



# 2011 Internal Audit Capabilities and Needs Survey

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## Introduction

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As global markets continue to emerge slowly from several years of economic instability, increased regulatory oversight (e.g., the Dodd-Frank Wall Street Reform and Consumer Protection Act) and greater attention to risk management are monopolizing more and more attention of boards and executive management. In this environment, it is appropriate to revisit, once again, the global definition of internal auditing (from The Institute of Internal Auditors):

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“INTERNAL AUDITING IS AN INDEPENDENT, OBJECTIVE ASSURANCE AND CONSULTING ACTIVITY DESIGNED TO ADD VALUE AND IMPROVE AN ORGANIZATION’S OPERATIONS. IT HELPS AN ORGANIZATION ACCOMPLISH ITS OBJECTIVES BY BRINGING A SYSTEMATIC, DISCIPLINED APPROACH TO EVALUATE AND IMPROVE THE EFFECTIVENESS OF RISK MANAGEMENT, CONTROL AND GOVERNANCE PROCESSES.”

Source: IIA International Professional Practices Framework

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In many ways, the core solutions for operating successfully and growing profitability amid a heightened regulatory and risk management environment include a strong internal audit function. For these reasons, today’s internal auditors are being relied upon increasingly to help guide their organizations to compliance in this new regulatory landscape while ensuring key operations perform at peak efficiency. At the same time, this landscape, together with an evolving global economy, are creating new challenges for internal auditors to understand and build expertise in new skills and competencies so that they can influence the improvement of risk management, control and governance processes.

Protiviti’s annual *Internal Audit Capabilities and Needs Survey*, now in its fifth year, assesses the capabilities of internal auditors in areas of priority for today’s organizations, along with competencies that are most in need of improvement. This year’s participants, including chief audit executives along with internal audit directors, managers and staff, answered more than 100 questions in three standard categories in the study: **General Technical Knowledge**, **Audit Process Knowledge**, and **Personal Skills and Capabilities**.

In addition, our 2011 study includes a new section, **Risk Management and Governance Process Knowledge**. We sought to obtain data from survey participants regarding their knowledge and competencies in this subject area given the growth in demand for risk management and governance-related skills over the past year and the impact this demand is having on internal audit functions.

Among the notable takeaways from this year’s *Internal Audit Capabilities and Needs Survey*:

1. **Play a leadership role** – Help the organization evolve its risk management program and internal audit’s role in it.
2. **Support the C-suite and board agenda** – Work with board members and executive management to focus on strategic risks, strategic assumptions and risk appetite.
3. **Be prepared for continuous and ongoing change** – New laws, regulations and standards (e.g., IFRS, Dodd-Frank Act) continue to alter the landscape.
4. **Use technology effectively** – Improve coverage, reduce costs, increase frequency and enhance effectiveness.
5. **Internal auditing is still about people** – Attract, develop and transfer out the best.
6. **Add value** – As noted in The IIA’s definition of internal auditing, this is what internal auditors are supposed to do.

Respondents in our 2011 survey represent virtually all industry sectors. The largest segment is from financial services; others include healthcare, energy, utilities, manufacturing, distribution, technology, biotechnology, hospitality, consumer products, retail and telecommunications. Nearly half of the participants are with publicly traded companies, with the others from private, government, educational and nonprofit organizations. Close to one in three respondents are from companies with annual revenues of US\$1 billion to \$5 billion, with the rest split relatively evenly among larger and smaller organizations. (Please note that, upon request, we can provide customized reports based on the results of respondents from specific groups – industry, company size, etc.)

We are confident that the results from this year's *Internal Audit Capabilities and Needs Survey* will interest chief audit executives and the internal audit community. In addition, we continue to see a high level of interest in the survey among board members, chief executive officers, chief financial officers and chief information officers. We are very appreciative of the positive feedback we receive consistently about this study, and also are very grateful for the time spent by the more than 600 internal audit executives and professionals who participated in this year's survey.

We will continue to conduct this study annually and adjust it each year to reflect the changing business and regulatory environment. We also would welcome the opportunity to conduct a customized Capabilities and Needs survey specifically for your organization.

In closing, we want to acknowledge the ongoing leadership of The IIA in promoting the vital role of internal auditing in today's businesses. Protiviti is proud to be a Principal Partner of the Institute as it continues to be a stalwart global leader for the profession.

Protiviti  
March 2011

# I. Risk Management and Governance Process Knowledge

## Key Findings – 2011

- In this new category in the *Internal Audit Capabilities and Needs Survey*, Emerging Risks ranks as the top area in need of improvement.
- Other top “Need to Improve” areas include Strategic Risk and multiple competencies related to risk appetite.

**Table 1: Overall Results, Risk Management and Governance Process Knowledge**

Rank	Risk Management and Governance Process Knowledge	Competency (5-pt. scale)
1	Emerging Risks	3.2
2	Evaluating and Changing Risk Appetite Levels	3.0
3	Setting Risk Appetite	3.0
4	Defining Risk Appetite	3.0
5	Strategic Risk	3.3

Respondents were asked to assess, on a scale of one to five, their competency in 29 areas of risk management and governance process knowledge, with one being the lowest level of competency and five being the highest. They were then asked to indicate whether they believed they possess an adequate level of competency or if there is need for improvement, taking into account the circumstances of their organization and the nature of its industry. (For the areas of knowledge under consideration, see page 4.) Figure 1 depicts a comparison of “Need to Improve” versus “Competency” ratings.

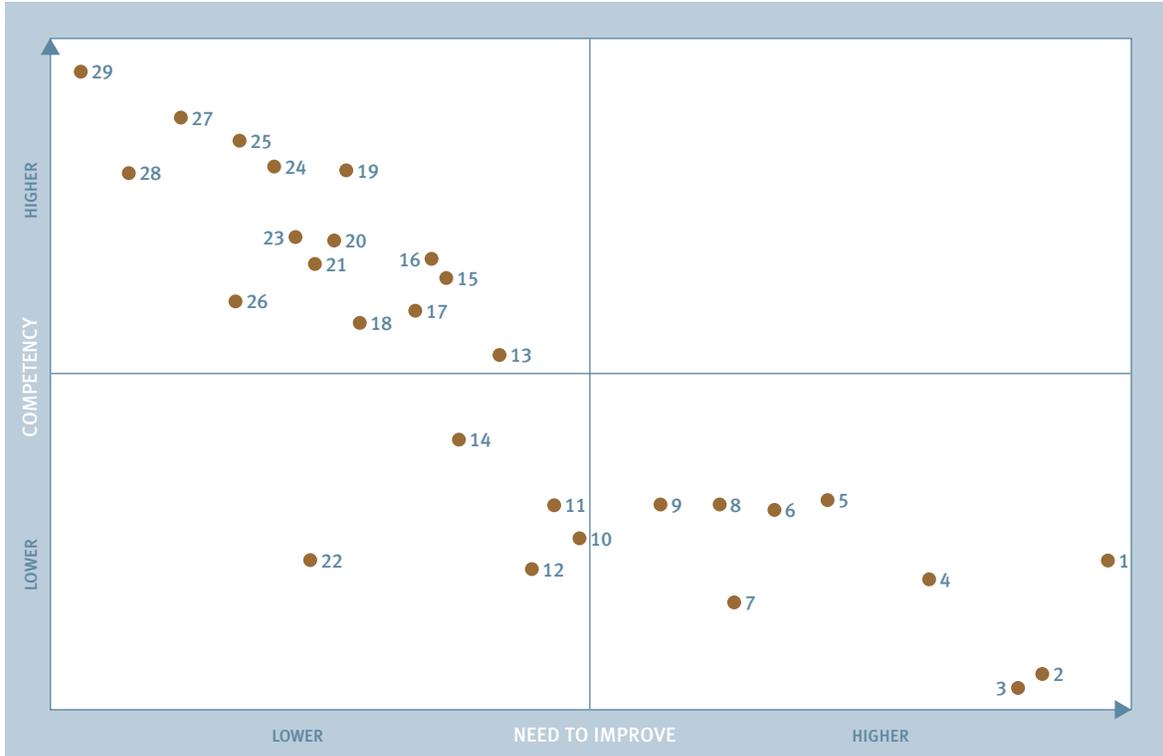
This is a new category in the *Internal Audit Capabilities and Needs Survey*. Enterprise risk management (ERM) and the governance process continue to be evolving areas, ones in which internal audit is playing an increasingly integral role, albeit to different degrees in different organizations depending upon the specific needs of the organization, available internal audit capabilities, and the maturity of their ERM programs and processes. In particular, ERM and the governance process are receiving an increasing level of interest among key organizational stakeholders. In addition, new U.S. regulations for public companies have been enacted that require the disclosure of the board’s oversight of risk management programs, compensation risk and other matters.

These issues were addressed in a recent study from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Protiviti. To develop deeper knowledge of the risk oversight process as it is applied by today’s boards of directors, and to understand both the current state and desired future state of board risk oversight as viewed by directors, COSO commissioned Protiviti to conduct a survey regarding the risk oversight responsibilities of the board of directors and how those responsibilities are being performed.<sup>1</sup>

Overall, the COSO/Protiviti survey results indicate there are mixed signals about the effectiveness of board risk oversight across organizations. While many directors believe their boards are performing their risk oversight responsibilities diligently and achieving a high level of effectiveness, a strong majority indicate that their boards are not formally executing mature and robust risk oversight processes. Just more than half of the respondents rate the risk oversight process in their organizations as “effective” or

<sup>1</sup> The survey report, *Board Risk Oversight: A Progress Report*, summarizes the results of input from more than 200 directors and is available at [www.protiviti.com](http://www.protiviti.com).

Figure 1: Risk Management and Governance Process Knowledge – Perceptual Map



Number	Risk Management and Governance Process Knowledge	Number	Risk Management and Governance Process Knowledge
1	Emerging Risks	16	Entity-Level Risk
2	Evaluating and Changing Risk Appetite Levels	17	Financial Risk
3	Setting Risk Appetite	18	Risk Acceptance
4	Defining Risk Appetite	19	Risk Reduction
5	Strategic Risk	20	Evaluating Risk Reporting – Senior Management Level
6	Measuring Risk Quantitatively	21	Risk Avoidance
7	Board Review and Evaluation of Significant Risk Appetite Levels	22	Public Company Reporting of Risk
8	ERM Infrastructure	23	Compliance Risk – Financial Reporting
9	Risk Transfer	24	Evaluating Risk Reporting – Operating Unit Level
10	Risk Sharing	25	Operational Risk
11	Board Risk Oversight Processes	26	Location-Level Risk
12	Evaluation of Board Committees	27	Transaction-Level Risk
13	Measuring Risk Qualitatively	28	Functional-Level Risk
14	Evaluating Risk Reporting – Board Level	29	Process-Level Risk
15	Compliance Risk – Other		

“highly effective.” Of particular note, the results suggest that within many organizations efforts are underway to understand better the entity’s risk appetite (i.e., understanding the boundaries and limits that the organization sets on behavior for its strategy and operating model). However, the findings show that boards and their organizations can benefit from a more rigorous process.

Clearly, there are a number of areas for improving board risk oversight that, if implemented, would enable boards to advance the maturity of the risk oversight process. Chief audit executives and internal audit professionals can and will play a key role in virtually any effort to improve an organization’s risk oversight and ERM efforts. (See Appendix 2.)

It also is noteworthy that Emerging Risks is ranked as the top “Need to Improve” competency in this category. At its core, risk is about the future – what could happen to or within our organization that would be undesirable? What might happen that we don’t know about? This can include, but is not limited to, risks that are yet to materialize because of new regulations, changes in the business model, changes in industry dynamics, and industry competition, among many other factors. Understanding such emerging risks and addressing and managing them proactively has become a top priority for internal auditors and their boards and management, particularly in the wake of the recent global economic turmoil. Such an understanding and timely communication of that understanding is highly responsive to a common need we hear regularly in the boardroom: “Tell us something we don’t know.”

With regard to competencies related to risk appetite, many organizations know the risks they face but are less clear about how much of each risk or combination of risks they are willing to tolerate. What levels of risk are acceptable? How much risk is OK? At what point is the organization’s capacity to bear risk encroached upon? Understanding and managing risk appetite is an immature area in many companies. A recent example, of course, is the subprime mortgage meltdown experienced by numerous financial services organizations. These companies assumed these risks but failed to establish a clear risk appetite and thus overloaded themselves with these risky ventures and related structured investments. The risk itself was not the problem – rather, it was the failure to set appropriate limits or, if limits were established, to exercise the discipline to abide by them even though money was being made. One of the key roles of the internal audit function must be to help prepare and, at times, even guide the organization to recognize not only what risks there are, but how much risk to accept. This is a critical dimension to effective risk management and, as the financial crisis taught us, is not well-developed in many organizations.

The other top-ranked “Need to Improve” area, Strategic Risk, is new to many internal audit professionals, representing uncharted territory. But it shouldn’t be. Instead, strategic risk should be a fundamental component of the foundation from which everything in a company is driven and a key area of focus for internal auditors. Too often, internal audit overlooks potential risk in the company’s strategy, focusing instead on financial, operational and compliance risks. But it is critical to address risk at the strategic level as well, in order to understand if the company’s strategy and mission present risks or unrealistic assumptions that need to be addressed and managed and how overall strategic direction and assumptions can pervade every part and process of an organization.

### Key Questions to Consider:

- Have you identified and considered potential emerging risks in your organization that could affect it in the future? Has this been done organizationwide or broken down by division or operating unit?
- Do you have the necessary controls in place to ensure your risk appetite limits are not exceeded and that those controls are effective? Has the risk appetite been translated into appropriate risk tolerances that are cascaded down into the organization?

- Have you assessed potential risks related to the company’s long-term strategy and mission? Have you challenged assumptions regarding underlying risks inherent in that strategy? Are there any assumptions underlying the strategy that may be unrealistic or invalid in view of market conditions?

## FOCUS ON CHIEF AUDIT EXECUTIVES

Responses among CAEs surveyed generally mirror the study’s overall results, with the exception of Measuring Risk Quantitatively ranking in the top five.

**Table 2: CAE Results, Risk Management and Governance Process Knowledge**

Rank	Risk Management and Governance Process Knowledge	Competency (5-pt. scale)
1	Evaluating and Changing Risk Appetite Levels	3.1
2	Setting Risk Appetite	3.1
3	Defining Risk Appetite	3.2
4	Emerging Risks	3.4
5	Measuring Risk Quantitatively	3.3

As companies continue to mature their ERM capabilities, they will be able to start measuring, on a quantitative basis, some or all of their risks. While not all risks allow for precise measurement, there is a quantitative side to risk in addition to a qualitative one. This becomes especially important when boards and management begin to ask how much risk they are willing to accept. Quantitative limits help to better define risk tolerances and improve knowledge of the point at which thresholds are exceeded or close to being exceeded.

### Key Questions for CAEs:

- Do you have a mechanism in place to capture and reflect emerging risks in your audit plan?
- Does the organization have a clear definition of its risk appetite? How was this determined? Do you know how much risk your organization is willing to accept?
- Have you considered whether any changes might be necessary in the organization’s risk appetite given changes in the business model, regulation, competition, the overall market or the operating environment? Is there an ongoing risk appetite dialogue between management and the board of directors?
- What steps have you taken to determine how the organization can begin to measure its risks on a quantitative basis?

## II. Assessing General Technical Knowledge

### Key Findings – 2011

- International Financial Reporting Standards (IFRS) and GTAG 13 – Fraud Prevention and Detection in an Automated World (a new category in this year’s study) tied for the top area in need of improvement.
- New categories in this year’s study dominated the remainder of the top five “Need to Improve” areas, including ISO 31000, Penalties in Administrative Proceedings, Six Sigma, Hedging by Employees and Directors, and GTAG 15 – Information Security Governance.

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

Rank	General Technical Knowledge	Competency (5-pt. scale)
1 (tie)	International Financial Reporting Standards (IFRS)	2.7
	GTAG 13 – Fraud Prevention and Detection in an Automated World	2.9
2	ISO 31000 (risk management)	2.2
3	Penalties in Administrative Proceedings (Dodd-Frank Act § 929P)	2.4
4	Six Sigma	2.4
5 (tie)	Hedging by Employees and Directors (Dodd-Frank Act § 955)	2.2
	GTAG 15 – Information Security Governance	2.9

Note: See Appendix 1 for definitions of laws, standards and regulations.

Respondents were asked to assess, on a scale of one to five, their competency in 61 areas of technical knowledge important to internal audit, with one being the lowest level of competency and five being the highest. They were then asked to indicate whether they believed they possess an adequate level of competency or if there is need for improvement, taking into account the circumstances of their organization and the nature of its industry. (For the areas of knowledge under consideration, see pages 8-9.) Figure 2 depicts a comparison of “Need to Improve” versus “Competency” ratings in a General Technical Knowledge landscape.

IFRS and GTAG 13 – Fraud Prevention and Detection in an Automated World clearly stand out as the top “Need to Improve” areas in this year’s study (see Figure 2). IFRS, which has been a top-ranked “Need to Improve” area for the past three years, continues to gain momentum. Though the U.S. Securities and Exchange Commission (SEC) has yet to establish a formal timeline for what likely will be convergence with (rather than conversion from) U.S. GAAP, the general consensus in the business community is that IFRS will be required for U.S.-headquartered companies. (Of note, most European nations already report under IFRS, while countries including Canada, Japan and Korea have hard deadlines for converting to these standards). Last February, the SEC approved a timeline that envisions 2015 as the earliest possible date for the required use of IFRS by U.S. public companies. The SEC action calls for more study of IFRS and a vote in 2011 on whether to move ahead with a mandate to use IFRS. Meanwhile, convergence of U.S. GAAP and IFRS continues on an aggressive schedule, with a number of significant changes expected in the next 12 to 18 months.<sup>2</sup>

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

Figure 2: General Technical Knowledge: Overall – Perceptual Map



Number	General Technical Knowledge	Number	General Technical Knowledge
1	International Financial Reporting Standards (IFRS)	6	Hedging by Employees and Directors (Dodd-Frank Act § 955)
2	GTAG 13 – Fraud Prevention and Detection in an Automated World	7	GTAG 15 – Information Security Governance
3	ISO 31000 (risk management)	8	GTAG 14 – Auditing User-Developed Applications
4	Penalties in Administrative Proceedings (Dodd-Frank Act § 929P)	9	The Guide to the Assessment of IT Risk (GAIT)
5	Six Sigma	10	GTAG 3 – Continuous Auditing

Number	General Technical Knowledge	Number	General Technical Knowledge
11	Say-on-Pay (Dodd-Frank Act § 951)	37	ISO 14000 (environmental management)
12	Extensible Business Reporting Language (XBRL)	38	Fair Value Accounting
13	Clawback of Incentive Compensation (Dodd-Frank Act § 954)	39	Board Risk Oversight (SEC Item 407(h) of Regulation S-K)
14	GTAG 6 – Managing and Auditing IT Vulnerabilities	40	GTAG 1 – Understanding IT Controls
15	Fraud Risk Management	41	Recently Enacted IIA Standards (effective January 1, 2009) – Ethics Programs (Standard 2110.A1)
16	COBIT	42	COSO Enterprise Risk Management Framework
17	GTAG 12 – Auditing IT Projects	43	FASB Accounting Standards Codification™
18	ISO 27000 (information security)	44	Country-Specific Enterprise Risk Management Framework
19	GTAG 4 – Management of IT Auditing	45	Tax Laws (in your applicable region/country)
20	Additional Executive Compensation Disclosures (Dodd-Frank Act § 953)	46	FIN 48 (tax uncertainties)
21	GTAG 5 – Managing and Auditing Privacy Risks	47	Corporate Governance Standards (or local country equivalent)
22	Disclosure of Board Leadership (§ 972)	48	Applicability of AICPA Statement of Position 97-2 to Certain Arrangements that Include Software Elements (EITF 09-3 (ASU 2009-14))
23	GTAG 8 – Auditing Application Controls	49	Revenue Arrangements with Multiple Deliverables (EITF 08-1 (ASU 2009-13))
24	Compensation Committee and Adviser Independence (Dodd-Frank Act § 952)	50	Foreign Corrupt Practices Act (FCPA)
25	GTAG 7 – IT Outsourcing	51	Stock-Based Compensation (FAS 123R Share-Based Payment)
26	GTAG 11 – Developing the IT Audit Plan	52	U.S. GAAP (or local country equivalent)
27	Proxy Access Authority (Dodd-Frank Act § 971)	53	COSO Internal Control Framework
28	Recently Enacted IIA Standards (effective January 1, 2009) – IT Governance (Standard 2110.A2)	54	AU Section 322 – The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements
29	GTAG 9 – Identity and Access Management	55	Revenue Recognition
30	Evaluating Executive Compensation Risk of Regulation S-K	56	SEC Interpretive Guidance For Management Regarding its Evaluation and Assessment of Internal Control Over Financial Reporting (ICFR)
31	GTAG 2 – Change and Patch Management Controls	57	PCAOB Auditing Standard No. 5 (An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements) (or local country equivalent)
32	Reporting on Controls at a Service Organization – SSAE 16/AU 324 (replaces SAS 70)	58	Standards for the Professional Practice of Internal Auditing (IIA Standards)
33	GTAG 10 – Business Continuity Management	59	Sarbanes-Oxley Section 301 (Complaints regarding accounting, internal controls or auditing matters) (or local country equivalent)
34	Recently Enacted IIA Standards (effective January 1, 2009) – Fraud Risk Management (Standard 2120.A2)	60	Sarbanes-Oxley Section 302 (disclosure controls and procedures) (or local country equivalent)
35	Whistleblower Provisions (Dodd-Frank Act § 922)	61	Sarbanes-Oxley Section 404 (internal control over financial reporting) (or local country equivalent)
36	ISO 9000 (quality management and quality assurance)		

The convergence of IFRS and U.S. GAAP will not be easy nor be limited to accounting-related issues. On the contrary, areas of a company that will be impacted include business strategies and policies, internal control, business processes, people and resources, internal reporting, methodologies, financial reporting systems, and underlying data. Of particular concern to many is the fact that IFRS, as a principles-based approach, calls for more discretion and judgment calls, as opposed to a rules-based concept such as U.S. GAAP where the lines are clearer around what can and cannot be done.

Convergence with IFRS is imminent, but it may be a more gradual process than a point-in-time and wholesale conversion. Therefore, internal audit functions will need to be careful to not assume there is simply a single point in time in the future when IFRS knowledge will be needed. Instead, they should be sure they are keeping up with the more gradual accounting principle changes that could and likely will occur over time. In addition, they will need to play a key role throughout the transition of their companies to IFRS to ensure that, among other things, the integrity of compliance, risk management and financial reporting processes stays intact. To play this role, they will need to understand the new accounting requirements and their application. This will not be easy when process owners are undergoing the same learning curve.

Regarding GTAG 13, fraud has always been among the top concerns for organizations, and even more so with increasingly sophisticated technologies that companies are using as part of their day-to-day operations and that fraudsters are using to steal, create havoc or both. Without question, the potential for fraud has increased in today's automated world, making it incumbent upon internal auditors to understand all the ways it can occur. They must also understand how to leverage the necessary technologies to combat it – technology may provide new ways to hide fraud, but it also provides new ways to both prevent and find it.

In its *International Standards for the Professional Practice of Internal Auditing*, The IIA addresses fraud risk management, as well. Specifically, IIA Standard 2120.A2 states, “The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.”<sup>3</sup>

Regarding the other top-ranked “Need to Improve” areas:

- Given the renewed interest globally in risk management, it is understandable to find ISO 31000 (Risk Management) on this list, as it is a well-regarded and authoritative risk management standard with global appeal. Of note, in January 2011 The IIA issued new guidance on assessing the adequacy of risk management and internal audit effectiveness and efficiency against the ISO 31000 Framework.
- GTAG 15 – Information Security Governance also is a logical choice given that technology is an integral part of virtually every organization's business and operations. Sound IT security is paramount in order to ensure key, significant and sensitive information is appropriately managed, stored and protected with regard to both employees and third parties.
- The top rankings of two key provisions of the recently enacted Dodd-Frank Act – Penalties in Administrative Proceedings, and Hedging by Employees and Directors – indicate a high level of concern primarily among internal auditors in the financial services industry to acquire and develop the necessary expertise in these requirements. (See sidebar on page 12.)

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<sup>3</sup> For more information, read Protiviti's *Changes to The IIA Standards: What Board Members and Executive Management Need to Know*, available at [www.protiviti.com](http://www.protiviti.com).

The high “Need to Improve” ranking of Six Sigma underscores the importance of operational auditing, which essentially is about identifying defects in and improving current processes, and improving metrics, measures and monitoring. COSO’s highly regarded and widely accepted Internal Control – Integrated Framework calls for organizations to provide reasonable assurance regarding the achievement of objectives in three categories:

1. Reliability of financial reporting
2. Effectiveness and efficiency of operations
3. Compliance with applicable laws and regulations

Many times, companies develop a tendency to focus more on financial reporting and compliance and less on operational auditing. The acceptance of Six Sigma suggests that internal auditors – and companies, in general – are recognizing the importance of adding value by devoting attention to this critical area, which is noted as part of The IIA’s definition of internal auditing – “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.”

The General Technical Knowledge section of the *Internal Audit Capabilities and Needs Survey* is dynamic. In future studies, we will continue to introduce changes with regard to new laws, regulations and technical pronouncements. Therefore, we expect to continue seeing year-over-year changes in the results, most notably in the top “Need to Improve” areas.

### Key Questions to Consider:

- If your organization has not adopted IFRS, has it considered the possible impacts? Do you know the key and significant differences between IFRS and the applicable country-specific GAAP?
- Is your organization aware of, and have you planned for, the changes that could come with the GAAP convergence calendar currently in play with the FASB and IASB? Have you identified specific teams and plans for tackling the potential changes to revenue recognition, lease accounting, fair value measurements and other areas that could be coming in the nearer term?
- Beyond just changes in accounting principles, how will IFRS impact your business strategies and policies, internal control, business processes, people and resources, internal reporting, methodologies, financial reporting systems, and underlying data?
- Regardless of the industry you operate in, have you reviewed and evaluated how aspects of the Dodd-Frank Act will impact your business and that of your key financial services industry providers?
- Have you considered how ISO 31000 might serve as a helpful and instructive guide and comparison to your organization’s current ERM program?
- Can a better understanding and improvement in capability around Six Sigma concepts help your internal audit organization add more value and improve its operational auditing effectiveness? Is your internal audit organization well-versed in Six Sigma and Lean Six Sigma concepts to help identify key operational improvements and cost-saving opportunities?
- Do you have a high level of knowledge about the GTAG 13 standard? Is your organization properly addressing IIA Standard 2120.A2?
- Is your level of information security appropriate in today’s highly automated world? Are you evaluating the sensitivity of this information adequately and protecting it from internal and external threats?

## Reviewing the Results from a Non-FSI Perspective

This year's top five "Need to Improve" competencies under General Technical Knowledge included two sections from the Dodd-Frank Wall Street Reform and Consumer Protection Act – Penalties in Administrative Proceedings, and Hedging by Employees and Directors. These results underscore the high level of concern among internal auditors in the financial services industry to obtain a full understanding of these provisions and to assess and manage potential risks in the organization accordingly. As noted in the Demographics section of this survey report (see page 28), internal audit executives and professionals from the financial services industry comprise 16 percent of all participants, and nearly all respondents from this industry group ranked these two Dodd-Frank provisions as "Need to Improve" competencies.

Given this unusually strong bias in the overall results, we thought it would be beneficial to review the top "Need to Improve" rankings minus responses from financial services industry participants. Indeed, these results tell a slightly different story:

Rank	General Technical Knowledge	Competency (5-pt. scale)
1	GTAG 13 – Fraud Prevention and Detection in an Automated World	2.9
2	International Financial Reporting Standards (IFRS)	2.7
3	ISO 31000 (risk management)	2.2
4	Six Sigma	2.4
5	GTAG 15 – Information Security Governance	2.9

As noted in the table, the Dodd-Frank Act provisions are not among the top "Need to Improve" areas, yet the other competencies are consistent with the overall results. Clearly, the Dodd-Frank Act represents a top priority of internal auditors in the financial services industry. While it is less so in other industry groups compared to issues such as IFRS and fraud prevention and detection, essentially all companies will be impacted by Dodd-Frank, given the relationship they have with key financial services providers.

For further information on the Dodd-Frank Act and its impact on companies in and beyond the financial services industry, visit the Regulatory Reform page at [www.protiviti.com](http://www.protiviti.com), under Current Challenges.

### Three-Year Trends

- IFRS has ranked in the top five “Need to Improve” areas of the study in each of the past three years.
- Other top-ranked areas for 2011 are new to the study.

IT governance continues to be a key area in need of improvement for internal auditors, as evidenced by the high rankings of ISO 27000 the previous two years and GTAG 15 in the most recent survey. IT governance also is addressed in The IIA’s *International Standards for the Professional Practice of Internal Auditing*. Standard 2110.A2 requires the internal audit activity to assess whether the information technology governance of the organization sustains and supports the organization’s strategies and policies.<sup>4</sup>

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

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

Rank	2011	2010	2009
1	IFRS	GAIT	GAIT
	GTAG 13 – Fraud Prevention and Detection in an Automated World		
2	ISO 31000	IFRS	IFRS
3	Penalties in Administrative Proceedings (Dodd-Frank Act § 929P)	XBRL	XBRL
4	Six Sigma	ISO 27000	ERM
5	Hedging by Employees and Directors (Dodd-Frank Act § 955)	COBIT	ISO 27000
	GTAG 15 – Information Security Governance		

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

<sup>4</sup> Ibid.

## FOCUS ON CHIEF AUDIT EXECUTIVES

This year's responses among CAEs surveyed generally mirror the study's overall results. Pronouncements coming from GTAG continue to be ranked high by CAEs.

**Table 5: CAE Results, General Technical Knowledge**

Rank	General Technical Knowledge	Competency (5-pt. scale)
1	International Financial Reporting Standards (IFRS)	2.8
2	GTAG 13 – Fraud Prevention and Detection in an Automated World	3.1
3 (tie)	Penalties in Administrative Proceedings (Dodd-Frank Act § 929P)	2.7
	Hedging by Employees and Directors (Dodd-Frank Act § 955)	2.6
4 (tie)	GTAG 14 – Auditing User-Developed Applications	3.0
	GTAG 15 – Information Security Governance	3.2
5 (tie)	GTAG 3 – Continuous Auditing	3.2
	GTAG 12 – Auditing IT Projects	3.2

### Key Questions for CAEs:

- How would you rate your organization's level of preparedness for the transition to IFRS?
- How effective is your organization in preventing and detecting fraud? What technologies might you require, if any, to enhance your fraud detection and prevention capabilities?
- Are you keeping apprised of current and relevant GTAG Standards?

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

Rank	2011	2010	2009
1	IFRS	GAIT	IFRS
2	GTAG 13 – Fraud Prevention and Detection in an Automated World	XBRL	GAIT
3	Penalties in Administrative Proceedings (Dodd-Frank Act § 929P)	IFRS	XBRL
	Hedging by Employees and Directors (Dodd-Frank Act § 955)		
4	GTAG 14 – Auditing User-Developed Applications	COBIT	ERM
	GTAG 15 – Information Security Governance		
5	GTAG 3 – Continuous Auditing	ISO 27000	ISO 27000
	GTAG 12 – Auditing IT Projects		

### III. Assessing Audit Process Knowledge

#### Key Findings – 2011

- This year’s findings are consistent with those from previous years.
- Continuous Auditing and CAATs continue to rank as the top areas in need of improvement.
- Also included in the top five: data analysis tools for statistical analysis and data manipulation, and Auditing IT – Program Development.

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

Rank	Audit Process Knowledge	Competency (5-pt. scale)
1	Continuous Auditing	3.5
2	Computer Assisted Audit Tools (CAATs)	3.3
3	Data Analysis Tools – Statistical Analysis	3.4
4	Data Analysis Tools – Data Manipulation	3.4
5	Auditing IT – Program Development	3.2

Respondents were asked to assess their competency in 51 skills and areas of audit process knowledge on a scale of one to five, with one being the lowest level of competency and five being the highest. They were then asked to indicate whether they believed their level of competency is adequate or in need of improvement, taking into account the circumstances of their company and the nature of its industry. (See page 17 for the knowledge areas under consideration.) Some skill areas, such as Assessing Controls Design and Assessing Controls Operating Effectiveness, were subdivided and considered from multiple aspects and at different levels. Figure 3 depicts a comparison of “Need to Improve” versus “Competency” ratings in an Audit Process Knowledge landscape.

The top-ranked “Need to Improve” competencies in this year’s study, particularly the top four, very clearly stand out among the areas in need of improvement, as shown in Figure 3.

As noted in previous *Internal Audit Capabilities and Needs Survey* reports, CAATs and continuous auditing continue to be among the highest priorities for internal audit functions to develop and implement. Businesses are becoming increasingly aware of the value of integrating continuous auditing and monitoring into their risk management, governance and internal control activities. They recognize that these internal auditing activities can help them ensure key controls and processes are operating as intended, proactively identify existing and emerging risks, and detect opportunities. As a result of this new awareness, continuous auditing and monitoring has grown exponentially in recent years as a highly effective and widely embraced risk management, governance and control process.

Internal audit functions must continue to make technology an integral part of their strategies and day-to-day activities. The question no longer is “if” but “how” this is accomplished and becomes a key component of the foundation for key processes within, and findings resulting from, internal auditing activities. This transition can enable internal audit professionals to devote more time to higher-level initiatives (for example, assessing the organization’s strategic risk, as detailed in the prior section) and potentially reduce auditing costs while increasing coverage of, frequency of and confidence in internal control effectiveness and fraud prevention and detection.

Figure 3: Audit Process Knowledge – Perceptual Map



Number	Audit Process Knowledge	Number	Audit Process Knowledge
1	Continuous Auditing	27	Resource Management (hiring, training, managing)
2	Computer Assisted Audit Tools (CAATs)	28	Top-Down, Risk-Based Approach to Assessing Internal Control over Financial Reporting
3	Data Analysis Tools – Statistical Analysis	29	Presenting to the Audit Committee
4	Data Analysis Tools – Data Manipulation	30	Assessing Controls Operating Effectiveness (entity level) – Tone at the Top/Soft Controls
5	Auditing IT – Program Development	31	Presenting to Senior Management
6	Auditing IT – Computer Operations	32	Assessing Risk – Entity Level
7	Fraud – Monitoring	33	Assessing Controls Design (entity level) – Tone at the Top/Soft Controls
8	Data Analysis Tools – Sampling	34	Operational Auditing – Risk-Based Approach
9	Auditing IT – Security	35	Report Writing
10	Fraud – Auditing	36	Interviewing
11	Statistically Based Sampling	37	Assessing Controls Operating Effectiveness (process level) – Financial Controls
12	Quality Assurance and Improvement Program (IIA Standard 1300) Ongoing Reviews (IIA Standard 1311)	38	Assessing Controls Design (entity level) – Company-Level Controls
13	Quality Assurance and Improvement Program (IIA Standard 1300) External Assessment (IIA Standard 1312)	39	Assessing Risk – Process, Location, Transaction Level
14	Marketing Internal Audit Internally	40	Assessing Controls Design (process level) – Financial Controls
15	Fraud – Fraud Detection/Investigation	41	Assessing Controls Design (entity level) – Monitoring Controls
16	Auditing IT – Continuity	42	Assessing Controls Design (process level) – Operational Controls
17	Fraud – Fraud Risk Management/Prevention	43	Audit Planning – Entity Level
18	Quality Assurance and Improvement Program (IIA Standard 1300) Periodic Reviews (IIA Standard 1311)	44	Assessing Controls Operating Effectiveness (entity level) – Monitoring Controls
19	Auditing IT – Change Control	45	Assessing Controls Operating Effectiveness (process level) – Compliance Controls
20	Fraud – Fraud Risk Assessment	46	Developing Recommendations
21	Use of Self-Assessment Techniques	47	Assessing Controls Operating Effectiveness (process level) – Operational Controls
22	Internal Quality Assessment (ongoing assessment)	48	Assessing Controls Design (process level) – Compliance Controls
23	Internal Quality Assessment (periodic review)	49	Audit Planning – Process, Location, Transaction Level
24	Operational Auditing – Cost-Effectiveness/ Cost Reduction	50	Assessing Controls Operating Effectiveness (entity level) – Company-Level Controls
25	Operational Auditing – Effectiveness, Efficiency and Economy of Operations Approach	51	Conducting Opening/Closing Meetings
26	Planning Audit Strategy		

Interestingly, while the findings from this study previously have included fraud-related competencies among the top “Need to Improve” areas, these skills are ranked further down the list in this year’s results (monitoring and auditing fraud do appear in the top 10). This trend may indicate that the increasing use of technology in internal auditing activities is helping to identify and prevent fraud in organizations, or at least is assisting internal auditors so that their level of knowledge and expertise in fraud prevention and detection is strong enough to perform their jobs well.

### Key Questions to Consider:

- Are you leveraging CAATs? Are you satisfied with your proficiency – and that of other internal auditors in your organization – with these tools?
- Are you up-to-date on the GTAGs and how they can guide and add value to your internal auditing activities?
- Do you have a process to transition continuous auditing activities to continuous monitoring activities in order to embed these as key controls directly within a business process?
- Have you developed a key performance indicator to measure the effectiveness of using CAATs and data analysis to support internal audit activities?
- Does your current use of technology help you to address fraud more effectively, especially to prevent it?

### Three-Year Trends

- Continuous Auditing and CAATs have ranked as the top “Need to Improve” competencies in the past three years of the study.
- There has been a high level of consistency in all of the top Audit Process Knowledge areas in need of improvement throughout the history of the *Internal Audit Capabilities and Needs Survey*.

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

Of note, while establishing a quality assurance and improvement program and conducting an external assessment (as called for under IIA Standards 1300 and 1312) were not highly ranked this year compared to 2010, it remains critical for internal audit functions to understand and address these requirements. Under Standard 1312, an external assessment review is required at least once every five years. However, as noted in the Demographics section (see page 28), more than half of the survey’s respondents report that they have not conducted such an assessment, suggesting organizations continue to procrastinate.

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

Rank	2011	2010	2009
1	Continuous Auditing	CAATs	Continuous Auditing
			CAATs
2	CAATs	Data Analysis Tools – Statistical Analysis	Data Analysis Tools – Statistical Analysis
		Data Analysis Tools – Data Manipulation	Data Analysis Tools – Data Manipulation
3	Data Analysis Tools – Statistical Analysis	Continuous Auditing	Fraud Monitoring
4	Data Analysis Tools – Data Manipulation	Auditing IT – Program Development	Fraud – Fraud Detection/ Investigation
			Auditing IT – Program Development
5	Auditing IT – Program Development	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (IIA Standard 1312)	Fraud – Auditing
			Fraud – Fraud Risk Management/Prevention
			Auditing IT – Computer Operations
			Auditing IT – Security

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

## FOCUS ON CHIEF AUDIT EXECUTIVES

This year's responses among CAEs surveyed generally mirror the study's overall results. One notable difference is that monitoring of fraud-related activities moved into the top five, suggesting there is greater concern among CAEs in ensuring fraud monitoring is conducted appropriately in their organizations. This may also be due to The IIA's relatively new Standard (2120.A2) requiring all internal audit activities to evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.<sup>5</sup>

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

Rank	Audit Process Knowledge	Competency (5-pt. scale)
1	Continuous Auditing	3.6
2 (tie)	Data Analysis Tools – Statistical Analysis	3.6
	Data Analysis Tools – Data Manipulation	3.6
	Computer Assisted Audit Tools (CAATs)	3.5
3	Data Analysis Tools – Sampling	3.6
4	Auditing IT – Computer Operations	3.6
5	Fraud – Monitoring	4.0

### Key Questions for CAEs:

- Is your internal audit function employing continuous monitoring of key business processes and activities in the organization? If not, in what areas might continuous auditing be beneficial? How can continuous auditing and monitoring be integrated into your organization's fraud risk management activities?
- Are you familiar with the various auditing tools and technologies in the marketplace? Are you satisfied that you are leveraging those that are best for your organization and internal audit function?
- In what areas of data analysis can your internal audit function benefit from further training or guidance in order to audit the enterprise and business-unit data in the most effective manner?

<sup>5</sup> Ibid.

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

Rank	2011	2010	2009
1	Continuous Auditing	CAATs	CAATs
			Continuous Auditing
2	Data Analysis Tools – Statistical Analysis	Continuous Auditing	Data Analysis Tools – Data Manipulation
	Data Analysis Tools – Data Manipulation		
	CAATs		
3	Data Analysis Tools – Sampling	Data Analysis Tools – Statistical Analysis	Data Analysis Tools – Statistical Analysis
4	Auditing IT – Computer Operations	Data Analysis Tools – Data Manipulation	Fraud – Monitoring
			Fraud – Fraud Detection/ Investigation
5	Fraud – Monitoring	Quality Assurance and Improvement Program (IIA Standard 1300) – External Assessment (IIA Standard 1312)	Fraud – Auditing
			Fraud – Fraud Risk Management/Prevention

## IV. Personal Skills and Capabilities

### Key Findings – 2011

- This year’s results are consistent with the 2010 survey findings, though the top two areas for improvement – Dealing with Confrontation and Presenting (public speaking) – swapped positions.
- Negotiation ranks as a top area in need of improvement for the first time.

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

Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Dealing with Confrontation	3.6
2	Presenting (public speaking)	3.6
3	Negotiation	3.5
4	Leadership (within the IA profession)	3.4
5	Developing Outside Contacts/Networking	3.6

Respondents were asked to assess, on a scale of one to five, their competency in 23 types of personal skills and capabilities, with one being the lowest level of competency and five being the highest. They were then asked to indicate whether they believed their competency level is adequate or requires improvement, taking into account the circumstances of their organization and the nature of its industry. (See page 23 for the areas of knowledge under consideration.) Figure 4 depicts a comparison of “Need to Improve” versus “Competency” ratings in a Personal Skills and Capabilities landscape.

As noted in Table 12, Dealing with Confrontation has been a top-ranked “Need to Improve” competency in the past three years of the survey, as has Presenting (public speaking). Both skills remain highly valuable to internal audit leaders and professionals who are assuming more strategic roles and working closely with most departments in the organization.

It is noteworthy that the top items in this part of the survey – all of which relate to personal effectiveness – do not vary greatly year over year, indicating that these are core personal skills and capabilities that internal auditors need in order to perform their jobs well. Despite the growing prevalence of technology in internal auditing, the profession remains about people. The quality and skills of the individuals who comprise an internal audit function will drive its quality and performance more than any other factor. Therefore, it remains just as important to focus on interpersonal and communication, or “soft,” skills as it does to continue learning about new laws and regulations as well as audit process competencies and the incorporation of new technology.

Figure 4: Personal Skills and Capabilities – Perceptual Map



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

### Key Questions to Consider:

- Have you observed interactions between the company’s internal auditors and executives or management that may have been handled more effectively from a communications standpoint?
- Does your organization offer adequate training for internal auditors in “soft” skills so that they can work more effectively with various departments?
- Do you feel you have a strong network of outside experts and contacts to whom you can reach out regularly for counsel, guidance and resources?
- Is your internal audit team acquiring, developing and maturing the skills they need to be effective when they leave the internal audit function to lead and contribute in other areas of your organization?

### Three-Year Trends

- Dealing with Confrontation has ranked first or second among the top “Need to Improve” competencies for the past three years.
- Presenting (public speaking) and Developing Outside Contacts/Networking have ranked consistently in the top five since 2009.

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

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

Rank	2011	2010	2009
1	Dealing with Confrontation	Presenting (public speaking)	Developing Other Board Committee Relationships
2	Presenting (public speaking)	Dealing with Confrontation	Dealing with Confrontation
3	Negotiation	Developing Outside Contacts/Networking	Persuasion
			Presenting (public speaking)
			Strategic Thinking
4	Leadership (within the IA profession)	Persuasion	Leadership (within the IA profession)
			Developing Outside Contacts/Networking
			Time Management
5	Developing Outside Contacts/Networking	Strategic Thinking	Developing Audit Committee Relationships

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

## FOCUS ON CHIEF AUDIT EXECUTIVES

The rankings among CAEs surveyed generally mirror the overall results (though CAEs report higher competency levels in most areas). Similar to last year's results, a notable difference is CAEs' ranking of Developing Other Board Committee Relationships as the top "Need to Improve" area, marking the fourth consecutive year it has been at the top of this list. Working closely and collaboratively with the board continues to be critically important for CAEs, particularly with the intensity of the spotlight increasing on board risk oversight and enterprise risk management.

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

Rank	Personal Skills and Capabilities	Competency (5-pt. scale)
1	Developing Other Board Committee Relationships	3.9
2 (tie)	Developing Outside Contacts/Networking	4.0
	Time Management	4.0
3	Leadership (within the IA profession)	3.7
4	Presenting (public speaking)	4.0
5	Strategic Thinking	4.0

### Key Questions for CAEs:

- Have you been successful in forming relationships with board members outside of the audit committee? Could you benefit from further relationship-building?
- To what professional and trade organizations do you belong? Do you attend and participate in meetings and events on a regular basis? Are you networking effectively with other members?
- Does your audit team rank high in the areas of negotiation, public speaking and dealing with confrontation? Would additional training in these areas help?
- Is your internal audit team active in the profession? In what ways can you and your team members improve your contributions?
- In what areas of your job could you benefit from better time management?
- Do you invest time periodically to focus on the organization's overall strategy and how internal audit supports it?

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

Rank	2011	2010	2009
1	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships	Developing Other Board Committee Relationships
2	Developing Outside Contacts/ Networking	Presenting (public speaking)	Presenting (public speaking)
	Time Management		Strategic Thinking
3	Leadership (within the IA profession)	Developing Outside Contacts/ Networking	Dealing with Confrontation
			Time Management
4	Presenting (public speaking)	Time Management	Developing Outside Contacts/ Networking
			Negotiation
5	Strategic Thinking	Dealing with Confrontation	Creating a Learning Internal Audit Function

## Methodology

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More than 600 respondents submitted completed surveys for Protiviti's *Internal Audit Capabilities and Needs Survey*, which was conducted from August through October 2010. The survey consisted of a series of questions grouped into four divisions: Risk Management and Governance Process Knowledge, General Technical Knowledge, Audit Process Knowledge, and Personal Skills and Capabilities. Participants were asked to assess their skills and competency by responding to questions concerning 164 topic areas. Respondents from the U.S. financial services, U.S. healthcare, energy and utilities, and manufacturing industries were also asked to assess industry-specific skills (these findings are available upon request). The purpose of this survey was to elicit responses that would illuminate the current perceived levels of competency in the many skills necessary to today's internal auditors, and to determine which knowledge areas require the most improvement.

Survey participants also were asked to provide demographic information about the nature, size and location of their businesses, and their titles or positions within the internal audit department. These details were used to help determine whether there were distinct capabilities and needs among different sizes and sectors of business or among individuals with different levels of seniority within the internal audit profession. All demographic information was provided voluntarily by respondents.

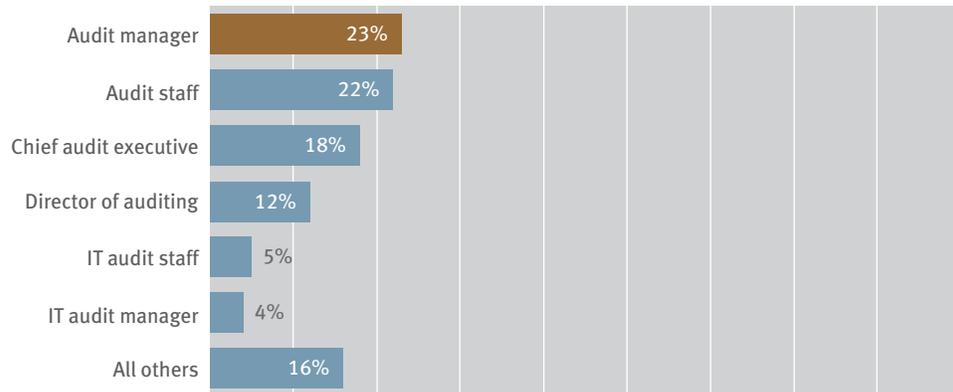
### Sources of Respondents

- **Professional Development Conferences** – Surveys were distributed in paper form to attendees at the following conferences. Completed forms were returned to the Protiviti booth at each conference.
  - The IIA GRC Conference, Palm Beach, Florida (August 23-25, 2010)
  - The IIA Canadian National Conference, Vancouver, British Columbia (September 26-29, 2010)
  - The IIA All-Star Conference, Las Vegas, Nevada (October 18-20, 2010)
- **Web-based survey at KnowledgeLeader<sup>SM</sup>** – Electronic surveys were made available online to KnowledgeLeader subscribers, including those with trial subscriptions. KnowledgeLeader is a subscription-based Protiviti website designed to assist internal audit professionals with finding information, tools and best practices they can use to improve the efficiency and quality of their work.
- **Electronic surveys** – Surveys also were forwarded to other internal audit professionals who expressed an interest in participating.

# Survey Demographics

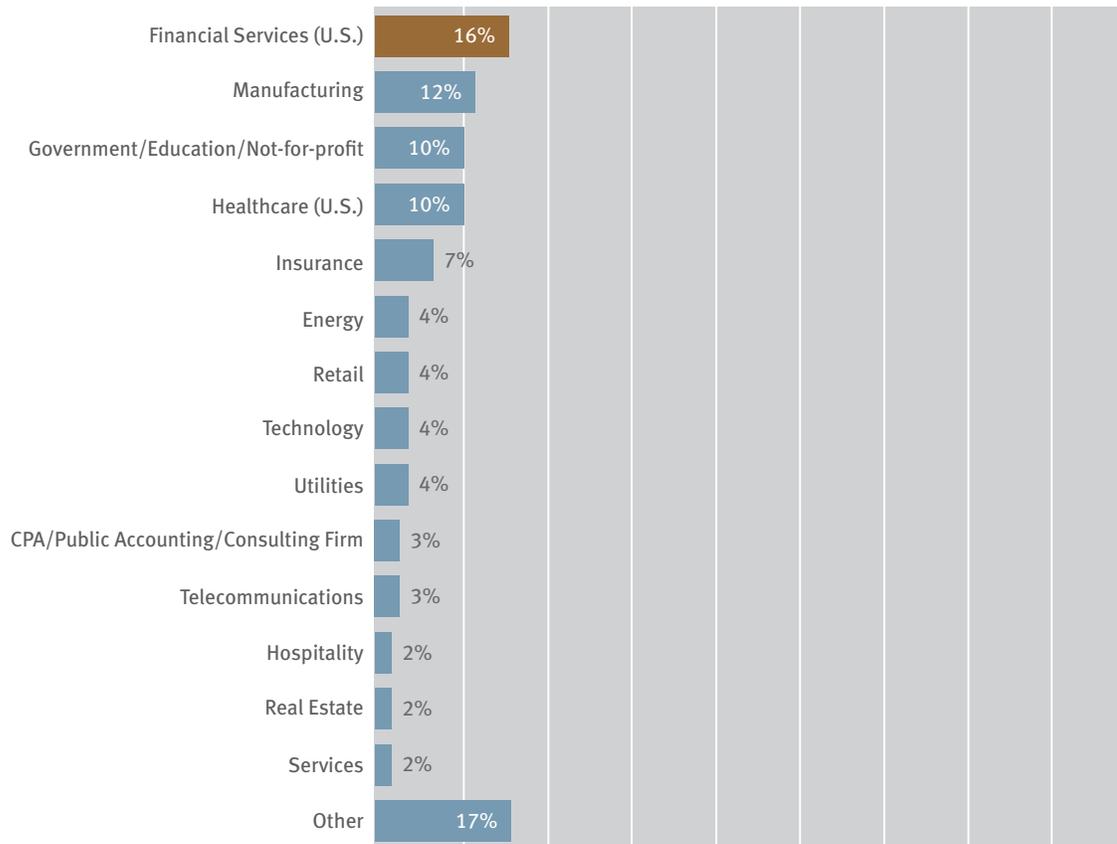
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## Position:

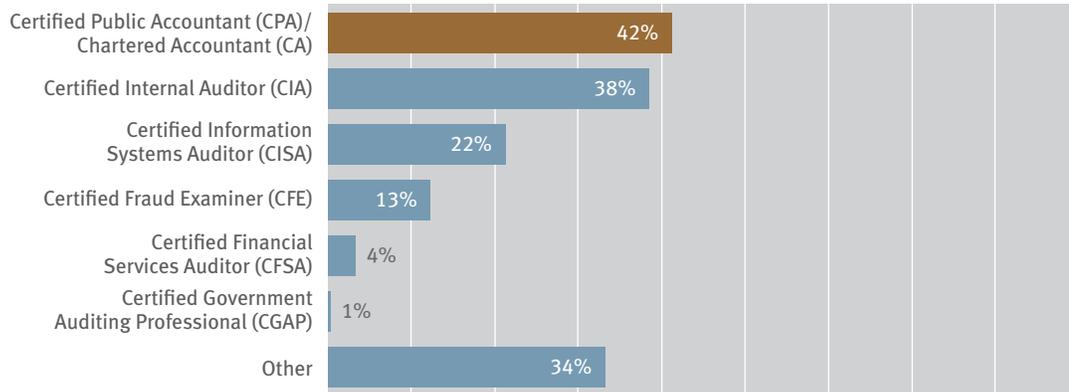


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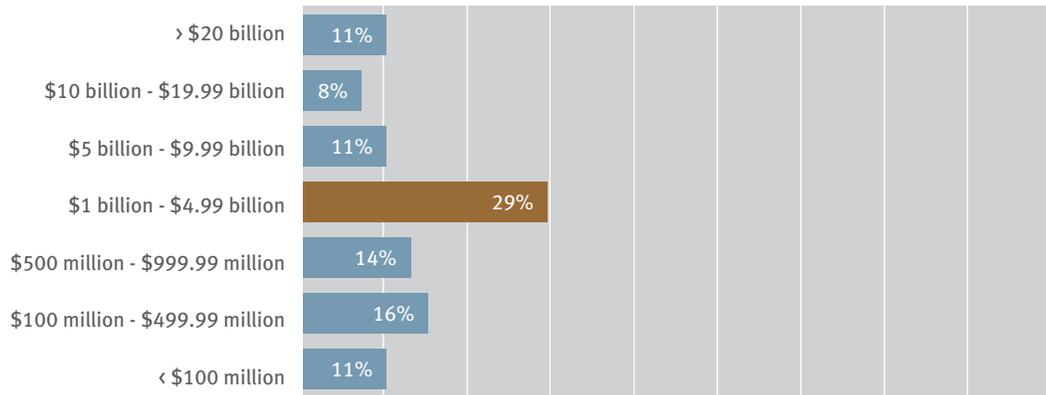
## Industry:



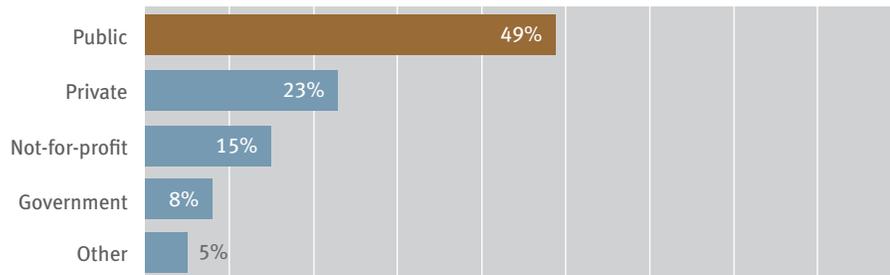
**Certifications:**



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

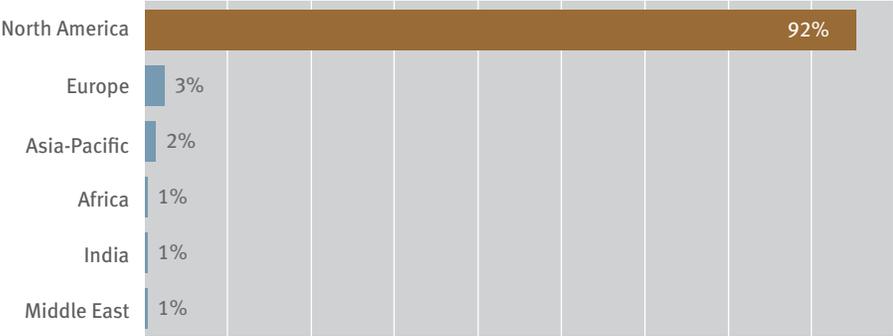


**Type of organization:**

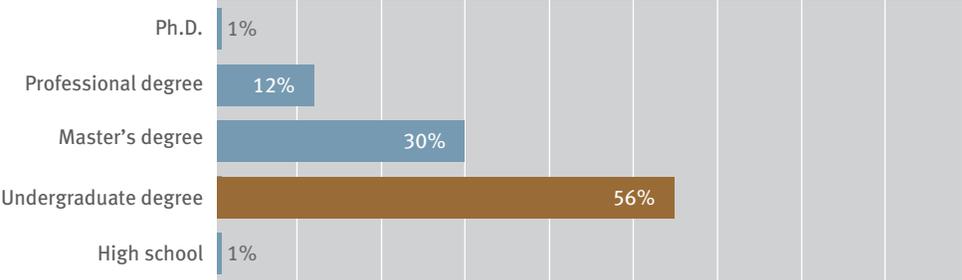


# Survey Demographics (cont.)

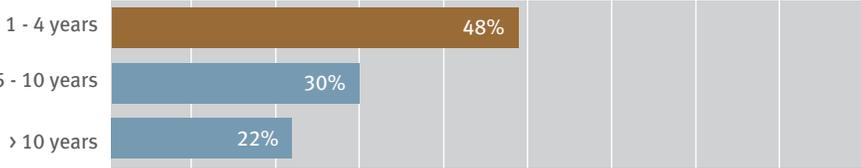
## Region of respondents:



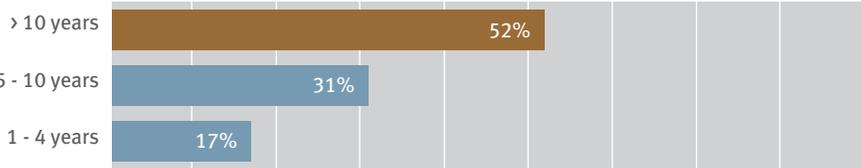
## Education level:



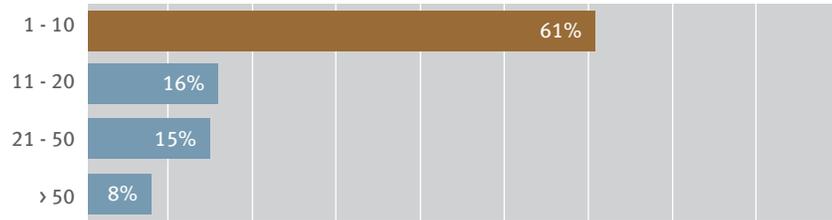
## Years in current position:



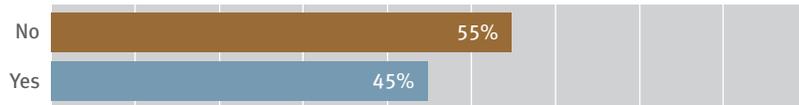
## Existence of internal audit department:



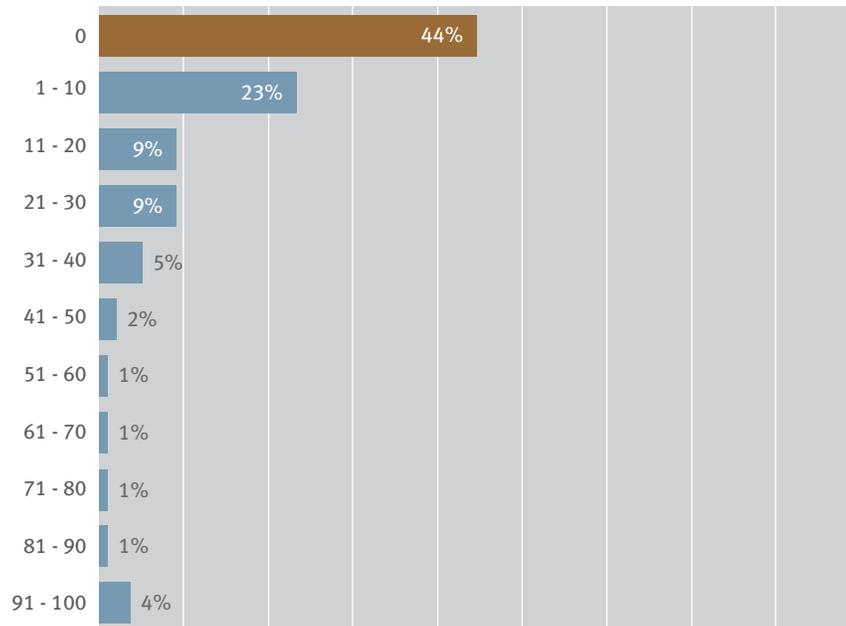
**Internal audit department full-time (or equivalent) personnel:**



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



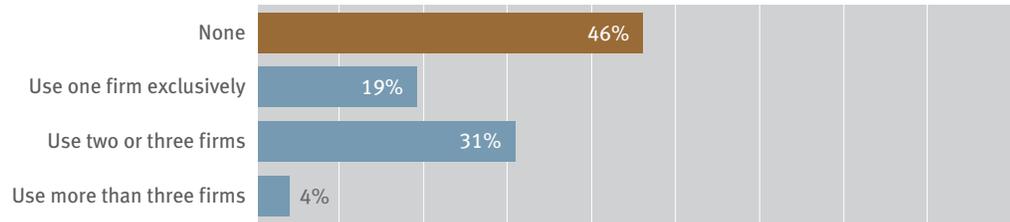
**Percentage of annual audit hours co-sourced to third-party providers:**



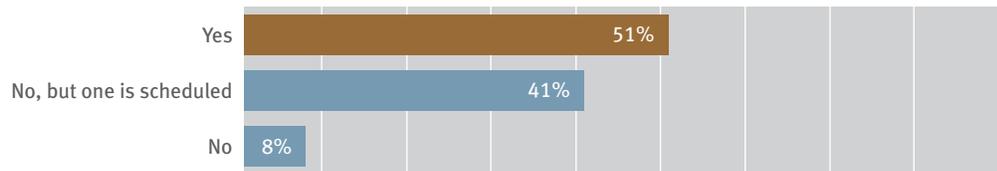
## Survey Demographics (cont.)

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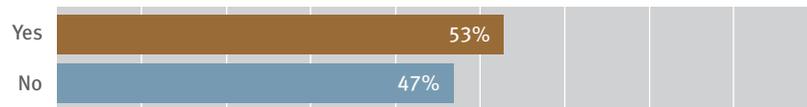
### Co-sourced firms used for completing annual work:



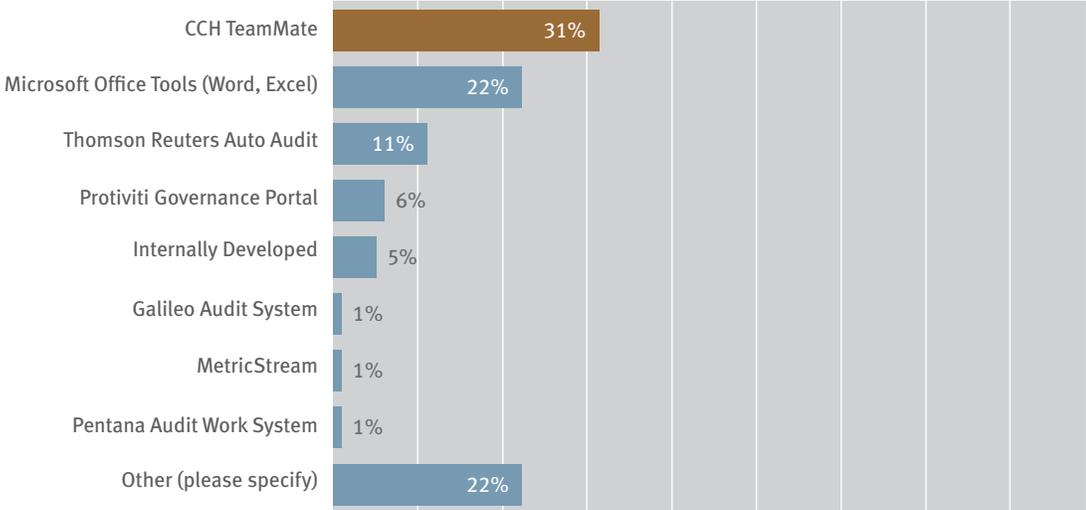
### External quality assessment (Standard 1312) conducted in last five years:



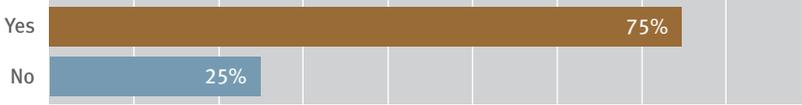
### Utilize an automated internal audit work paper application:



**If YES: Automated internal audit work paper application utilized:**



**If NO: Plans to implement an automated internal audit work paper application in the next year:**



## Appendix 1 – Relevant Standards and Laws

Law/Standard	Description	Website
Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements (EITF 09-3 (ASU 2009-14))	Impacts the accounting for multiple-deliverable revenue arrangements that include: (1) products with embedded software, and (2) non-embedded software that is more than incidental to a product sold in the same arrangement.	<a href="http://www.fasb.org">www.fasb.org</a>
AU Section 322 – The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements	Provides the external auditor with guidance on considering the work of internal auditors and on using internal auditors to provide direct assistance to the auditor in an audit performed in accordance with generally accepted auditing standards.	<a href="http://www.aicpa.org">www.aicpa.org</a>
Board Risk Oversight (SEC Item 407(h) of Regulation S-K)	Requires disclosure about the board leadership structure and extent of the board’s role in the risk oversight of the company.	<a href="http://www.sec.gov">www.sec.gov</a>
COBIT	Provides good practices across a domain and process framework and presents activities in a manageable and logical structure. COBIT’s good practices represent the consensus of experts.	<a href="http://www.isaca.org">www.isaca.org</a>
COSO Enterprise Risk Management Framework	Offers organizations a commonly accepted model for evaluating risk management efforts; the framework expands on internal control concepts by providing a more robust focus based on the broader subject of enterprise risk management (ERM).	<a href="http://www.coso.org">www.coso.org</a>
COSO Internal Control Framework	Developed by the Committee of Sponsoring Organizations of the Treadway Commission and sponsored by the AICPA, FEI, IIA and others. This is the most dominant control model in the United States.	<a href="http://www.coso.org">www.coso.org</a>
Dodd-Frank Act: Whistleblower Provisions (§ 922)	Mandates the establishment of a government-sponsored program to pay awards of up to 30 percent to eligible whistleblowers who voluntarily provide original information about potential securities laws violations that lead to sanctions of \$1 million or more.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Penalties in Administrative Proceedings (§ 929P)	Amended Section 20(e) of the Exchange Act by expanding the basis for aiding and abetting liability beyond knowing violators to reckless violators.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Say-on-Pay (§ 951)	Amends the Exchange Act to require companies to include a provision in certain proxy statements for a nonbinding shareholder vote on the compensation of executives as disclosed pursuant to SEC rules.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Compensation Committee and Adviser Independence (§ 952)	The SEC must direct national securities exchanges to require that each member of a listed company’s compensation committee satisfy a heightened standard of independence.	<a href="http://www.sec.gov">www.sec.gov</a>

Law/Standard	Description	Website
Dodd-Frank Act: Additional Executive Compensation Disclosures (§ 953)	The SEC must issue rules requiring companies to describe clearly in annual proxy statements the relationship between executive compensation actually paid and the company's financial performance. The description must discuss or illustrate stock price performance and dividend policy.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Clawback of Incentive Compensation (§ 954)	Under the mandated policy, if a company is required to restate its financial statements due to material noncompliance with relevant reporting requirements, the company must recover from current and former executive officers any excess incentive compensation based on the erroneous data received during the three-year period preceding the date on which the company becomes required to prepare the restatement.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Hedging by Employees and Directors (§ 955)	The SEC must issue rules requiring companies to disclose in their annual proxy statements whether any employee or director is permitted to purchase financial instruments that are intended to hedge or offset any decrease in the market value of any equity securities granted by the company as part of compensation or held by that person.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Proxy Access Authority (§ 971)	Gives the SEC express discretionary authority to adopt rules and procedures relating to the inclusion of shareholder board nominees in a company's proxy solicitation materials.	<a href="http://www.sec.gov">www.sec.gov</a>
Dodd-Frank Act: Disclosure of Board Leadership (§ 972)	The SEC must issue rules requiring companies to disclose in annual proxy statements why they have separated or combined the positions of chairman of the board and CEO.	<a href="http://www.sec.gov">www.sec.gov</a>
Extensible Business Reporting Language (XBRL)	A royalty-free, international information format designed specifically for business information, also referred to as "interactive data" by the SEC.	<a href="http://www.xbrl.org">www.xbrl.org</a>
Evaluating Executive Compensation Risk of Regulation S-K	Requires a company to consider how, if at all, its overall compensation for employees creates incentives that may impact its risk and management of risk.	<a href="http://www.sec.gov">www.sec.gov</a>
Fair Value Accounting	Also called "mark-to-market," fair value accounting is a way to measure assets and liabilities that appear on a company's balance sheet and income statement. Measuring companies' assets and liabilities at fair value may affect their income statement. SFAS 157 defines in one place the meaning of "fair value."	<a href="http://www.fasb.org">www.fasb.org</a>

## Appendix 1 – Relevant Standards and Laws (cont.)

Law/Standard	Description	Website
FASB Accounting Standards Codification™	A major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. generally accepted accounting principles (GAAP) by providing the authoritative literature in a topically organized structure.	<a href="http://www.fasb.org">www.fasb.org</a>
FIN 48 (Tax Uncertainties)	Provides a consistent approach and criteria for the evaluation, recognition and measurement of the tax benefit related to tax positions.	<a href="http://www.fasb.org">www.fasb.org</a>
Foreign Corrupt Practices Act (FCPA)	Prohibits U.S. businesses from bribing foreign officials and requires public companies to, among other things, maintain accurate books and records.	<a href="http://www.justice.gov">www.justice.gov</a>
Global Technology Audit Guides (GTAG®)	Prepared by The Institute of Internal Auditors (The IIA), each Global Technology Audit Guide (GTAG) is written in straightforward business language to address a timely issue related to information technology management, control, and security. The GTAG series serves as a ready resource for chief audit executives on different technology-associated risks and recommended practices.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 1: Understanding IT Controls	Explains IT controls and audit practice in a format that allows CAEs to understand and communicate the need for strong IT controls.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 2: Change and Patch Management Controls	Helps internal auditors ask the right questions of the IT organization to assess its change management capability.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 3: Continuous Auditing	Helps identify what must be done to make effective use of technology in support of continuous auditing, and highlights areas that require further attention.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 4: Management of IT Auditing	Helps CAEs sort through the strategic issues regarding planning, performing, and reporting on IT audits.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 5: Managing and Auditing Privacy Risks	Provides insight into privacy risks that the organization should address when it collects, uses, retains, or discloses personal information.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 6: Managing and Auditing IT Vulnerabilities	Recommends specific management practices to help achieve and sustain higher levels of effectiveness and efficiency and illustrates the differences between high- and low-performing vulnerability management efforts.	<a href="http://www.theiia.org">www.theiia.org</a>

Law/Standard	Description	Website
GTAG 7: IT Outsourcing	Provides information on the types of IT outsourcing activities, the IT outsourcing lifecycle, and how outsourcing activities should be managed by implementing well-defined plans that are supported by a companywide risk, control, compliance, and governance framework.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 8: Auditing Application Controls	Provides information on the role of internal auditors regarding application controls, and how to perform a risk assessment. This guide also includes a list of common application controls, a sample audit plan, and application control review tools.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 9: Identity and Access Management	Provides insight into what identity and access management means to an organization and recommends internal audit areas for investigation.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 10: Business Continuity Management	Provides insight into what BCM means to an organization and how to build a business case, and identifies common risks and requirements.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 11: Developing the IT Audit Plan	Helps auditors understand the organization's IT environment; the applications and computer operations that are part of the IT infrastructure; how IT applications and operations are managed; and how IT applications and operations link back to the organization.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 12: Auditing IT Projects	Provides an overview of techniques for effectively engaging with project teams and management to assess IT project risks.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 13: Fraud Prevention and Detection in an Automated World	Focuses on IT-related fraud risks and risk assessments and how the use of technology can help internal auditors and other key stakeholders within the organization address fraud and fraud risks.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 14: Auditing User-Developed Applications	Focuses on user-developed application (UDA) risks and building an audit of UDAs into the annual internal audit plan as appropriate.	<a href="http://www.theiia.org">www.theiia.org</a>
GTAG 15: Information Security Governance	Provides a thought process to incorporate an audit of information security governance (ISG) into the audit plan, focusing on whether the organization's ISG activity delivers the correct behaviors, practices, and execution of information security.	<a href="http://www.theiia.org">www.theiia.org</a>
The Guide to the Assessment of IT Risk (GAIT)	Describes the relationships among business risk, key controls within business processes, automated controls and other critical IT functionality, and key controls within IT general controls.	<a href="http://www.theiia.org">www.theiia.org</a>

## Appendix 1 – Relevant Standards and Laws (cont.)

Law/Standard	Description	Website
IIA Standard 2110.A1 – Ethics Programs	The internal audit activity must evaluate the design, implementation and effectiveness of the organization’s ethics-related objectives, programs and activities.	<a href="http://www.theiia.org">www.theiia.org</a>
IIA Standard 2110.A2 – IT Governance	The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization’s strategies and objectives.	<a href="http://www.theiia.org">www.theiia.org</a>
IIA Standard 2120.A2 – Fraud Risk Management	The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.	<a href="http://www.theiia.org">www.theiia.org</a>
International Financial Reporting Standards (IFRS)	Developed by the International Accounting Standards Board (IASB) and intended to be applied by profit-oriented entities to their financial statements in order to provide information on financial position, operating performance and cash flow that is useful to decision-makers such as shareholders, creditors, employees and the general public.	<a href="http://www.iasb.org">www.iasb.org</a>
ISO 9000 (quality management and quality assurance)	Represents an international consensus on good quality management practices consisting of standards and guidelines relating to quality management systems and related supporting standards.	<a href="http://www.iso.org">www.iso.org</a>
ISO 14000 (environmental management)	Addresses various aspects of environmental management.	<a href="http://www.iso.org">www.iso.org</a>
ISO 27000 (information security)	Provides a model for establishing, implementing, operating, monitoring, reviewing, maintaining and improving an information security management system.	<a href="http://www.iso.org">www.iso.org</a>
ISO 31000 (risk management)	Seeks to provide a universally recognized paradigm for practitioners and companies employing risk management processes to replace the myriad of existing standards, methodologies and paradigms that differ between industries, subject matters and regions.	<a href="http://www.iso.org">www.iso.org</a>
PCAOB Auditing Standard No. 5 (An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements) (or local country equivalent)	Incorporates guidance the PCAOB staff released in response to a 2005 roundtable and makes the Sarbanes-Oxley Section 404 attestation process more cost-effective.	<a href="http://www.pcaobus.org">www.pcaobus.org</a>
Reporting on Controls at a Service Organization – SSAE 16/AU 324 (replaces SAS 70)	For service organizations that use subservice organizations and if the inclusive method is used, the audit report must include a written assertion by the subservice organization.	<a href="http://www.aicpa.org">www.aicpa.org</a>

Law/Standard	Description	Website
Revenue Arrangements with Multiple Deliverables (EITF 08-1 (ASU 2009-13))	Provides criteria required to separate arrangements with multiple deliverables into individual units of accounting, as well as the amount to allocate to each unit of accounting.	<a href="http://www.fasb.org">www.fasb.org</a>
Sarbanes-Oxley Section 301 (Complaints regarding accounting, internal controls or auditing matters)	Directs the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the audit committee requirements mandated by the Sarbanes-Oxley Act of 2002.	<a href="http://www.sec.gov">www.sec.gov</a>
Sarbanes-Oxley Section 302 (Disclosure controls and procedures)	Addresses all financial information disclosed to investors, including MD&A in the 10Q and 10K.	<a href="http://www.sec.gov">www.sec.gov</a>
Sarbanes-Oxley Section 404 (Internal control over financial reporting)	Requires issuers to publish information in their annual reports concerning the scope, adequacy and effectiveness of the internal control structure and procedures for financial reporting.	<a href="http://www.sec.gov">www.sec.gov</a>
SEC Interpretive Guidance for management regarding its evaluation and assessment of internal control over financial reporting (ICFR)	Intended to enable management to conduct a more effective and efficient evaluation of ICFR. Indicates that management's evaluation process will vary from company to company, because there is no one-size-fits-all approach.	<a href="http://www.sec.gov">www.sec.gov</a>
Six Sigma	A disciplined, data-driven approach and methodology for eliminating defects (driving towards six standard deviations between the mean and the nearest specification limit) in any process, from manufacturing to transactional and from product to service.	<a href="http://www.isixsigma.com">www.isixsigma.com</a>
Standards for the Professional Practice of Internal Auditing (IIA Standards)	Principles-focused; provides a framework for performing and promoting internal auditing.	<a href="http://www.theiia.org">www.theiia.org</a>
Stock-Based Compensation (FAS 123R Share-Based Payment)	Requires all entities (with limited exceptions) to recognize the fair value of share-based payment awards. Thus entities must address challenging issues in accounting for options and other share-based payment awards.	<a href="http://www.fasb.org">www.fasb.org</a>
U.S. GAAP	Comprised of many standards, interpretations, opinions and more that are developed by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (SEC).	<a href="http://www.fasb.org">www.fasb.org</a>

## Appendix 2 – ERM Capability Maturity Model

The ERM Capability Maturity Model is a tool for assisting management in thinking more clearly about questions related to enterprise risk management. It helps management consider the problem of matching the organization’s existing capabilities with its desired capabilities.

For more information, read Protiviti’s *Guide to Enterprise Risk Management*, available at [www.protiviti.com](http://www.protiviti.com).

	CONTINUUM	CAPABILITY ATTRIBUTES	METHOD OF ACHIEVEMENT
↑ PROCESS EVOLUTION	Optimizing	(Continuous Feedback) Risk management a source of competitive advantage	<ul style="list-style-type: none"> <li>• Focus on securing “first mover” advantages</li> <li>• “Best of class” processes</li> <li>• Knowledge accumulated and shared</li> </ul>
	Managed	(Quantitative) Risks measured/managed quantitatively and aggregated enterprisewide	<ul style="list-style-type: none"> <li>• Integration with core management processes</li> <li>• Rigorous measurement methodologies/analysis</li> <li>• Intensive debate on risk/reward trade-off issues</li> </ul>
	Defined	(Qualitative/Quantitative) Policies, processes and standards defined and institutionalized	<ul style="list-style-type: none"> <li>• Process uniformly applied across the organization</li> <li>• Remaining elements of infrastructure in place</li> <li>• Rigorous methodologies</li> </ul>
	Repeatable	(Intuitive) Process established and repeating; reliance on people continues	<ul style="list-style-type: none"> <li>• Common language</li> <li>• Quality people assigned</li> <li>• Defined tasks</li> <li>• Initial infrastructure elements</li> </ul>
	Initial	(Ad Hoc/Chaotic) Dependent on heroics; institutional capability lacking	<ul style="list-style-type: none"> <li>• Undefined tasks</li> <li>• Relies on initiative</li> <li>• “Just do it”</li> <li>• Reliance on key people</li> <li>• Silo behavior</li> </ul>

Source: Adapted from the *Capability Maturity Model: Guidelines for Improving the Software Process*, Carnegie Mellon University Software Engineering Institute, 1994

## About Protiviti

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

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



Protiviti has more than 60 locations worldwide and is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

### Internal Audit and Financial Controls

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

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

Among the services we provide are:

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

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

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## Other Thought Leadership from Protiviti

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Visit [www.protiviti.com](http://www.protiviti.com) to obtain copies of these and other thought leadership materials from Protiviti.

- **2010 Sarbanes-Oxley Compliance Survey – Where U.S.-Listed Companies Stand: Reviewing Cost, Time, Effort and Processes**
- **2011 Internal Audit Plan Considerations**
- **Board Risk Oversight – A Progress Report (from COSO and Protiviti): Where Boards of Directors Currently Stand in Executing Their Risk Oversight Responsibilities**
- **Changes to the IIA Standards: What Board Members and Executive Management Need to Know**
- **FS Insights – “Regulatory Reform in the United States – New Rules, Many Questions”**
- **Guide to Internal Audit: Frequently Asked Questions About Developing and Maintaining an Effective Internal Audit Function (Second Edition)**
- **Guide to International Financial Reporting Standards: Frequently Asked Questions (Second Edition)**
- **Guide to the Sarbanes-Oxley Act: Internal Control Reporting Requirements (Fourth Edition)**
- **Guide to U.S. Anti-Money Laundering Requirements (Fourth Edition)**
- **Internal Audit Capabilities and Needs Survey (2006-2010)**
- **Internal Auditing Around the World (Volumes 1-6)**
- **Internal Auditing Is an Asset for Small Companies as well as Large Ones**
- **Powerful Insights (Protiviti’s podcast series)**
  - Enterprise Risk Management and Board Risk Oversight – A Tale of Two Surveys from COSO
  - Fraud Risk Assessment – Identifying Vulnerabilities to Fraud and Misconduct
  - Fraud Risk Management: Safeguarding Your Reputation and Well-Being in Today’s Economic Climate
  - Internal Audit Quality Assessment Reviews – Required as well as Beneficial
  - IT Audit – Assessing and Managing Risks Effectively Within the IT Environment
  - Sarbanes-Oxley Compliance: Where U.S.-listed Companies Stand Today
  - Setting the 2011 Audit Committee Agenda
  - Technology-Enabled Audits – Increasing Productivity and Delivering More Timely and Reliable Results
  - The Benefits of Outsourcing the Internal Audit Function
  - The Move to IFRS – Start Early to Save Significant Cost, Time and Effort
- **Spreadsheet Risk Management: Frequently Asked Questions**
- **Testing the Reporting Process – Validating Critical Information**
- **The Bulletin (Volume 4, Issue 5) – “Setting the 2011 Audit Committee Agenda”**
- **Using High Value IT Audits to Add Value and Evaluate Key Risks and Controls**
- **Views on Regulatory Reform from the Financial Services Industry**

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

- **Audit Programs** – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeader. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.
- **Checklists, Guides and Other Tools** – More than 800 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 300 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:

- Audit Committee and Board
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- Control Self-Assessment
- Corporate Governance
- COSO
- Enterprise Risk Management
- Financial and Credit Risk
- Fraud and Ethics
- IFRS
- Internal Audit
- IT Audit
- Sarbanes-Oxley

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

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

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

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

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