



Moving Internal Audit Back into Balance

A Post-Sarbanes-Oxley Survey

Third Edition

protiviti[®]
Independent Risk Consulting

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INTRODUCTION

“Change is the law of life. And those who look only to the past or present are certain to miss the future.”

– John F. Kennedy

Three years have proven to be a lifetime in the world of internal audit and Sarbanes-Oxley compliance. When Protiviti conducted its first Internal Audit Rebalancing survey in 2005, the landscape was much different. Companies were still determining the most efficient and cost-effective ways to achieve compliance with Section 404 of the Sarbanes-Oxley Act under the original Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2, and doing so without any specific guidance from the U.S. Securities and Exchange Commission (SEC). Internal audit (IA) departments were just starting to consider how to begin to shift their focus back to more traditional and, in many cases, broader responsibilities. A majority of respondents at that time indicated that a rebalancing initiative either was underway or in the planning stages, with few achieving any degree of rebalancing.

Protiviti conducted its second IA Rebalancing survey in late 2006 and early 2007, and saw that the landscape already had shifted considerably. Due in part to experience and key learnings from the rebalancing process, as well as deeper knowledge of Section 404 compliance – having undergone the process for several years – our second survey showed that more organizations were realizing the benefits of rebalancing, whether they had achieved or were in the process of achieving it. In this study, 25 percent of respondents reported they had achieved rebalancing.

We conducted our third Rebalancing survey in January and February of this year. (As in previous years, for the purposes of this survey, “rebalancing” is defined as the process of moving activities away from Sarbanes-Oxley compliance to a broader coverage of the COSO framework.) Again, the landscape has changed considerably since our previous study. In May 2007, the SEC approved its interpretive guidance to management on implementing Section 404 of the Sarbanes-Oxley Act.¹ Also in May, the PCAOB issued a new final standard on auditing internal control over financial reporting, as well as a related independence rule and conforming amendments to its auditing standards. This new standard, Auditing Standard No. 5 (AS5), *An Audit of Internal Control Over Financial Reporting Performed that is Integrated with an Audit of Financial Statements*, superseded Auditing Standard No. 2.² The SEC formally approved AS5 in July 2007.

As we detail in the following pages, both the SEC’s interpretive guidance on Section 404 and the passage of PCAOB AS5 are having a significant positive impact on IA rebalancing initiatives. While many of the study’s results are similar to the 2006/2007 survey – including the number of companies that have achieved rebalancing (22 percent) – clear trends emerge that show IA functions are employing more defined and sophisticated strategies to achieve rebalancing, due in part to the SEC’s and PCAOB’s guidance.

As in previous editions, this year’s survey consisted of questions grouped into two divisions: “Rebalance Strategy” and “Internal Audit Organization and Focus.” A total of 321 respondents – two-thirds of whom are either chief audit executives (CAEs) or audit directors – completed the survey in person or online. We are confident the results again will be of interest not only to IA executives and professionals, but also to C-level executives, boards of directors and management seeking greater insight into balancing ongoing Sarbanes-Oxley compliance with traditional internal auditing in their organizations.

Protiviti would like to extend its thanks to everyone who took the time to participate in our Rebalancing study. We also want to acknowledge The Institute of Internal Auditors and the leadership and guidance this organization continues to provide to IA professionals worldwide.

Protiviti Inc.
June 2008

¹ For more information, Protiviti’s SEC Flash Report dated May 23, 2007, SEC Finalizes Guidance on Management’s Assessment of Internal Control Over Financial Reporting, is available at www.protiviti.com.

² For more information, Protiviti’s PCAOB Flash Report dated May 24, 2007, The PCAOB Finalizes the Revised Auditing Standard, is available at www.protiviti.com.

EXECUTIVE SUMMARY

Impact of PCAOB Auditing Standard No. 5 and SEC's Interpretive Guidance

- More than four in 10 respondents reported their rebalancing efforts have “moderately increased.”
- There is greater reliance on the work of others by external auditors and a notable decrease in the number of key controls documented and tested.
- Most organizations report either no change or a moderate decrease in the number of hours spent by the IA function on Sarbanes-Oxley compliance.

The guidance provided by the SEC and PCAOB is helping to spur rebalancing activities, establish a finite number of key controls and reduce the time devoted to Sarbanes-Oxley compliance.

Primary Benefits of Rebalancing

- “Internal audit being able to perform more traditional audits” ranks as the top benefit.
- In Protiviti's 2005 Rebalancing study, “more appropriate coverage of risk” was the top-ranked benefit. After declining in importance last year, this benefit increased significantly in the most recent survey.

Executives and internal audit management continue to see the importance of shifting the focus of the IA function back to more traditional and, in many cases, broader responsibilities. The renewed priority on risk may be a result of today's volatile business climate, particularly in the financial markets.

Sarbanes-Oxley Compliance: Current Status

- Of those surveyed, more than half – 57 percent – are either in or beyond their fourth year of compliance, 32 percent of which report they have achieved rebalancing.

While a significant number of companies have either completed or are in the process of achieving rebalancing, this clearly is a work in progress that requires strategic adjustments based on regulatory and organizational priorities. The SEC's interpretive guidance on Section 404 and PCAOB AS5 provided greater clarity – the percentage of organizations that complete rebalancing initiatives, therefore, should continue to rise in the future.

Rebalancing Status: One Year Ago vs. Today

- Similar to last year, one in three companies report that rebalancing is underway.
- Approximately one in five companies report having achieved rebalancing this year, and half that number achieved rebalancing one year ago – also comparable to last year's results.

These findings underscore the point that for most organizations, rebalancing continues to be a work in progress that requires adjustment as the business and regulatory landscapes change.

Strategies: Current vs. Planned

- In last year's study, “reduction in total population of controls” was the current strategy cited most frequently. Interestingly, the latest survey findings show that “reduction in number of key controls” and “reduction in total population of controls” significantly exceeded what was planned.
- While last year's results indicated plans to increase use of data mining and analytics, the current survey reveals these plans fell short. This year's respondents again indicated plans to increase use of this strategy.

Clearly, the results regarding reduction in controls – both key and total population – signify that PCAOB AS5 and the SEC's guidance are having the desired effects. Additionally, it appears that companies want to leverage the advantages that data mining can offer but are not yet able to execute strategies to accomplish this.

Activities as Part of Rebalancing

- “Rescope workload” again ranked as the most common response.

There is a three-year trend indicating that rather than bring on new resources, more organizations are rescoping workloads to achieve an effective balance between compliance and traditional – and often broader – IA activities.

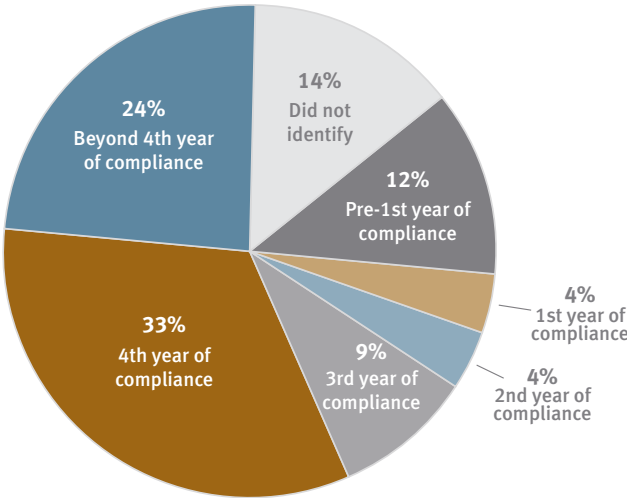
OVERVIEW OF REBALANCING INITIATIVES

Current Status of Sarbanes-Oxley Compliance: Most in their Fourth Year or Beyond

More than half of organizations surveyed are either in or beyond their fourth year of compliance, yet just one in three in this group report having achieved rebalancing.

The findings mirror the timeline nature of Sarbanes-Oxley. With Section 404's compliance requirements now five years old for accelerated filers, it is not surprising to find one in three companies in their fourth year and another 24 percent beyond this stage. The fact that relatively few have achieved rebalancing is an indicator of the continually changing business landscape and the complexity of ensuring the IA function addresses both compliance needs and, in many cases, more traditional IA responsibilities.

Year of Sarbanes-Oxley Compliance
(Base: All Respondents)



OVERVIEW OF REBALANCING INITIATIVES (cont.)

State of Rebalancing

The largest group of companies surveyed said that rebalancing efforts are underway (32 percent). One in five organizations (22 percent) report rebalancing has been achieved.

Respondents were asked the following two questions:

- 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?

While the findings illustrated below are comparable to the results of last year’s survey, responses to the two questions posed indicate continuing progress in rebalancing as organizations streamline their Sarbanes-Oxley compliance processes and recognize the importance of balancing these efforts with more traditional and, in many cases, broader IA activities. In fact, a majority of those surveyed indicated that rebalancing has been achieved, is underway or is in the planning stages.

COMMENTS FROM RESPONDENTS:

As we have an extremely small IA department, obtaining the proper balance between SOX and my internal audits is crucial. This year we developed a three-year IA plan to include my SOX daily work.

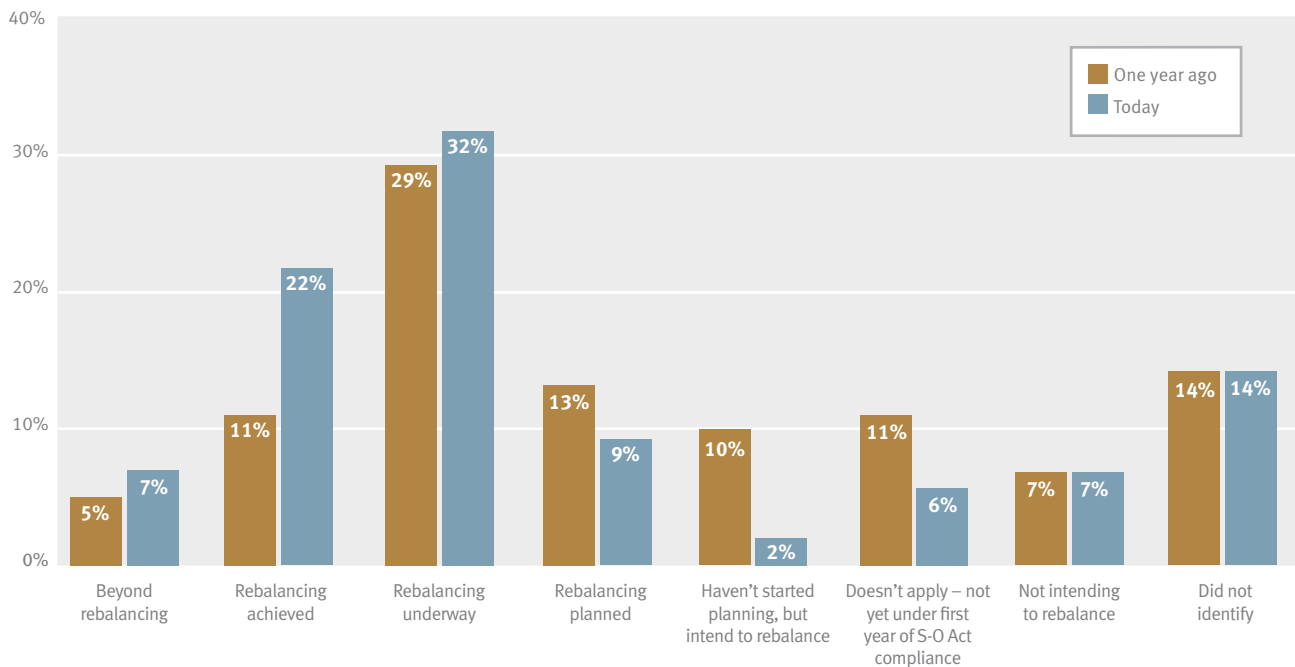
– Leisure and entertainment company

We were able to reduce the number of primary controls and test in a more efficient manner in 2007. However, we still have room to improve in 2008.

– Communications company

State of Rebalancing

(Base: All Respondents)



Other notable findings:

- Among organizations at which rebalancing is in the planning stages (“rebalancing planned” and “haven’t started planning but intend to rebalance”), more than 70 percent plan to initiate the process within the next year.
- Most companies that are beyond or have achieved rebalancing, or at which rebalancing is underway, initiated the process within the last two years. Nearly all achieved rebalancing in two years or less (these results are consistent with last year’s study).

Making Progress

For organizations at which rebalancing is underway, more than half report “moderate” progress.

More than half of these respondents also said that the progress they are making toward rebalancing is “about the same as expected.” These results are comparable to last year’s findings.

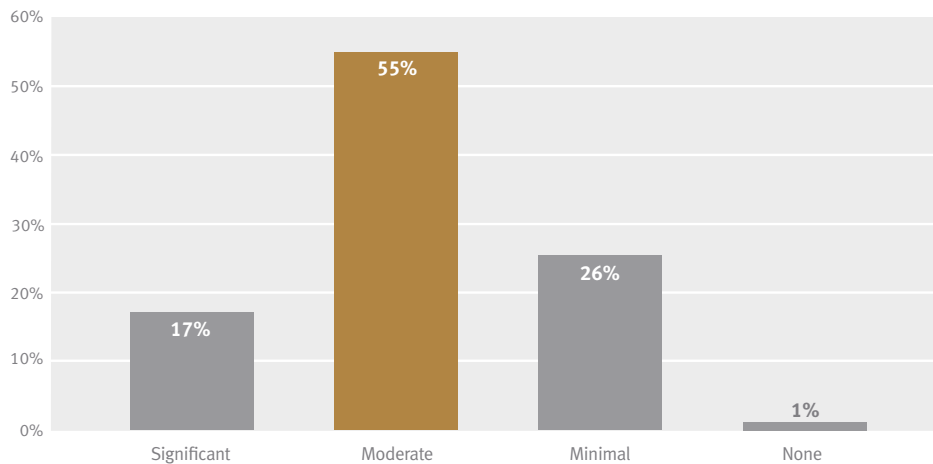
COMMENTS FROM RESPONDENTS:

We are at least two-thirds of the way to being ‘rebalanced’ to a more reasonable SOX process. 2008 should see this completed.

– Financial services firm

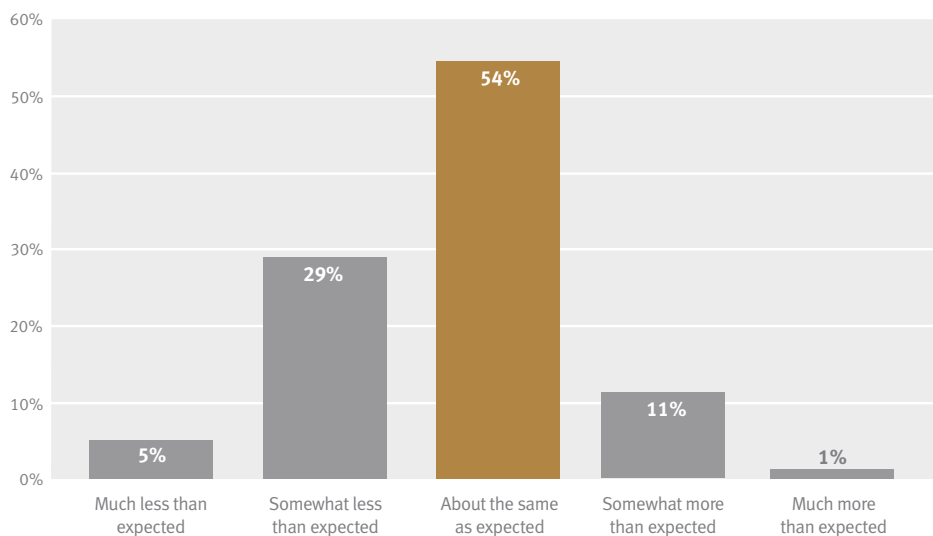
Rebalancing Progress Made So Far

(Base: Rebalancing Underway)



Expectations of Rebalancing Progress to Date

(Base: Rebalancing Underway)



OVERVIEW OF REBALANCING INITIATIVES (cont.)

Primary Benefits

Though down from last year's response, "internal audit able to perform more traditional audits" remains the top benefit of rebalancing.

"More appropriate coverage of risk" increased significantly from last year's survey to rank second in terms of primary benefits. This year, the gap between the two top benefits was significantly smaller, which may reflect the current business climate in which effective risk management is perceived to be more critical than ever. Also, as expected, there continues to be a focus on keeping costs down, at least to the extent possible.

COMMENTS FROM RESPONDENTS:

Over the past year we reduced our key controls by approximately 40 percent, which will allow the internal audit team to utilize less resources in the future to complete SOX work and therefore focus more on other internal audit activities and value-added services.

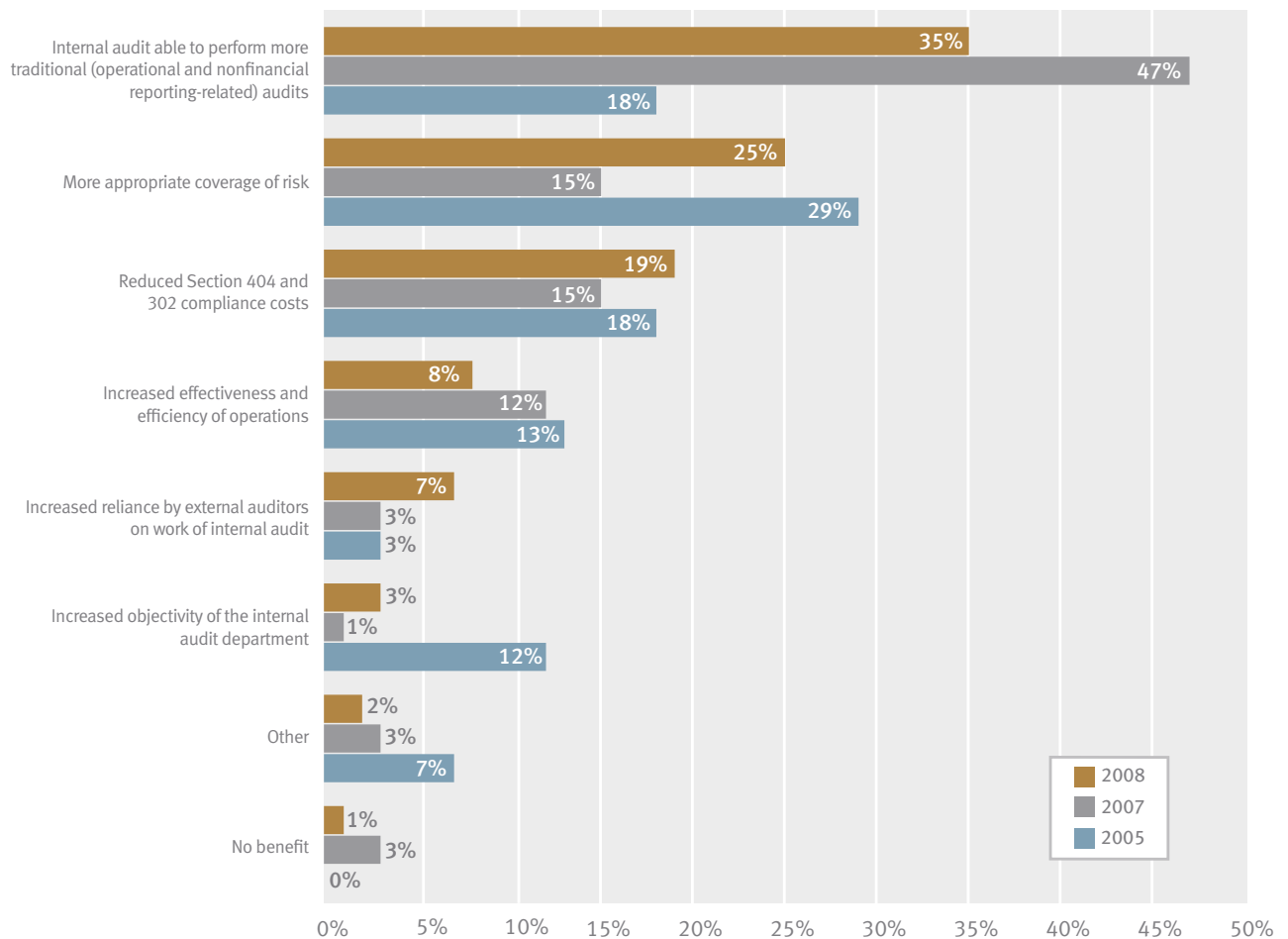
– Clothing retailer

Rebalancing has and will allow internal audit to provide a more complete coverage of risk assessment than possible in the early years of SOX.

– Energy company

Primary Benefit of Rebalancing: Three-Year Comparison

(Base: All respondents except those not engaged in or planning rebalancing)



Key Activities by Organizations Seeking to Rebalance

Rescoping workloads continues to be the most employed rebalancing activity by IA functions.

Rescope of workloads is one of the key expected impacts of PCAOB AS5, in that the updated guidance is intended to allow organizations to spend more time on those activities that matter the most. “Conduct an enterprisewide risk assessment” and “application of (PCAOB) AS5 by the company’s external auditors” also were cited by a majority of respondents (note that the response about AS5-related activities was not included in previous Rebalancing surveys). Of note, over the three years of the study, “add additional resources” has continued to decline as a rebalancing activity.

COMMENTS FROM RESPONDENTS:

Ongoing rebalancing will include further implementation of self-assessments.

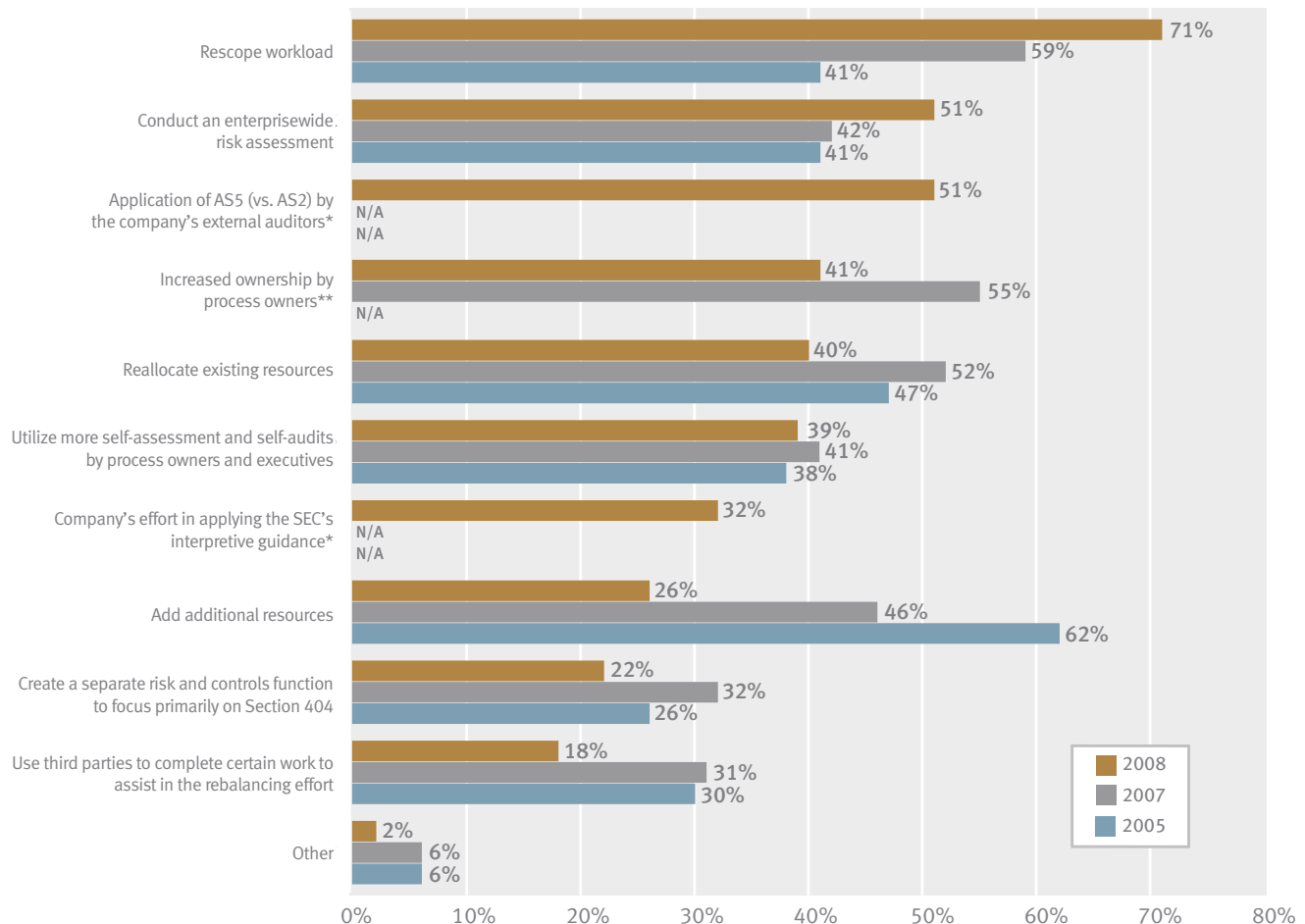
– Transportation company

We completed a review of our key controls resulting in the elimination of approximately 100 (15 percent) from our testing effort.

– Energy company

Rebalancing Activities: Three-Year Comparison

(Base: All respondents except those not engaged in or planning rebalancing)



* Not applicable in 2005 and 2007 surveys

** Not included in 2005 survey

Other notable findings:

- Most respondents reported they use minimal or no external assistance for their rebalancing efforts.

OVERVIEW OF REBALANCING INITIATIVES (cont.)

Addressing IT Audits

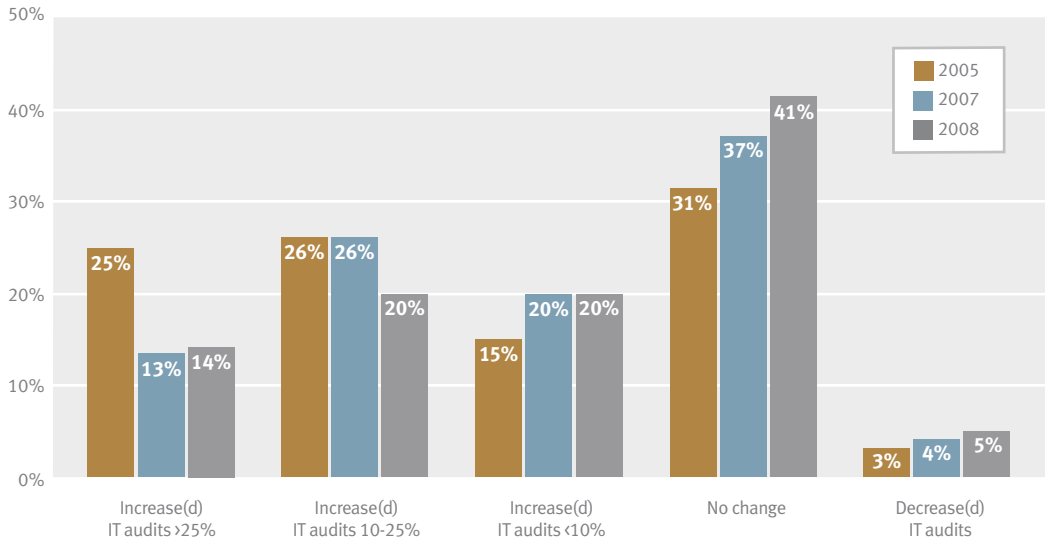
While the most common response was “no change,” there is a noticeable decrease from the 2005 results in the percentage of organizations where IT audits increased by more than 25 percent.

Respondents specifically were asked how IT audits not related to Sarbanes-Oxley compliance were being addressed as part of their rebalancing efforts. Although this survey question addressed non-Sarbanes-Oxley-related IT audits, the auditing of IT general controls as part of Section 404 compliance generally led most organizations to conduct more IT audits on an overall basis. The current survey results are understandable given that many organizations are now addressing IT audits appropriately as a result of Sarbanes-Oxley, thus there is minimal need for significant changes as part of rebalancing efforts.

Of note, in Protiviti’s 2008 Internal Audit Capabilities and Needs survey,³ ISO 27000 (information security) skills were identified for the first time by respondents as an area of general technical knowledge with one of the lowest competency levels and one for which there was the greatest need for improvement. This further supports the view that IT risks are constantly evolving and require the need for additional focus as rebalancing is achieved, particularly because these risks have the potential to impact organizations more rapidly than other areas of IA focus.

IT (IT audits not related to Sarbanes-Oxley) Assessed as Part of Rebalancing: Three-Year Comparison

(Base: All respondents except those not engaged in or planning rebalancing)



³ For more information, visit www.protiviti.com to obtain a free copy of Protiviti’s 2008 Internal Audit Capabilities and Needs survey report.

Sarbanes-Oxley Compliance Strategies as Part of Rebalancing Efforts

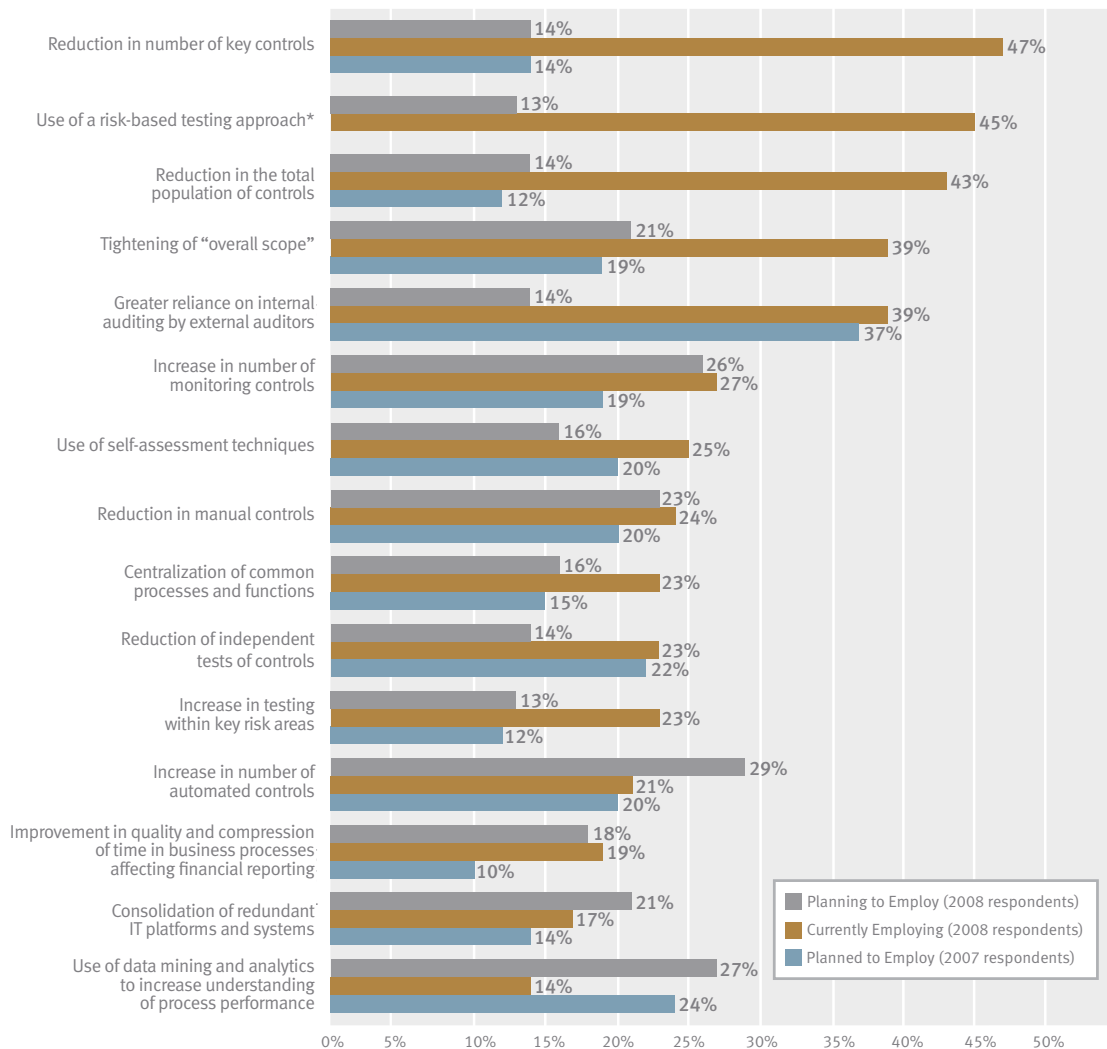
Reductions in the number of key controls and total controls significantly exceeded what was planned last year, while the use of data mining and analytics did not match plans stated last year.

The greater than planned reductions in controls and “tightening” of overall scope can be attributed in large part to the SEC’s interpretive guidance and PCAOB AS5, both of which paved the way for organizations to employ these strategies. On the other hand, the fact that more organizations did not achieve goals of using data mining and analytics to increase understanding of process performance suggests they still are not clear as to how to achieve this. This conclusion is supported by related findings from Protiviti’s 2008 Internal Audit Capabilities and Needs study,⁴ in which computer-assisted audit techniques (CAATs) and data analysis tools (including data manipulation and statistical analysis) were identified within IA departments as priority areas in the greatest need of improvement.

Notably, use of data mining and analytics, along with increases in the number of automated controls, were again cited most frequently by this year’s Rebalancing survey respondents as Sarbanes-Oxley compliance activities they plan to employ.

Strategies: Current vs. Planned

(Base: All Respondents)



* Not included in 2007 study

⁴For more information, visit www.protiviti.com to obtain a free copy of Protiviti’s 2008 Internal Audit Capabilities and Needs survey report.

OVERVIEW OF REBALANCING INITIATIVES (cont.)

Addressing IT Audits

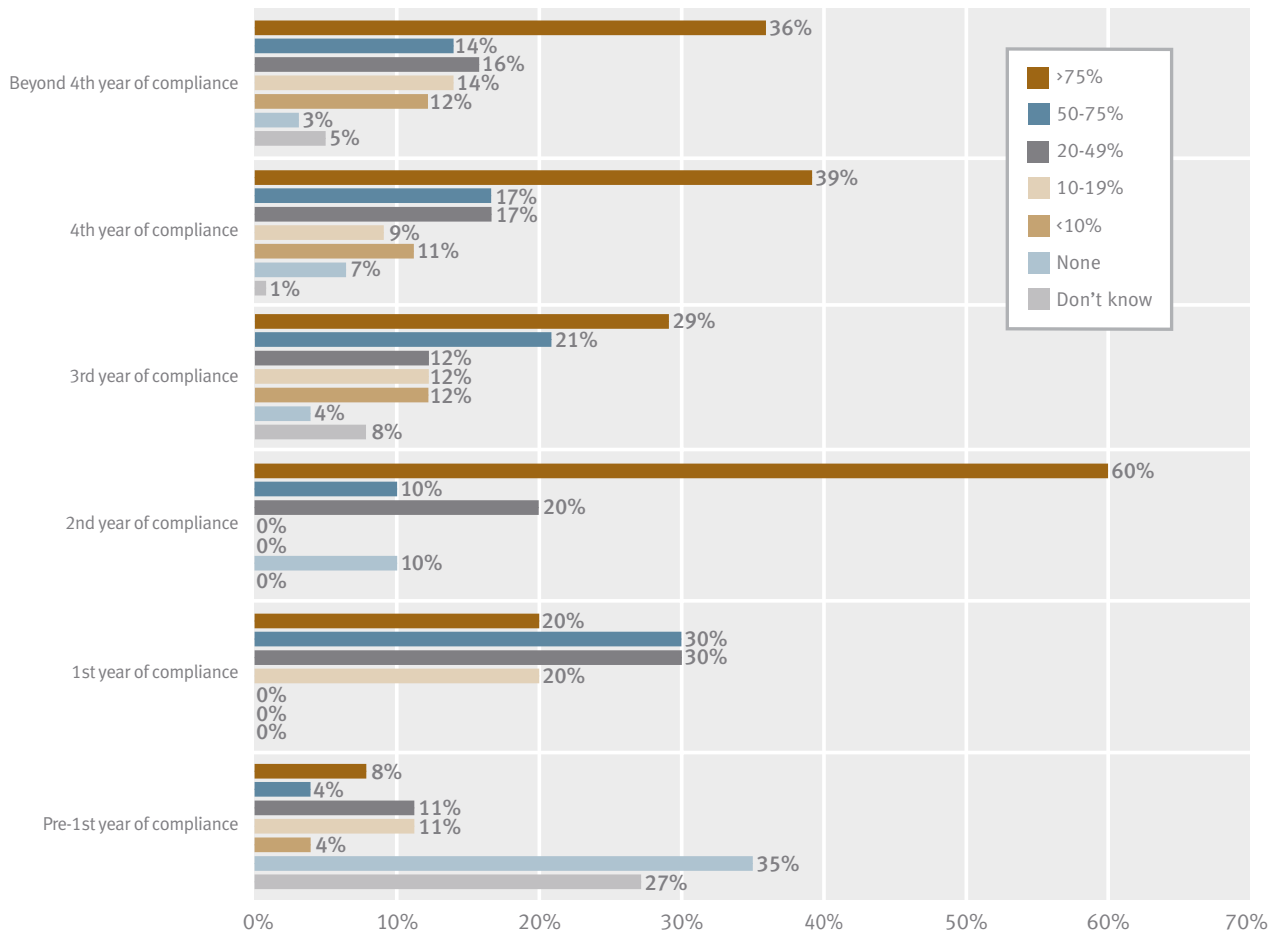
With regard to IT audits related to Sarbanes-Oxley compliance efforts, most such auditing activity occurs in Year Two.

This suggests that IA is not as involved in Year One IT audit efforts – at this stage they more likely are outsourced or conducted as a special project. By Year Two, IA becomes primarily responsible for a majority of IT audit efforts. Looking at the cumulative number of responses at 50 percent and over, Year Two is 70 percent, Year Three is 50 percent, Year Four is 56 percent and Beyond Year Four is 50 percent. It appears that once organizations are in Year Three and beyond, roughly half of all IT audit shops dedicate well over half of their time to Sarbanes-Oxley-related compliance efforts.

On the other hand, beginning in Year Three, a trend appears showing that more organizations are evolving their IT audits such that a smaller percentage of these activities are related to Sarbanes-Oxley compliance. For example, in Years One and Two, no IA organizations report spending less than 20 percent of their time on Sarbanes-Oxley-related IT audits. However, 12 percent of Year Three organizations and 11 percent of Year Four organizations report that less than 10 percent of IT audits relate to Sarbanes-Oxley compliance, suggesting that a significant percentage of their IT audit work is not related to Sarbanes-Oxley compliance. This is a key indicator of rebalancing within these organizations.

Percentage of IT Audits Related to Sarbanes-Oxley Compliance

(Base: All Respondents)



Primary Ownership

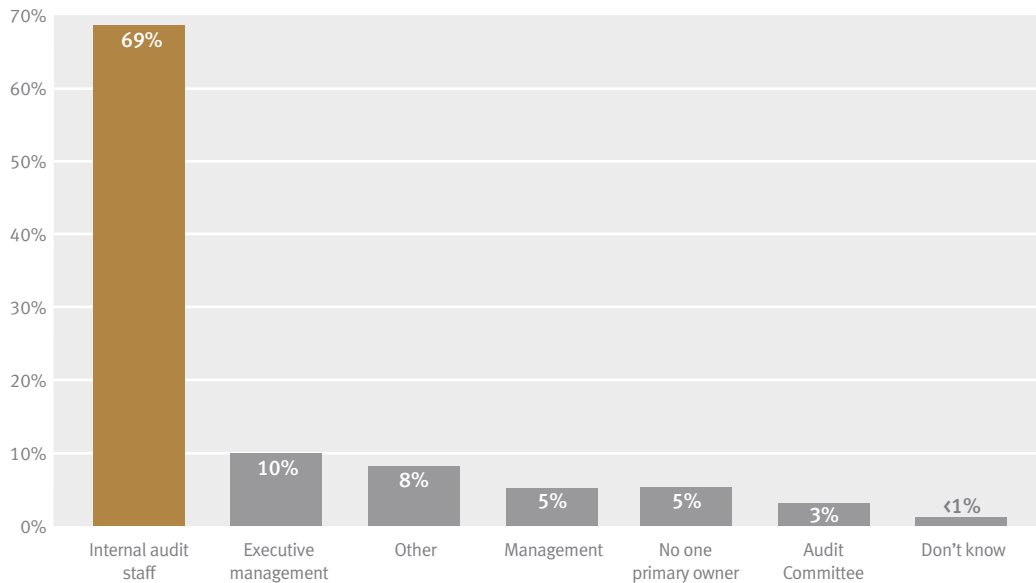
In most organizations, internal audit owns the rebalancing process.

The margin between internal audit and the second most common response – executive management – increased significantly over last year’s results, with a strong majority of respondents indicating internal audit is the primary owner of the rebalancing process.

With regard to rebalancing, respondents also were asked to indicate the level of involvement by various individuals and groups in their organizations. Similar to last year’s results, internal audit is involved in these activities most significantly, with executive management, process owners and external auditors involved at a “moderate” level. To a lesser extent, the Audit Committee also is involved.

Primary Ownership for Rebalancing

(Base: Rebalancing Achieved, Underway, Planned and Intended)



IMPACT OF SEC'S INTERPRETIVE GUIDANCE AND PCAOB AS5

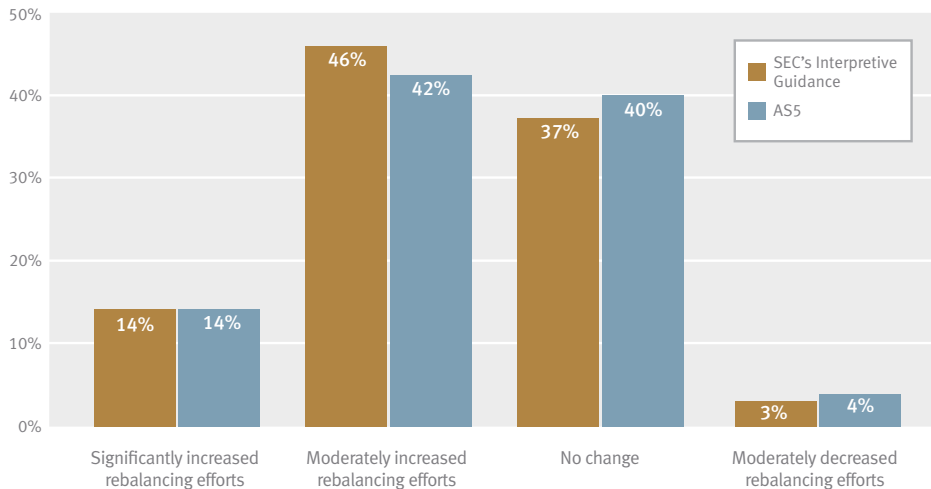
Without question, the SEC's interpretive guidance for Section 404 and the PCAOB's AS5, which supersedes Auditing Standard No. 2, are having a positive impact on IA rebalancing initiatives. Further, according to the results of the survey, these regulatory updates have affected these activities similarly, which indicates that from a practical standpoint, the SEC's guidance for organizations and the PCAOB's guidance for external auditors are in alignment.

Rebalancing Efforts

Most report moderate increases in rebalancing activities.

When asked, in separate questions, to what extent the SEC's interpretive guidance has impacted rebalancing efforts and to what extent the application of PCAOB AS5 by external auditors has impacted these efforts, close to half reported a moderate increase in these activities, although only slightly less reported no change.

Impact of SEC's Interpretive Guidance and PCAOB AS5 on Rebalancing
(Base: All Respondents)



COMMENTS FROM RESPONDENTS:

Our department aggressively applied PCAOB directives as well as the new AS5 standards to ensure SOX was appropriately balanced and prioritized. We have achieved significant synergies in realignment of SOX requirements as well as continuing to move our internal audit process into further value-oriented functions like continuous auditing.

– Energy company

Since the new guidance was well received by our company and by our auditors, our SOX work was significantly less than previous years and our proposed audit plan for next year allows even more time for other internal audit activities (non-SOX).

– Real estate company

We have achieved a more complete rebalancing of our SOX controls as a result of the new rules.

– Large entertainment company

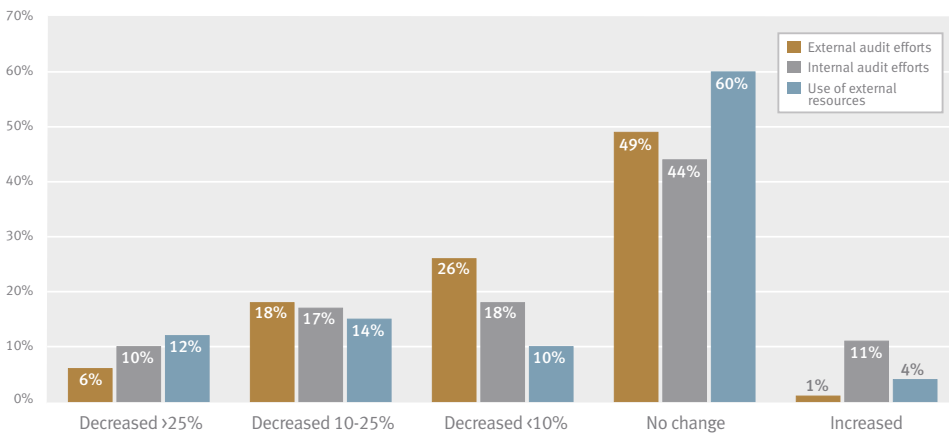
Changes in Efforts/Hours

Respondents indicate there have been decreases in the efforts of external auditors and use of external resources in addition to their own internal efforts.

While the largest percentage of respondents reported, in terms of hours, no changes in the efforts of internal and external resources as well as external auditors, the collective number of “decreased” responses in all three categories are a positive sign for organizations and the impact of the SEC’s guidance and PCAOB’s updated standard.

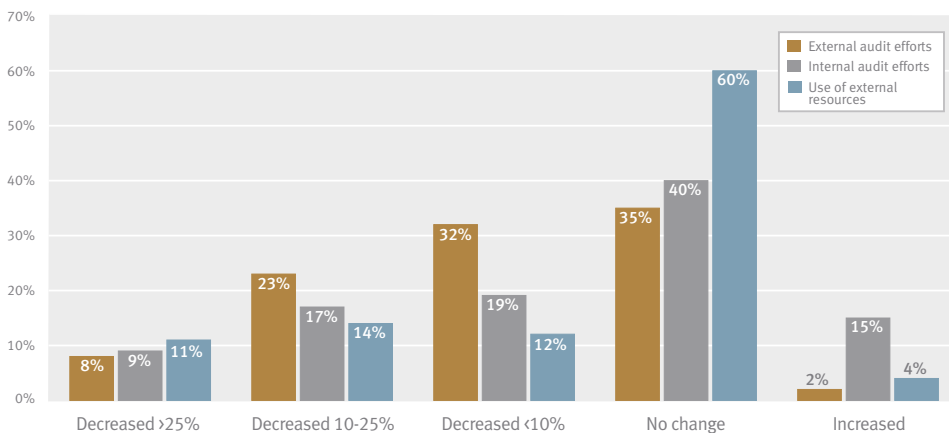
SEC’s Interpretive Guidance: Change in Efforts (Hours) Between the Year in Effect and the Prior Year

(Base: All Respondents)



PCAOB AS5: Change in Efforts (Hours) Between the Year in Effect and the Prior Year

(Base: All Respondents)



COMMENTS FROM RESPONDENTS:

[We have] planned for full implementation of AS5 where our external auditors can rely on our work more freely, thus reducing external audit costs.

– Technology company

We reduced our control activities tested by approximately 40 percent as a result of the new guidance.

– Energy company

External auditors have a wait-and-see approach and have not been willing to make any changes to date.

– Financial services company

IMPACT OF SEC'S INTERPRETIVE GUIDANCE AND PCAOB AS5 (cont.)

Quantity and Scope of Processes and Controls

The results show a greater reliance on the work of others by external auditors and a decrease in the number of key controls documented and tested.

Respondents were asked about the impact of the SEC's guidance on a number of compliance-related processes and controls in the organization. Respondents also were asked about the impact of the application of PCAOB AS5 by their external auditors on these same processes and controls. The results reveal a number of positive trends, including greater reliance on the work of others by external auditors, and decreases in both the numbers of total and key controls documented and tested. There also are moderate decreases in the number of total risks identified as well as the number of key in-scope processes.

COMMENTS FROM RESPONDENTS:

Through AS5, we have been able to rely upon higher levels of controls and the elements reviewed as part of the entity-wide assessment.

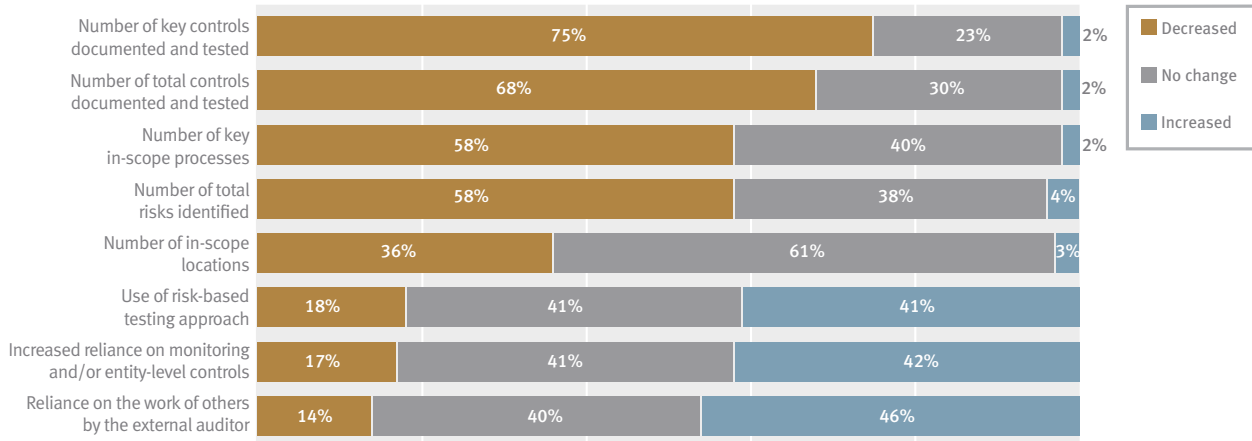
– Financial services organization

With AS5 and SEC pronouncement, revisited top-down risk-based approach to SOX, eliminating non-key controls and streamlining efforts. Freed up time for more traditional audit function.

– Transportation company

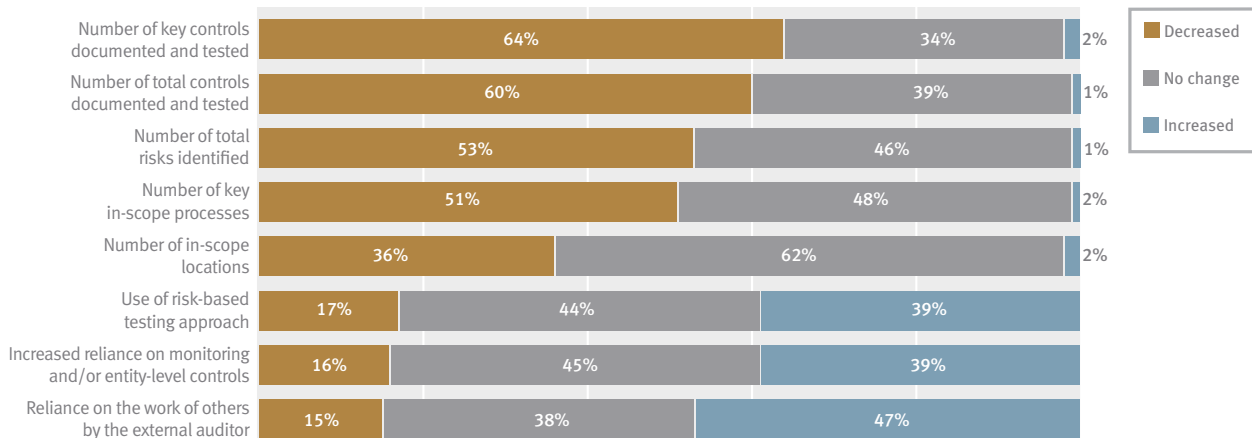
Impact of SEC's Interpretive Guidance

(Base: All Respondents)



Impact of PCAOB AS5

(Base: All Respondents)



IMPACT OF REBALANCING INITIATIVES

IA Responsibilities in Sarbanes-Oxley Compliance

“Lead responsibility” is the most common role for internal audit in each year of the Sarbanes-Oxley compliance process.

This is a slight change from last year’s results, when “control design evaluation and testing of operational effectiveness” was the top response for Years One through Three. “Member of compliance team/steering committee” also ranks highly in each compliance year. Notably, “developer of documentation” is cited frequently as a primary role in Year One but drops sharply in later years.

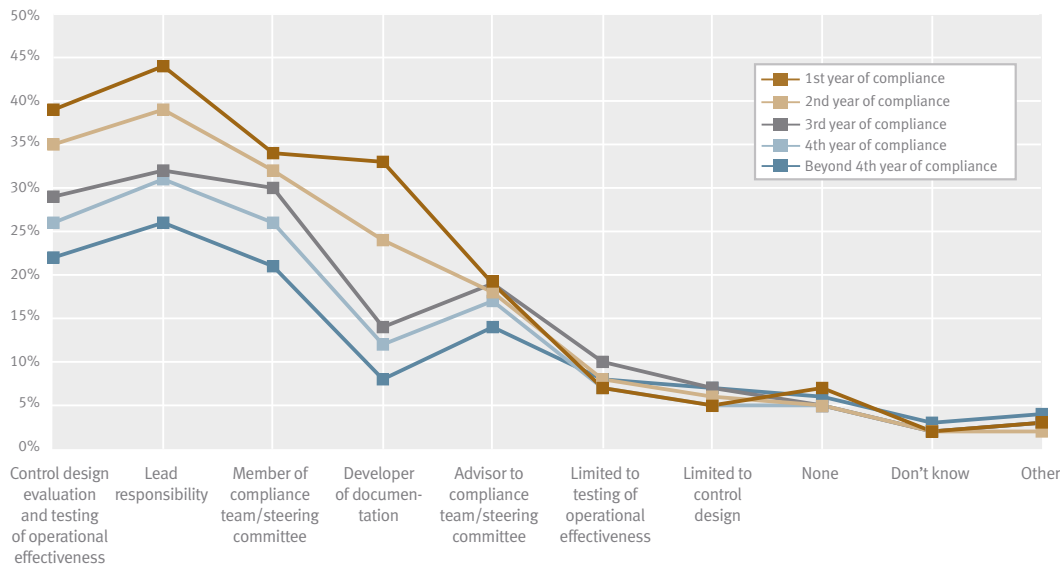
COMMENTS FROM RESPONDENTS:

The Audit Committee has strongly recommended that we continue to evaluate ways to maintain an adequate balance.

– Aerospace company

Internal Audit Primary Roles

(Base: All Respondents)



Other notable findings:

- For each year of Sarbanes-Oxley compliance, respondents also were asked about the activities in which internal audit provided assistance. Consistent with the results of last year’s Rebalancing study, “documentation” has the sharpest drop-off in involvement between Years One and Four of compliance. “Planning” and “control evaluation” rank as the most common assisting roles in Years One and Two.
- Beginning in Year Three, the assisting role of internal audit is relatively consistent in all Sarbanes-Oxley-related compliance activities.

IMPACT OF REBALANCING INITIATIVES (cont.)

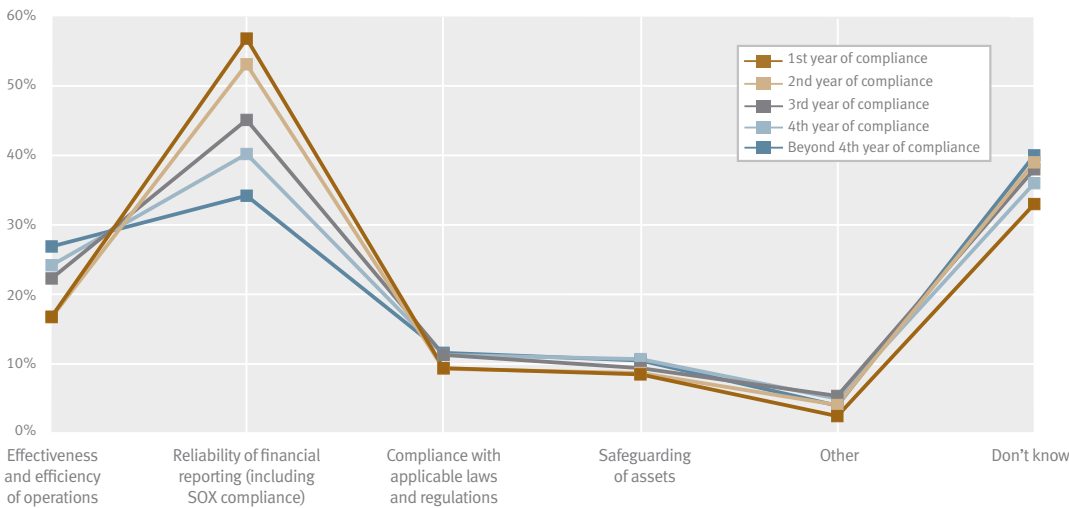
Allocating IA Efforts for COSO Internal Control Objectives

Similar to last year, “reliability of financial reporting” remains the top COSO objective of focus for IA activities.

However, there is a significant gap between Year One of Sarbanes-Oxley compliance activities and Beyond Year Four efforts. Also, mirroring last year’s results, a significant number of respondents indicated they did not know the percentage of IA efforts devoted to each COSO internal control objective. This is a potential area of concern given that these objectives are closely tied to Section 404 compliance and have been in existence for 15 years. Further, considering Sarbanes-Oxley compliance requirements, there should be greater balance in the responses of each COSO objective.

Internal Audit Efforts Allocated Against COSO Objectives of Internal Control

(Base: All Respondents)



Note: The responses for each year of Sarbanes-Oxley compliance do not necessarily add up to 100 percent, as the graphic depicts the mean average for each COSO objective.

Other notable findings:

- One area that does increase over time is a focus on effectiveness and efficiency of operations.

Rebalancing the Skills Gap

A significant percentage of respondents indicated there is a moderate or significant skills gap among Sarbanes-Oxley-experienced internal auditors for other IA projects.

While close to half noted there was not a perceived or actual gap in such skills, more than four in 10 respondents noted otherwise. This is consistent with the findings of Protiviti's 2008 Internal Audit Capabilities and Needs survey,⁵ which indicated that more traditional IA skills such as enterprise risk management, fraud risk management and the COSO ERM Framework were most in need of improvement within IA departments.

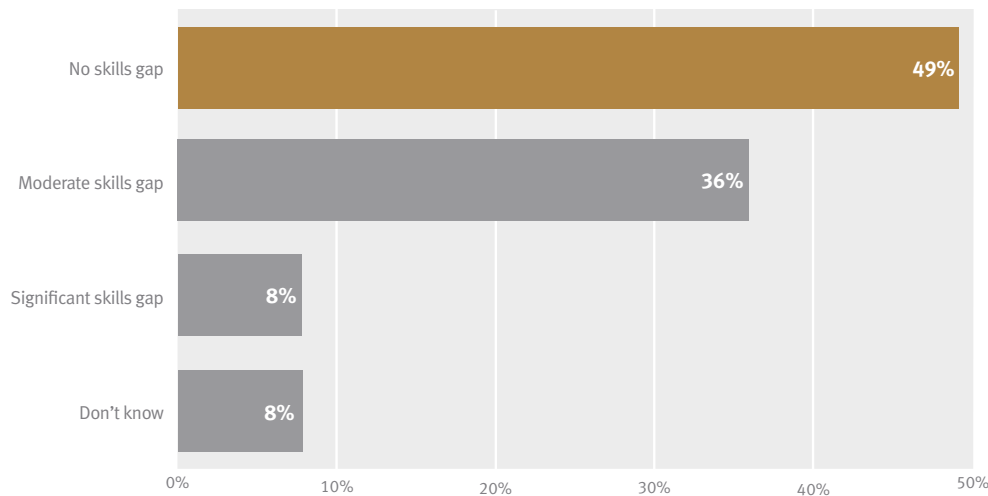
COMMENTS FROM RESPONDENTS:

Current auditors have only performed SOX audits. Non-SOX internal audits are new to all members of the team.

– Food manufacturer

Perceived or Real Skills Gap: Sarbanes-Oxley-Experienced Auditors for Other IA Projects

(Base: All Respondents)



⁵ For more information, visit www.protiviti.com to obtain a free copy of Protiviti's 2008 Internal Audit Capabilities and Needs survey report.

IMPACT OF REBALANCING INITIATIVES (cont.)

IA Staffing, Hours and Budget Allocations

As expected, hours devoted by IA functions to Sarbanes-Oxley compliance are highest in Year One and tend to decline in subsequent years.

These results, consistent with last year's study, also show relative consistency in Sarbanes-Oxley compliance-related hours after Year Two. This indicates completion of a transition to an ongoing compliance process, and likely allows many IA departments to plan and implement their rebalancing initiatives.

COMMENTS FROM RESPONDENTS:

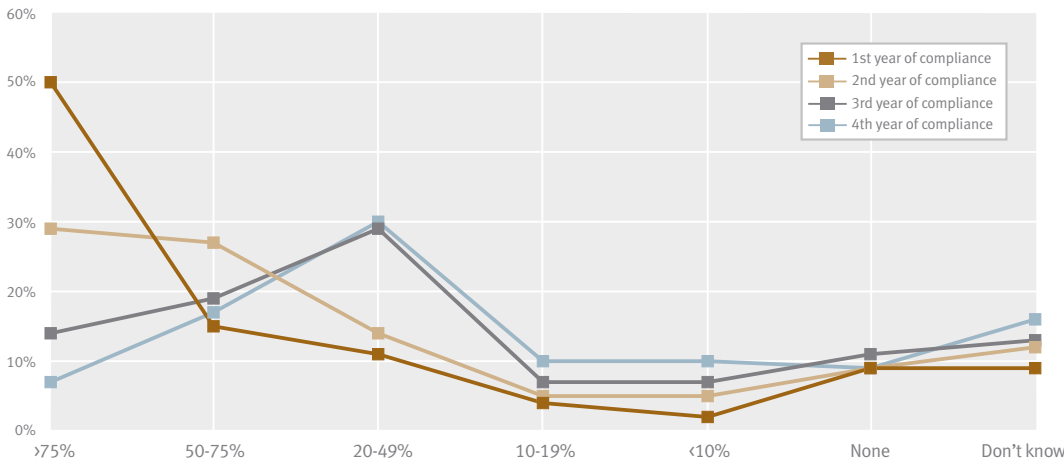
Year One of SOX consumed approximately 75 percent of IA resources.

Year Three was just under 20 percent.

– Energy company

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

(Base: All Respondents)



Other notable findings:

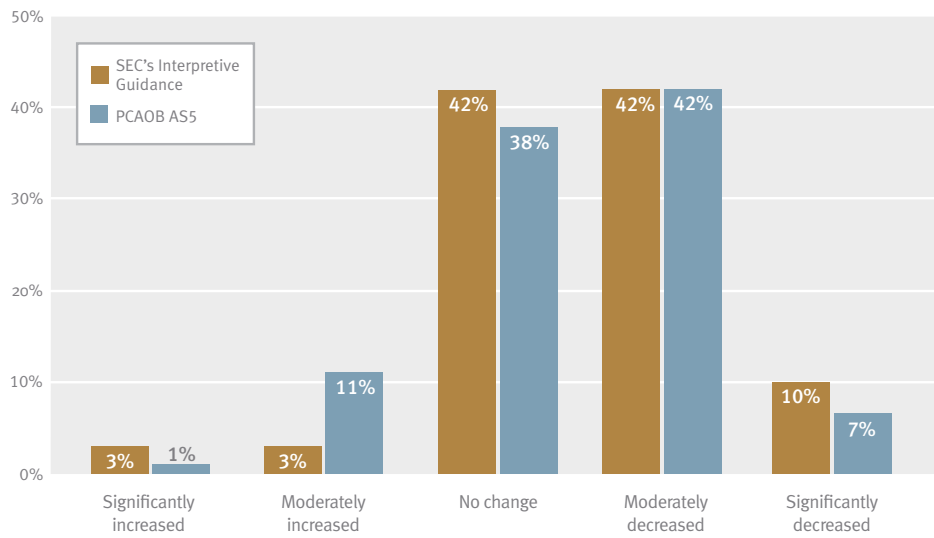
- With regard to IA department budgets, similar to last year's study, most IA budgets are not expected to increase significantly regardless of the organization's Sarbanes-Oxley compliance year or its state of rebalancing.
- More than half of respondents reported they expect no change in their IA budgets.

Impact of SEC's Interpretive Guidance and PCAOB AS5

These new regulations have had a positive impact on the hours spent by internal auditors on Sarbanes-Oxley compliance, with a significant number of respondents reporting moderate decreases.

IA Hours, SEC's Interpretive Guidance and PCAOB AS5

(Base: All Respondents)



IMPACT OF REBALANCING INITIATIVES (cont.)

Outsourcing Sarbanes-Oxley Compliance Activities

Continuing the trend identified in last year's results, outsourcing of Sarbanes-Oxley compliance work is done more frequently in Year One and declines in subsequent years.

In Year One, most organizations outsource at least half of their Sarbanes-Oxley compliance efforts to external service providers; by Year Three, most outsource less than 20 percent of these activities.

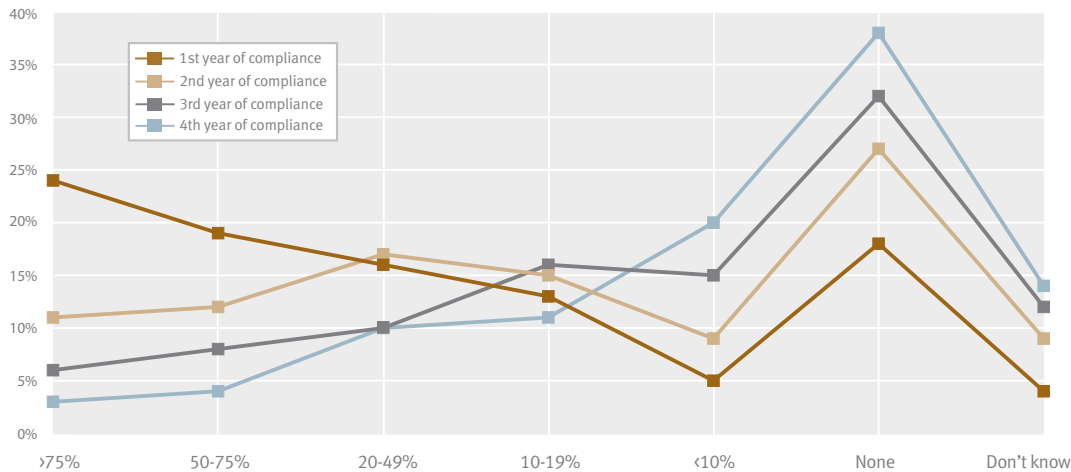
COMMENTS FROM RESPONDENTS:

We supplement our resources as needed to meet deadlines.

– Insurance company

Sarbanes-Oxley Work Outsourced

(Base: All Respondents)



External Quality Assessments

Fewer than one in three organizations has conducted an external quality assessment of the IA function as mandated by The IIA.

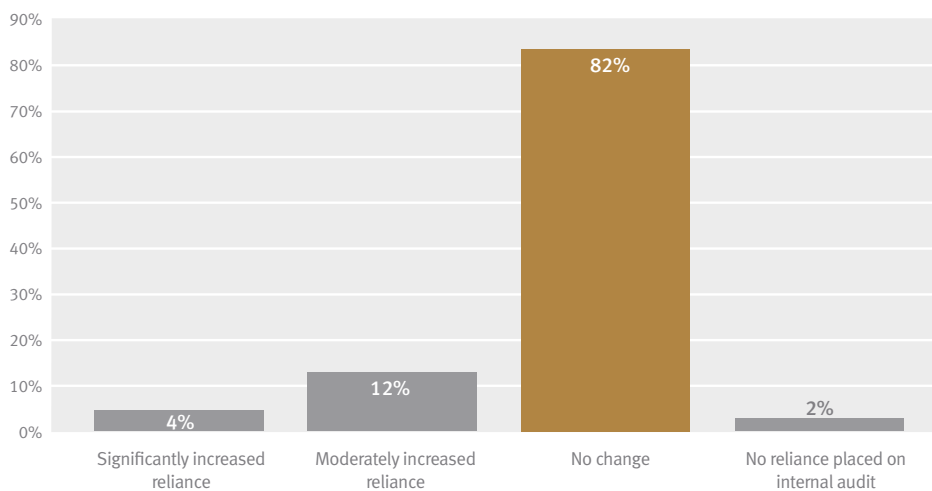
Respondents were asked whether they had completed an external quality assessment of their IA function since the effective date of IIA Standard 1312. (This standard, which was enacted by The IIA in early 2003, requires external review and assessment of the IA function every five years, meaning that all IA functions adhering to The IIA's International Standards for the Professional Practice of Internal Auditing should have now completed at least one such review.) Interestingly, a majority of organizations had not accomplished this at the time of the survey (early 2008). One in four respondents whose organizations have not conducted this assessment reported they plan to do so this year.

Among the survey results for organizations that have conducted an external quality assessment:

- Respondents were split on the method used for the assessment – just over half said their organizations self-assessed with independent validation, while just under half conducted a full-scope review.
- Interestingly, nearly all (90 percent) report their IA functions generally conform to The IIA's Standards.
- With regard to how the results of external quality assessment reviews impact the degree of reliance placed on IA by the organization's external auditors in connection with an assessment of internal control over financial reporting, over 80 percent of respondents indicated there was no change, while just 16 percent reported that such reliance had moderately or significantly increased. This suggests that the major accounting firms may still be hesitant to consider the value of an external quality assessment in determining whether to increase their reliance on the work of the IA department.

Impact of Degree of Reliance Placed on IA by Organization's External Auditors

(Base: Completed External Quality Assessment)



COMMENTS FROM RESPONDENTS:

Our Audit Committee believes that feedback from our external auditors is sufficient. We do an internal assessment each year and provide it to our external auditors and CFO.

– Heating, ventilation and cooling (HVAC) company

The company's internal audit function is co-sourced with an outside resource that is IIA compliant.

– Real estate company

WHAT HAPPENS NEXT?

Four years ago, internal audit functions were pulled away from their traditional internal auditing responsibilities to focus most of their time and energy on Sarbanes-Oxley-related work. They led the charge in helping their companies achieve compliance with one of the most significant pieces of securities legislation in U.S. history. Over time, as they increased their understanding of the requirements, internal auditors improved their ability to prepare and execute compliance processes, and in turn provided invaluable guidance to their companies with both improving and streamlining these processes. As a result, while there continues to be room for improvement, companies have been able to optimize not only their compliance activities but also their financial reporting processes.

The findings of Protiviti's three Internal Audit Rebalancing studies bear out these trends. Year One Sarbanes-Oxley compliance efforts require most of internal audit's time, with a general reduction over subsequent years as internal audit functions begin to rebalance and organizations gain a better understanding of Sarbanes-Oxley compliance while building greater efficiencies into compliance-related and financial reporting activities.

With more companies moving into the Year Four and beyond categories, now is the time for more internal audit functions to go back to their roots to focus not only on the "traditional" responsibilities of internal auditors, but also on new areas of risk that heretofore have not been identified and assessed in great detail. In the process, they can put Sarbanes-Oxley compliance into its proper perspective and incorporate it into the organization's broader internal audit plan.

This perspective is particularly important. Sarbanes-Oxley compliance should not be minimized or trivialized in any way. However, in the long term it should be viewed by internal audit functions and their organizations in the proper context – as one of many important business initiatives. Over the past four years, new business challenges and priorities have emerged in which, as indicated both in this study and our Internal Audit Capabilities and Needs survey, internal audit may be lagging in terms of current skills and competencies, most notably in computer-assisted auditing techniques (CAATs).

In addition, while Sarbanes-Oxley remains a highly important regulation that requires ongoing compliance activities, new regulations undoubtedly will emerge in the future. When this happens, internal audit again will be called upon to take the lead in helping their companies devise the right answers and approaches to address and comply with them. It also is likely that, as most recently occurred with the SEC's Interpretive Guidance and PCAOB AS5, some aspects of Sarbanes-Oxley may change, which will require internal audit to help their companies adapt. Over time, other potential areas of focus may include new people and systems; changes in GAAP, including adoption of International Financial Reporting Standards (IFRS); and the impact of mergers, acquisitions, spin-offs and divestitures.

These issues underscore the importance of internal audit functions continually striving to seek balance. Doing so will provide them with the ability to support their organizations by focusing their work on ways in which they can deliver the most overall value, and most importantly, by assessing the most effective ways to help their organizations identify, measure, prioritize and mitigate their most significant business risks.

METHODOLOGY

In addition to providing responses 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 online. The survey was open from January 14 to February 18, 2008. The electronic survey was conducted 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. Surveys also were forwarded to other internal audit professionals who expressed an interest in participating.

SURVEY DEMOGRAPHICS

A total of 321 respondents participated in the survey, all of whom submitted their responses online. All demographic information was provided voluntarily and not all participants provided data for every demographic question.

Position

Chief Audit Executives and Audit Directors represented a majority of the respondents.

Chief Audit Executive	33%
Audit Director	34%
Audit Manager	10%
General Auditor	5%
Other	18%

Industry

Financial Services was the most-represented industry group in the study.

Financial Services	29%
Healthcare	18%
Insurance	12%
Distribution	6%
Hospitality	6%
Energy	6%
Government/Education/Not-for-profit	2%
CPA/Public Accounting/Consulting	1%
Other	20%

Type of Organization

A vast majority of participants were from publicly held companies.

Public	86%
Private	6%
Not-for-profit	5%
Government	1%
Other	2%

SURVEY DEMOGRAPHICS (cont.)

Size of Organization (by gross annual revenue)

Overall, the greatest representation was by organizations with gross annual revenues of \$1 billion to \$4.99 billion, with nearly two out of three organizations at \$1 billion or higher.

\$20 billion and above	7%
\$10 billion - \$19.99 billion	6%
\$5 billion - \$9.99 billion	13%
\$1 billion - \$4.99 billion	38%
\$500 million - \$999.99 million	16%
\$100 million - \$499.99 million	18%
Less than \$100 million	2%

Full-Time Equivalent Personnel in IA Department

Most organizations represented in the study have 10 or fewer full-time IA personnel.

More than 50	7%
21-50	9%
11-20	14%
1-10	70%

Formation Date of IA Department

More than 10 years ago	40%
6-10 years ago	16%
1-5 years ago	37%
Less than 1 year ago	7%

Engaged in Co-Sourcing

Yes	43%
No	57%

Note: Among those organizations engaged in co-sourcing, most – 85 percent – utilize one to five co-sourced employees within the IA function.

Fiscal Year-End

Most respondents (76 percent) reported a fiscal year-end in December for their organizations.

ABOUT PROTIVITI INC.

Protiviti (www.protiviti.com) is a global consulting and internal audit firm composed of experts specializing in risk and advisory services. We help our clients solve problems in finance, operations, technology, litigation and GRC. Protiviti's highly trained, results-oriented professionals serve clients in the Americas, Asia-Pacific, Europe and the Middle East and provide a unique perspective on a wide range of critical business issues.

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



Protiviti 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 Solutions

Protiviti works with companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills. Protiviti's services also include providing clients with highly specialized resources such as IT Security, Business Continuity and Fraud Detection, among many others, and assisting with internal audits in multiple countries.

One of Protiviti's key features is that we are not an audit/accounting firm; thus, there is never an independence issue in the work we do for our clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas.

In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services Protiviti's internal audit practice provides are:

- Audit Committee advisory
- Co-sourcing and specialized resource enhancement
- Full outsourcing
- Internal audit technology and tool implementation
- Internal audit quality assessments and readiness reviews
- Internal audit transformation
- Information technology audit services
- Start-up and development advice

For more information about Protiviti's internal audit solutions, please contact:

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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 KnowledgeLeader include:

- **Audit Programs** – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeader. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.
- **Checklists, Guides and Other Tools** – More than 400 checklists, guides and other tools are available on KnowledgeLeader. They include questionnaires, best practices, templates, charters and more for managing risk, conducting internal audits and leading an internal audit department.
- **Policies and Procedures** – KnowledgeLeader provides more than 200 sample policies to help in reviewing, updating or creating company policies and procedures.
- **Articles and Other Publications** – Informative articles, survey reports, newsletters and booklets produced by Protiviti and other parties (including *Compliance Week* and Auerbach) about business and technology risks, internal audit and finance.
- **Performer Profiles** – Interviews with internal audit executives who share their tips, techniques and best practices for managing risk and running the internal audit function.

Key topics covered by KnowledgeLeader:

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

KnowledgeLeader has an expanding library of methodologies and models – including the robust Protiviti Risk ModelSM, a process-oriented version of the Capability Maturity Model, the Six Elements of Infrastructure Model, and the Sarbanes-Oxley 404 Service Delivery Model.

With a KnowledgeLeader membership, subscribers have access to AuditNet Premium (Paid) Content; discounted certification exam preparation material from ExamMatrix; discounted MicroMash CPE Courses to maintain your professional certification requirements; audit, accounting and technology standards and organizations; certification and training organizations and information; brief review of applicable laws and regulations; and best business links.

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

KnowledgeLeader members have the option of upgrading to KLplusSM (KL+). KL+ provides all of the benefits of KnowledgeLeader, plus full access to Protiviti's suite of online courses.

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