



Moving Internal Audit Back into Balance

A Post-Sarbanes-Oxley Survey

Second Edition

protiviti[®]
Independent Risk Consulting

Business Risk

Technology Risk

Internal Audit

TABLE OF CONTENTS

- INTRODUCTION 1
- EXECUTIVE SUMMARY 2
- OVERVIEW OF REBALANCING INITIATIVES 3
 - State of Rebalancing: Significant Movement in Just One Year 3
 - Benefits 5
 - Planning and Progress 6
 - Rebalancing Ownership 7
 - Sarbanes-Oxley Compliance Strategies as Part of Rebalancing Efforts 8
 - Key Activities by Organizations Seeking to Rebalance 9
 - Expectations and Impediments..... 10
- IMPACT OF REBALANCING INITIATIVES 11
 - Focus on IA Roles in Sarbanes-Oxley Compliance..... 11
 - Assisting Roles in Sarbanes-Oxley Compliance 12
 - IA Staffing and Budget Allocations 13
 - Sarbanes-Oxley Outsourcing 14
 - Allocating IA Efforts for COSO Internal Control Objectives 15
 - IT Audits and External Assistance..... 16
- NEXT STEPS..... 17
- METHODOLOGY..... 17
- SURVEY DEMOGRAPHICS..... 18
- ABOUT PROTIVITI 21
- KNOWLEDGELEADERSM 21
- PROTIVITI’S RISK SOLUTIONS iTRAINING DEVELOPMENT SERIES 22

INTRODUCTION

“Life is like riding a bicycle. To keep your balance, you must keep moving.”

– Attributed to Albert Einstein

When the Sarbanes-Oxley Act went into effect in 2002, internal auditors were often part of their organizations’ compliance efforts. In the initial year(s) of compliance, the intensity of Sarbanes-Oxley preparations challenged many internal audit (IA) functions’ ability to complete their original plans and regular work.

In 2005, Protiviti conducted a survey to determine whether and how IA functions would “rebalance”¹ their activities to address risks overshadowed by the intense focus on financial reporting. In the first edition of *Moving Internal Audit Back into Balance*, the majority of respondents indicated a rebalancing initiative was underway or in the planning stages.

So, where are we now? How have IA professionals adapted to the increased responsibilities and workload demanded by the internal control over financial reporting requirements of Sarbanes-Oxley? Is there progress toward rebalancing, and what strategies are being pursued to make it happen?

In order to answer questions such as these, Protiviti conducted a second annual IA rebalancing survey from October 2006 to January 2007.² The survey consisted of a series of questions grouped into two divisions: “Rebalance Strategy” and “Internal Audit Organization and Focus.” Participants were asked to respond to a total of 23 questions, of which some requested information for each of the three years of Sarbanes-Oxley compliance efforts. A total of 311 respondents completed the survey in person or online.

Survey participants covered a wide range of experience with Sarbanes-Oxley reporting requirements. Nearly half reported their companies were in the third year of compliance. Others already had concluded the first full cycle of compliance, while some had not yet begun the first year. According to survey respondents, the burdens of Sarbanes-Oxley are heaviest in the first year, when some companies find that compliance can consume more than 75 percent of an IA department’s resources. It is during this first year that outside assistance is most needed.

Respondents shared their plans, progress and experiences regarding their efforts to rebalance IA activities. From their responses, the benefits of rebalancing (e.g., reduced costs of compliance and the ability to perform a wider range of IA functions), as well as the challenges (e.g., IA staff spread too thin and delays in decision-making), became more transparent.

Even as IA departments have been stretched to accommodate Sarbanes-Oxley demands, internal auditors have demonstrated resilience and creativity as they develop strategies to balance the needs of regulatory compliance with more traditional IA responsibilities and other aspects of the COSO Internal Control Framework.

Protiviti wishes to thank all survey respondents for sharing their rebalancing experience with us. It is greatly appreciated. As the IA profession continues to evolve and achieve a higher profile worldwide, we would like to take this opportunity to acknowledge the invaluable leadership role of The Institute of Internal Auditors (IIA). With this guidance, we look forward to continuing our successful partnerships with C-level executives, boards of directors and management.

Protiviti Inc.
June 2007

¹ For the purposes of the survey, “rebalancing” is defined as the process of moving activities away from Sarbanes-Oxley to a broader coverage of the COSO framework.

² Shortly after Protiviti conducted the survey, the Public Company Accounting Oversight Board (PCAOB) announced proposed changes to auditing standards. One proposal (Auditing Standard 5) would expand the ability for auditors to rely on the work of others. Many IA departments have developed rebalancing strategies that include the ability of external auditors to rely on work already performed by internal auditors. No doubt, when the new standards are adopted, as seems likely, IA teams everywhere will applaud.

EXECUTIVE SUMMARY

The following are some of the survey's key findings, with brief analysis.

Primary Benefit of Rebalancing

- “Internal audit able to perform more traditional audits” replaces “more appropriate coverage of risk” as the top perceived benefit.

As more IA departments progress toward rebalancing, they are renewing their focus on more traditional responsibilities. Clearly, for many internal auditors, this is a welcome change.

Sarbanes-Oxley Compliance: Current Status

- Those in the third year of compliance are the largest group – almost half of the sample. Of those, only 40 percent have “achieved rebalancing.”

Perspective is everything: Organizations in Year Three have a better understanding of what does and does not work with their Sarbanes-Oxley compliance efforts. However, for most, compliance is still a work in progress. Rebalancing is tied very closely to the development of a more efficient and sustainable approach to compliance, which is why it takes time to achieve.

Rebalancing Status: One Year Ago Versus Today

- The largest group is still underway.
- One-quarter report having “achieved rebalancing” – more than double from one year ago.
- Of those having achieved rebalancing, almost 80 percent are in their third year of compliance.

Once organizations refine their Sarbanes-Oxley compliance activities, and officially set out on the road to rebalancing, significant progress can be made quickly. Ninety-five percent of survey respondents said they achieved rebalancing within two years of beginning the effort.

Strategies: Current Versus Planned

- “Reduction in the total population of controls” is the strategy most used currently, while “greater reliance on internal auditing by external auditors” is clearly the highest-rated planned strategy.

Realizing that some controls are nothing more than overkill, IA departments are streamlining their compliance efforts as a way to achieve rebalancing. Moreover, they are looking to reclaim personnel from the burdens of compliance activities, and reassign them to other vital tasks.

Activities as Part of Rebalancing

- “Rescope workload” is the most common activity (by a slim margin), followed closely by “increased ownership” and “reallocate existing resources.”
- “Add additional resources” drops from the top rating in the previous survey.

In addition to refining their approach to Sarbanes-Oxley compliance, IA departments are looking to process owners to assume more ownership of such activities. When that happens, IA personnel can devote energy to other tasks, thus reducing the need for additional resources.

OVERVIEW OF REBALANCING INITIATIVES

State of Rebalancing: Significant Movement in Just One Year

Significant overall progress toward rebalancing has been seen in just one year, as audit priorities became less dominated by Sarbanes-Oxley compliance activities. More than twice as many IA professionals reported success with rebalancing in 2006 compared to last year. Many more organizations are actively pursuing rebalancing or plan to do so in the near future.

Comments from respondents:

“We continue to refine and redefine IA’s approach to [Sarbanes-Oxley]. As the corporation’s efforts become more robust, IA is reducing overall time spent on [Sarbanes-Oxley] efforts and changing the focus of our test work to more value-added areas.”

– CAE, manufacturing and distribution industry, \$10-\$19.99 billion in gross annual revenues

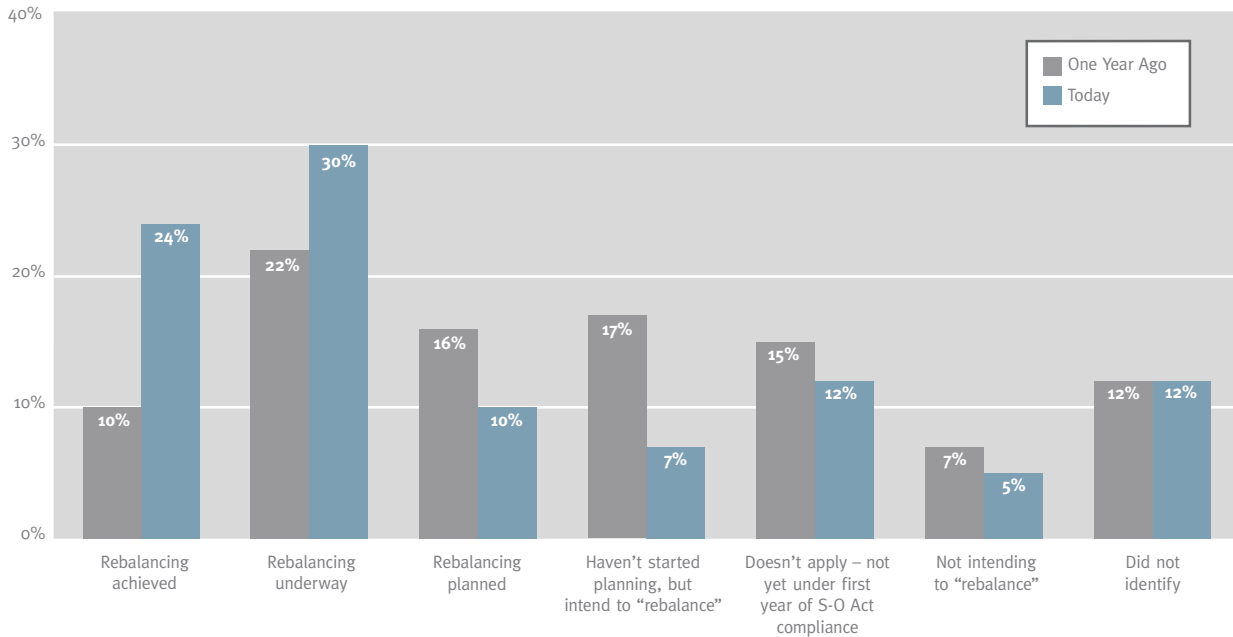
“In 2006, process was started to move from project to process. Approximately 60 percent there. Remainder will be implemented in 2007.”

– CAE, financial services industry, \$5-\$9.99 billion in gross annual revenues

ONE YEAR AGO, how would you have described your organization’s efforts to rebalance internal audit priorities away from Sarbanes-Oxley compliance projects?

TODAY, how would you describe your organization’s efforts to rebalance internal audit priorities away from Sarbanes-Oxley compliance projects?

State of Rebalancing
(Base: All Respondents)



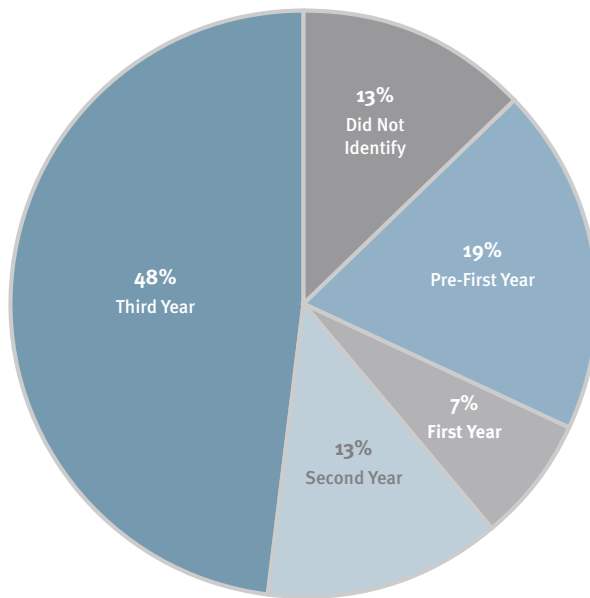
OVERVIEW OF REBALANCING INITIATIVES

Current status of Sarbanes-Oxley reporting: Nearly half are in their third year

Close to one half of the survey respondents reported that their companies are in the third year of compliance with Sarbanes-Oxley reporting requirements. Surprisingly, of those, only 40 percent indicated having “achieved rebalancing.” The remaining respondents are still in the early years of compliance or in the planning stages. This range of experience in Sarbanes-Oxley compliance and rebalancing efforts is reflected in the responses to the rest of the survey questions and in the written comments made by the respondents.

Year of Sarbanes-Oxley Compliance

(Base: All Respondents)



Benefits

The benefit most often cited is that rebalancing allows IA to perform more of its traditional audit functions. No other benefit comes close in importance, not even the previous favorite: “more appropriate coverage of risk.”

“Being able to perform more traditional audits” was selected overwhelmingly as the primary benefit of rebalancing, and was cited almost three times as often as the next three benefits. The previous favorite, “more appropriate coverage of risk,” fell sharply to second place, followed by “increased operations effectiveness and efficiency,” and “reduced costs of compliance for Sarbanes-Oxley Sections 404 and 302.”

Internal auditors are optimistic about the benefits that would flow from rebalancing IA priorities, and some hope to cut compliance costs in half within three years.

Comments from respondents:

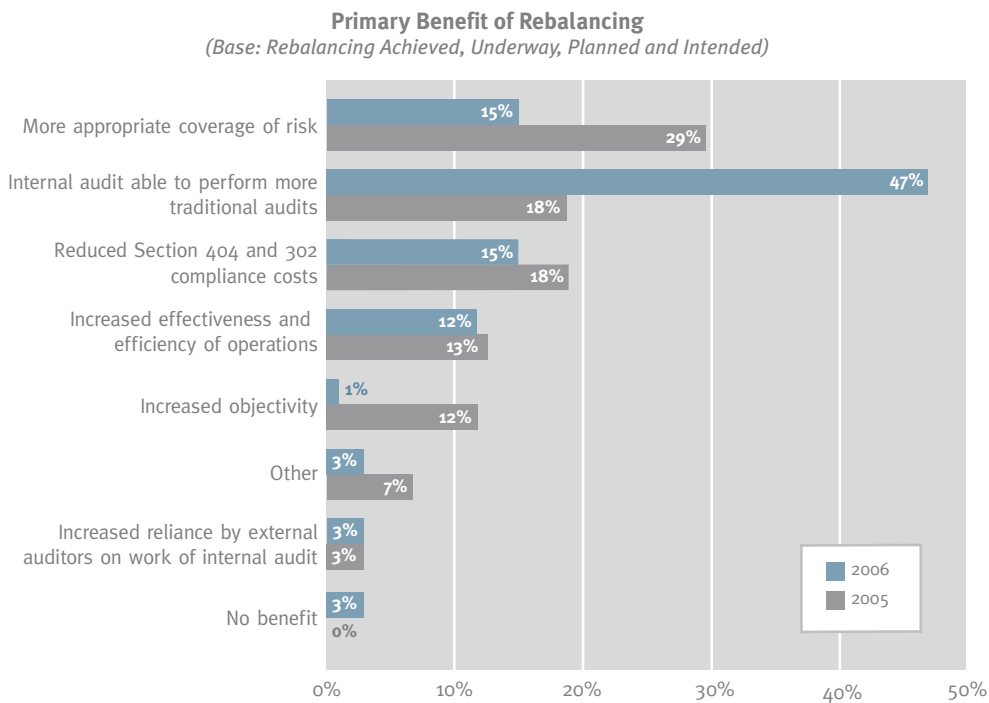
“Prior to rebalancing, internal audit was almost 100 percent focused on SOX. Rebalancing has allowed us to return to our roots and conduct operational audits, while ensuring SOX coverage via creation of the compliance team.”

– Audit director, media industry, \$5-\$9.99 billion in gross annual revenues

“Many benefits were achieved. Reduced SOX 404 and 302 costs, return to non-SOX audits, but most important was the ability to look beyond SOX to gain comfort on effectiveness and efficiency concerns.”

– Director, finance; manufacturing and distribution industry, \$500-\$999.99 million in gross annual revenues

What is the primary benefit of your organization’s rebalancing efforts?



OVERVIEW OF REBALANCING INITIATIVES

Planning and Progress

Rebalancing usually takes no more than two years to complete, with two-thirds of organizations making moderate to significant progress throughout the process.

Once underway, rebalancing progresses quickly (a process likely to be even quicker under the new SEC and PCAOB rules). A majority of organizations were able to rebalance within one year, while nearly all organizations did so within two years. Most organizations began their rebalancing efforts within the last two years, and most of the rest expect to begin the process within a year.

Comments from respondents:

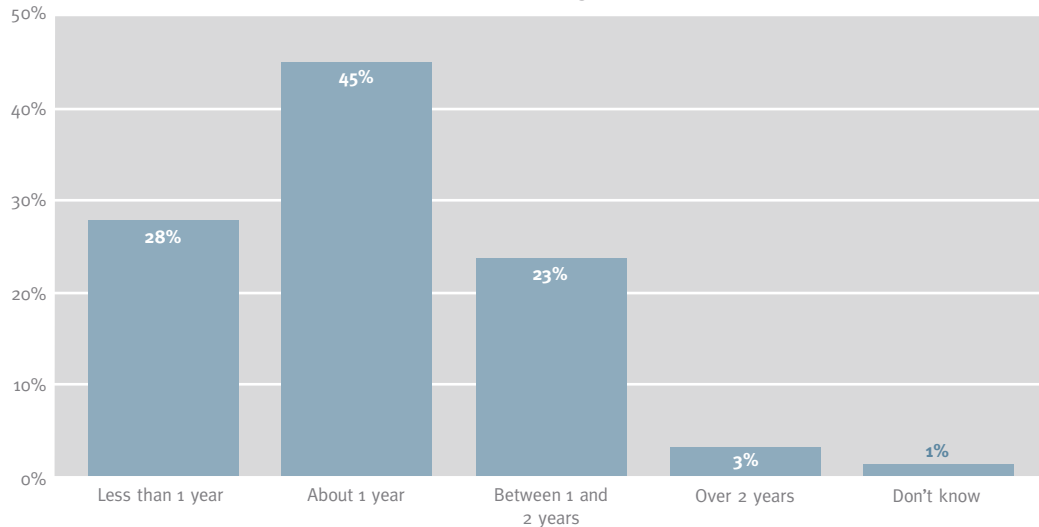
“Our rebalancing is fully complete at this stage and our internal audit function is fully engaged in executing the annual audit plan that does not include SOX. That is a function separate and distinct from the internal audit effort.”

– CAE, financial services industry, \$5-\$9.99 billion in gross annual revenues

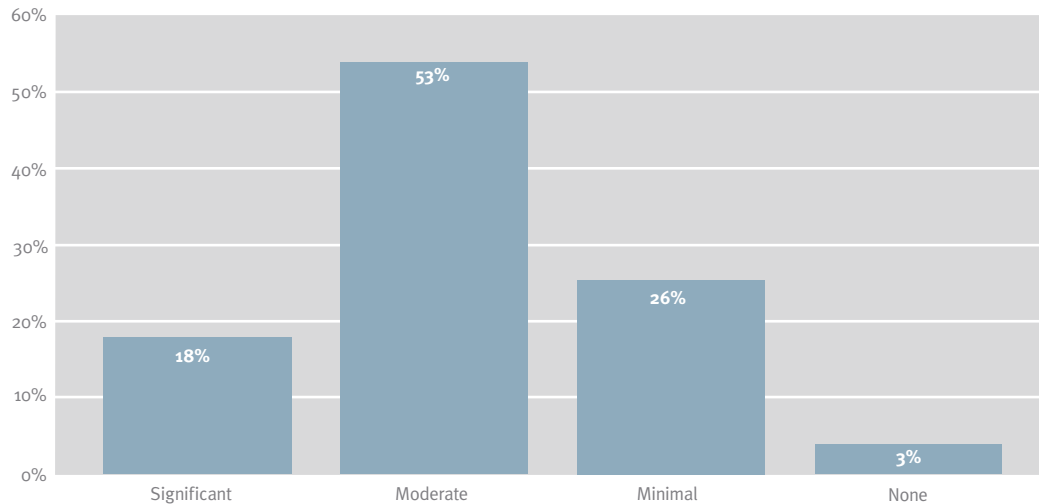
“We developed a plan, executed on it and have realized the benefits we had planned.”

– Audit director, healthcare industry, \$10-\$19.99 billion in gross annual revenues

How Long to Rebalance
(Base: Rebalancing Achieved)



Rebalancing Progress Made So Far
(Base: Rebalancing Underway)



Rebalancing Ownership

IA departments are most likely to own the rebalancing efforts and have the greatest involvement in rebalancing.

By far, the group most frequently reported to have ownership of rebalancing efforts was the internal audit staff. Ownership by other groups or persons was very limited. See accompanying chart below.

In a related question, respondents were asked to indicate the level of involvement of various individuals and groups in their organization's rebalancing efforts. Again, it was the internal audit staff that was most significantly involved in these efforts, while management and executive management were involved only moderately. Other groups or persons, including the audit committee, contributed only slightly to these efforts.

Comments from respondents:

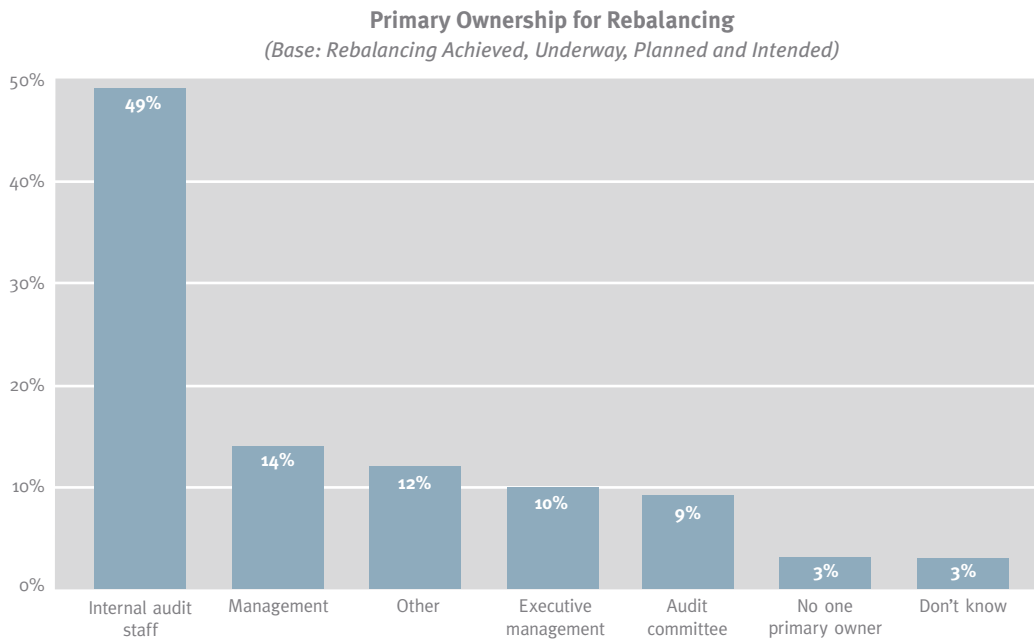
"If change happens, it will be driven by internal audit. Public [companies] are too afraid to make changes. Management has too little time."

– Audit director, financial services industry, \$1-\$4.99 billion in gross annual revenues

"The rebalancing effort is strictly an internal audit process. The audit committee has a stake, but not an integral part in the initiative."

– CAE, financial services industry, \$5-\$9.99 billion in gross annual revenues

Which one individual/group has primary ownership for your organization's rebalancing efforts?



OVERVIEW OF REBALANCING INITIATIVES

Sarbanes-Oxley Compliance Strategies as Part of Rebalancing Efforts

The three most widely employed strategies among IA departments are reducing the total population of controls, reducing the number of key controls and increasing reliance on IA by external auditors.

While “reduction in the total population of controls” is the most used strategy currently, “greater reliance on internal auditing by external auditors” is clearly the highest-rated planned strategy (remains constant).

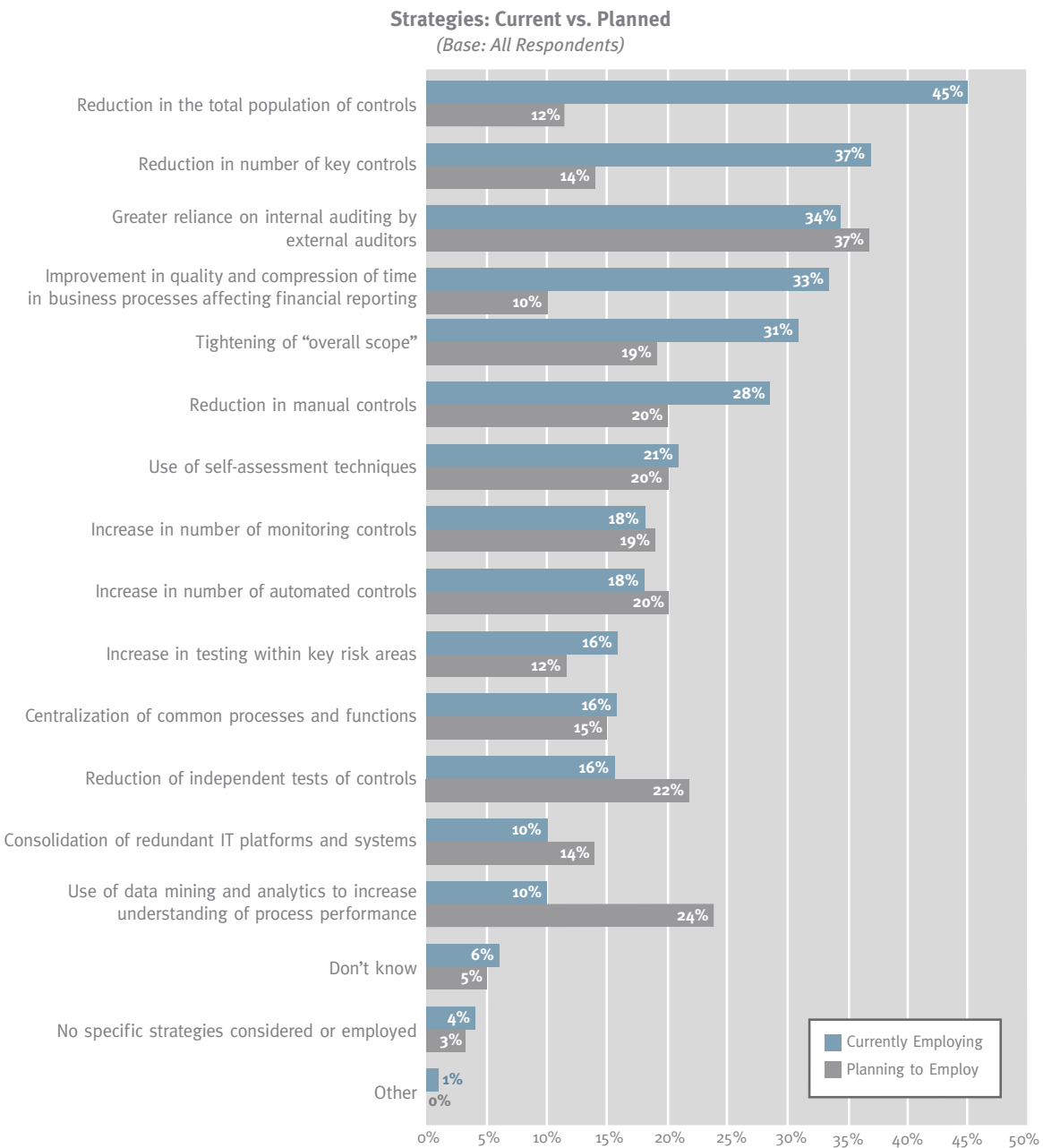
Several strategies are decreasing in use. Only a few are increasing, such as “use of data mining.”

The accompanying chart depicts both current and planned strategies.

Comments from respondents:

“One year ago internal audit was involved with SOX testing. Today, all SOX testing is conducted by the control owners (i.e., management) and internal audit is responsible for quality assurance (i.e., we audit management’s work and conclusions).”

– CAE, manufacturing and distribution industry, \$10-\$19.99 billion in gross annual revenues



Key Activities by Organizations Seeking to Rebalance

Most often, IA departments are rescoping the workload, increasing ownership by process owners* and reallocating resources. Compared to the previous year, noticeably fewer are rebalancing by adding additional resources.

The most popular rebalancing activities in 2006 compared to 2005 are noted in the chart below.

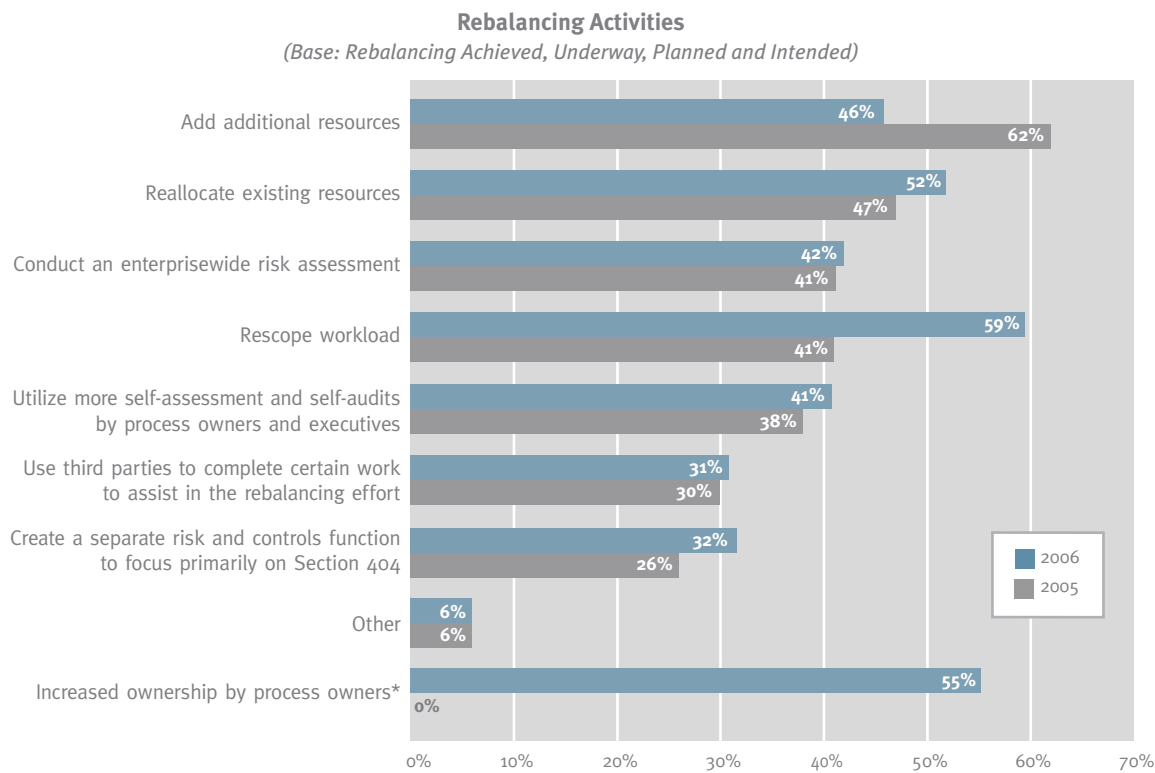
*The 2005 survey did not include “increased ownership by process owners” as an option.

Comments from respondents:

“As of last year, rebalancing sounded like a great idea. This year it became clear that the only way the company could prove SOX compliance to outside auditors was through the efforts of internal audit. Therefore, the rebalancing effort was to modify the IA programs to a consolidated effort, addressing both SOX compliance and internal audit priorities. At the moment, having just reviewed IA work for the first three quarters of 2006 with the audit committee, they and the outside auditors are comfortable with what we are doing. It looks like our rebalancing is going to continue to include some fairly extensive SOX compliance testing in the near future.”

– CAE, media industry,
\$500-\$999.99 million in gross
annual revenues

Which activities are part of your organization’s rebalancing efforts?



*Item not included in 2005 survey.

OVERVIEW OF REBALANCING INITIATIVES

Expectations and Impediments

Progress toward rebalancing generally meets expectations, while concerns about Sarbanes-Oxley compliance and pragmatic difficulties with staffing and resources are major impediments to progress. Communication problems and uncertainty associated with management relations and external auditors also are factors contributing to delays in achieving rebalance.

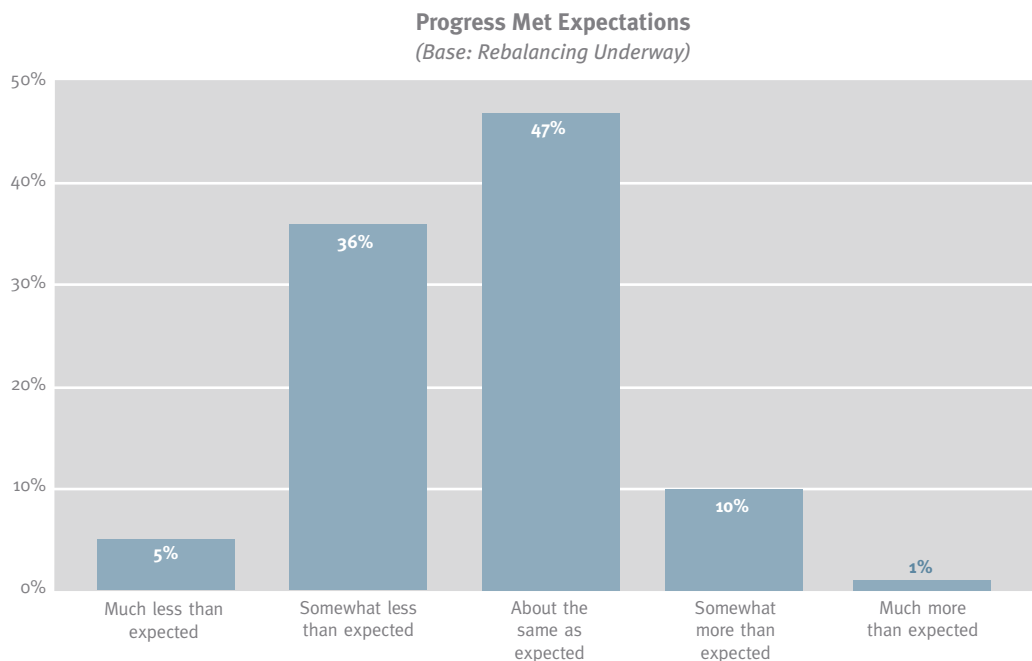
Pragmatic difficulties are, by far, the most frequently identified impediments to successful rebalancing of IA efforts. The following complaints, which are not unusual for any organization attempting to reorient its priorities, were the barriers to rebalancing most often cited:

- IA staffs spread too thin
- New hires requiring additional time or training
- Time management problems
- Reconfigured departments and responsibilities
- Special projects, corporate mergers, new business units
- General lack of resources

Other significant barriers to rebalancing included:

- Sarbanes-Oxley compliance priorities
- Problematic communication and uncertainty regarding external auditors
- Lack of leadership and commitment by management
- Delays in decision-making
- Stakeholder delays and problems with process owners

Describe how well the progress of rebalancing at your organization has met your expectations.



Comments from respondents:

“Year Two has had its own challenges that, while not necessarily surprising, required more resources than anticipated.”

– CAE, retail industry, \$1-\$4.99 billion in gross annual revenues

“Expectations were to achieve some level of rebalancing in 2006; however, significant personnel changes minimized the amount of non-SOX work we were able to achieve.”

– Audit director, manufacturing and distribution industry, \$500-\$999.99 million in gross annual revenues

IMPACT OF REBALANCING INITIATIVES

Focus on IA Roles in Sarbanes-Oxley Compliance

Year One is the toughest year: Compliance efforts can consume as much as 75 per cent – or more – of the IA department’s personnel resources. These burdens ease considerably in Years Two and Three, although they continue to demand significant efforts from IA professionals as they pursue diverse strategies and serve in many roles.

Primary Roles in Sarbanes-Oxley Compliance

IA’s primary roles during the first three years of Sarbanes-Oxley compliance are similar, with control design evaluation and testing of operational effectiveness ranking highest, especially in Year One. The role of developer of documentation dropped sharply after Year One. Other primary roles tended to track in parallel, with moderate easing in Years Two and Three.

Consistently important roles in Years One, Two and Three of Sarbanes-Oxley compliance include:

- Control design evaluation and testing of operational effectiveness
- Lead responsibility
- Membership in the compliance team/steering committee

Indicate the primary roles of internal audit for each year of your organization’s Sarbanes-Oxley compliance efforts.

Comments from respondents:

“I feel that IA has quite a bit of latitude in defining what makes sense for our IA resources, as well as for the corporation as a whole. Through changing how management tests controls and who is testing the controls, we’ve been able to pull back our own efforts a bit while still enabling our external auditors to rely on our efforts. We’ve also focused our work in key risk areas and processes.”

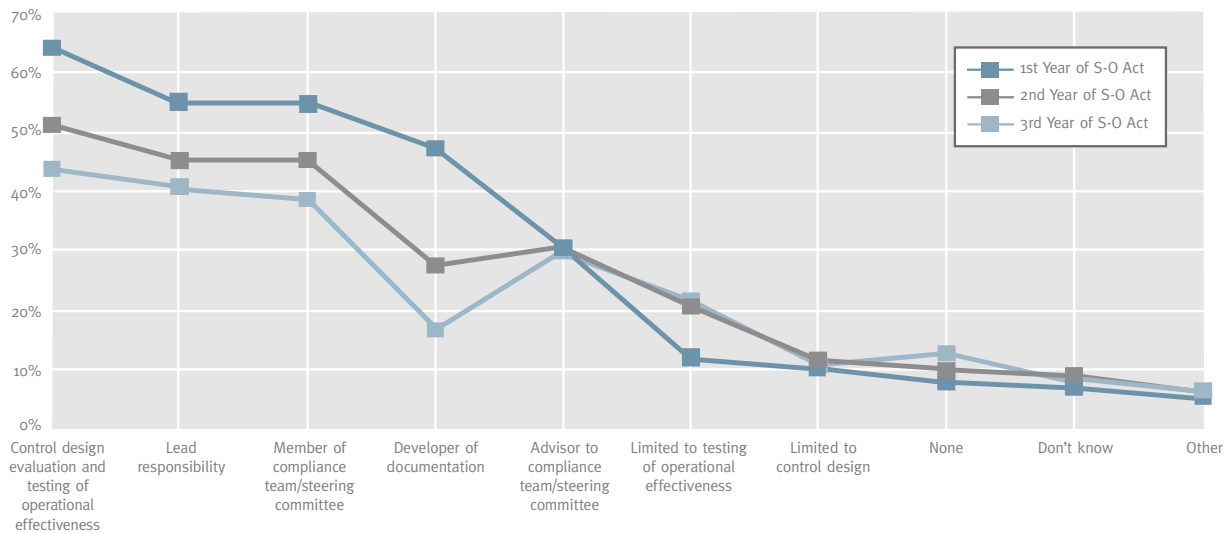
– CAE, manufacturing and distribution industry, \$10-\$19.99 billion in gross annual revenues

“Having a separate SOX testing team was very instrumental in allowing internal audit to be more focused on operational and IT audits.”

– Audit manager, telecommunications industry, \$500-\$999.99 million in gross annual revenues

Internal Audit Primary Roles

(Base: All Respondents)



IMPACT OF REBALANCING INITIATIVES

Assisting Roles in Sarbanes-Oxley Compliance

Internal audit's roles for assisting organizational efforts in Sarbanes-Oxley compliance decrease markedly in Years Two and Three, most noticeably in the area of documentation. Planning assistance and control design evaluation are ranked as the most common assisting roles in Year One, while in Years Two and Three, operational effectiveness testing ranks as the most important role.

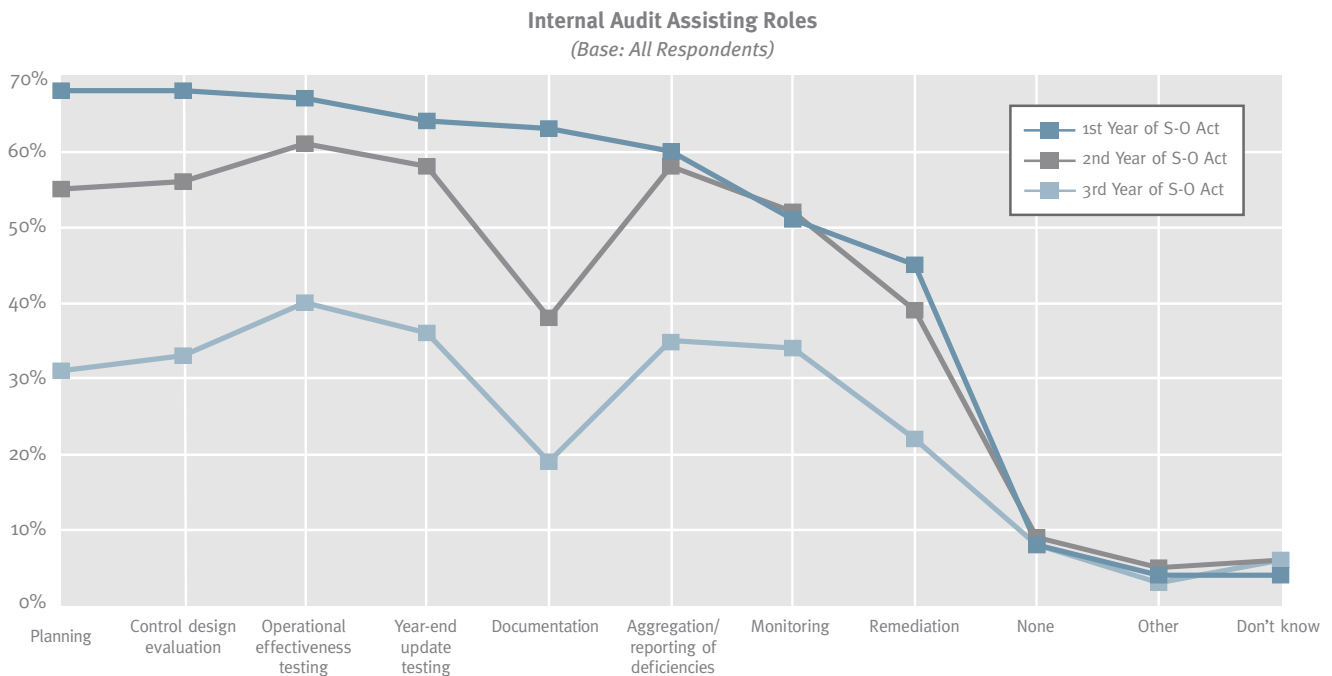
Internal audit contributes to many activities that support Sarbanes-Oxley compliance efforts. The activities tend to track in parallel through each of the three years of compliance in a pattern fairly consistent with findings from the previous survey.

Comments from respondents:

“This issue is an interesting line for IA to walk. On the one hand, there is an expectation that IA is available for special projects and to perform normal audits; on the other, there is a strong demand that SOX compliance is assured. Due to the level of staffing and very homogenous transactions within the markets (divisions), ownership of SOX 404 has been directed toward IA. We are viewed as the experts; we continually [field] questions about the SOX implications of operational changes. It's a very interesting space to be in.”

– CAE, media industry,
\$500-\$999.99 million in
gross annual revenues

Indicate the activities assisted by internal audit for each year of your organization's Sarbanes-Oxley compliance efforts.



IA Staffing and Budget Allocations

IA staffing for Sarbanes-Oxley compliance is substantially higher in Year One, with significant reductions in hours during subsequent years. IA budgets for Sarbanes-Oxley compliance have not increased significantly compared to last year, with some organizations reporting a slight decrease.

A tremendous number of IA hours are devoted to Sarbanes-Oxley compliance, especially in Year One. Despite a substantial reduction in those hours during Years Two and Three, internal auditors continue to make large commitments of professional time to Sarbanes-Oxley.

Comments from respondents:

“One year ago, we had received criticism for not completing regular work. Last year we decided to separate the functions and hire more staff. Both sets of work are achieved reasonably well and more work to integrate the functions would be an improvement.”

– Risk manager, financial services industry, \$1-\$4.99 billion in gross annual revenues

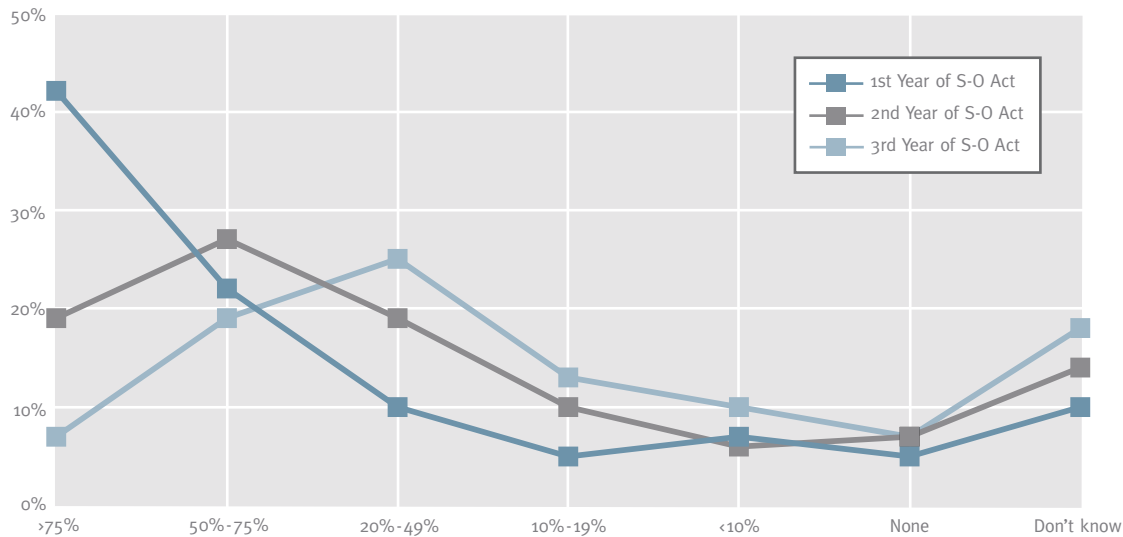
“The question is what is the appropriate percent of IA time that should be devoted to SOX. We would like to get in the 25-40 percent range, but don’t know what is best practice or appropriate.”

– Audit committee member, manufacturing and distribution industry, \$1-\$4.99 billion in gross annual revenues

Indicate the percentage of total internal audit department hours dedicated to each year of Sarbanes-Oxley compliance.

Internal Audit Hours Dedicated to Each Year of Sarbanes-Oxley Compliance

(Base: All Respondents)



IMPACT OF REBALANCING INITIATIVES

Sarbanes-Oxley Outsourcing

Outsourcing of Sarbanes-Oxley related work shows a steady decline over the first three years of compliance.

Outsourcing of Sarbanes-Oxley compliance work was highest during Year One, when it was not unusual for an organization to outsource more than half of the work. By Year Three, few organizations outsourced more than 20 percent of compliance work.

Comments from respondents:

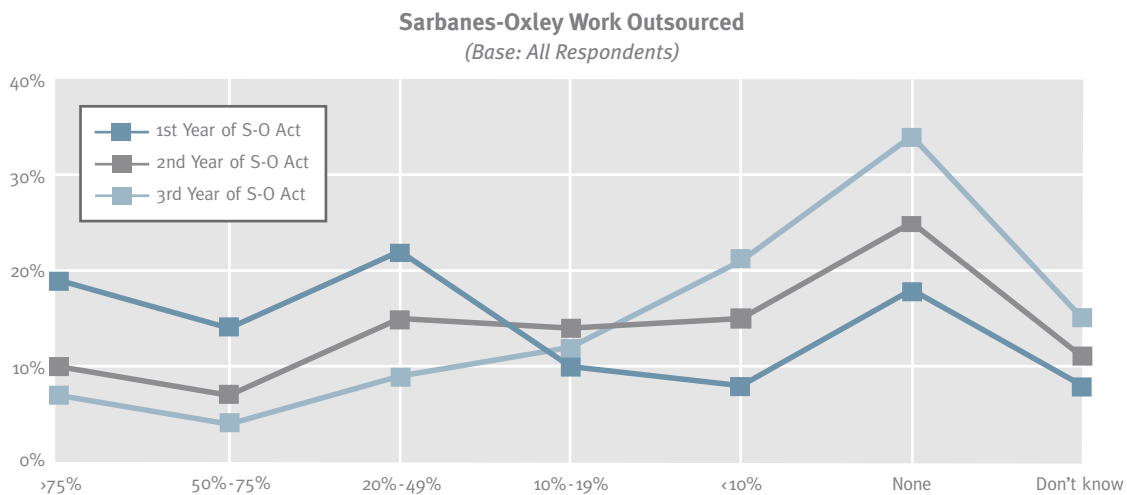
“Amounts outsourced were highest in Year One, as much management testing was outsourced. Subsequently, [it] was brought in-house to both control costs and to keep the internal controls knowledge gained through the [Sarbanes-Oxley] testing process internal.”

– CAE, manufacturing and distribution industry, \$10-\$19.99 billion in gross annual revenues

“Company recommended that after first year, SOX work NOT be outsourced, to ensure learning curve and efficiency stay in-house. Also, this strengthened the view that [this] is part of your job – not a project.”

– CAE, financial services industry, \$20 billion or greater in gross annual revenues

How much of your Sarbanes-Oxley compliance work was outsourced to an external service provider (excluding your external audit firm)?



Allocating IA Efforts for COSO Internal Control Objectives

Reliability of financial reporting was the key concern of IA efforts during all three years of Sarbanes-Oxley compliance, although there was some drop-off during Year Two and a more marked reduction in Year Three.

A surprising proportion of respondents indicated they did not know what percentage of their efforts were allocated to each COSO internal control objective. This lack of knowledge may be related to a finding in Protiviti's 2006 *Internal Audit Capabilities and Needs Survey*, where IA professionals indicated that COSO was an area of technical knowledge and competency in greatest need of improvement.

Comments from respondents:

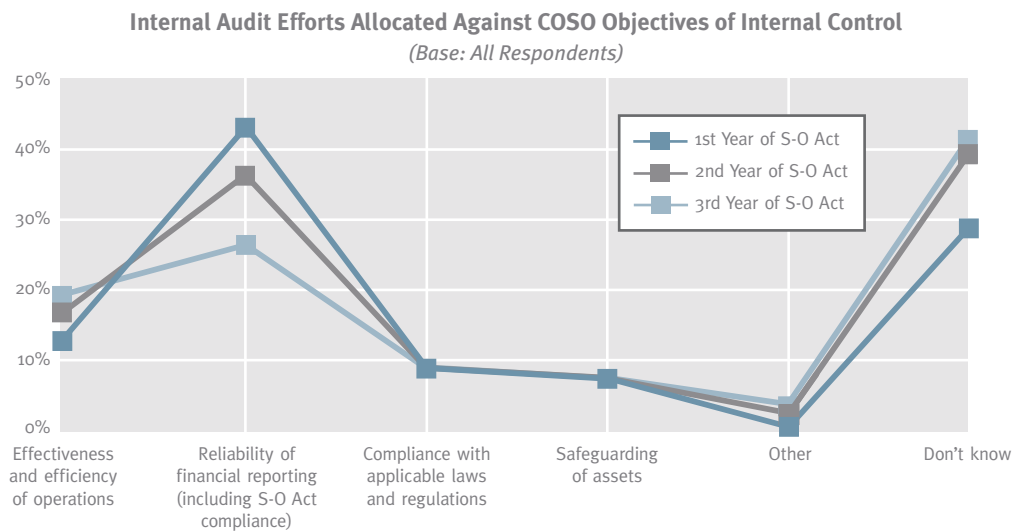
"It's difficult to say what the 'right' balance will be; we believe we're spending plenty of time on financial and compliance audits, but probably not enough on operations and strategic areas."

– CAE, energy and utility industry, \$1-\$4.99 billion in gross annual revenues

"A great deal of time was spent documenting the appropriate controls in a format that was acceptable to our external auditors. Testing and remediation testing had the second largest impact. The other areas to a much lesser degree overall."

– Audit director, financial services industry, \$500-\$999.99 million in gross annual revenues

How are internal audit efforts allocated (in percentage terms) against the following COSO objectives of internal control for each year of Sarbanes-Oxley compliance?



IMPACT OF REBALANCING INITIATIVES

IT Audits and External Assistance

Rebalancing has not changed the number of IT audits substantially. External assistance (other than external audit firms) for rebalancing is modest.

The majority of organizations made limited use of external assistance in their rebalancing efforts, with some organizations using none at all. Outside consultants were relied upon by some organizations until additional IA professionals could be hired. Others used external assistance to lead the initial process design, and only during Year One.

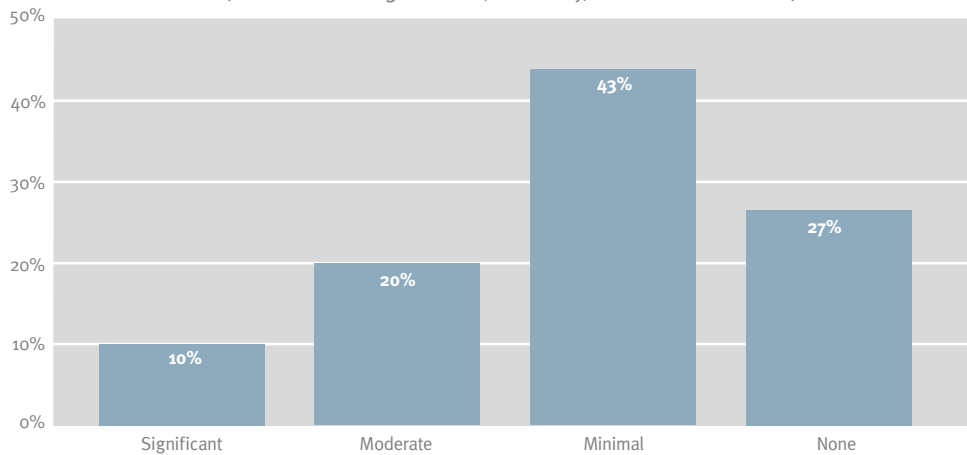
Overall, to what extent is external assistance (excluding the use of external audit firms) part of your organization's efforts to rebalance internal audit functions?

Comments from respondents:

"[We are] moving to less use of external resources for testing and focusing more [on] self-assessment and IA validation of management testing."

– CAE, manufacturing and distribution industry, \$5-\$9.99 billion in gross annual revenues

Extent of external assistance in rebalancing
(Base: Rebalancing Achieved, Underway, Planned and Intended)



NEXT STEPS

Clearly, rebalancing is both doable and desirable. Within their organizations, internal auditors have taken the lead in devising workable solutions to achieve rebalancing in a reasonable time frame.

Interestingly, just as organizations and internal auditors are moving to reprioritize and rebalance their Sarbanes-Oxley-oriented internal audit function, so, too, are the regulators responsible for enforcing the Sarbanes-Oxley rules considering ways to make the compliance process more scalable and relevant. In May 2007, the PCAOB issued Auditing Standard No. 5, which tailored the long-standing Section AU 322 to fit the circumstances of an audit of internal control over financial reporting. More specifically, the PCAOB's new standard makes it clear that the work of competent and qualified internal auditors likely will command the highest level of use by external auditors for purposes of impacting the nature, timing and extent of the work necessary to perform an audit of internal control over financial reporting. In addition, the PCAOB makes it clear that the external auditor can use the work of company personnel other than internal auditors, as well as the work of third parties functioning under the direction of management, so long as they meet the "competence" and "objectivity" tests set by Auditing Standard No. 5. This additional flexibility may be of interest to companies seeking to rebalance their internal audit function. The new auditing standard is being exposed to the public and is expected to be approved by the U.S. Securities and Exchange Commission (SEC) sometime in July 2007. It is effective for fiscal years ended on or after November 15, 2007.

The SEC also issued interpretive guidance to management that can be scaled to organizations of different sizes and can "eliminate waste and duplication" of efforts by internal and external auditors. The SEC and PCAOB were able to align and finalize their respective releases in time to impact the 2007 audit cycle. In addition, the SEC decided not to defer the compliance deadline for nonaccelerated filers, which is currently set for filing the initial management internal control report for fiscal years ended on or after December 15, 2007, with the first attestation report to be filed a year later. Therefore, the Commission expects that these smaller companies, which are due to enter the Sarbanes-Oxley compliance cycle, will be able to take advantage of the scalability of the new rules.

How the SEC's interpretive guidance and the PCAOB's new auditing standard ultimately will affect internal audit and organizations subject to Sarbanes-Oxley requirements remains to be seen. However, regardless of the methods by which compliance is accomplished, Sarbanes-Oxley is on its way toward becoming a part of internal audit's ongoing processes, rather than being a project that requires extensive time and effort and displaces other relevant audit activities and priorities. As Sarbanes-Oxley compliance programs and company internal audit rebalancing efforts continue to evolve, Protiviti will monitor progress and share those observations with the internal audit community.

METHODOLOGY

In addition to the survey questions, participants were requested to provide background information about the nature and size of their organization and their official title or position within the IA department. No one was required to provide demographic information, but many chose to do so voluntarily.

Respondents were volunteers who participated in the survey in person or online. Those who did so in person were attendees in October 2006 at The IIA's "All Star Conference" in Las Vegas, Nevada. The electronic survey was conducted thereafter through the KnowledgeLeaderSM website. It was available to KnowledgeLeaderSM subscribers, including those with trial subscriptions. KnowledgeLeaderSM is a Protiviti website designed to assist IA professionals with finding tools and best practices to improve the efficiency and quality of their work.

Comments from respondents:

"A year ago we were too heavily concentrated on SOX, and the department was still somewhat in its infancy. Now we are in our third year of SOX, and combined with the new SEC/PCAOB guidance, SOX should get back to reality, leaving us more time for value-added process work in our department."

– Audit director, real estate industry,
\$500-\$999.99 million in gross
annual revenues

"The expectations from the impact of the proposed guidance from the SEC and PCAOB make the rebalancing outlook more tangible."

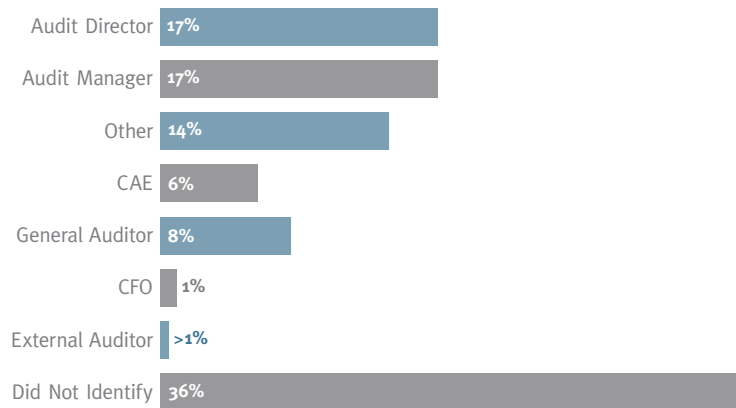
– Audit director, technology industry,
\$100-\$499.99 million in gross
annual revenues

SURVEY DEMOGRAPHICS

A total of 311 respondents participated in the survey. Of these, 176 submitted their responses online, while 135 submitted written responses at conference locations. All demographic information was collected voluntarily and not all participants provided data for every demographic question.

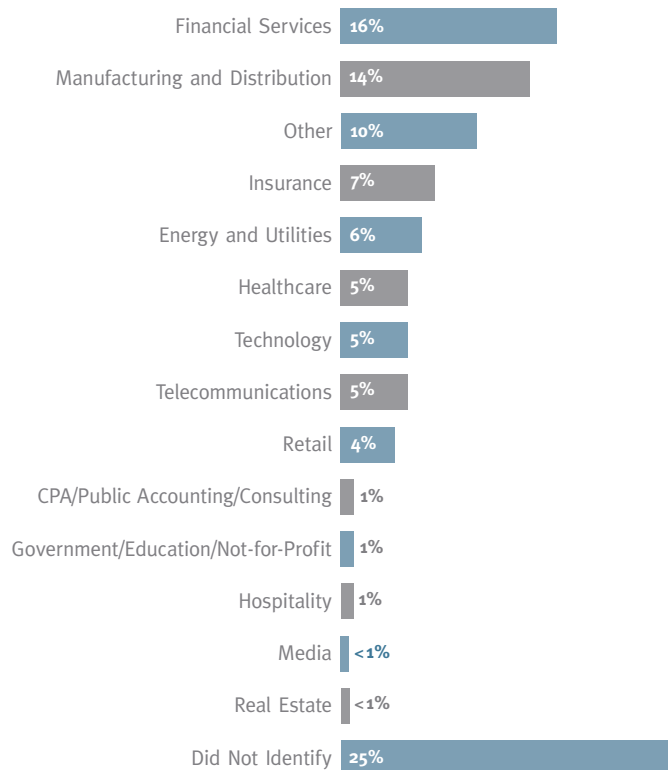
Position

“Audit Director” and “Audit Manager” were titles provided most frequently by participants.



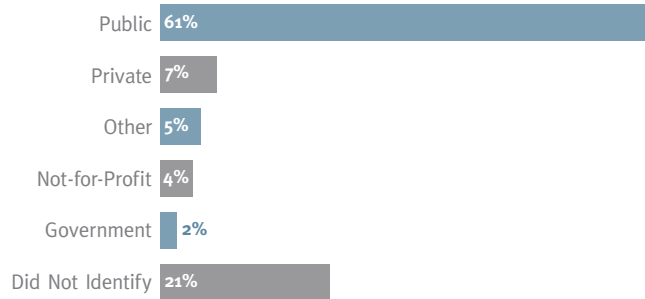
Industry

“Financial Services” and “Manufacturing and Distribution” were the most-represented industries among the sample.



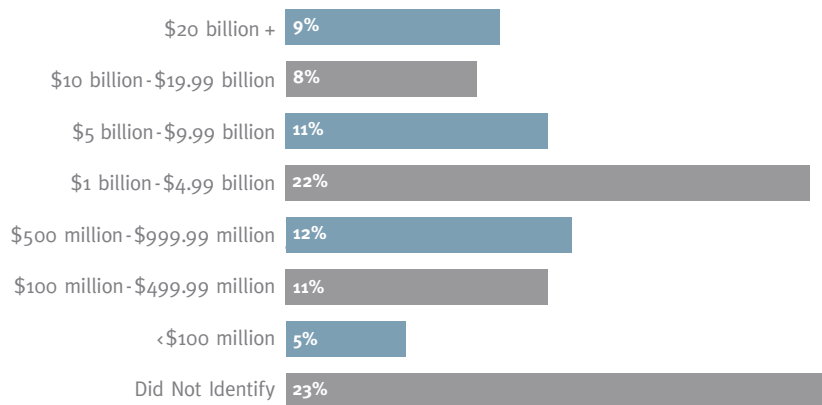
Type of Organization

Public companies had the greatest representation in the sample.



Size of Organization (by Gross Annual Revenues)

Overall, the greatest representation was by organizations with gross annual revenues of \$1 billion to \$4.99 billion, with half of the organizations at \$1 billion or more.

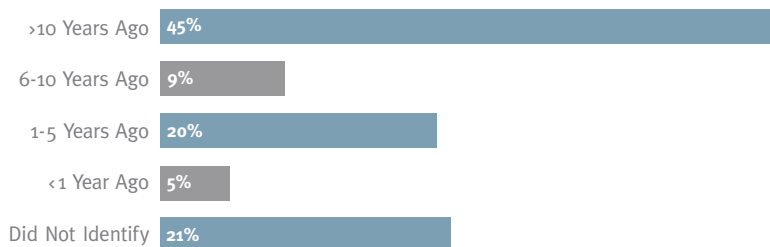


Fiscal Year-End

More respondents (56 percent) indicated a fiscal year-end in December than any other month.

Formation Date of IA Departments

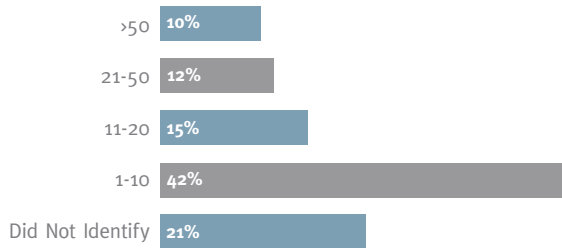
Just under half reported their IA department formed more than 10 years ago.



SURVEY DEMOGRAPHICS

Full-Time Equivalent Personnel in IA Department

Forty-two percent reported having between one and 10 full-time employees.



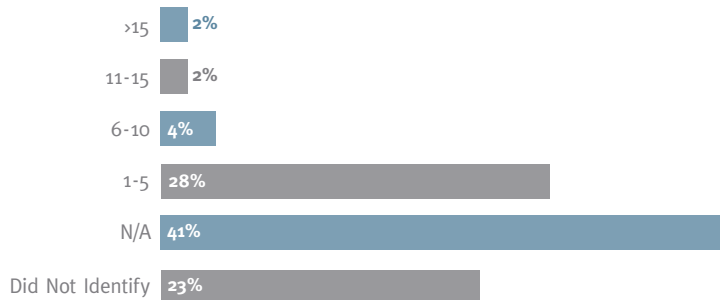
Engaged in Co-Sourcing

Just under half responded “No.”



Full-Time Equivalent Co-Sourced Employees

More respondents indicated they have between one and five co-sourced IA employees than in any other range.



ABOUT PROTIVITI

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

Protiviti, which has more than 50 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.

Among Protiviti's many publications are:

- *Internal Audit Capabilities and Needs Survey*
- *Internal Auditing Around the World, Volumes I, II and III*
- *Top Priorities for Internal Audit in a Changing Environment*
- *Guide to the Sarbanes-Oxley Act: Managing Application Risks and Controls, Frequently Asked Questions*
- *Guide to Enterprise Risk Management: Frequently Asked Questions*
- *Partnering with the Rest of the Board*
- *Protiviti Risk Barometer*
- *Guide to Internal Audit*
- *Moving Internal Audit Back into Balance*

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

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

KnowledgeLeaderSM provided by protiviti[®]

KnowledgeLeaderSM is a subscription-based website that provides information, tools, templates and resources to help internal auditors, risk managers and compliance professionals save time, stay up-to-date and manage business risk more effectively. The content is focused on business risk, technology risk and internal audit, and is updated weekly.

The tools and resources available on KnowledgeLeaderSM include:

- **Audit Programs** – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeaderSM. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.
- **Checklists, Guides and Other Tools** – More than 400 checklists, guides and other tools are available on KnowledgeLeaderSM. They include questionnaires, best practices, templates, charters and more for managing risk, conducting internal audits and leading an internal audit department.
- **Policies and Procedures** – KnowledgeLeaderSM 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 KnowledgeLeaderSM:

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

Also available on KnowledgeLeaderSM – Methodologies and Models, AuditNet Premium Content, discounted certification exam preparation material, discounted CPE courses, white papers, audit, accounting and technology standards, and best business links.

To learn more about KnowledgeLeaderSM, sign up for a complimentary 30-day trial by visiting www.knowledgeleader.com. Protiviti clients and alumni, and members of The IIA, ISACA, the AICPA and AHIA, are eligible for a subscription discount. Additional discounts are provided to groups of five or more.

Introducing KLPlusSM (KL+)

On June 25, 2007, KnowledgeLeaderSM members will have the option of upgrading to KL+. KL+ will provide all of the benefits of KnowledgeLeaderSM, and for 50 percent or more off of the standard price, full access to Risk Solutions iTraining (see the following iTraining section).

PROTIVITI'S RISK SOLUTIONS ITRAINING DEVELOPMENT SERIES



Protiviti's Risk Solutions iTraining is a comprehensive collection of interactive, Internet-based training courses offering a rich source of knowledge on internal audit and business and technology risk management topics that are current and relevant to your business needs.

Topics include:

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

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

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

For more information, visit www.protiviti.com.

PROTIVITI INTERNAL AUDIT PRACTICE – CONTACT INFORMATION

Robert B. Hirth Jr.
Managing Director
Global Practice Leader, Internal Audit
+1.415.402.3621
robert.hirth@protiviti.com

AUSTRALIA

Mark Harrison
Managing Director
+61.2.62435175
mark.harrison@protiviti.com.au

BRAZIL

Persio DeLuca
Managing Director
+55.11.5503.2020
persio.deluca@protiviti.com.br

CANADA

Carmen Rossiter
Managing Director
+1.647.288.4917
carmen.rossiter@protiviti.com

CHINA

Christopher Low
Managing Director
+86.21.3401.4630, ext. 818
christopher.low@protiviti.com

FRANCE

Francis Miard
Managing Director
+33.1.42.96.22.77
f.miard@protiviti.fr

GERMANY

Michael Klinger
Managing Director
+49.69.963.768.155
michael.klinger@protiviti.de

INDIA

Mritunjay Kapur
Managing Director
+91.98.1043.8888
mritunjay.kapur@protiviti.co.in

ITALY

Giacomo Galli
Managing Director
+39.02.6550.6303
giacomo.galli@protiviti.it

JAPAN

Yasumi Taniguchi
Managing Director
+81.3.5219.6600
yasumi.taniguchi@protiviti.jp

MEXICO

Roberto Abad
Managing Director
+52.55.5726.6612
roberto.abad@protiviti.com.mx

THE NETHERLANDS

Carl Messemaeckers van de Graaff
Director
+31.20.346.04.00
carl.messemaeckers@protiviti.nl

SINGAPORE

Matthew Field
Managing Director
+65.6220.6066
matthew.field@protiviti.com

SOUTH KOREA

Bong Hwan Yoo
Associate Director
+82.2.3483.8240
bong.hwan.yoo@protiviti.co.kr

UNITED KINGDOM

Paul Marshall
Managing Director
+44.20.7024.7547
paul.marshall@protiviti.co.uk

UNITED STATES

Robert B. Hirth Jr.
Managing Director
+1.415.402.3621
robert.hirth@protiviti.com

THE AMERICAS

UNITED STATES
+1.888.556.7420
protiviti.com

BRAZIL
+55.11.5503.2020
protiviti.com.br

CANADA
+1.416.350.2181
protiviti.ca

MEXICO
+52.55.5726.6612
protiviti.com.mx

EUROPE

FRANCE
+33.1.42.96.22.77
protiviti.fr

GERMANY
+49.69.963768.100
protiviti.de

ITALY
+39.02.655.06.301
protiviti.it

THE NETHERLANDS
+31.20.346.04.00
protiviti.nl

UNITED KINGDOM
+44.20.7930.8808
protiviti.co.uk

ASIA-PACIFIC

AUSTRALIA
+61.3.9948.1200
protiviti.com.au

CHINA
Mainland
+86.21.3401.4630
protiviti.cn
Hong Kong
+852.2238.0499
protiviti.cn

INDIA
+91.11.4051.4198
protiviti.in

JAPAN
+81.3.5219.6600
protiviti.jp

SINGAPORE
+65.6220.6066
protiviti.com.sg

SOUTH KOREA
+82.2.3483.8200
protiviti.co.kr

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

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