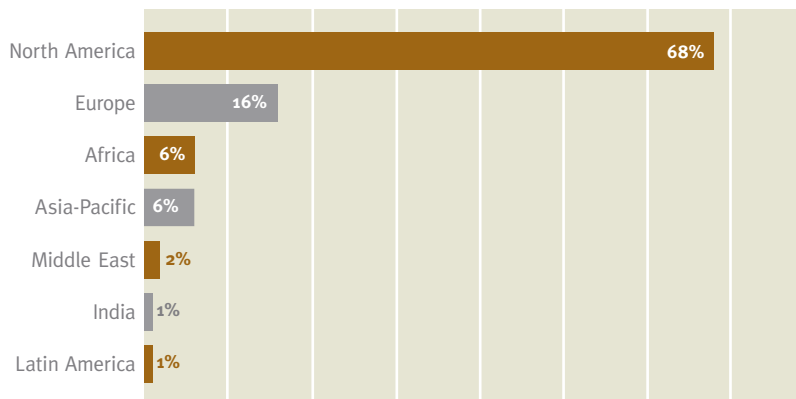- ≤$99 million — **12%**
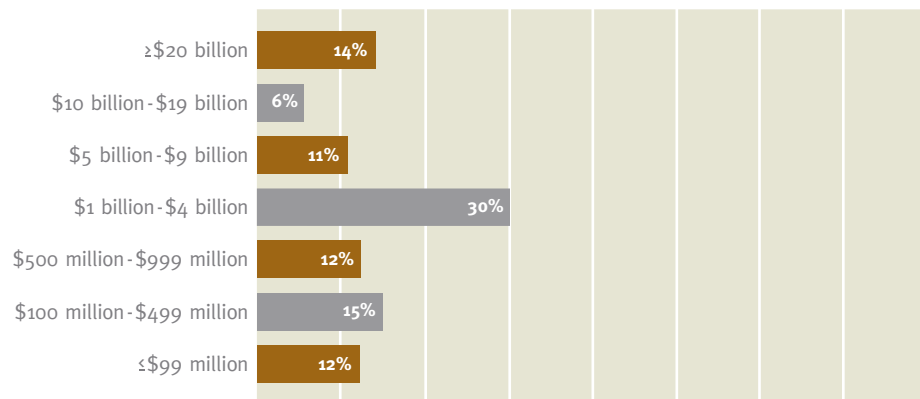
SURVEY DEMOGRAPHICS (cont.)

Region of company headquarters:

Region	Percentage
North America	71%
Europe	14%
Africa	6%
Asia-Pacific	5%
Middle East	2%
India	1%
Latin America	1%

Respondents' region:

Region	Percentage
North America	68%
Europe	16%
Africa	6%
Asia-Pacific	6%
Middle East	2%
India	1%
Latin America	1%
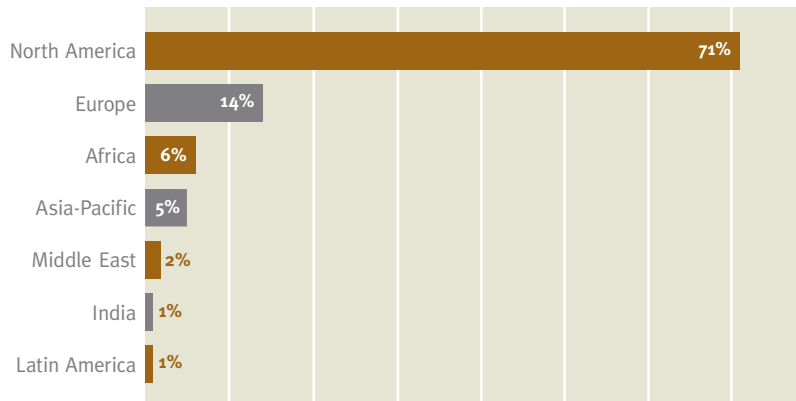
Years internal audit department has existed:

Years	Percentage
>10 years	51%
5-10 years	20%
1-4 years	24%
<1 year	5%
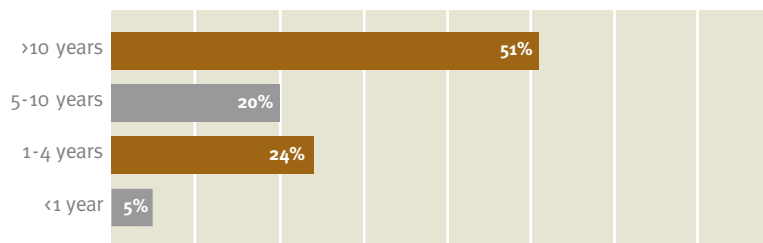
Internal audit department full-time (or equivalent) personnel:

1-10	57%
11-20	17%
21-50	12%
>50	14%
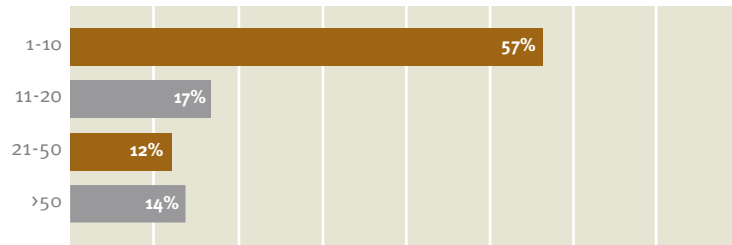
Using resources through a co-sourcing arrangement:

No	58%
Yes	42%
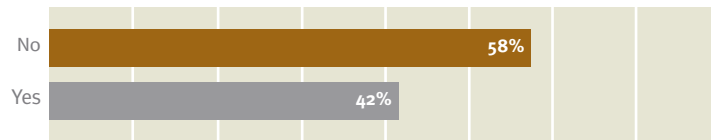
Full-time equivalent co-sourced personnel (if co-sourcing):

1-5	71%
6-10	12%
11-15	5%
>15	12%
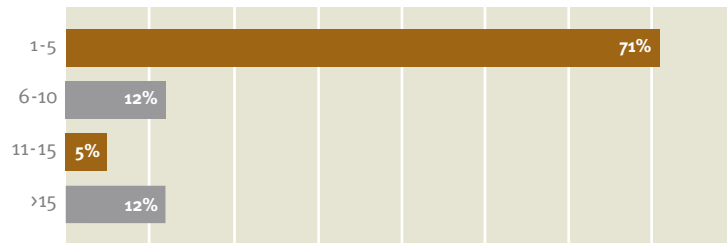
External quality assessment (Standard 1312) conducted in last five years:

Yes*	32%
No, but one is scheduled	15%
No	53%
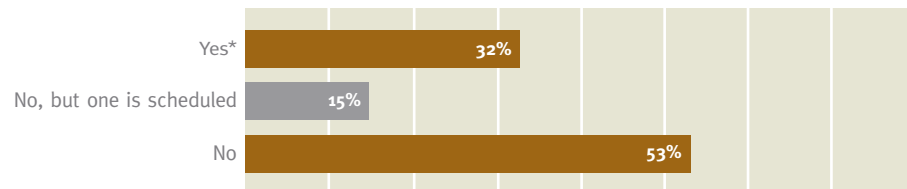
*Approximately two out of three companies with more than $10 billion in gross annual revenues

ABOUT PROTIVITI

Protiviti (**www.protiviti.com**) is a leading provider of independent risk consulting and internal audit services. We provide consulting and advisory services to help clients identify, assess, measure and manage financial, operational and technology-related risks encountered in their industries, and assist in the implementation of the processes and controls to enable their continued monitoring. We also offer a full spectrum of internal audit services to assist management and directors with their internal audit functions, including full outsourcing, co-sourcing, technology and tool implementation, and quality assessment and readiness reviews.

Protiviti is proud to be a Principal Partner of The IIA. More than 1,000 Protiviti professionals are active members of The IIA, and these members are actively involved with local, national and international leadership to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.

Protiviti, which has more than 60 locations in the Americas, Asia-Pacific and Europe, is a wholly owned subsidiary of Robert Half International (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

Internal Audit Solutions

Protiviti works with 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's services also include providing clients with highly specialized resources such as IT Security, Business Continuity and Fraud Detection, among many others, and assisting with internal audits in multiple countries.

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 Protiviti's internal audit practice provides are:

• Audit committee advisory

• Co-sourcing and specialized resource enhancement

• Full outsourcing

• Internal audit technology and tool implementation

• Internal audit quality assessments and readiness reviews

• Internal audit transformation

• Information technology audit services

• Start-up and development advice

Other relevant publications and resources from Protiviti:

- *Guide to Internal Audit: Frequently Asked Questions About the NYSE Requirements and Developing an Effective Internal Audit Function*

- *2007 U.S. Risk Barometer: Survey of C-Level Executives with the Nation's Largest Companies*

- *Guide to the Sarbanes-Oxley Act: Internal Control Reporting Requirements*

- *Internal Auditing Around the World, Volumes I, II and III*

- *Moving Internal Audit Back into Balance: A Post-Sarbanes-Oxley Survey*

- *Top Priorities for Internal Audit in a Changing Environment*

- *Partnering with the Rest of the Board*

- *Guide to Enterprise Risk Management: Frequently Asked Questions*

- *Enterprise Risk Management in Practice: Profiles of Companies Building Effective ERM Programs*

In addition, Protiviti publishes *The Bulletin*, a periodic newsletter covering key corporate governance and risk management topics of interest to internal auditors, board members and C-level executives.

To request a complimentary copy of any of our publications, please visit **www.protiviti.com** or call **1.888.556.7420**.

KnowledgeLeader℠ provided by protiviti®

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, and is updated weekly.

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 400 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 200 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:

- Business Continuity Management
- Control Self-Assessment
- Corporate Governance
- COSO
- Credit and Operational Risk
- Enterprise Risk Management
- Fraud and Ethics
- Internal Audit
- Sarbanes-Oxley Act
- Security Risk
- Technology Risk

Also available on KnowledgeLeader – KnowledgeLeader 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 (Paid) Content, discounted certification exam preparation material from ExamMatrix, discounted MicroMash CPE Courses to maintain your professional certification requirements, audit, accounting and technology standards and organizations, certification and training organizations and information, brief review of applicable laws and regulations, and best business links.

To learn more about KnowledgeLeader, sign up for a complimentary 30-day trial by visiting our website at **www.knowledgeleader.com**. Protiviti clients and alumni, and members of The IIA, ISACA, the AICPA 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 KL*plus*℠ (KL+). KL+ provides all of the benefits of KnowledgeLeader, *plus* full access to Risk Solutions iTraining, described on the next page.

PROTIVITI'S RISK SOLUTIONS iTRAINING DEVELOPMENT SERIES

RISK SOLUTIONS
iTraining

Protiviti's Risk Solutions iTraining is a comprehensive 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.

Topics include:

- Introduction to Self-Assessment
- Testing and Controls
- Information Technology (IT) Audit
- Enterprise Risk Management
- Audit Project Management
- Sarbanes-Oxley Act Compliance

Composed of materials originally developed for training Protiviti's consulting professionals, these courses are designed to give organizations and individuals a high-quality learning experience in a convenient format. The wide array of courses provides process owners, general management, boards of directors and other professionals with continuing education opportunities they can access anytime via the Internet. Protiviti's iTraining offerings also qualify for CPE credit.

This content can give you and your employees a significant advantage as you face continuing regulatory, corporate governance and internal control challenges. Courses incorporate real-life knowledge and practical skills that can be immediately applied within the work environment.

For more information, visit **www.protiviti.com**.

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Protiviti is not licensed or registered as a public accounting firm and does not issue opinions on financial statements or offer attestation services.