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Audit Executives' Survey Results

**Internal Audit During the Economic Recovery**

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April 2010

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## Internal Audit During the Economic Recovery

Most economists agree that The Great Recession has ended. With the exception of a few industries and geographical locations, nearly the entire nation is rebounding at the end of the first quarter of 2010. Unlike most other previous recessions, however, the recovery period of this downturn seems to be much slower.

Internal Audit departments faced severe cutbacks during the recession. Now the hiring of auditors has started to resume, but not at the rates of the past, and because internal audit is being pressured to produce more value-added results, the bar has been raised for the qualities and skills required for new hires.

This latest Lander International survey was available for audit leaders to add opinions between December 1, 2009 and February 2010. The results are very interesting for a variety of reasons. Audit has learned to be resilient through all the changes of the last decade, and most departments have done an admirable job of weathering the downturn. Now there is a feeling of optimism about the profession and its growth for the next several years.

### **Audit Plan Completion – A Range of Solutions**

The first question on our survey, “**What percentage of your 2009 audit plan (created in 2008) do you expect to complete?**” The results were a bit surprising in that 78.4% of the responses claimed to have completed 81% or more of the audit plan. In light of the numbers of auditors who got laid off during 2009, it’s a bit surprising that audit departments still managed to get the majority of their work accomplished. 17.5% of the responses stated they finished 61 to 80% of their audit plans, which is still an admirable accomplishment.

One Northwest Audit Executive explained, "We started last year with an audit plan based on the risk universe and the size of our department to audit those risks. The Great Recession hit our company especially hard, and I had to release four auditors out of a department of twelve. Initially we pulled together as a team and increased each person's workload to try to still achieve the audit goals of the larger group. Within a month we lost another member of our team who decided to go back to school. Morale was at an all time low when this individual resigned, and I could tell our team was at a breaking point. I met with the audit committee and discussed revising our Audit Plan. We ended up postponing several audits for 2009-2010 until we have adequate resources to address the work. We looked at bringing in consultants, co-sourcing or adding to the audit team, but those measures were deemed not in keeping with the cost-cutting commitments we had made as a corporation. So, yes we completed our audit plan, but it was an adjusted plan."

An audit executive in a bio-tech firm explained, "Some of our 2009 plan was dependent on new project implementation which was delayed by the company's economic constraints. We will add those back to the plan when those projects are once again given the green light."

A Midwest Operational Audit Director offered, "Our audit plan got changed a few times over 2009. Early on, we adjusted to accommodate a 50% reduction in staff. Then our risk assessments got re-evaluated, and we spent a fair amount of time looking at 'emerging risks in liquidity,' not an area that had really been high on our radar screen."

One Florida audit executive explained, "During a time when there is growing distrust of corporate America, we found it expedient to change our focus due to an increase in whistleblower hotline complaints. We wanted to avoid the perception that our company wasn't diligent in following up on any allegations."

An audit director / educator in the Tri-State area offered some sound advice, "When I was told to make cutbacks in my audit team, I countered with information from the past recessions I had endured. I was able to keep my team in exchange for having my group do additional support work for the external auditors to cut audit fees. I was able to deliver a 5% savings."

### **Internal Audit Changes for 2010**

The second question on the Lander survey was designed to pinpoint specific changes: "**As you have been developing the audit schedule for 2010, what do you foresee as the greatest changes over 2008-2009?**" Most audit executives expect 2010 to be a time of stabilization -- 53% said they expect no change in headcount except through attrition.

45.1% of the responses mentioned changes to the rotational programs where auditors move into other areas of the company. During past recessions rotation programs often ground to a halt since other departments were not expanding; auditors ended up staying in internal audit for a longer than planned time. Retention planning becomes a growing issue for audit executives with younger auditors who might be disappointed to learn that their promised rotation into other parts of the company will need to be delayed.

One Audit leader in Atlanta explained, "We have typically hired Big 4 people who come into internal audit for a 2-3 year commitment and then move into a variety of corporate departments. When those departments had hiring freezes, we had to hold onto these auditors longer than anticipated. We overcame the disappointment for these individuals in a number of ways. We allowed two seniors to handle special projects in corporate functions where department managers were out on personal leave. That experience proved to be a real morale booster for the whole audit team. We also have been handing off SOX testing to a newly created function, and we offered positions on that new group to our team members. Ironically none of them chose to join the SOX team, but I think the fact that we were showing our commitment to helping them with their career growth kept their morale high. They know that we will be encouraging them to move out as the economy improves."

Budget reductions were cited by 33.5% of the respondents as having a strong effect on 2010 planning. Corporate restructuring was mentioned by 30% of the respondents as contributing to changes in the 2010 internal audit plan. "I lost virtually 90% of my training budget in 2009, and I knew it would not be increasing in 2010. That can be a terrible blow to morale," one Virginia audit executive explained. "I was able to work with the local IIA and ISACA chapters to provide three of my auditors to teach sessions as subject matter experts. The trade-off was that my other auditors would get to attend other audit training sessions as guests. Everyone came out winning. In fact, I noticed that the whole team of IT auditors pulled together to work on the technical sessions to make sure our department would look good. The night before the first presentation, the whole team stayed late to do a run-through. My only cost was providing pizza."

"Our outsourcing budget got reduced more than 50%", a Midwest director explained. "I found two solutions fairly quickly though. Our outsourcer became flexible on his fees in order to keep us as a future client, and I was able to present a case to the audit committee about delaying two audits."

"Our group was pushed to the wall, and we had no choice but to have our team work many longer hours and weekends to stay on track with schedules. As a result, I fully expect significant turnover of staff in 2010," explained one Gen X Audit Director. "I talked to my boss repeatedly about burning people out, but "completing the audit plan" became his mantra. I think this year we are going to suffer, especially coming on top of a year with no raises and no bonuses. Once the economy improves, I think there may be an exodus."

### **Changes in Internal Audit as a Result of The Great Recession**

The survey's third question was "**How has your audit department changed during the Great Recession of 2007-2009?**" The greatest response (48.5% of the time) was more emphasis on fraud. Second most frequent choice was the increased workload of the auditors (45.4%), and third was the cut in the training budget (41.1%). 31.9% of the respondents applauded the increased perception of audit's value to the company.

"This was not my first recession, so I was expecting the audit committee to ask what we were doing to protect the company from enhanced instances of fraud," one New Yorker explained. "Whenever morale drops and bonuses evaporate, people become greedy. Fortunately in the last three years I had brought in two CPAs who were also Certified Fraud Examiners who were glad to teach the rest of the audit group the basics of what to anticipate and look for."

"Since we had to live within a much tighter budget, we immediately cut travel costs by decreasing the amount of time on the road and consolidating some distant audits. We did less fieldwork where we could and more work at headquarters, and so far we have not experienced any negative results," explained one director in Southern California.

"We know we need to provide more value in more areas, and early on we realized that we needed to put more focus on enterprise risk management issues," one international director explained. "As long

as we looked at areas piecemeal, we were missing the bigger picture and ways we could positively impact more of the organization. I cannot say we have strong expertise in ERM, but we are becoming good students, and we are finding that several business units seem eager to have us help them address issues."

Looking ahead, the survey's fourth question posed **"What are the three changes you hope to see in your audit department in the future?"** The most popular answer (62.1%) was "Continuous monitoring in place." Also very popular (60.9%) was "Expanded awareness of the value of audit." Earning a 59.6% response rate was "Increased data analytics training for auditors."

"I imagine that every department you talk to mentions that in an ideal universe continuous monitoring would be prevalent in all business units," quips one educator of audit classes. "Given how impractical that is from a budgeting standpoint during tight times, I think the next best thing people want is for their auditors to have increased skills in data analytics. Being able to use ACL or other CAATS routines to extract vital data and then use analytics to chart trends and aberrations is the future ideal that is practical. I am really surprised that more auditors have not acquired this valuable skill set."

"I want to see better integration of the members of my audit team (Financial, IT and operational) through cross training and hand-on training", one global firm director explains. "The more I stay in audit, the more some things just never change. My financial CPAs shy away from technology, and my techies feel they are above doing financial audits. Operational auditing is the one place where they seem to work reasonably well together."

"In the past I hired people with 2-3 years previous experience, summarizes one leader in Tennessee. Now I can see where I really need to hire auditors with more experience, either in operations or technology, who are willing to return to audit. My problem is I cannot get any increase in salaries, so I think I am hoping for the impossible. But I can wish, can't I?"

### **Skills in Demand for 2010**

The final question on the Lander International survey, **"If you could hire just one more auditor, what would you want this person ideally to possess?"** brought a wide range of responses.

The answers were all across the board, but the four most popular requests were for:

"An expert on continuous monitoring"

That rare individual with technical audit skills and also the ability to communicate with C-level executives,

"ERM expertise"

"A data analytics specialist".

### **What Will the Future Bring?**

As we write this summary in April of 2010, it feels as if the floodgates for hiring internal auditors have opened. After companies were forced to cut back their audit teams and keep a restrained headcount, now departments are eager to find new talent, and for the most part, they want different skills than a year or two ago. Many corporate audit groups are feeling the need to address new challenges such as looking at global risks and tying audit results to the company's business strategies. In some cases some audit groups that had been focused on SOX testing are now back to "real audit work" and process improvement operational reviews.

In many instances the hiring process has become longer and more studious. Companies don't want to take any risks in hiring; they are willing to wait for what they perceive to be the "perfect candidates." Ironically by the time some departments finish their due diligence in hiring, the candidates they want to hire have already started working for other employers.

Adding to this difficulty in hiring is the fact that we are now in the phase of the economic recovery where human resource departments have expanded and are sometimes feeling overly confident about their abilities to supply a suitable number of candidates for just about any department throughout a corporation. Many audit executives are finding themselves caught in the bind of needing to find the right talent to complement the current team but discovering that the talent is not readily available, especially in the limited compensation range the internal wage and salary administration experts are requiring.

It appears that there will be some delay before entry level and staff level hiring improves in the audit field. Likewise generalists with good all around skills are in greater supply than demand. Companies want their new hires to have diverse skills. It is an important time for auditors to be evaluating their marketability and develop a plan of action for acquiring the "in demand skills" for the next several years.

A recent article in **Staffing Industry Review** (March 2010, Vol.XV, No.3) titled "Employee Discontent Expected to Reach Crisis Level" suggests that as many as 60% of employees intend to leave their current employment, and an additional one in four are networking and updating their resumes... Employees are clearly expressing their pent up frustration with how they have been treated through the downturn... The result is a disengaged and disgruntled workforce." At Lander International we do not foresee those kinds of volatile numbers in the audit profession, but it is obvious that the supply and demand statistics of the last couple of years is once again turning in favor of candidate scarcity. We see a large number of very dedicated audit groups that have done an admirable job of keeping their teams engaged during the downturn. With the recovery at hand, let us hope that they come up with suitable rewards to maintain that level of good morale.



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### Demographics of Survey Respondents

As for the demographics of those who answered the survey, 45% had between 11 and 20 years of experience in audit. Another 19.7% had 21 to 25 years' experience, and 14.6% had 26 to 30 years' experience. 47.5% of the respondents were Chief Audit Executives, and another 32.3% were Directors of Internal Audit. 19% of the respondents were from manufacturing and hi tech companies, 10.8% were from financial services, 9.5% were from retail, and 8.9% were from consumer products. The remaining responses were from a broad range of 30 different industries.

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