



# 2010 Internal Audit Capabilities and Needs Survey

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## Introduction

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Facing a global economic slowdown that stubbornly lingers, organizations around the world, in an effort to enhance their competitive advantage, continue to assess their finance, governance, information technology (IT) and operational processes to achieve maximum efficiency and cost savings. They also are maintaining close watch of their risks to ensure their organizations are managing and mitigating them effectively amid an increasingly competitive and challenging business climate.

To support their organizations in these endeavors, internal auditing professionals are seeing greater demands on their time and skills to help improve organizational processes while ensuring proper risk management and controls are in place. Given the changing dynamics of the business landscape as well as emerging technology tools to augment internal audit activities, these professionals also must commit themselves to ongoing education and skills development.

Protiviti's annual *Internal Audit Capabilities and Needs Survey*, now in its fourth year, assesses the capabilities of internal auditors in areas of priority for today's organizations, along with competencies that are most in need of improvement. This year's participants, including chief audit executives along with internal audit directors, managers and staff, answered more than 100 questions in four categories: General Technical Knowledge, Audit Process Knowledge, Personal Skills and Capabilities, and a new category to the study, Changes to The IIA Standards. We added this category in light of the changes The Institute of Internal Auditors (IIA) made to its *International Standards for the Professional Practice of Internal Auditing*, including the addition of six new Standards and revised wording in most of the Standards from "should" to "must." These changes are having a profound impact on the internal audit functions of many organizations.

Similar to previous years, respondents in our 2010 survey represent virtually all industry sectors. The largest segment is from financial services, insurance and real estate; others include energy, utilities, manufacturing, distribution, healthcare, technology, biotechnology, hospitality, consumer products, retail and telecommunications. Nearly half of the participants are with publicly traded companies, the others being from private, government, educational and nonprofit organizations. One-third of the respondents come from companies with annual revenues of US\$1 billion to \$4 billion, with the rest split relatively evenly among larger and smaller organizations.

We are grateful for the extensive positive feedback we continue to receive regarding our *Internal Audit Capabilities and Needs Survey*. We are confident that this year's findings will again be of interest to CAEs and internal audit professionals as well as board members, chief executive officers, chief financial officers and chief information officers. We are committed to conducting this study annually and making adjustments as needed to reflect the changing business and regulatory environment.

As always, we would welcome the opportunity to conduct a customized Capabilities and Needs survey specifically for your organization. We also would be pleased to provide a customized report based on the results of respondents from a specific industry group.

We want to express our appreciation to the more than 700 executives and professionals who participated in this year's study. We also want to acknowledge the stewardship of The IIA in promoting the vital role of internal auditing in business. Protiviti is proud to be a Principal Partner of the Institute as it continues to be a stalwart global leader for the profession.

Protiviti  
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# I. Changes to The IIA Standards

## Key Findings – 2010

- Numerous changes to the Standards, introduced by The IIA in 2009, are new to the *Internal Audit Capabilities and Needs Survey*.
- IT Governance ranks as the area most in need of improvement – consistent with findings in other categories of the study.
- Fraud Risk Management and External Assessments (Quality Assurance Reviews) also rank highly, a recognition of their growing importance to organizations.

**Table 1: Overall Results, Changes to The IIA Standards**

“Need to Improve” Rank	Changes to The IIA Standards	Competency (5-pt. scale)
1	Standard 2110.A2 – IT Governance*	3.4
2	Standard 2120.A2 – Fraud Risk Management*	3.6
3	Standard 1312 – External Assessments**	3.1
4	Standard 2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”*	3.3
5	Standard 2110.A1 – Ethics Programs**	3.6

\* New Standard    \*\* Revised Standard

Respondents were asked to assess, on a scale of one to five, their competency in eight key IIA Standards, with one being the lowest level of competency and five being the highest. They were then 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 The IIA Standards landscape.

This is a new category to the *Internal Audit Capabilities and Needs Survey*. On January 1, 2009, The IIA formally released its revised International Professional Practices Framework, which includes revisions to the organization’s *International Standards for the Professional Practice of Internal Auditing*. Key changes to the Standards include the following:

- Six new Standards were added.
- In virtually all of the Standards, The IIA revised its wording, replacing “should” with “must.”
- Requirements were added to existing Standards.
- Interpretations were added, incorporating components that previously were part of The IIA’s Practice Advisories.

With the change from “should” to “must” in most of the Standards and the addition of six new Standards, executives and professionals within internal audit functions must take action to achieve or remain in compliance. For some, only minimal education or adjustments may be necessary. For others, however, there may be areas in substantial need of improvement.

Figure 1: Changes to The IIA Standards – Perceptual Map



Number	Changes to The IIA Standards
1	Standard 2110.A2 – IT Governance*
2	Standard 2120.A2 – Fraud Risk Management*
3	Standard 1312 – External Assessments**
4	Standard 2430 – Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"
5	Standard 2110.A1 – Ethics Programs**
6	Standard 1010 – Recognition of the definitions of IA, code of ethics, standards, etc.*
7	Standard 2120.C3 – Prohibition of Managing Risk*
8	Standard 1111 – Direct Interaction with the Board*

\* New Standard \*\* Revised Standard

In this first year of assessing the capabilities and needs of internal audit professionals with regard to The IIA Standards, the ranking of IT governance as a top area in need of improvement is understandable. IT governance historically has not been an area of focus for many departments, and as such, the skills and capabilities to address this risk may not be fully resident within the department. Additionally, there continues to be an increasing reliance on technology by most organizations to manage their businesses, as well as by internal audit functions to implement more technology-enabled auditing and monitoring. This further increases the importance of starting to address the IT governance risk area. The need for improvement in IT competencies is a prevalent theme in other categories of the *Internal Audit Capabilities and Needs Survey*.

Also notable are the high “Need to Improve” rankings for new Standards relating to fraud risk management and external quality assessments. Clearly, both the prevalence and potential of fraudulent conduct by parties inside and outside the organization remain a top priority for management to address and a primary focus for internal audit. Conversely, respondents indicated they have a relatively high level of knowledge and skill with Standards 1010 (Recognition of the definition of internal audit, code of ethics, standards, etc.), 2120.C3 (Prohibition of Managing Risk) and 1111 (Direct Interaction with the Board), suggesting consistent adherence to these requirements within many organizations.

With regard to external quality assessments, there is growing recognition among management and boards of directors that the assessment process requires improvement, thus explaining its high “Need to Improve” ranking. How and whether this translates into actions and results, however, remains to be seen, as many organizations continue to procrastinate in conducting external quality assessments. According to results from this year’s *Internal Audit Capabilities and Needs Survey* (see Survey Demographics section) as well as Protiviti’s most recent Internal Audit Rebalancing Survey, most organizations have not completed an external quality assessment of their internal audit function since the effective date of IIA Standard 1312.

## FOCUS ON CHIEF AUDIT EXECUTIVES

Responses among CAEs surveyed generally mirror the study’s overall results.

**Table 2: CAE Results, Changes to The IIA Standards**

“Need to Improve” Rank	Changes to The IIA Standards	Competency (5-pt. scale)
1	Standard 2110.A2 – IT Governance*	3.5
2	Standard 1312 – External Assessments**	2.8
3 (tie)	Standard 2120.A2 – Fraud Risk Management*	3.8
	Standard 2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”**	3.1
4	Standard 2110.A1 – Ethics Programs**	3.5
5	Standard 1010 – Recognition of the definitions of IA, code of ethics, standards, etc.*	3.7

\* New Standard    \*\* Revised Standard

## II. General Technical Knowledge

### Key Findings – 2010

- The IIA's Guide to the Assessment of IT Risk (GAIT) is the area in greatest need of improvement for the second consecutive year.
- Other top "Need to Improve" areas – IFRS, XBRL and ISO 27000 – also ranked in the top five in 2009.
- COBIT ranks among the top five "Need to Improve" areas for the first time.

**Table 3: 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)	2.6
3	Extensible Business Reporting Language (XBRL)	2.1
4	ISO 27000 (information security)	2.2
5	COBIT	2.7

Respondents were asked to assess, on a scale of one to five, their competency in 28 areas of technical knowledge important to internal audit, with one being the lowest level of competency and five being the highest. They were then 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 7.) Figure 2 depicts a comparison of "Need to Improve" versus "Competency" ratings in a General Technical Knowledge landscape.

Figure 2: General Technical Knowledge – Perceptual Map



Continuing a trend from previous *Internal Audit Capabilities and Needs Surveys*, as well as from the new Changes to The IIA Standards section in this year’s report (see page 2), auditing IT processes and activities within the organization is among the highest priorities for today’s internal audit departments, particularly given IT’s purpose as a critical enabler of virtually all business functions. This is consistent with the industry movement of IT organizations aligning themselves by services offered (service-oriented architecture) and enables IT audit to review IT in a manner consistent with how the IT organization views itself. IT has become vital to virtually every organization, driving decision-making and controls that are used to help manage and operate the business. The IIA’s GAIT series 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>

<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).)

Number	General Technical Knowledge
1	The Guide to the Assessment of IT Risk (GAIT)
2	International Financial Reporting Standards (IFRS)
3	Extensible Business Reporting Language (XBRL)
4	ISO 27000 (information security)
5	COBIT
6	ISO 14000 (environmental management)
7	Fraud Risk Management
8	Six Sigma
9	ISO 9000 (quality management and quality assurance)
10	Enterprise Risk Management
11	FIN 48 (Tax Uncertainties)
12	FASB Accounting Standards Codification™
13	Fair Value Accounting
14	COSO Enterprise Risk Management Framework
15	Tax Laws (in your applicable region/country)
16	AU Section 322 – The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements
17	Stock-Based Compensation (FAS 123R Share-Based Payment)
18	Corporate Governance Standards (or local country equivalent)
19	Foreign Corrupt Practices Act (FCPA)
20	Standards for the Professional Practice of Internal Auditing (IIA Standards)
21	SEC Interpretive Guidance for management regarding its evaluation and assessment of internal control over financial reporting (ICFR)
22	COSO Internal Control Framework
23	Revenue Recognition
24	PCAOB Auditing Standard No. 5 – An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements (or local country equivalent)
25	U.S. GAAP
26	Sarbanes-Oxley Section 301 – Complaints regarding accounting, internal controls or auditing matters (or local country equivalent)
27	Sarbanes-Oxley Section 302 – Disclosure controls and procedures (or local country equivalent)
28	Sarbanes-Oxley Section 404 – Internal control over financial reporting (or local country equivalent)

Among the other top five “Need to Improve” areas, IFRS stands out given its potential impact on many organizations and its impending, though not firmly established, deadline for U.S. companies. Hard deadlines for these standards have been set for Canada, Japan, Korea and Mexico, while most European countries have already implemented IFRS. Without question, the transition to IFRS is not just an accounting issue. Rather, it potentially could have far-reaching consequences affecting not only external financial reporting, but also business strategies and policies, internal control, business processes, people and resources, internal reporting, methodologies, financial reporting systems, and underlying data. As a result, internal audit functions undoubtedly will need to be engaged not only in the IFRS transition but also in ongoing reviews of these areas that will have many new processes, controls and procedures in place for reporting under IFRS.<sup>2</sup> Internal audit functions will want to be part of any transition plans, from important scoping decisions through post-implementation reviews. They also will need to be prepared to alter approaches to auditing

<sup>2</sup> For more information on IFRS, read Protiviti’s *Guide to International Financial Reporting Standards: Frequently Asked Questions*, available at [www.protiviti.com](http://www.protiviti.com).

financial controls in a post-implementation world, and to be in a position to assess the application of significant judgment by management in implementing and following new, more principles-based rules.

Extensible Business Reporting Language (XBRL) again ranked among the top “Need to Improve” areas, similar to the 2009 study. This is not surprising, as XBRL, a language for the electronic communication of business and financial data, is still a relatively new competency area.<sup>3</sup> Internal auditors likely recognize the need to become more proficient with XBRL because of, at least in part, the SEC’s new rule requiring most companies to file financial statements in an interactive data format using XBRL beginning with fiscal year 2010.

### Three-Year Trends

- ISO 27000, the certification standard for information security developed by the International Organization for Standardization, is the sole response to rank in the top five since 2008.
- Both IFRS and XBRL, added in 2009 as areas of General Technical Knowledge, ranked in the top five in the last two studies.
- ERM, which consistently ranked as a top “Need to Improve” area since 2006, dropped out of the top five this year.

Table 4 lists the highest-ranked areas based on “Need to Improve” ratings for the last three years of the *Internal Audit Capabilities and Needs Survey*. Shading indicates competency areas that ranked highly in each of the past three years of the study.

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

Rank	2010	2009	2008
1	GAIT	GAIT	ISO 27000
2	IFRS	IFRS	ERM
3	XBRL	XBRL	FRM
4	ISO 27000	ERM	COSO ERM
5	COBIT	ISO 27000	FAS 159

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

### FOCUS ON CHIEF AUDIT EXECUTIVES

This year’s responses among CAEs surveyed generally mirror the study’s overall results in 2010 and for the past three years.

**Table 5: CAE 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)	2.8
2	Extensible Business Reporting Language (XBRL)	2.2
3	International Financial Reporting Standards (IFRS)	2.7
4	COBIT	2.8
5	ISO 27000 (information security)	2.2

<sup>3</sup> XBRL International (www.xbrl.org)

**Table 6: CAE Results, General Technical Knowledge – Three-Year Comparison**

Rank	2010	2009	2008
1	GAIT	IFRS	ISO 27000
2	XBRL	GAIT	COSO ERM
3	IFRS	XBRL	ERM
4	COBIT	ERM	FAS 159
5	ISO 27000	ISO 27000	PCAOB AS5
			GLBA

### New SEC Requirements for Disclosures Regarding Risk – What These Mean for Internal Audit Functions

In December 2009 (after the close of data collection for Protiviti’s 2010 *Internal Audit Capabilities and Needs Survey*), the SEC approved rules to enhance the information provided to shareholders so they are better able to evaluate the leadership of public companies. The new rules, which for most calendar-year reporting companies are effective for fiscal year 2009, are designed to improve corporate disclosure regarding certain risk, corporate governance and compensation matters when voting decisions are made.

One of the SEC’s key requirements in the new rules relates to the board’s role in risk oversight. Specifically, the SEC states in the final rule the following: “...[D]isclosure about the board’s oversight of the risk management process should provide important information to investors about how a company perceives the role of its board and the relationship between the board and senior management in managing the material risks facing the company.”<sup>4</sup>

There are two distinct issues here:

- (1) The company’s risk management process itself; and
- (2) Oversight of that program by the board.

We believe internal auditors are well-positioned and capable to assist their organizations on both of

these fronts. Furthermore, we believe boards and management of many companies need internal audit’s help. CAEs and their teams should work closely with management and the audit committee to assist and consult on the disclosures and the oversight process, as well as the full risk management program of the company. In some cases, internal audit may already be independently assessing many of these activities. In other cases, to a degree, internal audit may be a facilitator of, or even an integrator of information that enables, certain risk management activities depending on the size, maturity and complexity of the organization.

While these initial disclosures will be made in the upcoming 2010 proxy reporting season for calendar year-end companies, improvements and ongoing enhancements to the risk management program itself, as well as to the board risk oversight process, are likely to continue in ensuing years. Companies and audit teams with non-calendar year-ends will have the benefit of being able to carefully review and evaluate the initial wave of “first adopter” disclosures made and consult with their peers on best practices and other implementation issues related to board risk oversight.

<sup>4</sup> U.S. Securities and Exchange Commission, <http://www.sec.gov/rules/final.shtml>.

### III. Audit Process Knowledge

#### Key Findings – 2010

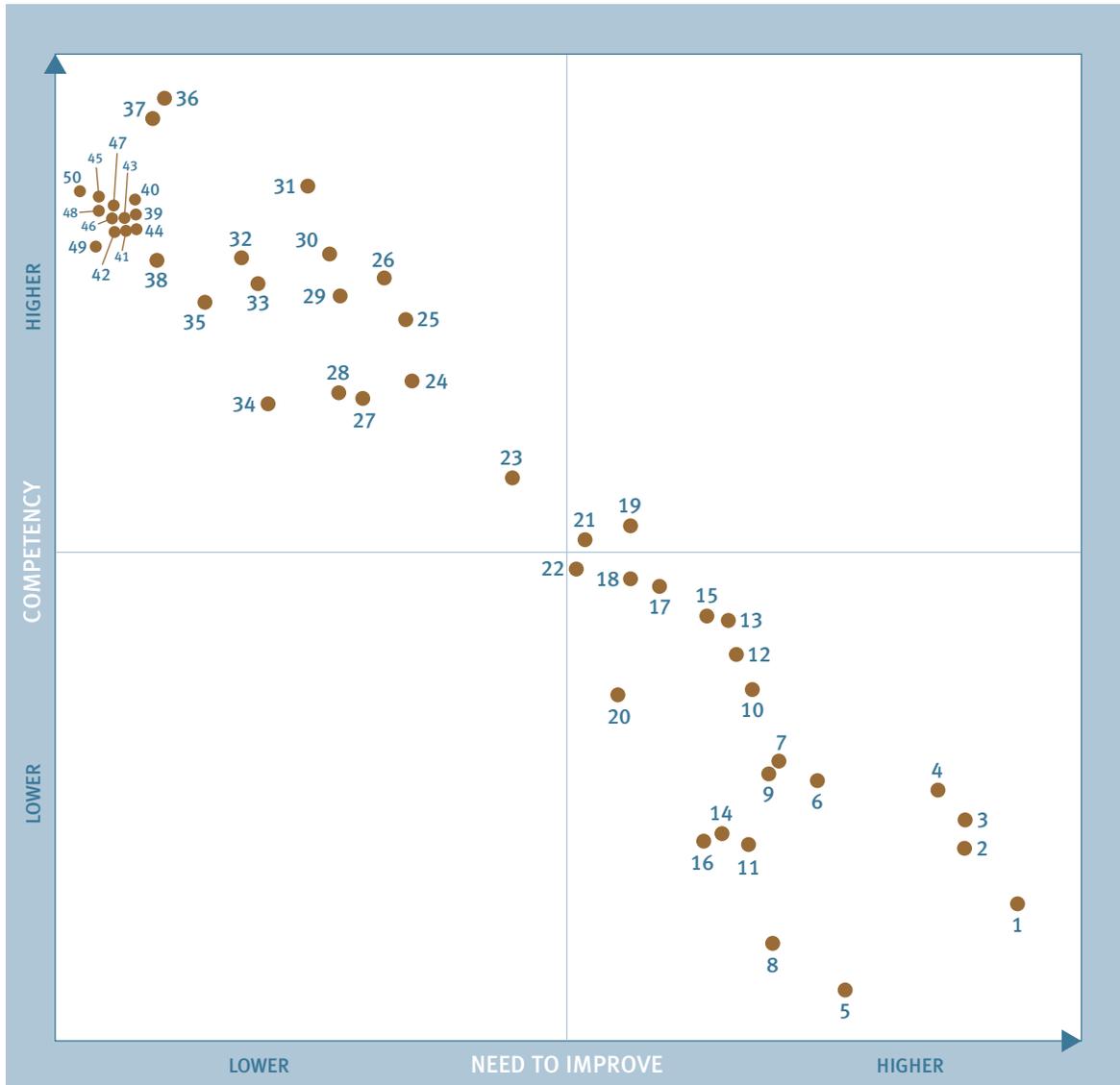
- Computer-Assisted Audit Techniques (CAATs) ranks as the top “Need to Improve” area for the third consecutive year.
- Continuous Auditing, which ranked in a tie with CAATs as the top response last year, remains in the top five but falls to third in the most recent study.
- Data Analysis Tools for Statistical Analysis and Data Manipulation rank in the top five for the third consecutive year.
- Quality Assurance and Improvement Program (IIA Standard 1300) is a top five “Need to Improve” area for the first time in the study.

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

“Need to Improve” Rank	Audit Process Knowledge	Competency (5-pt. scale)
1	Computer-Assisted Audit Techniques (CAATs)	3.2
2 (tie)	Data Analysis Tools – Statistical Analysis	3.3
	Data Analysis Tools – Data Manipulation	3.3
3	Continuous Auditing	3.3
4	Auditing IT – Program Development	3.1
5	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (Standard 1312)	3.3

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 were then asked to indicate whether they believed 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 pages 11-12 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 3 depicts a comparison of “Need to Improve” versus “Competency” ratings in an Audit Process Knowledge landscape.

Figure 3: Audit Process Knowledge – Perceptual Map



Number	Audit Process Knowledge
1	Computer-Assisted Audit Techniques (CAATs)
2	Data Analysis Tools – Statistical Analysis
3	Data Analysis Tools – Data Manipulation
4	Continuous Auditing
5	Auditing IT – Program Development
6	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (Standard 1312)
7	Quality Assurance and Improvement Program (IIA Standard 1300) – Ongoing Monitoring (Standard 1311)
8	Auditing IT – Computer Operations
9	Quality Assurance and Improvement Program (IIA Standard 1300) – Periodic Reviews (Standard 1311)
10	Data Analysis Tools – Statistical Analysis Sampling

Number	Audit Process Knowledge
11	Auditing IT – Security
12	Fraud – Monitoring
13	Fraud – Fraud Detection/Investigation
14	Auditing IT – Change Control
15	Fraud – Auditing
16	Auditing IT – Continuity
17	Fraud – Fraud Risk Management/Prevention
18	Fraud – Fraud Risk Assessment
19	Marketing Internal Audit Internally
20	Use of Self-Assessment Techniques
21	Internal Quality Assessment (ongoing assessment)
22	Internal Quality Assessment (periodic review)
23	Operational Auditing – Cost-Effectiveness/Cost Reduction
24	Operational Auditing – Effectiveness, Efficiency and Economy of Operations Approach
25	Planning Audit Strategy
26	Interviewing
27	Resource Management (hiring, training, managing)
28	Presenting to the Audit Committee
29	Operational Auditing – Risk-Based Approach
30	Presenting to Senior Management
31	Report Writing
32	Top-Down, Risk-Based Approach to Assessing Internal Control over Financial Reporting
33	Assessing Controls Operating Effectiveness (Entity Level) – Tone at the Top/Soft Controls
34	Assessing Controls Design (Entity Level) – Tone at the Top/Soft Controls
35	Assessing Risk – Entity Level
36	Developing Recommendations
37	Conducting Opening/Closing Meetings
38	Audit Planning – Entity Level
39	Assessing Controls Design (Entity Level) – Monitoring Controls
40	Assessing Controls Operating Effectiveness (Process Level) – Operational Controls
41	Assessing Risk – Process, Location, Transaction Level
42	Assessing Controls Design (Process Level) – Compliance Controls
43	Assessing Controls Design (Process Level) – Operational Controls
44	Assessing Controls Operating Effectiveness (Process Level) – Financial Controls
45	Assessing Controls Design (Entity Level) – Company-Level Controls
46	Assessing Controls Operating Effectiveness (Process Level) – Compliance Controls
47	Assessing Controls Operating Effectiveness (Entity Level) – Company-Level Controls
48	Assessing Controls Operating Effectiveness (Entity Level) – Monitoring Controls
49	Assessing Controls Design (Process Level) – Financial Controls
50	Audit Planning – Process, Location, Transaction Level

Findings in this year’s study were largely consistent with previous years. CAATs continue to become prevalent within organizations that seek to automate and streamline more of their internal audit activities. In addition, continuous auditing, which by definition includes CAATs, is an increasing area of focus for internal auditors.

Interestingly, numerous Audit Process Knowledge areas related to fraud that were among the top five “Need to Improve” areas in the 2009 study did not rank in the top 10 this year. Possible explanations for this drop include greater concerns last year about fraud during the height of a crippling global financial crisis. It also is possible that more organizations have taken steps to implement fraud-related internal audit activities to address this risk.

The high “Need to Improve” ranking of Quality Assurance and Improvement Program – External Assessment (Standard 1312) is interesting as well as consistent with results from The IIA Standards portion of this year’s survey. As noted earlier, there is a higher level of acknowledgement among organizations that such assessments are vital to ensure the effectiveness of the internal audit function and, just as important, they are now a “must” requirement under The IIA Standards.

### Three-Year Trends

- CAATs has ranked as the top area in need of improvement for three consecutive years.
- As shown in the accompanying table, since 2008 there has been a high degree of consistency in the top responses in this category.

Table 8 lists the highest-ranked areas based on “Need to Improve” ratings for the last three years of the *Internal Audit Capabilities and Needs Survey*. Shading indicates competency areas that ranked highly in each of the past three years of the study.

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

Rank	2010	2009	2008
1	CAATs	Continuous Auditing	CAATs
		CAATs	
2	Data Analysis Tools – Statistical Analysis	Data Analysis Tools – Statistical Analysis	Continuous Auditing
	Data Analysis Tools – Data Manipulation	Data Analysis Tools – Data Manipulation	
3	Continuous Auditing	Fraud Monitoring	Data Analysis Tools – Data Manipulation
4	Auditing IT – Program Development	Fraud – Fraud Detection/Investigation	Data Analysis Tools – Statistical Analysis
		Auditing IT – Program Development	
5	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (Standard 1312)	Fraud – Auditing	Auditing IT – Program Development
		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

This year's responses among CAEs surveyed generally mirror the study's overall results in 2010 and for the past three years.

**Table 9: CAE Results, Audit Process Knowledge**

"Need to Improve" Rank	Audit Process Knowledge	Competency (5-pt. scale)
1	Computer-Assisted Audit Techniques (CAATs)	3.3
2	Continuous Auditing	3.3
3	Data Analysis Tools – Statistical Analysis	3.2
4	Data Analysis Tools – Data Manipulation	3.3
5	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (Standard 1312)	3.5

**Table 10: CAE Results, Audit Process Knowledge – Three-Year Comparison**

Rank	2010	2009	2008
1	CAATs	CAATs	Continuous Auditing
		Continuous Auditing	
2	Continuous Auditing	Data Analysis Tools – Data Manipulation	Data Analysis Tools – Data Manipulation
3	Data Analysis Tools – Statistical Analysis	Data Analysis Tools – Statistical Analysis	CAATs
4	Data Analysis Tools – Data Manipulation	Fraud – Monitoring	Data Analysis Tools – Statistical Analysis
		Fraud – Fraud Detection/Investigation	
5	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (Standard 1312)	Fraud – Auditing	Fraud – Monitoring
		Fraud – Fraud Risk Management/Prevention	

## IV. Personal Skills and Capabilities

### Key Findings – 2010

- Presenting (public speaking) is the top “Need to Improve” area – a consistent top five response, it has risen in rank every year since the study’s inception.
- Developing Other Board Committee Relationships, the top “Need to Improve” response the past two years, drops out of the top five.
- Other top responses are consistent with the 2009 study.

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

“Need to Improve” Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Presenting (public speaking)	3.6
2	Dealing with Confrontation	3.7
3	Developing Outside Contacts/Networking	3.6
4	Persuasion	3.6
5	Strategic Thinking	3.8

Respondents were asked to assess, on a scale of one to five, their competency in 23 types of Personal Skills and Capabilities, with one being the lowest level of competency and five being the highest. They were then asked to indicate whether they believed 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 16 for a list of the 23 areas of knowledge under consideration.) Figure 4 depicts a comparison of “Need to Improve” versus “Competency” ratings in a Personal Skills and Capabilities landscape.

Figure 4: Personal Skills and Capabilities – Perceptual Map



Number	Personal Skills and Capabilities	Number	Personal Skills and Capabilities
1	Presenting (public speaking)	13	Developing Rapport with Senior Executives
2	Dealing with Confrontation	14	Developing Audit Committee Relationships
3	Developing Outside Contacts/Networking	15	Leveraging Others' Expertise
4	Persuasion	16	Change Management
5	Strategic Thinking	17	Coaching/Mentoring
6	Time Management	18	Personnel Performance Evaluation
7	Leadership (within the internal audit profession)	19	Presenting (small groups)
8	Developing Other Board Committee Relationships	20	Written Communication
9	Negotiation	21	Working Effectively with Outside Parties
10	High-Pressure Meetings	22	Working Effectively with External Auditors
11	Creating a Learning Internal Audit Function	23	Working Effectively with Regulators
12	Leadership (within your organization)		

One of the more interesting findings from this year’s study is the drop in the ranking of Developing Other Board Committee Relationships as an area for improvement. A mainstay in the top “Need to Improve” areas in previous years and the top response in 2008 and 2009, it dropped from the top five in 2010. While CAEs still ranked this area higher than any other in terms of need for improvement, the result from the study’s overall response still bears noting.

Also of note, Strategic Thinking ranked in the top five “Need to Improve” areas for the second consecutive year, corresponding to the recent period of global economic recession. It is possible more internal audit leaders and professionals are being called upon by their organizations to serve as strategic business partners, helping to craft plans for surviving the downturn, achieving greater operating efficiencies and increasing profitability. It also is possible they are being asked to think more strategically about their own internal audit functions. In addition, in light of the impact the global financial crisis has had on so many businesses, management and the board likely are looking even more to internal auditors to improve how the organization identifies, manages and mitigates its risks.

### Three-Year Trends

- Presenting (public speaking) and Developing Outside Contacts/Networking have ranked consistently among the top five “Need to Improve” areas since 2008.
- Developing Other Board Committee Relationships dropped from the top five in 2010 after ranking as the top response the previous two years.

Table 12 lists the highest-ranked areas based on “Need to Improve” ratings for the last three years of the *Internal Audit Capabilities and Needs Survey*. Shading indicates competency areas that ranked highly in each of the past three years of the study.

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

Rank	2010	2009	2008
1	Presenting (public speaking)	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships
2	Dealing with Confrontation	Dealing with Confrontation	Presenting (public speaking)
3	Developing Outside Contacts/Networking	Persuasion	Developing Audit Committee Relationships
		Presenting (public speaking)	Developing Outside Contacts/Networking
		Strategic Thinking	
4	Persuasion	Leadership (within the IA profession)	Developing Rapport with Senior Executives
		Developing Outside Contacts/Networking	
		Time Management	Time Management
5	Strategic Thinking	Developing Audit Committee Relationships	Change Management
			Creating a Learning Internal Audit Function
			Leadership (within the IA profession)
			Negotiation

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

## FOCUS ON CHIEF AUDIT EXECUTIVES

While this year’s responses among CAEs surveyed generally mirror the study’s overall results, a key difference is the ranking by CAEs of Developing Other Board Committee Relationships as the top “Need to Improve” area for the third consecutive year. Clearly, despite apparent changing priorities that are seen in the survey’s overall response, working closely and collaboratively with the board remains of utmost importance for CAEs.

**Table 13: CAE Results, Personal Skills and Capabilities**

“Need to Improve” Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Developing Other Board Committee Relationships	3.6
2	Presenting (public speaking)	3.8
3	Developing Outside Contacts/Networking	3.9
4	Time Management	3.8
5	Dealing with Confrontation	3.9

**Table 14: CAE Results, Personal Skills and Capabilities – Three-Year Comparison**

Rank	2010	2009	2008
1	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships
2	Presenting (public speaking)	Presenting (public speaking)	Presenting (public speaking)
		Strategic Thinking	
3	Developing Outside Contacts/Networking	Dealing with Confrontation	Developing Outside Contacts/Networking
		Time Management	
4	Time Management	Developing Outside Contacts/Networking	Time Management
		Negotiation	Written Communication
5	Dealing with Confrontation	Creating a Learning Internal Audit Function	Developing Audit Committee Relationships
			Leadership (within the IA profession)

## 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 August through October 2009. The survey consisted of a series of questions grouped into four divisions: Changes to The IIA Standards, 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 109 topic areas. Respondents from the U.S. financial services and health-care industries were also asked to assess industry-specific skills (these findings are available upon request). 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 to 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.

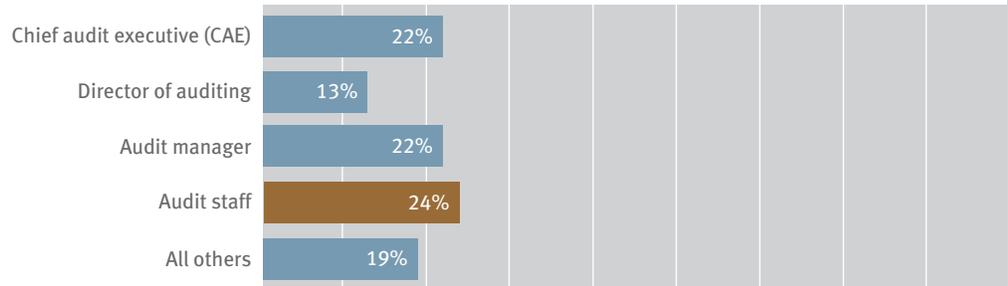
### Sources of Respondents

- **Professional Development Conferences** – Surveys were distributed in paper and electronic form to attendees at the following conferences. Completed forms were returned to the Protiviti booth at each conference.
  - AHIA Annual Conference, San Diego, California (August 30 – September 2, 2009)
  - The IIA Canadian National Conference, Quebec City, Quebec (September 20-23, 2009)
  - MIS Governance, Risk and Compliance Conference, Orlando, Florida (October 12-13, 2009)
  - The IIA All-Star Conference, Las Vegas, Nevada (October 19-21, 2009)
- **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

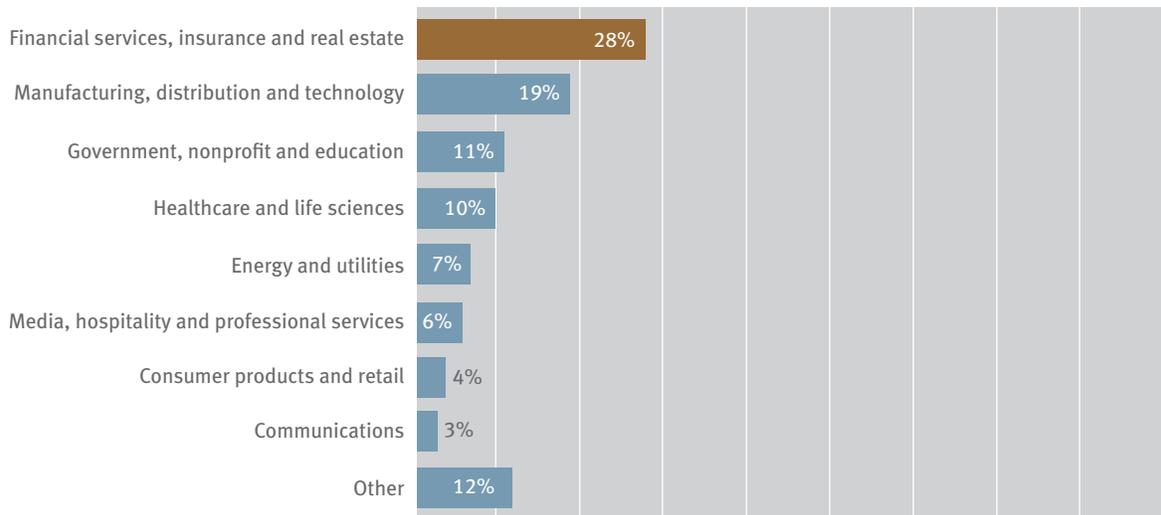
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## Position:



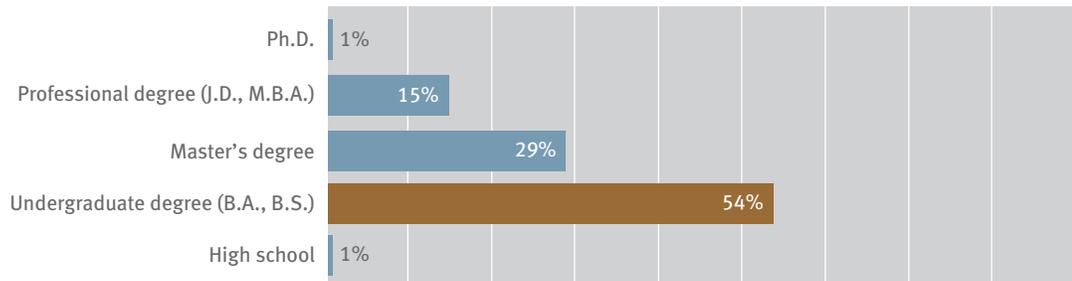
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## Industry:

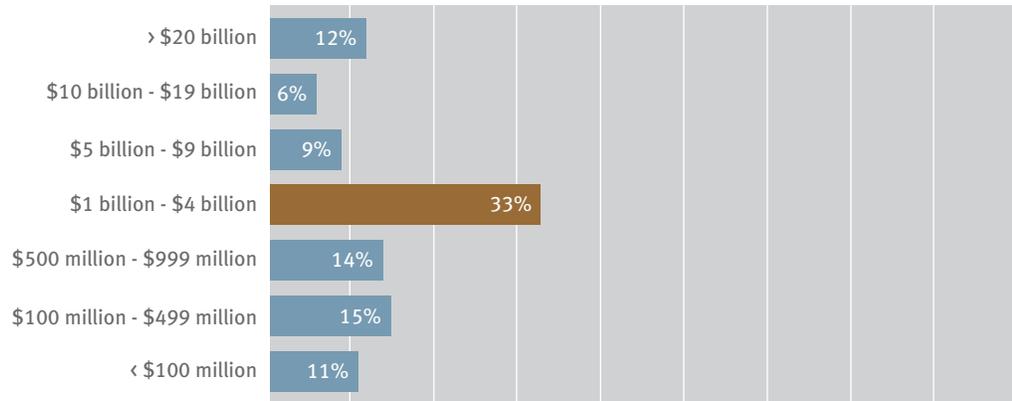


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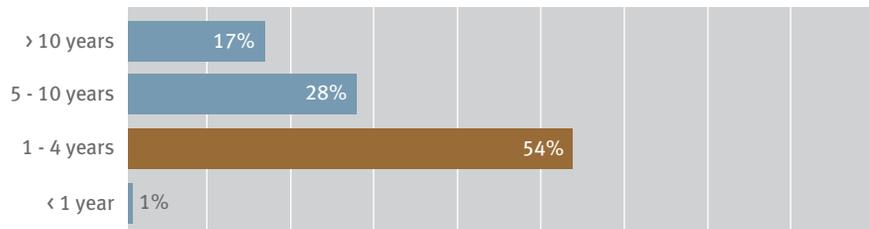
## Education level:



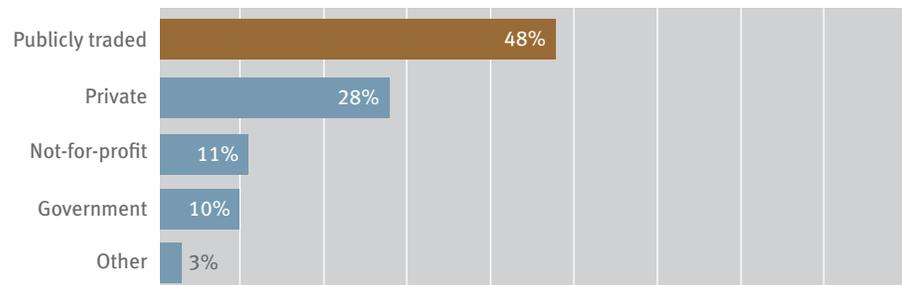
**Size of organization (gross annual revenues):**



**Years in current position:**



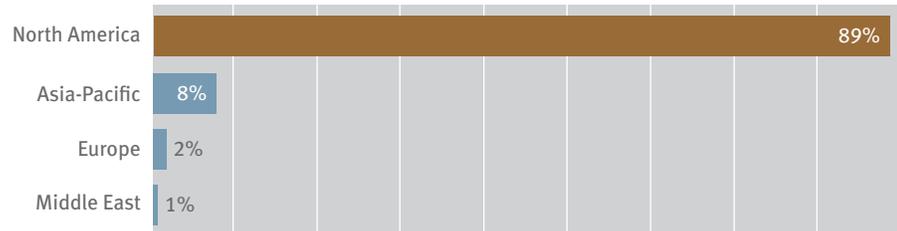
**Type of organization:**



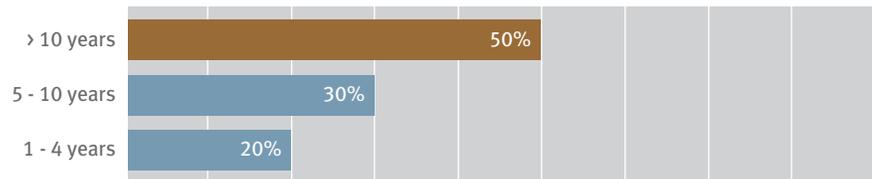
## Survey Demographics (cont.)

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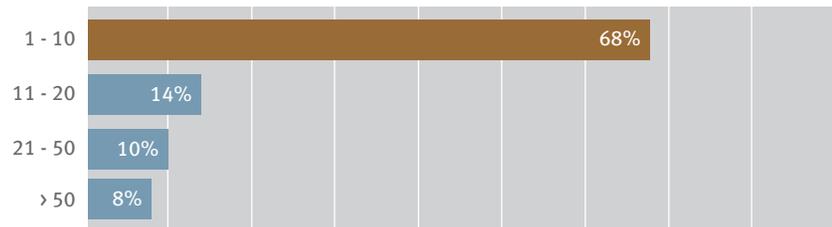
### Region of respondents:



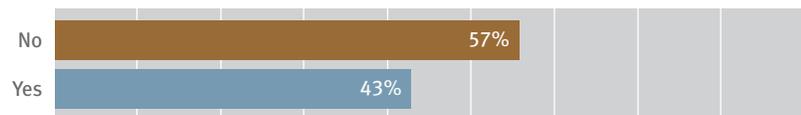
### Existence of internal audit department:



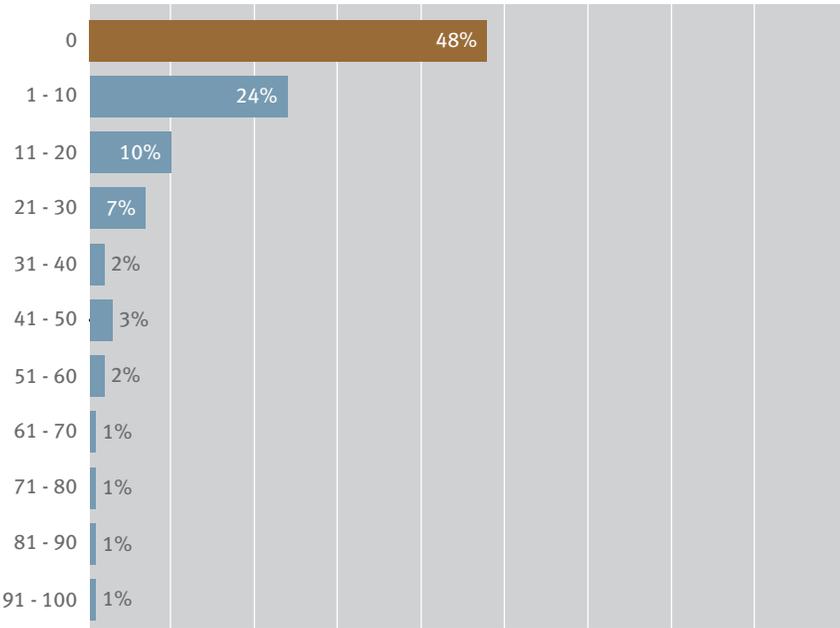
### Internal audit department full-time (or equivalent) personnel:



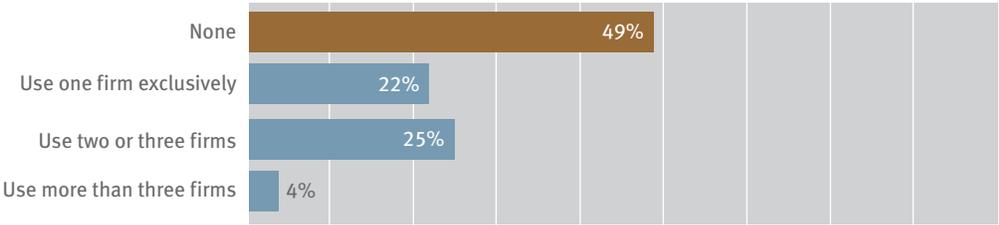
### Using resources through a co-sourcing arrangement:



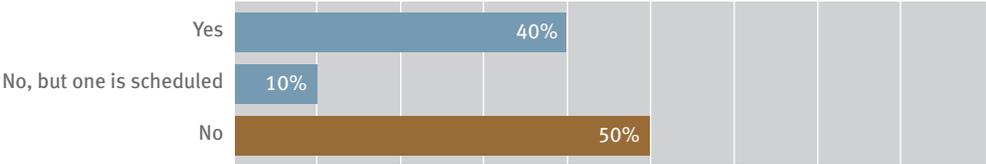
**Percentage of annual audit hours co-sourced to third-party providers:**



**Co-sourced firms used for completing annual work:**



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



## Appendix – Relevant Standards

Standard	Description	Website
AU Section 322 – The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements	Provides the external auditor with guidance on considering the work of internal auditors and on using internal auditors to provide direct assistance to the auditor in an audit performed in accordance with generally accepted auditing standards.	<a href="http://www.aicpa.org">www.aicpa.org</a>
COBIT	Provides good practices across a domain and process framework and presents activities in a manageable and logical structure. COBIT’s good practices represent the consensus of experts.	<a href="http://www.isaca.org">www.isaca.org</a>
COSO Enterprise Risk Management Framework	Developed by the Committee of Sponsoring Organizations of the Treadway Commission, this offers organizations a commonly accepted model for evaluating risk management efforts; the framework expands on internal control concepts by providing a more robust focus based on the broader subject of enterprise risk management.	<a href="http://www.coso.org">www.coso.org</a>
COSO Internal Control Framework	Developed by the Committee of Sponsoring Organizations of the Treadway Commission and sponsored by the AICPA, FEI, IIA and others. This is the most dominant control model in the United States.	<a href="http://www.coso.org">www.coso.org</a>
Extensible Business Reporting Language (XBRL)	A royalty-free, international information format designed specifically for business information, also referred to as “interactive data” by the SEC.	<a href="http://www.xbrl.org">www.xbrl.org</a>
Fair Value Accounting	Also called “mark-to-market,” fair value accounting is a way to measure assets and liabilities that appear on a company’s balance sheet and income statement. Measuring companies’ assets and liabilities at fair value may affect their income statement. SFAS 157 defines in one place the meaning of “fair value.”	<a href="http://www.fasb.org">www.fasb.org</a>
FASB Accounting Standards Codification™	A major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. generally accepted accounting principles (GAAP) by providing the authoritative literature in a topically organized structure.	<a href="http://www.fasb.org">www.fasb.org</a>
FIN 48 (Tax Uncertainties)	Provides a consistent approach and criteria for the evaluation, recognition and measurement of the tax benefit related to tax positions.	<a href="http://www.fasb.org">www.fasb.org</a>
Foreign Corrupt Practices Act (FCPA)	Prohibits U.S. businesses from bribing foreign officials and requires public companies to, among other things, maintain accurate books and records.	<a href="http://www.justice.gov">www.justice.gov</a>

Standard	Description	Website
The Guide to the Assessment of IT Risk (GAIT)	Describes the relationships among business risk, key controls within business processes, automated controls and other critical IT functionality, and key controls within IT general controls.	<a href="http://www.theiia.org">www.theiia.org</a>
International Financial Reporting Standards (IFRS)	Developed by the International Accounting Standards Board (IASB) and intended to be applied by profit-oriented entities to their financial statements in order to provide information on financial position, operating performance and cash flow that is useful to decision-makers such as shareholders, creditors, employees and the general public.	<a href="http://www.iasb.org">www.iasb.org</a>
ISO 9000 (quality management and quality assurance)	Represents an international consensus on good quality management practices consisting of standards and guidelines relating to quality management systems and related supporting standards.	<a href="http://www.iso.org">www.iso.org</a>
ISO 14000 (environmental management)	Addresses various aspects of environmental management.	<a href="http://www.iso.org">www.iso.org</a>
ISO 27000 (information security)	Provides a model for establishing, implementing, operating, monitoring, reviewing, maintaining and improving an information security management system.	<a href="http://www.iso.org">www.iso.org</a>
PCAOB Auditing Standard No. 5 (An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements)	Incorporates guidance the PCAOB staff released in response to a 2005 roundtable and makes the Sarbanes-Oxley Section 404 attestation process more cost-effective.	<a href="http://www.pcaobus.org">www.pcaobus.org</a>
Sarbanes-Oxley Section 301 (Complaints regarding accounting, internal controls or auditing matters)	Directs the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the audit committee requirements mandated by the Sarbanes-Oxley Act of 2002.	<a href="http://www.sec.gov">www.sec.gov</a>
Sarbanes-Oxley Section 302 (Disclosure controls and procedures)	Addresses all financial information disclosed to investors, including MD&A in the 10Q and 10K.	<a href="http://www.sec.gov">www.sec.gov</a>
Sarbanes-Oxley Section 404 (Internal control over financial reporting)	Requires issuers to publish information in their annual reports concerning the scope, adequacy and effectiveness of the internal control structure and procedures for financial reporting.	<a href="http://www.sec.gov">www.sec.gov</a>
SEC Interpretive Guidance for management regarding its evaluation and assessment of internal control over financial reporting (ICFR)	Intended to enable management to conduct a more effective and efficient evaluation of ICFR. Indicates that management's evaluation process will vary from company to company, because there is no one-size-fits-all approach.	<a href="http://www.sec.gov">www.sec.gov</a>

## Appendix – Relevant Standards (cont.)

Standard	Description	Website
Six Sigma	A disciplined, data-driven approach and methodology for eliminating defects (driving towards six standard deviations between the mean and the nearest specification limit) in any process, from manufacturing to transactional and from product to service.	<a href="http://www.isixsigma.com">www.isixsigma.com</a>
Standards for the Professional Practice of Internal Auditing (IIA Standards)	Principles-focused; provides a framework for performing and promoting internal auditing.	<a href="http://www.theiia.org">www.theiia.org</a>
Stock-Based Compensation (FAS 123R Share-Based Payment)	Requires all entities (with limited exceptions) to recognize the fair value of share-based payment awards. Thus entities must address challenging issues in accounting for options and other share-based payment awards.	<a href="http://www.fasb.org">www.fasb.org</a>
U.S. GAAP	Comprised of many standards, interpretations, opinions and more that are developed by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (SEC).	<a href="http://www.fasb.org">www.fasb.org</a>

## 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. We help solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Our highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for our clients in the Americas, Asia-Pacific, Europe and the Middle East.

Protiviti is proud to be a Principal Partner of The IIA. More than 700 Protiviti professionals are members of The IIA and are actively involved with local, national and international IIA leaders to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.



Protiviti has more than 60 locations worldwide and is a wholly owned subsidiary of Robert Half International Inc. (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 and Transformation
- Audit Committee Advisory

For more information about Protiviti's Internal Audit and Financial Controls solutions, please contact:

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\* Protiviti Member Firm

\*\* Protiviti Alliance Member

