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## 2009 Internal Audit Capabilities and Needs Survey

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## Introduction

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The past year has been one of great turmoil, with the global financial markets on the brink of collapse and organizations struggling amid a worldwide recession, regardless of industry. Among the many effects of this crisis, management and boards of directors are looking more closely than ever at risk, finance, governance and operations to ensure that all proper controls are in place and functioning properly, that their IT systems and data are secure, and that they are leveraging working capital to the greatest extent possible. In this environment, internal auditors are playing a critically important role in monitoring organizationwide systems, processes and controls, as their companies today can ill afford even the slightest breakdowns, losses or inefficiencies.

It is in this environment that Protiviti conducted its third *Internal Audit Capabilities and Needs Survey*. Participants, including chief audit executives (CAEs) along with internal audit directors, managers and staff, answered more than 100 questions in three categories: General Technical Knowledge, Audit Process Knowledge, and Personal Skills and Capabilities. Their responses underscore the areas of priority for companies today along with internal audit competencies in need of the most improvement.

This year, along with reviewing the results of our latest survey, we also chart and comment on some of the more interesting trends that have emerged since 2006, when we first conducted this survey. Each section of the report includes a three-year summary comparing the top areas for improvement since Protiviti released the results of the first *Internal Audit Capabilities and Needs Survey*. We also review three-year trends among the responses of chief audit executives.

As in previous surveys, participants in this year's study represent virtually all industry sectors, including financial services, insurance, real estate, energy, utilities, manufacturing and distribution, healthcare, technology, biotechnology, hospitality, retail, and telecommunications, among many others. Nearly half are with publicly traded companies, the others being from private, government, educational and nonprofit organizations. Respondents were split relatively evenly in representing large, midsized and small organizations, with the largest group of participants coming from companies with annual revenues of US\$1-4 billion.

Now that we have conducted this survey three times over the past four years, it is interesting to note the activities and competencies that have emerged as consistent high priorities for chief audit executives and internal audit professionals: Enterprise Risk Management; Fraud (monitoring, detection and prevention); Continuous Auditing and Computer-Assisted Audit Techniques; Developing Other Board Committee Relationships. Clearly, these competencies are tied to organizational priorities for greater transparency in enterprisewide operations and processes, as well as clear and consistent views of key objectives and strategies by boards and their internal audit functions.

We are confident the findings of our study will again be of great interest to organizations of all types worldwide. Feedback we receive on a regular basis from internal audit leaders and professionals, as well as board members, chief executive officers, chief financial officers and chief information officers, continues to be highly positive and welcome confirmation that this research addresses issues on their minds. We look forward to continuing this study in the years to come and assessing new priorities that likely will emerge for internal audit functions, as well as how today's high-priority competencies will continue to evolve in terms of their importance. We also would welcome the opportunity to conduct a customized Capabilities and Needs Survey specifically for your organization.

In closing, we want to thank the more than 700 executives and professionals who took part in our *Internal Audit Capabilities and Needs Survey*. We also want to express our sincere appreciation to The Institute of Internal Auditors. More than 1,000 Protiviti professionals are members of The IIA, and we are proud to be a Principal Partner of the organization as it continues to be a stalwart global leader for the profession.

Protiviti Inc.  
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# I. Assessing General Technical Knowledge

## Key Findings – 2009

- Overall, the greatest need to improve is with The IIA's Guide to the Assessment of IT Risk (GAIT), although it is not ranked among the lowest competency levels.
- IFRS and XBRL also rank high as “Need to Improve” areas, likely because of the pending conversion in the United States to these financial reporting requirements.
- The top responses from 2008 – ISO 27000 and Enterprise Risk Management – remain in the top five in the latest survey.

**Table 1: Overall Results, General Technical Knowledge**

“Need to Improve” Rank	General Technical Knowledge	Competency (5-pt. scale)
1	The Guide to the Assessment of IT Risk (GAIT)	2.6
2	International Financial Reporting Standards (IFRS)	2.4
3	Extensible Business Reporting Language (XBRL)	1.9
4	Enterprise Risk Management (ERM)	3.3
5	ISO 27000 (information security)	2.1

Respondents were asked to assess, on a scale of one to five, their competency in 29 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 page 3.) Figure 1 depicts a comparison of “Need to Improve” versus “Competency” ratings in a General Technical Knowledge landscape.

IT continues to be a highly prominent function in most companies today, serving as a critical enabler of virtually all business processes and helping organizations achieve objectives and address risks. This explains, at least in part, the top “Need to Improve” ranking of The IIA's GAIT series, which describes the relationships among risk to the financial statements, key controls within business processes, automated controls and other critical IT functionality, and key controls within IT general controls.<sup>1</sup> In fact, given the growing prominence of GAIT, as well as The IIA's Global Technology Audit Guide (GTAG) series, ISO 27000 and SAS 70, it is not surprising to find such IT-related knowledge areas near the top of the survey's “Need to Improve” rankings.

Of note, ISO 27000, the top-ranked “Need to Improve” area in the 2008 survey, dropped to number five this year. This could be a reflection of a growing, though not completely satisfactory, comfort level among internal auditors with information security measures being employed in their organizations, which is not surprising in light of ongoing concerns about data security and privacy issues.

As in previous years, ERM and IFRS rank among the top areas in need of improvement. This is not a surprise for either competency area. Amid the current global financial crisis, more organizations are seeking to obtain an enterprisewide view of their risks and assess, mitigate and manage them effectively.

<sup>1</sup> Each practice guide in the series addresses a specific aspect of IT risk and control assessments. (Source: The Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org))

Figure 1: General Technical Knowledge – Perceptual Map



Areas Evaluated by Respondents

A	Guide to the Assessment of IT Risk (GAIT)	P	AU Section 322 – The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements
B	International Financial Reporting Standards (IFRS)	Q	ISO 14000 (environmental management)
C	Extensible Business Reporting Language (XBRL)	R	Tax Laws (in your applicable region/country)
D	Enterprise Risk Management (ERM)	S	SEC Interpretive Guidance for management regarding its evaluation and assessment of internal control over financial reporting (ICFR)
E	ISO 27000 (information security)	T	FDICIA*
F	Fair Value Accounting (FAS 159, Fair Value Option for Financial Assets and Liabilities)	U	Corporate Governance Standards*
G	Fraud Risk Management	V	U.S. GAAP
H	Basel II	W	Sarbanes-Oxley Section 301 (complaints regarding accounting, internal controls or auditing matters)*
I	FIN 48 (Tax Uncertainties)	X	PCAOB Auditing Standard No. 5 (An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements)*
J	Stock-Based Compensation (FAS 123R Share-Based Payment)	Y	COSO Internal Control Framework
K	ISO 9000 (quality management and quality assurance)	Z	Revenue Recognition
L	COBIT	AA	Standards for the Professional Practice of Internal Auditing (IIA Standards)
M	Gramm-Leach-Bliley Act (GLBA)*	BB	Sarbanes-Oxley Section 302 (disclosure controls and procedures)*
N	Six Sigma	CC	Sarbanes-Oxley Section 404 (internal control over financial reporting)*
O	COSO Enterprise Risk Management Framework		

Note: Letters correspond to text in Figure 1.

\* Or country equivalent

IFRS continues to be top-of-mind for most companies given pending plans in the United States, as announced by the U.S. Securities and Exchange Commission, to potentially require U.S. issuers to prepare financial statements in accordance with these standards within the next five years. In addition, the SEC may permit the use of IFRS for eligible filers within the next two years. If this happens, internal auditors not only will need to have a general understanding of IFRS and where it differs from U.S. GAAP, but also a specific understanding of how these new standards will impact policies, procedures, systems (and systems interfaces) and data flows across the organization. This will better position them to assess risks across the organization in general and in its financial statements in particular, reconfigure their test plans (and perhaps train their teams) with a focus on assessing the consistent exercise of “judgment” versus the adherence to “rules,” and reconsider entity-level controls and systems and application controls effectiveness in the context of new policies and procedures resulting from compliance with IFRS.

Extensible Business Reporting Language (XBRL), a new addition to the General Technical Knowledge category in this year’s survey, ranked highly in terms of need for improvement and also scored one of the lowest competency levels. XBRL, a relatively new competency area, is a language for the electronic communication of business and financial data.<sup>2</sup> In May 2008, the SEC announced that it had voted unanimously to propose a rule requiring companies – by as early as 2009, with a three-year phase-in period – to file financial statements in an interactive data format using XBRL.<sup>3</sup>

At the center of the SEC’s proposal is so-called “interactive data” – computer “tags” similar in function to bar codes used to identify groceries and shipped packages. The interactive data tags uniquely identify individual items in a company’s financial statements so they can be easily searched on the Internet, downloaded into spreadsheets, reorganized in databases, and put to any number of other comparative and analytical uses by investors, analysts and journalists. It will be incumbent upon internal auditors to become knowledgeable about XBRL and how the SEC’s new rule impacts their activities to fulfill the organization’s internal audit plan.<sup>4</sup>

### **Trends by Company Size and Industry**

Responses from large, midsized and small organization participants generally were consistent with the overall results. Of note, XBRL and IFRS rank as the top areas in need of improvement among large companies (more than US\$10 billion in annual revenues).

Among notable findings from industry sectors that varied from the overall response:

- XBRL ranks as the top area in need of improvement among respondents from energy, utilities and retail organizations.
- ERM is the most pressing concern for organizations in hospitality and life sciences.
- For companies in the insurance, manufacturing, real estate and technology industries, IFRS ranks as the area in greatest need of improvement.

Note: More detailed information is available on specific findings by industry and company size – contact Protiviti to request details.

<sup>2</sup> XBRL International ([www.xbrl.org](http://www.xbrl.org))

<sup>3</sup> U.S. Securities and Exchange Commission press release, “SEC Proposes New Way for Investors to Get Financial Information on Companies,” May 14, 2008, <http://www.sec.gov/news/press/2008/2008-85.htm>.

<sup>4</sup> Protiviti Flash Report, “SEC Proposes Rule to File Financial Statements in Interactive Data Format,” May 16, 2008, [www.protiviti.com](http://www.protiviti.com).

### Three-Year Trends

- ERM has ranked among the top five responses in every year of the study.
- ISO 27000, added to the survey as a competency area in 2008, ranked in the top five in the last two studies.
- While the COSO ERM Framework ranked in the top five in the first two studies, it fell out of the top rankings in 2009.

Table 2 lists the highest-ranked areas based on “Need to Improve” ratings for the three years in which the *Internal Audit Capabilities and Needs Survey* was conducted. Shading indicates competency areas that ranked highly in all three years of the study.

**Table 2: Overall Results, General Technical Knowledge – Three-Year Comparison**

“Need to Improve” Rank	2009	2008	2006
1	The Guide to the Assessment of IT Risk (GAIT)	ISO 27000 (information security)	Enterprise Risk Management (ERM)
			Fraud Risk Management
2	International Financial Reporting Standards (IFRS)	Enterprise Risk Management (ERM)	COSO Enterprise Risk Management Framework
3	Extensible Business Reporting Language (XBRL)	Fraud Risk Management	International Financial Reporting Standards (IFRS)
			Six Sigma
4	Enterprise Risk Management (ERM)	COSO Enterprise Risk Management Framework	Gramm-Leach-Bliley Act (GLBA)
5	ISO 27000 (information security)	Fair Value Accounting (FAS 159)	U.S. GAAP

Note: Certain General Technical Knowledge competencies were not included in the survey all three years.

## FOCUS ON CHIEF AUDIT EXECUTIVES

**Table 3: CAE Results, General Technical Knowledge**

“Need to Improve” Rank	General Technical Knowledge	Competency (5-pt. scale)
1	International Financial Reporting Standards (IFRS)	2.7
2	The Guide to the Assessment of IT Risk (GAIT)	2.8
3	Extensible Business Reporting Language (XBRL)	2.1
4	Enterprise Risk Management (ERM)	3.6
5	ISO 27000 (information security)	2.3

As has been the case in previous years for CAEs surveyed, the top five “Need to Improve” competency areas under General Technical Knowledge closely mirror the top overall responses (see Table 1), although IFRS ranks as the top area for CAEs. Also, CAEs again reported slightly higher competency levels for each of these areas.

Table 4 lists the highest-ranked areas for CAEs based on “Need to Improve” ratings for the three years in which the *Internal Audit Capabilities and Needs Survey* was conducted. Shading indicates competency areas that ranked highly in all three years of the study. As noted, ERM consistently has been among the top-ranking “Need to Improve” areas for CAEs over the three years of the study. IFRS, the top response for 2009, barely missed ranking in the top five all three years (it was tied for sixth in 2008). Not only is there a heightened focus on conversion to these standards in the United States, but it also is a broad topic that impacts most of the organization, aligning with the broader perspective of CAEs.

**Table 4: CAE Results, General Technical Knowledge – Three-Year Comparison**

“Need to Improve” Rank	2009	2008	2006
1	International Financial Reporting Standards (IFRS)	ISO 27000 (information security)	COSO Enterprise Risk Management Framework
2	The Guide to the Assessment of IT Risk (GAIT)	COSO Enterprise Risk Management Framework Fraud Risk Management	Enterprise Risk Management (ERM)
3	Extensible Business Reporting Language (XBRL)	Enterprise Risk Management (ERM)	International Financial Reporting Standards (IFRS)
4	Enterprise Risk Management (ERM)	Fair Value Accounting (FAS 159)	Fraud Risk Management
5	ISO 27000 (information security)	PCAOB Accounting Standard No. 5 (AS5) Gramm-Leach-Bliley Act (GLBA)	Six Sigma

## II. ASSESSING AUDIT PROCESS KNOWLEDGE

### Key Findings – 2009

- Computer-Assisted Audit Techniques ranks as the top “Need to Improve” area for the second consecutive year, tying with Continuous Auditing, which ranked second a year ago.
- Four fraud-related activities also rank among the areas in most need of improvement – this is a significant change from the previous survey, in which no fraud-related internal audit activities ranked among the top responses.
- Data Analysis Tools for Statistical Analysis and Data Manipulation rank in the top five for the second consecutive year.

**Table 5: Overall Results, Audit Process Knowledge**

“Need to Improve” Rank	Audit Process Knowledge	Competency (5-pt. scale)
1 (tie)	Continuous Auditing	3.1
	Computer-Assisted Audit Techniques (CAATs)	3.0
2 (tie)	Data Analysis Tools – Statistical Analysis	3.1
	Data Analysis Tools – Data Manipulation	3.1
3	Fraud – Monitoring	3.3
4 (tie)	Fraud – Fraud Detection/Investigation	3.3
	Auditing IT – Program Development	2.9
5 (tie)	Fraud – Auditing	3.4
	Fraud – Fraud Risk Management/Prevention	3.3
	Auditing IT – Computer Operations	2.9
	Auditing IT – Security	3.1

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 being 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 page 8 for the 50 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. Figure 2 depicts a comparison of “Need to Improve” versus “Competency” ratings in an Audit Process Knowledge landscape.

As detailed in Protiviti’s *2008 Internal Audit Capabilities and Needs Survey*, while internal auditors have used CAATs for many years, these techniques and related tools are becoming more and more prevalent as organizations continue to automate and streamline their internal audit functions and activities. Much of these efforts are taking place as organizations “rebalance” their focus away from Sarbanes-Oxley compliance-related activities, which have dominated their attention over the past several years, and shift toward more traditional IA responsibilities.<sup>5</sup>

<sup>5</sup>For more information, read Protiviti’s *Moving Internal Audit Back Into Balance: A Post-Sarbanes-Oxley Survey*, available at [www.protiviti.com](http://www.protiviti.com).

Figure 2: Audit Process Knowledge – Perceptual Map



Areas Evaluated by Respondents

A	Continuous Auditing	R	Data Analysis Tools – Sampling	II	Assessing Controls Operating Effectiveness (Entity Level) – Tone at the Top
B	Computer-Assisted Audit Techniques (CAATs)	S	QA and Improvement (IIA Standard 1300) – Ongoing Reviews (IIA Standard 1311)	JJ	Assessing Controls Design (Entity Level) – Company-Level Controls
C	Data Analysis Tools – Statistical Analysis	T	Marketing Internal Audit Internally	KK	Assessing Controls Operating Effectiveness (Process Level) – Op. Controls
D	Data Analysis Tools – Data Manipulation	U	Operational Auditing – Cost Effectiveness/Cost Reduction	LL	Assessing Controls Design (Entity Level) – Monitoring Controls
E	Fraud – Monitoring	V	Internal Quality Assessment (periodic review)	MM	Audit Planning – Entity Level
F	Fraud – Fraud Detection/Investigation	W	Internal Quality Assessment (ongoing assessment)	NN	Assessing Controls Operating Effectiveness (Entity Level) – Co-Level Controls
G	Auditing IT – Program Development	X	Presenting to the Audit Committee	OO	Assessing Controls Design (Process Level) – Operational Controls
H	Fraud – Auditing	Y	Resource Management (hiring, training, managing)	PP	Conducting Opening/Closing Meetings
I	Fraud – Fraud Risk Management/Prevention	Z	Top-Down, Risk-Based Approach To Assessing ICFR	QQ	Assessing Controls Design (Process Level) – Financial Controls
J	Auditing IT – Computer Operations	AA	Operational Auditing – Effectiveness/Efficiency/Economy Ops	RR	Developing Recommendations
K	Auditing IT – Security	BB	Presenting to Senior Management	SS	Assessing Controls Operating Effectiveness (Entity Level) – Monitoring Controls
L	Auditing IT – Continuity	CC	Operational Auditing – Risk-Based Approach	TT	Assessing Controls Operating Effectiveness (Process Level) – Compliance Controls
M	Fraud – Fraud Risk Assessment	DD	Planning Audit Strategy	UU	Assessing Controls Operating Effectiveness (Process Level) – Financial Controls
N	Auditing IT – Change Control	EE	Report Writing	VV	Assessing Controls Design (Process Level) – Compliance Controls
O	QA Improvement (IIA Standard 1300) – External Assessment (IIA Standard 1312)	FF	Assessing Controls Design (Entity Level) – Tone at the Top/Soft Controls	WW	Assessing Risk – Process, Location, Transaction Level
P	Use of Self-Assessment Techniques	GG	Assessing Risk – Entity Level	XX	Audit Planning – Process, Location, Transaction Level
Q	QA and Improvement (IIA Standard 1300) – Periodic Reviews (IIA Standard 1311)	HH	Interviewing		

Note: Letters correspond to text in Figure 2.

The concept of continuous auditing, which by extension includes CAATs, has been an increasing area of focus for internal auditors over the past several years. In October 2005, The IIA published its third Global Technology Audit Guide (GTAG), titled *Continuous Auditing: Implications for Assurance, Monitoring, and Risk Assessment*, “to help CAEs identify what must be done to make effective use of technology in support of continuous auditing and highlight areas that require further attention.”

In this GTAG, The IIA defines continuous auditing as follows:

Continuous auditing is a technology-driven process that automatically performs control and risk assessments, changing the audit strategy from periodic reviews of a sample of transactions to ongoing audit testing of all transactions. This technology enables auditors to analyze data more frequently by performing control and risk assessments in a real-time environment, reviewing key business systems for anomalies at the transaction level and for data-driven indicators of control deficiencies and emerging risk. The analysis results can be integrated into all aspects of the audit process, from the development and maintenance of the enterprise audit plan to the conduct and follow-up of specific audits.<sup>6</sup>

The survey findings also reflect a greater focus on the need to enhance knowledge and skills in order to fulfill the role of internal audit on the front lines of fraud risk management. Since the release of *Managing the Business Risk of Fraud: A Practical Guide* (IIA, AICPA and ACFE) in July 2008, many internal auditors have evaluated capabilities to address their organizations’ exposure to fraud risk through prevention, detection and monitoring efforts. In doing this, they have found they need to take immediate steps to strengthen their audit process knowledge in key areas in order to meet expectations of their board, senior management and shareholders regarding certain components of their fraud risk program.

The last few months of corporate scandals have exemplified the fact that Sarbanes-Oxley compliance efforts – while valuable in providing enhanced corporate transparency regarding internal control structure – do not provide a “bulletproof vest” when it comes to fraud and misconduct. Furthermore, it is an unfortunate reality that amid difficult economic environments, the level of fraudulent activity increases. Organizations are relying more heavily upon their internal auditors to help manage fraud risk through execution of fraud risk assessment, as well as financial and operational audits designed to help identify potential indicators of fraud risk. Given the breadth and depth of electronic data that is a hallmark of today’s corporate environment, the survey results reflect internal auditors’ need for tools and techniques to help achieve these objectives in the most efficient and effective manner possible.

In the areas of auditing IT security and operations, companies continue to identify areas for improvement. These technologies evolve rapidly and increasingly become more complex to support the ever-changing needs of the business. Developing and retaining the requisite skills and competencies within internal audit to address the broadening nature of technologies deployed at the company is an ongoing challenge.

Of note and as evident in previous surveys, respondents did not rate their competency levels particularly low in any of the top-ranked “Need to Improve” skills. This indicates that while internal audit professionals may have a certain level of expertise in these Audit Process Knowledge areas, they also recognize the importance of them to their internal audit function and the organization, and thus are aware of the need to continue building their expertise in continuous auditing and associated technologies.

### **Trends by Company Size and Industry**

Responses from large, mid-sized and small organization survey participants were consistent with the overall results. Among notable findings from specific industry sectors that varied from the overall response:

- Fraud dominates the top-ranked responses among participants from healthcare organizations, with five fraud-related auditing areas (including ties) ranking first or second.
- For telecommunications companies, Data Analysis Tools – Statistical Analysis was the top-ranked response, and Presenting to the Audit Committee and Interviewing were in the top five, while neither CAATs nor Continuous Auditing ranked highly.
- Marketing Internal Audit Internally ranked in the top five in a number of industries, including distribution, financial services, real estate, services and utilities.

Note: More detailed information is available on specific findings by industry and company size – contact Protiviti to request details.

<sup>6</sup>*CAE Bulletin*, “IIA Releases GTAG Guidance on Continuous Auditing,” The Institute of Internal Auditors, October 12, 2005, <http://www.theiia.org/CAE/index.cfm?id=410>.

### Three-Year Trends

- Areas related to Auditing IT – specifically, Change Control, Computer Operations, Program Development and Security – have ranked among the top responses in all three studies.
- Since being added in 2008 to the competency areas rated by respondents, CAATs and Continuous Auditing have ranked highest in terms of need for improvement, as have Data Analysis Tools related to Data Manipulation and Statistical Analysis.

Table 6 lists the highest-ranked Audit Process Knowledge areas based on “Need to Improve” ratings for the three years in which the *Internal Audit Capabilities and Needs Survey* was conducted. Shading indicates competency areas that ranked highly in all three years of the study.

**Table 6: Overall Results, Audit Process Knowledge – Three-Year Comparison**

“Need to Improve” Rank	2009	2008	2006
1	Continuous Auditing	Computer-Assisted Audit Techniques (CAATs)	Auditing IT – Program Development
	Computer-Assisted Audit Techniques (CAATs)		
2	Data Analysis Tools – Statistical Analysis	Continuous Auditing	Auditing IT – Security
	Data Analysis Tools – Data Manipulation		
3	Fraud Monitoring	Data Analysis Tools – Data Manipulation	Auditing IT – Change Control
4	Fraud – Fraud Detection/ Investigation	Data Analysis Tools – Statistical Analysis	Auditing IT – Continuity
	Auditing IT – Program Development		
5	Fraud – Auditing	Auditing IT – Program Development	Auditing IT – Computer Operations
	Fraud – Fraud Risk Management/Prevention		
	Auditing IT – Computer Operations		
	Auditing IT – Security		

Note: Certain Audit Process Knowledge competencies were not included in the survey all three years.

FOCUS ON CHIEF AUDIT EXECUTIVES

**Table 7: CAE Results, Audit Process Knowledge**

“Need to Improve” Rank	Audit Process Knowledge	Competency (5-pt. scale)
1 (tie)	Computer-Assisted Audit Techniques (CAATs)	3.0
	Continuous Auditing	3.1
2	Data Analysis Tools – Data Manipulation	3.2
3	Data Analysis Tools – Statistical Analysis	3.2
4 (tie)	Fraud – Monitoring	3.6
	Fraud – Fraud Detection/Investigation	3.6
5 (tie)	Fraud – Auditing	3.7
	Fraud – Fraud Risk Management/Prevention	3.7

Interestingly, skill areas related to fraud (Monitoring, Detection/Investigation and Auditing) rank in the top five even though competency levels for each of them are relatively high. This underscores just how important anti-fraud activities are for today’s internal audit functions, particularly in the eyes of their leadership.

Table 8 lists the highest-ranked Audit Process Knowledge areas for CAEs based on “Need to Improve” ratings for the three years in which the *Internal Audit Capabilities and Needs Survey* was conducted. While there are no consistent trends evident in the table (certain Audit Process Knowledge competencies were not included in the survey all three years), it is clear that continuous auditing (including CAATs) and fraud-related activities continue to be key priorities for CAEs and internal audit leaders.

**Table 8: CAE Results, Audit Process Knowledge – Three-Year Comparison**

“Need to Improve” Rank	2009	2008	2006
1	Computer-Assisted Audit Techniques (CAATs)	Continuous Auditing	Auditing IT – Program Development
	Continuous Auditing		
2	Data Analysis Tools – Data Manipulation	Data Analysis Tools – Data Manipulation	Auditing IT – Security
3	Data Analysis Tools – Statistical Analysis	Computer-Assisted Audit Techniques (CAATs)	Auditing IT – Computer Operations
			Auditing IT – Continuity
4	Fraud – Monitoring	Data Analysis Tools – Statistical Analysis	Auditing IT – Change Control
	Fraud – Fraud Detection/Investigation		
5	Fraud – Auditing	Fraud – Monitoring	Auditing IT – Marketing Internal Audit Internally
	Fraud – Fraud Risk Management/Prevention		

### III. Personal Skills and Capabilities

#### Key Findings – 2009

- Developing Other Board Committee Relationships ranks as the top area in need of improvement for the third time in as many surveys.
- Dealing with Confrontation, an area added to the 2009 study, ranked as the second highest “Need to Improve” area.
- Respondents reported relatively high competency in most of the top-ranked skills and capabilities, suggesting that these areas remain key priorities and that room for improvement remains.

**Table 9: Overall Results, Personal Skills and Capabilities**

“Need to Improve” Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Developing Other Board Committee Relationships	3.1
2	Dealing with Confrontation	3.5
3 (tie)	Persuasion	3.5
	Presenting (public speaking)	3.6
	Strategic Thinking	3.7
4 (tie)	Leadership (within the IA profession)	3.3
	Developing Outside Contacts/Networking	3.5
	Time Management	3.7
5	Developing Audit Committee Relationships	3.3

Respondents were asked to assess on a scale of one to five – with one being the lowest level of competency and five being the highest – their competency in 23 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 page 13 for a list of the 23 areas of knowledge under consideration.) Figure 3 depicts a comparison of “Need to Improve” versus “Competency” ratings in a Personal Skills and Capabilities landscape.

Developing relationships with other members of the board of directors in addition to the audit committee continues to be the top priority for survey respondents. Boards today seek complete transparency into company operations and internal audit’s ongoing activities. Chief audit executives and other internal audit leaders must be able to demonstrate to the board and all of its committees – not just the audit committee – that their activities are being conducted in accordance with the organization’s internal audit plan as approved by the board. In addition, each committee of the board generally has its own written charter detailing a number of initiatives and activities that must be undertaken. Many of these are areas in which internal audit can be of assistance.

Protiviti’s white paper, *Partnering with the Rest of the Board*, looks closely at the importance of forming strong and effective relationships with all of the board:

It should come as no surprise that internal auditing works closely with the audit committee. But look a little closer – specifically at the definition of internal audit as put forth by The Institute of Internal Auditors: “Internal auditing is ... designed to add value and improve an organization’s operations. It helps an organization ... improve the effectiveness of risk management, control and governance processes.”

It’s hardly a stretch to say that part of overall corporate governance is the governing structure of the company, including its board of directors and constituent committees. Thus, the obvious question arises: Why shouldn’t internal audit work with other committees in addition to the audit committee? Indeed, the opportunity is ripe for internal audit to begin partnering with the rest of the board.

Figure 3: Personal Skills and Capabilities – Perceptual Map



Areas Evaluated by Respondents

A	Developing Other Board Committee Relationships	M	Leadership (within your organization)
B	Dealing with Confrontation	N	Developing Rapport with Senior Executives
C	Persuasion	O	Change Management
D	Presenting (public speaking)	P	Coaching/Mentoring
E	Strategic Thinking	Q	Leveraging Others' Expertise
F	Leadership (within the IA profession)	R	Personnel Performance Evaluation
G	Developing Outside Contacts/Networking	S	Written Communication
H	Time Management	T	Working Effectively with Regulators
I	Developing Audit Committee Relationships	U	Presenting (small groups)
J	High-Pressure Meetings	V	Working Effectively with Outside Parties
K	Creating a Learning IA Function	W	Working Effectively with External Auditors
L	Negotiation		

Note: Letters correspond to text in Figure 3.

In addition, as noted in this white paper:

The charter for internal audit, as provided by The IIA, provides a superb starting point. In defining the scope of internal audit’s work, the charter clearly includes “determining whether an organization’s network of risk management, control and governance processes is adequate and fully functioning.”

### Trends by Company Size and Industry

Responses from large, mid-sized and small organization participants were consistent with the overall results for Personal Skills and Capabilities, with Developing Other Board Committee Relationships taking the top spot in each group. Among notable findings from specific industry sectors that varied from the overall response:

- Despite not ranking in the top five of the overall response, Negotiation ranks highly among a number of industry groups, including distribution, healthcare, insurance, media, real estate and telecommunications.
- For several industries – energy, financial services, life sciences, telecommunications and utilities – Time Management ranks first or second as a “Need to Improve” area.
- High-Pressure Meetings ranks in the top five for the following industry groups: CPA/public accounting/consulting, distribution, government/education/nonprofit, hospitality, insurance, biotechnology, media, real estate, retail, services, telecommunications, and utilities.

Note: More detailed information is available on specific findings by industry and company size – contact Protiviti to request details.

### Three-Year Trends

- Developing Other Board Committee Relationships has been the top-ranked “Need to Improve” area in each year of the study.
- Areas ranking consistently in the top five include Presenting (public speaking), Developing Outside Contacts/Networking and Developing Audit Committee Relationships.
- Notably, the top-ranked Personal Skills and Capabilities areas have been relatively consistent in all three years of the study.

Table 10 lists the highest-ranked Personal Skills and Capabilities based on “Need to Improve” ratings for the three years in which the *Internal Audit Capabilities and Needs Survey* was conducted. Shading indicates competency areas ranked highly in all three years of the study.

**Table 10: Overall Results, Personal Skills and Capabilities – Three-Year Comparison**

“Need to Improve” Rank	2009	2008	2006
1	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships Negotiation
2	Dealing with Confrontation	Presenting (public speaking)	Leadership (within the IA profession) Presenting (public speaking)
3	Persuasion Presenting (public speaking) Strategic Thinking	Developing Audit Committee Relationships Developing Outside Contacts/Networking	Developing Outside Contacts/Networking
4	Leadership (within the IA profession) Developing Outside Contacts/Networking Time Management	Developing Rapport with Senior Executives Time Management	Developing Audit Committee Relationships Leadership (within your organization)
5	Developing Audit Committee Relationships	Change Management Creating a Learning Internal Audit Function Leadership (within the IA profession) Negotiation	Creating a Learning Internal Audit Function Persuasion

Note: Certain Personal Skills and Capabilities were not included in the survey all three years.

## FOCUS ON CHIEF AUDIT EXECUTIVES

**Table 11: CAE Results, Personal Skills and Capabilities**

“Need to Improve” Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Developing Other Board Committee Relationships	3.3
2 (tie)	Presenting (public speaking)	3.7
	Strategic Thinking	3.9
3 (tie)	Dealing with Confrontation	3.8
	Time Management	3.8
4 (tie)	Developing Outside Contacts/Networking	3.6
	Negotiation	3.7
5	Creating a Learning Internal Audit Function	3.7

Unlike the overall response, Leadership (within the IA profession) and Persuasion do not rank in CAEs’ top five areas in need of improvement. This is understandable, as CAEs likely have achieved a mastery of these skills to have reached their current level in the organization.

Table 12 lists the highest-ranked Personal Skills and Capabilities for CAEs based on “Need to Improve” ratings for the three years in which the *Internal Audit Capabilities and Needs Survey* was conducted. Shading indicates competency areas that ranked highly in all three years of the study. Interestingly, there is slightly less consistency in CAE responses over the three years of the study than is evident in the overall response (see Table 10). This could be a reflection of higher general competency among CAEs in these areas together with their executive-level perspective of key needs for their organizations.

**Table 12: CAE Results, Personal Skills and Capabilities – Three-Year Comparison**

“Need to Improve” Rank	2009	2008	2006
1	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships	Leadership (within the IA profession)
2	Presenting (public speaking)	Presenting (public speaking)	Negotiation
	Strategic Thinking		
3	Dealing with Confrontation	Developing Outside Contacts/Networking	Developing Other Board Committee Relationships
	Time Management		
4	Developing Outside Contacts/Networking	Time Management	Developing Audit Committee Relationships
	Negotiation	Written Communication	Developing Outside Contacts/Networking
			Presenting (public speaking)
			Creating a Learning Internal Audit Function
5	Creating a Learning Internal Audit Function	Developing Audit Committee Relationships	Persuasion
		Leadership (within the IA profession)	

## Managing Risk in a New Economic Environment

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Without question, today's organizations face a global economic crisis of historical proportions. In response, management, boards of directors and leaders throughout the organization are taking fresh looks at virtually all aspects of the business to assess how to enhance productivity, processes and systems, yet still stay "in control." They are starting, and very likely will continue, to think and respond differently as they determine how to operate their businesses successfully and maintain plans for long-term growth amid today's unique business environment.

Internal auditing professionals not only must understand these challenges and their organization's key objectives, but also must ensure that amid the many organizationwide changes taking place on almost a daily basis, key controls and processes are adequately addressing these changes and the new risks that emerge, and are functioning as they are intended. Internal audit plays a critical role in helping companies successfully "manage the change" by providing assurances that, with every new process, procedure and initiative, any significant new risks that emerge are identified, monitored and managed effectively so that, on an ongoing basis, the enterprise is protected to a level at which the board and management are satisfied.

It cannot be overstated that at least one part of the cause of the current economic turmoil can be attributed to poor risk management. As noted in Protiviti's *Global Financial Crisis Bulletin* containing frequently asked questions about the economic crisis:

Deficiencies in corporate governance processes obviated the contribution of any risk management processes in place. In many cases, there was a lack of effective transparency, accountability and escalation in the institutions affected, which led directors and senior managers to a position of not knowing the extent of the risks undertaken. Collectively, these issues reach well beyond the scope of risk management and touch upon such areas as corporate governance, executive management, and the role of the board and the audit committee.<sup>7</sup>

Internal auditors play a critical lead role in helping management and the board understand, assess, mitigate and manage the organization's risk through activities detailed in the internal audit plan. It is incumbent upon CAEs and the internal audit functions they lead to partner with the board of directors and management to ensure that the organization stays the course in regard to its internal audit plan and function, yet also be nimble and flexible to change when change is needed. Thus, internal auditors must continue to enhance their skills in the areas assessed in this survey and educate themselves on new technologies and competencies that will be required of them in the months and years to come. The success of any internal auditor lies with that person's commitment to ongoing learning and improvement in capabilities, together with a deep understanding of the organization's needs and how those can be met through the internal audit function. At no time is this truer than in today's business climate.

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

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<sup>7</sup> Protiviti, *Global Financial Crisis Bulletin*, "The Current Financial Crisis: Frequently Asked Questions," [www.protiviti.com/economiccrisis](http://www.protiviti.com/economiccrisis).

## Methodology

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More than 700 respondents submitted completed surveys for Protiviti's *Internal Audit Capabilities and Needs Survey*, which was conducted from July through August 2008. The 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 102 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.

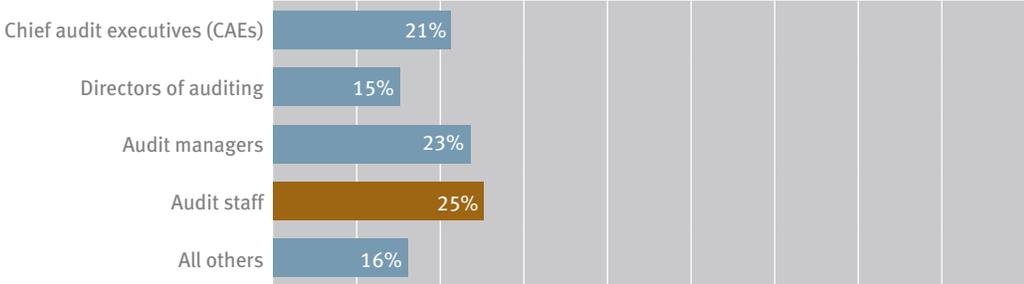
Survey participants also were asked to provide demographic information about the nature, size and location of their businesses, and their titles or positions within the internal audit department. These details were used to help determine whether there were distinct capabilities and needs among different 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

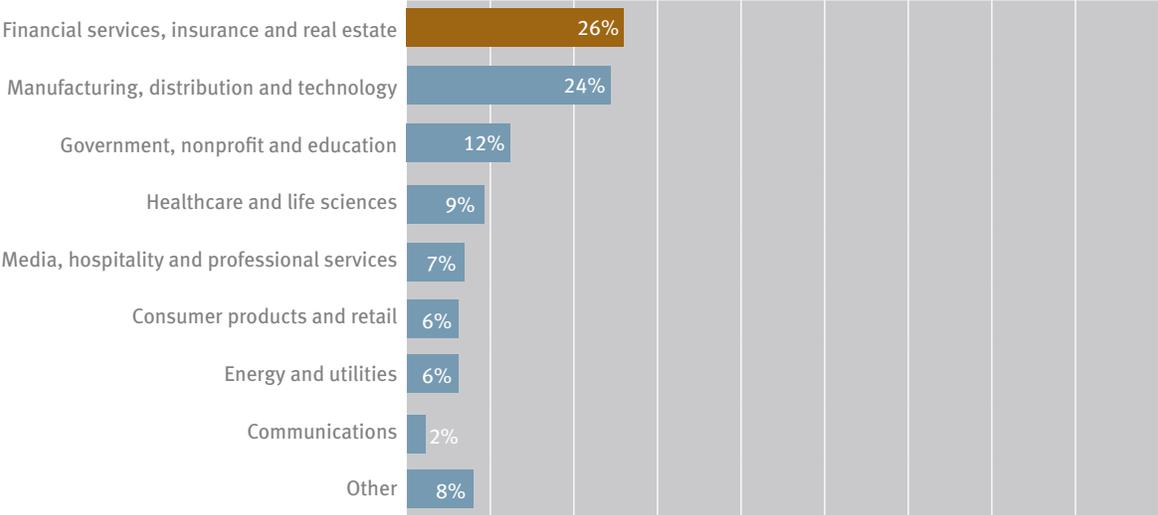
- **67th Annual IIA International Conference in San Francisco, California (July 7-9, 2008).** This conference is the largest annual conference for internal audit professionals. Survey forms were distributed to attendees at The IIA conference. Completed forms were returned to the Protiviti booth at the conference, as well as by mail or fax to Protiviti's office locations.
- **Web-based survey at KnowledgeLeader<sup>SM</sup>.** Electronic surveys were made available online to KnowledgeLeader 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

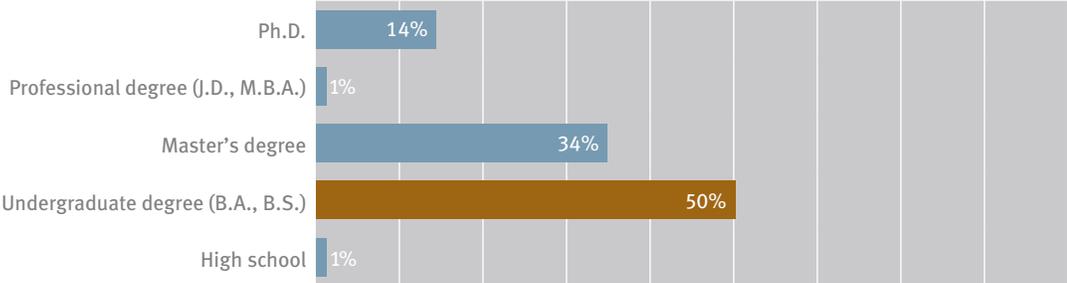
## Position:



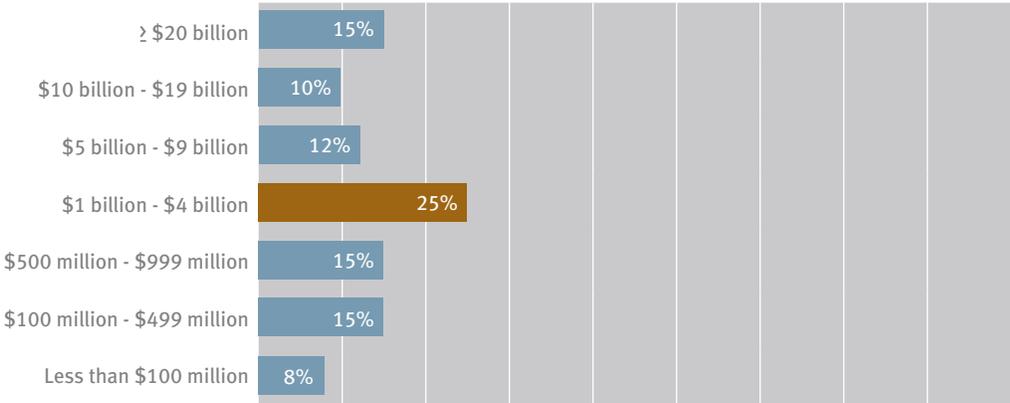
## Industry:



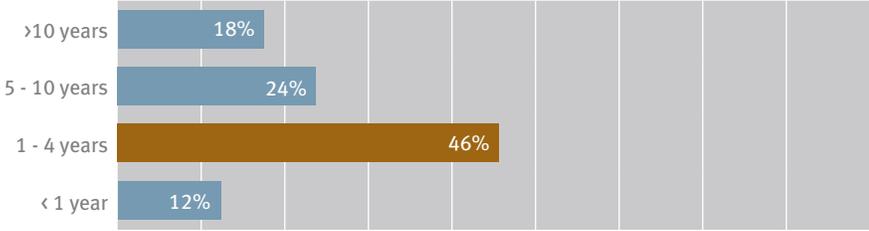
## Education level:



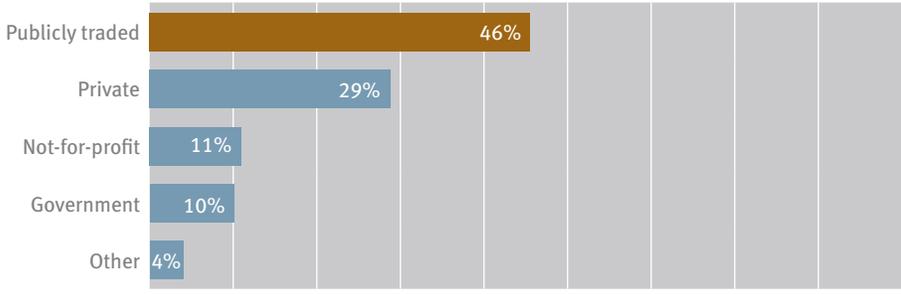
**Size of organization (gross annual revenues):**



**Years in current position:**

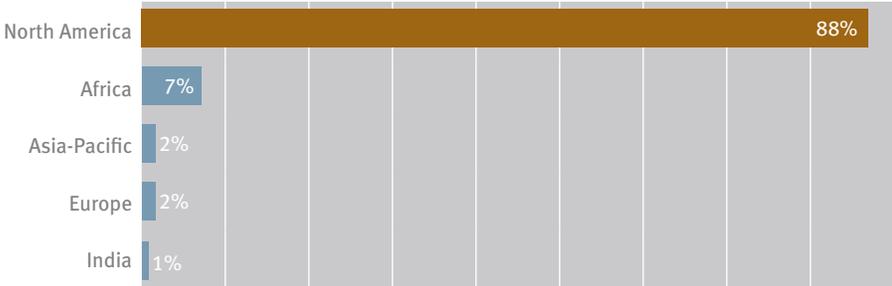


**Type of organization:**

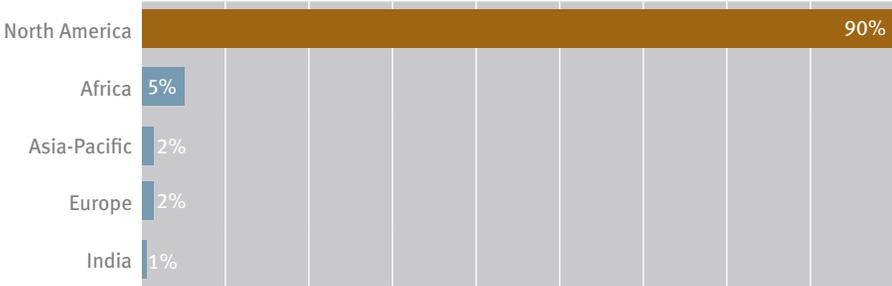


# Survey Demographics (cont.)

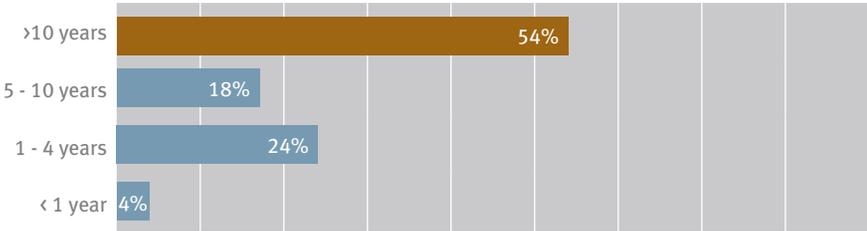
## Region of company headquarters:



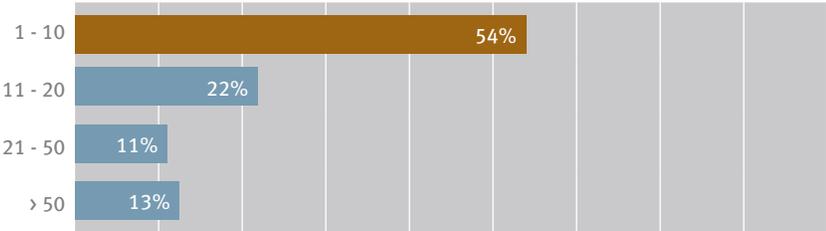
## Respondents' region:



## Existence of internal audit department:



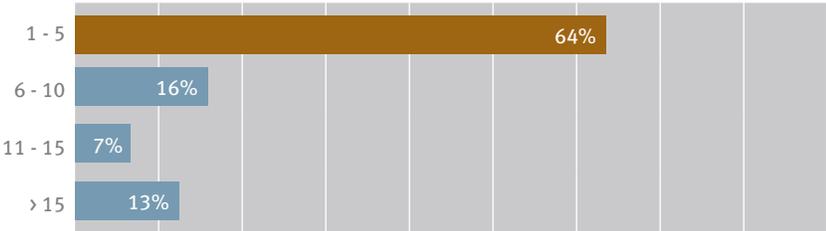
**Internal audit department full-time (or equivalent) personnel:**



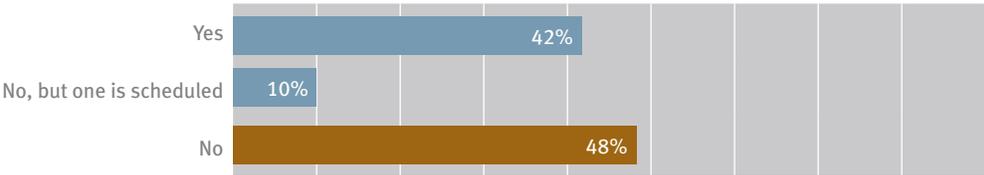
**Using resources through a co-sourcing arrangement:**



**Full-time equivalent co-sourced personnel (if co-sourcing):**



**External quality assessment (Standard 1312) conducted in last five years:**



## About Protiviti

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Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti's highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

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 and Financial Controls

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

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

Among the services we provide are:

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

# KnowledgeLeader<sup>SM</sup> provided by protiviti®

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

- Audit Programs – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeader. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.
- Checklists, Guides and Other Tools – More than 600 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<sup>SM</sup>, a process-oriented version of the Capability Maturity Model, the Six Elements of Infrastructure Model, and the Sarbanes-Oxley 404 Service Delivery Model.

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

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

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

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