Knowledge Alert

Recent Impacts on the Staffing and Sourcing of North American Internal Audit Activities

October 2009

The Institute of Internal Auditors

Audit Executive Center

Disclaimer

The information included in this document is general in nature and is not intended to address any particular individual, internal audit activity, or organization. The objective of this document is to share tools, resources, information, and/or other knowledge that is accurate, unbiased, and timely. However, based on the date of issuance and changing environments, no individual, internal audit activity, or organization should act on the information provided in this document without appropriate consultation or examination.

Executive Summary

The IIA has been maintaining a keen focus on the impacts of the economic recession on the internal audit profession throughout 2009. In March, we conducted a survey on the overall impacts of the economic crisis on the profession in North America,[1] and a month later we expanded the survey to examine the impacts on the profession globally.[2] In August, we undertook a comprehensive survey on the role of internal auditing in risk management, the results of which will be highlighted in an upcoming white paper. And, as the year comes to a close, we are focusing on identifying recent developments and current trends in the staffing and sourcing of internal audit activities in North America, as well as the outlook for the year ahead.

To assess the impact of the economic recession on the staffing and sourcing of internal audit activities, The IIA's new Audit Executive Center conducted a survey asking chief audit executives (CAEs) and other internal audit leaders about the staffing strategies used in their organization. Overall, results indicate that internal audit activities have experienced staff reductions, with 2009 yielding the greatest impact. More specifically, nearly twice as many survey participants, including those working in Fortune 500 companies, reported internal audit staff decreases in 2009 compared to 2008. Twelve percent of all survey respondents reported staff reductions in 2008 and 23 percent reported staff reductions in 2009, while 18 percent of survey participants working in Fortune 500 companies experienced staff reductions in 2008 and 34 percent reported staff reductions in 2009.

Unfortunately, staff reductions are expected to continue in the year ahead. Twelve percent of all survey participants, and 18 percent of respondents working in Fortune 500 companies, reported projected staff reductions in their internal audit activity for 2010.

Although significant, reported staff decreases in Fortune 500 companies do not appear to have been significantly out of line with the overall staffing reductions reported in other media. According to Forbes.com's Layoff Tracker,[3] staff layoffs have been reported in 30 percent, or 159, of the Fortune 500 companies from Jan. 1, 2009 through Sept. 18, 2009. The fact that internal audit reductions correlate so closely to overall staffing reductions might indicate that internal auditing is being used as a source of insight and assurance during the current economic crisis as companies right-size their overall workforce.

[1] *The Financial Crisis: Implications for the Internal Audit Profession* (PDF, 686 KB)
[2] *A World in Economic Crisis: Key Themes for Refocusing Audit Strategy* (PDF, 800 KB)
[3] Forbes.com's Layoff Tracker, www.forbes.com

Table of Contents

Changes in Internal Audit Staffing Practices

A total of 817 members of The IIA's GAIN Flash Survey Network participated in the survey: 22 participants work in Fortune 100 companies, 129 work in Fortune 500 companies, and 195 work in Fortune 1,000 companies.[4] In addition, 39 percent of all the organizations represented in the survey have revenue sizes of US $1 billion to US $10 billion; 20 percent are located in the financial services, banking, and real estate industry; and 94 percent are based in North America.[5]

According to survey results, internal audit activities have experienced staff reductions since 2008, with 2009 being impacted the most (refer to figure 1 for a breakdown of all results):

- 12 percent of all respondents reported staff reductions in 2008.
- 23 percent reported staff reductions in 2009.
- 12 percent reported projected staff reductions for 2010.

The percentages of survey respondents who reported internal audit staff level changes in Fortune 500 companies were higher compared to all the organizations represented in the survey (refer to figure 2):

- 18 percent of respondents working for Fortune 500 companies reported staff reductions in 2008.
- 34 percent reported reductions in 2009.
- 18 percent reported projected staff reductions for 2010.

Although significant, reported internal audit staff decreases in Fortune 500 companies have not been disproportionate to the overall staffing reductions reported in other media. According to Forbes.com's Layoff Tracker, staff layoffs have been reported in 30 percent, or 159, of the U.S.'s Fortune 500 companies from Jan. 1, 2009, through Sept. 18, 2009. This percentage is not significantly different from the 34 percent of internal audit staff reductions reported by survey participants working in Fortune 500 companies.

---

[4] Organizations in the Fortune 100 and Fortune 500 groups also are represented in the Fortune 1,000 category.

[5] Thirty-six percent of the organizations represented in the survey have internal audit activities consisting of 3–6 internal auditors. Financial services/banking/real estate was the industry with the greatest number of responses, while manufacturing was the industry sector with the greatest number of responses in Fortune 500 companies. Other industries represented by all survey participants include manufacturing (11 percent), insurance agents and carriers (8 percent), educations services (8 percent), and health services (6 percent).

Figure 1. Internal Audit Staff Level Changes (All Survey Respondents)

	Increased	Stayed the Same	Decreased
Change from 2007 to 2008	29%	**59%**	12%
Change from 2008 to 2009	17%	**60%**	23%
Projected change from 2009 to 2010	18%	**70%**	12%

Figure 2. Internal Audit Staff Level Changes (Fortune 500 Companies)

	Increased	Stayed the Same	Decreased
Change from 2007 to 2008	27%	**55%**	18%
Change from 2008 to 2009	19%	**47%**	34%
Projected change from 2009 to 2010	14%	**68%**	18%

Additionally, of all the organizations represented in the survey that have experienced a reduction in internal audit staff, the average decrease was 21 percent for both 2008 and 2009, while the projected staff reduction for 2010 is 15 percent. In Fortune 500 companies where internal audit staff reductions have taken place, the average percentages were lower in comparison to those reported by all survey respondents but significant nonetheless. The average percent decrease in Fortune 500 companies was 17 percent in 2008 and 12 percent in 2009, while the projected staff reduction for 2010 is 12 percent.

Overall, the internal audit staff reductions reported in the survey might indicate that internal auditing is being used as a source of insight and assurance during the current economic crisis as companies right-size their overall workforce. This role as providers of insight was confirmed by The IIA's *2009 Recruitment and Retention Benchmarking Study.*[6]

According to the benchmarking study, 17 percent of the respondents stated that the economy has positively affected the number of career opportunities available to internal auditors. As explained by one survey participant, "It stands to reason that fraud will go up. Smart businesses will use their internal audit staff and add even more to study the processes to cut inefficiencies and costs."

[6] A total of 1,814 invitations were sent to members of GAIN's Flash Survey Network to participate in the *2009 Recruitment and Retention Benchmarking Study*, out of which 157 responded to the survey representing an 8.7 percent response rate.

Staffing Models in Use

Survey respondents also were asked about their use of rotational positions (i.e., hiring internal auditors into internal auditing or rotating them in from the business for a specified time, after which the employees rotate out of the internal audit activity and into other business units or functions).

When all survey respondents are examined, the majority (69 percent) indicated that their internal audit activity has a staffing model consisting of career internal auditors only. However, 31 percent of the internal audit activities represented in the survey have a rotational model in place: 28 percent have a staffing model consisting of a blend between career internal auditors and rotational positions, and 3 percent have internal audit activities consisting of rotational positions only.

When only responses from Fortune 500 participants are analyzed, the percentage of internal audit activities with a rotational model increases to 64 percent: 58 percent have a blend of career internal auditors and rotational positions, and 8 percent have internal audit activities consisting of rotational positions only. Only 34 percent hire career internal auditors.

In terms of the positions that are rotated, 37 percent of all the organizations represented in the survey that have a rotational model in place (31 percent) rotate all staff except the CAE. In Fortune 500 companies where a rotational model exists (64 percent), 39 percent of all internal audit staff positions are rotated. (Refer to figures 3 and 4 for a breakdown of responses.)

Figure 3. Percent of Positions by Type That Are Rotated In and Out of the Internal Audit Activity (All Survey Respondents)

Response	Chart	Frequency
All positions		30%
All positions except the CAE		**36%**
All positions except managers and the CAE		22%
Other (specified below)		12%

Note: Percentages in figure 3 are based on the responses provided by 31 percent of all survey participants. These respondents work in internal audit activities where there is a rotational model in place.

Figure 4. Percent of Positions by Type That Are Rotated In and Out of the Internal Audit Activity (Fortune 500 Companies)

Response	Chart	Frequency
All positions		**39%**
All positions except the CAE		28%
All positions except managers and the CAE		23%
Other		10%

Note: Percentages provided in figure 4 are based on the responses provided by 64 percent of survey participants working in Fortune 500 companies. These respondents work in internal audit activities where there is a rotational model in place.

Survey respondents indicating they use a rotational model also were asked to identify the source of professionals rotating into internal auditing. Sixty-four percent stated that their internal audit activity consists of internal auditors recruited from business units within the organization, 60 percent recruit candidates from other companies, 54 percent recruit staff from public accounting firms, and 31 percent recruit staff from colleges and universities. These percentages are higher in Fortune 500 organizations:

- 73 percent recruit internal auditors from business units within the organization and other companies.
- 71 percent recruit internal auditors from public accounting firms.
- 37 percent recruit internal auditors from colleges and universities.

Furthermore, in companies where a rotational program exists, the majority of all survey respondents and those working in Fortune 500 companies stated that three years is the typical length of a staff rotation followed by two years (refer to figure 5). Finally, when asked whether internal auditors are sometimes offered the opportunity to assume an audit manager position at the conclusion of their rotation, 59 percent of all survey participants, and 61 percent of respondents working in Fortune 500 companies, stated "yes."

Figure 5. Length of Staff Rotation in Organizations With a Rotational Program

Response	Frequency (All Survey Participants)	Frequency (Fortune 500 Companies)
Approximately 1 year	7%	7%
Approximately 2 years	30%	32%
Approximately 3 years	**32%**	**37%**
Between 3 and 5 years	28%	23%
More than 5 years	3%	1%

Skills Assessment

Respondents were asked to assess the current skill level of their staff in addressing key risks impacting the internal audit profession. Skill sets evaluated include:

- Business operation knowledge.
- Industry-specific knowledge.
- Risk management.
- Operational auditing.
- Fraud/forensics.
- Liquidity.
- Sustainability.
- Cost containment/ cost recovery.
- Control deterioration.
- Privacy.
- Information security.
- Corporate compliance.
- The Foreign Corrupt Practices Act (FCPA).
- Business continuity.
- Vendor management.
- Supply chain management.
- Supplier/counterparty interactions.
- Data analytics.
- International Financial Reporting Standards (IFRS).
- IT.

All survey participants, as well as respondents working in Fortune 500 companies, selected IFRS, data analytics, liquidity, fraud/forensics, and sustainability as the top five risk areas where internal audit skills are lacking or insufficient. (Refer to figure 6 for a complete list.[7])

Figure 6. Top Risk Areas Where Internal Audit Skills Are Lacking or Insufficient

Risk Areas	Frequency (Fortune 500 Companies)	Frequency (All Survey Participants)
IFRS	68%	53%
Data Analytics	52%	48%
Liquidity	46%	42%
Fraud/Forensics	41%	48%
Sustainability	39%	37%
Supplier/Counterparty Interactions	33%	36%
Risk Management	32%	35%
Privacy	28%	28%
Supply Chain Management	28%	29%
Cost Containment/Recovery	26%	31%
FCPA	26%	30%

[7] Figure 6 only lists the risk areas where 25 percent or more of all survey participants and respondents working in Fortune 500 companies stated that internal audit skills were insufficient and lacking. Four areas — IT (37 percent), information security (36 percent), vendor management (27 percent), and business continuity (26 percent) — were identified as key risk areas where internal audit skills are insufficient and lacking by all survey participants, but not by respondents working in Fortune 500 companies.

Staffing Internal Audit Operations and Sourcing

The final set of questions asked CAEs and other internal audit professionals to identify the percentage of audit engagements that are internally staffed, provided by third-party professional service firms, or performed using guest internal auditors.

One percent of all survey participants, and 0 percent of respondents from Fortune 500 companies, outsource 100 percent of their audit engagements. However, 48 percent of all survey participants, and 61 percent of Fortune 500 respondents, augment their audit engagements with professional service firms, while 44 percent of all survey participants and 27 percent of Fortune 500 respondents perform 100 percent of audit engagements with internal staff. Only 7 percent of all respondents, and 12 percent of those working in Fortune 500 companies, stated that their audit engagements are augmented with guest auditors only.[8] Figures 7 and 8 provide a detailed breakdown of the percentage of the audit engagement that is internally staffed, provided by professional service firms, or performed by guest internal auditors.

Figure 7. Percent Breakdown of Audit Engagement Sourcing (All Survey Participants)

Internally Staffed Internal Audit Activities

	No Internal Staff	10-25% Internal	26-50% Internal	51-75% Internal	76-85% Internal	86-99% Internal	100% Internal
(%)	1%	2%	3%	9%	12%	29%	44%

Internal Audit Activities Sourced with Third-Party Professional Service Firms

	No Sourcing	1-5% Sourced	6-10% Sourced	11-25% Sourced	26-50% Sourced	51-75% Sourced	76-99% Sourced	100% Sourced
(%)	51%	14%	12%	14%	6%	1%	1%	1%

Internal Audit Activities Sourced with Guest Auditors

	No Guests	1-5% Guests	6-10% Guests	11-25% Guests	26-50% Guests	51-75% Guests	76-99% Guests	100% Guests
(%)	84%	8%	5%	3%	0%	0%	0%	0%

[8] A total of 130 organizations (16 percent of all survey respondents) use guest auditors to augment their audit plan. However, 60 of those organizations augment their audit engagements with guest auditors only and 70 organizations use a combination of guest auditors and professional service firms. Similarly, a total of 30 Fortune 500 companies (23 percent) use guest auditors to augment their audit plan: 15 Fortune 500 companies augment their audit engagements with guest auditors only and another 15 use a combination of guest auditors and professional service firms.

Figure 8. Percent Breakdown of Audit Engagement Sourcing (Fortune 500 Companies)

Internally Staffed Internal Audit Activities

	No Internal Staff	10-25% Internal	26-50% Internal	51-75% Internal	76-85% Internal	86-99% Internal	100% Internal
(%)	0%	2%	2%	10%	13%	45%	28%

Internal Audit Activities Sourced with Third-Party Professional Service Firms

	No Sourcing	1-5% Sourced	6-10% Sourced	11-25% Sourced	26-50% Sourced	61-75% Sourced	76-99% Sourced	100% Sourced
(%)	39%	28%	8%	15%	6%	2%	2%	0%

Internal Audit Activities Sourced with Guest Auditors

	No Guests	1-5% Guests	6-10% Guests	11-25% Guests	26-50% Guests	61-75% Guests	76-99% Guests	100% Guests
(%)	70%	21%	6%	3%	0%	0%	0%	0%

Furthermore, survey participants who stated their internal audit activities augment audit engagements with professional service firms were asked to identify the percent increase or decrease in the services provided by these firms from 2007 to 2009 and any projections for 2010. Overall, all survey participants, and those working for Fortune 500 companies, stated that the sourcing of audit engagements has remained, and will remain, stable. For survey participants who augment audit programs with professional service firms:

- 54 percent of respondents working in Fortune 500 companies, and 68 percent of all survey participants, stated that the sourcing of audit engagements remained the same from 2007 to 2008.
- 50 percent of respondents working in Fortune 500 companies, and 61 percent of all survey participants, stated that the sourcing of audit engagements remained the same from 2008 to 2009.
- 63 percent of all respondents, and 63 percent of those working in Fortune 500 companies, stated that the sourcing of audit engagements will remain the same in 2010.

Figures 9 and 10 provide a detailed breakdown of all survey responses.

Figure 9. Changes in Audit Engagement Sourcing Levels to Professional Service Firms (All Survey Participants)

	Increased	Stayed the same	Decreased by 1% to 5%	Decreased by 6% to 10%	Decreased by 11% to 25%	Decreased by 26% to 50%	Decreased by more than 50%
Change from 2007 to 2008	16%	**69%**	2%	3%	4%	3%	3%
Change from 2008 to 2009	16%	**61%**	3%	5%	5%	3%	7%
Projected change from 2009 to 2010	17%	**63%**	4%	6%	4%	2%	4%

Figure 10. Changes in Audit Engagement Sourcing Levels to Professional Service Firms (Fortune 500 Companies)

	Increased	Stayed the same	Decreased by 1% to 5%	Decreased by 6% to 10%	Decreased by 11% to 25%	Decreased by 26% to 50%	Decreased by more than 50%
Change from 2007 to 2008	20%	**54%**	2%	8%	4%	6%	6%
Change from 2008 to 2009	21%	**50%**	3%	9%	4%	4%	9%
Projected change from 2009 to 2010	17%	**63%**	3%	7%	4%	3%	3%

Finally, survey participants who use professional service firms also identified the areas in which audit efforts are augmented. According to all survey participants, IT expertise is the number one area in which professional services are required followed by external functional or subject-matter expertise (refer to figure 11). These findings are reversed in Fortune 500 organizations (refer to figure 12).

The fact that many internal audit activities require IT or other subject-matter expertise of professional service firms is not surprising. According to the *2009 Recruitment and Retention Benchmarking Study* cited earlier, finding internal auditors with experience in a particular field is more difficult than recruiting general internal audit staff because there are fewer qualified candidates with the necessary skills and the salary requirements are usually high. The study also found that IT auditors were the hardest to recruit followed by fraud and compliance auditors.

Figure 11. Use of Third-party Professional Service Firms (All Survey Participants)

Response	Chart	Frequency
General audit staff augmentation		21%
External functional/subject-matter expertise		41%
IT expertise		**44%**
SOX- (or other compliance-) specific audit work		17%
Augment geographic coverage		8%
Language skills		9%
Local regulatory skills		7%
Bring external ideas to the organization/gain knowledge transfer		14%
Fraud investigations		11%

Figure 12. Use of Third-party Professional Service Firms (Fortune 500 Companies)

Response	Chart	Frequency
General audit staff augmentation		33%
External functional/subject-matter expertise		**53%**
IT expertise		47%
SOX- (or other compliance-) specific audit work		19%
Augment geographic coverage		18%
Language skills		26%
Local regulatory skills		11%
Bring external ideas to the organization/gain knowledge transfer		16%
Fraud investigations		20%

The Institute of Internal Auditors

Audit Executive Center

GLOBAL HEADQUARTERS
247 Maitland Avenue
Altamonte Springs, FL 32701-4201
www.theiia.org