

Corporate Governance Recruitment Mid Year Market Report 2012 Internal Audit



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WELCOME TO BARCLAY SIMPSON'S 2012 MID YEAR INTERNAL AUDIT MARKET REPORT

This is the 22nd year we have produced a market report summarising and analysing recruitment trends in internal audit. This mid year report serves to review developments in the year to date and to provide an insight into how the recruitment market for internal auditors may develop during the remainder of 2012 and beyond. We place great value on professional reaction to our reports and would appreciate your comments or any requests for further clarification or information.

An overview of the corporate governance recruitment market and an in-depth analysis of economic and business trends can be found in our Corporate Governance Market Report. It can be accessed in section 8, "About Barclay Simpson", together with market reports covering all other areas of corporate governance.

Our hopes were not met

Six months ago we reported that in our opinion, avoiding a major crisis and 'muddling through' with anaemic growth in 2012, was the best we could hope for. If those conditions were met we believed it would allow the internal audit recruitment market to return to more usual levels of activity, where offers of employment were readily made and accepted. Our hopes were not met. In April it was announced that in spite of seemingly strong employment growth, two quarters of negative economic growth had left the UK economy technically in recession.

Whilst 'muddling' may be the best way to describe the affairs of the Eurozone, any end to the Eurozone crisis appears as distant as ever.

Recruitment is a form of investment

Recruitment is a form of investment and investment is based on confidence. When companies and individuals are confident they invest and recruit, when they are not they are more likely to sit on their hands and await developments. The problem remains, too much debt and too little growth.

In our experience there have been recessions and any number of crises that have undermined the recruitment market. On many occasions they have appeared rather worse than now. **The problem with the Eurozone debt crisis is that the political will to achieve anything like a credible solution is lacking.**

Internal audit recruitment market continues to function

Within this environment the internal audit recruitment market continues to function. The number of internal auditors employed in the economy remains stable, companies albeit at significantly lower levels are still recruiting and the careers of internal auditors are advancing. Notwithstanding the lack of opportunities available there is no evidence that the threat of redundancy is any greater than usual. **However, given the current level of uncertainty it is difficult to perceive an immediate return to anything like historic economic growth and recruitment patterns. For many internal auditors securing a new position is a frustrating process.**



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02

MARKET ANALYSIS



MARKET FOLLOWING THE PATTERN ESTABLISHED IN 2011

The internal audit recruitment market is broadly following the pattern established during the second half of 2011. Out of the four distinct sectors, commerce, financial services, consultancy and public sector, demand from the public sector has substantially fallen away. With the exception of IT audit, demand from the consultancy sector is currently limited to medium sized practices and more specialist consultancies. **However the number of vacancies from the financial services sector rose. There was also an increase in the number of IT audit vacancies.** Medium sized companies in the commercial sector who having deferred recruiting externally now need to.

In spite of an increase in the number of vacancies, outside of IT audit, the number of candidates accepting new positions remained flat. There are two main reasons for this. First, whilst companies are prepared to register vacancies and interview, they are more likely to fall back on internal candidates. Secondly, where companies are recruiting, particularly in the financial services sector, they are regularly seeking internal auditors with specialist skills and experience. The availability of these candidates can be problematic and vacancies can go unfilled for extended periods of time.

In the first half of 2012 the number of vacancies in internal auditing rose. However this rise has not been matched by the propensity of companies to fill their vacancies.

Whilst the number of what may otherwise be considered routine internal audit vacancies fell, the number of more specialist positions increased.

VACANCIES

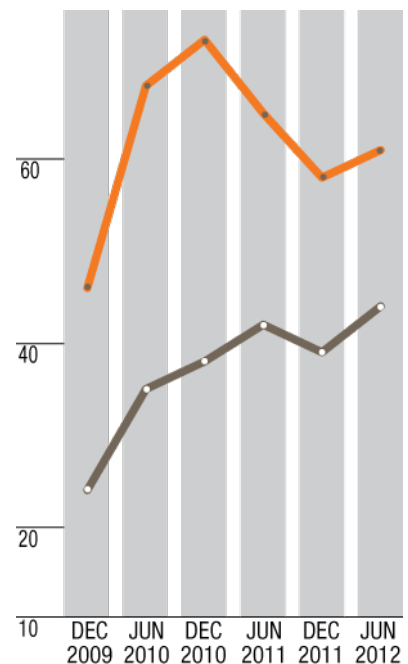
Slight pick up in vacancies

We forecast at the start of 2012 that the number of internal audit vacancies generated during the first half of the year was likely to remain low. We anticipated subdued demand from the financial services sector would pull down the overall number. **In fact, in spite of a flatlining economy and no sign of an increase in confidence, the number of vacancies from our sample internal audit departments rose from 58 to 61, well above the two year low achieved in the second half of 2011.**

The reason for the increase is to some extent explained by the type of vacancies registered during the period. Whilst the number of what may otherwise be considered routine internal audit vacancies fell, the number of more specialist positions increased. **The increase in the number of IT audit vacancies and specialist roles in financial services was notable. Clearly this is expertise that could not be sourced internally.**

A factor in the number of vacancies and one that is not immediately obvious is the increased use of not only interim internal auditors but also consultants. **In some companies the total weight of internal audit effort is being enhanced by using external resources that are not necessarily included in head count or established budgetary processes.**

The source of the statistics and explanation of the terms used can be found in section 07, 'Methodology.'



- New vacancies
- Outstanding vacancies

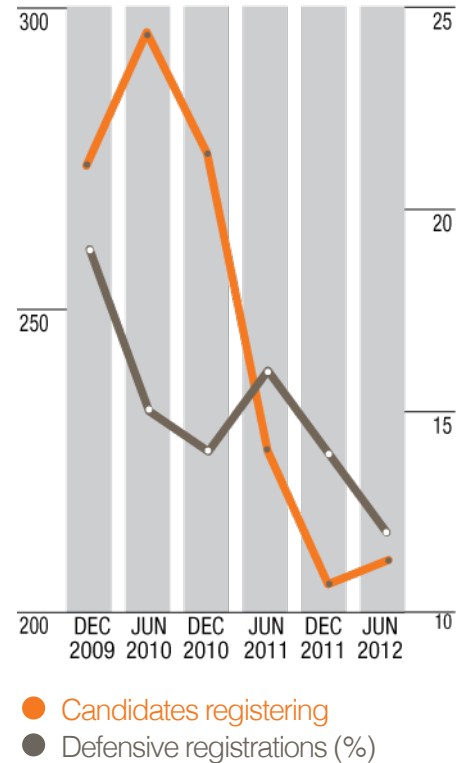


REGISTRATIONS

Not the indicator it perhaps once was

The number of registrations rose marginally in the first half of 2012 but remains significantly lower than in 2010. **On the upside and in spite of what at best is a flat economy, the number of defensive registrations fell. At 13% it is the lowest for over 4 years.** Companies are staffed leanly are not looking to cut staff numbers. They are more likely to reduce their costs by controlling pay and other benefits.

Candidate registration is possibly not the indicator of recruitment activity that it once was. Registrations are moving away from those candidates who actively seek to be registered towards those who are directly approached. The distinction is subtle and most likely to be exposed when an offer of alternative employment is made. A candidate who has actively approached a recruitment consultancy with clear criteria can realistically be expected to accept an offer that meets their criteria. One who may have been persuaded into the recruitment market may be more likely to react with interest but not acceptance. **The candidate has discovered their market worth and a job they could have if they wanted. In their terms it has not been a wasted exercise.** Given the level of economic uncertainty it is a more difficult decision to make particularly if a counter offer is made.

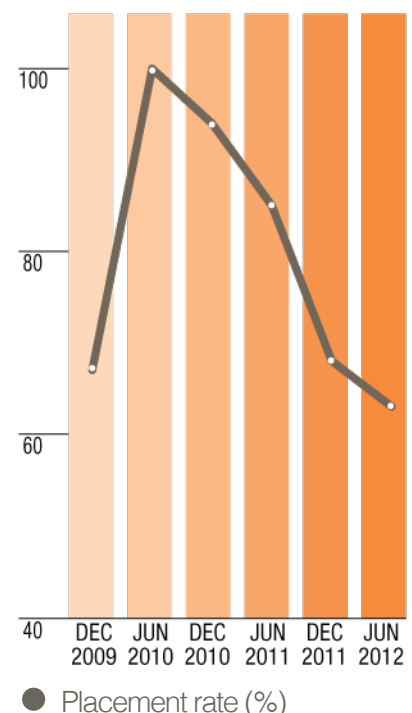


RATE OF PLACEMENTS

Further decline in 2012

To provide a better insight into the dynamics of the recruitment market we are now providing a graph that plots the rate at which placements are made during the three year period under review. In order to provide a scale, we have taken our results from the first six months of 2010 as our 100% benchmark. **The graph demonstrates the willingness of companies to recruit during the period rather than simply registering vacancies and arranging interviews. It reflects the rate at which candidates are being offered and are accepting jobs.**

As in other areas of corporate governance, it peaked in 2010 and then fell during 2011. Whilst above the lows made in 2009 the ratio declined further in 2012 and is at a level which is more closely associated with recessionary conditions. **Clearly the uncertainty surrounding the Eurozone is taking a toll.** Companies, particularly in the financial services sector, are regularly seeking specific and more difficult to source skills. They are then frequently looking to defer making recruitment decisions. Also, at the point when they might otherwise make an offer to an external candidate, they are falling back on internal appointments. **Equally external candidates, before they give up the security of their existing employment relationship need additional assurance. They are more open to counter offers from their existing employers who, given the difficulties in securing replacements, are frequently keen to retain their services.**





CONTEXT

We believe that the weakness in the internal audit recruitment market, where companies are unwilling to commit to external recruitment, is primarily the result of Eurozone inspired uncertainty. There is no recent record of the economy flatlining in the way it is. In this environment companies simply wish to maintain their productive potential and minimise costs and investment until the economy improves.

Given this, how would we summarise the current recruitment market?

- First, few companies have formally announced recruitment or head count freezes. However, many, in spite of conducting external recruitment campaigns, ultimately decide to recruit internally. In our view some companies are putting immediate cost considerations ahead of recruiting the most appropriately qualified internal auditors.
- Secondly, companies are not making redundancies. The percentage of candidates entering the recruitment market because they feel their job security is threatened is within historic norms. There is no significant pool of immediately available candidates.
- Thirdly, there is a higher proportion of internal audit vacancies with smaller and medium sized companies who do not have the skill base to recruit internally. On the same basis, the demand for IT auditors remains relatively high.

- Fourthly, companies will usually only commit to recruiting an external candidate provided the candidate is not only high calibre but also closely matches their criteria.
- Finally, the most sought after internal auditors remain difficult to source. Not unreasonably many internal auditors prefer the security of their existing employment relationship and are more open to being counter-offered by their existing employer.

Market is changing structurally

These observations refer to the current recruitment market and the cyclical changes made in response to the current uncertainty. **However, it is apparent that economic weakness has accelerated an ongoing structural change.** The requirements to secure a position as an internal auditor have risen and for some internal auditors there can no longer be a realistic expectation that they could get through a typical external recruitment process. On a twenty five year view this has been an ongoing process. **We raise the point again now, as we have done periodically in the past, because economic conditions have resulted in a further ratcheting up of standards.**

The implication is that some internal auditors who are not able to find work now will not do so even when the economy improves. It is not simply about qualifications and experience but intellectual abilities, commercial and interpersonal skills. In our experience the range and depth of capabilities that internal auditors require have become progressively wider and deeper. Because of this, as standards rise almost regardless of market conditions, there is a chronic shortage of internal auditors with the capabilities that companies require.

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Internal auditors have become concentrated in larger internal audit departments.

Number of internal audit departments in decline

The number of internal auditors employed in the economy is now broadly stable. However, the actual number of internal audit departments continues its long term decline. Internal auditors have become concentrated in larger internal audit departments with uniform standards in the private, public and consultancy sectors. In some regions of the UK there are now few internal audit departments. **The range and variety of internal audit opportunities are no longer available to internal auditors living there.**

Intention but not confidence to recruit

Currently there is the intention but not always the confidence to recruit externally. There is however significant latent demand. In our view it would only take a modest upturn in confidence for a return to more usual market conditions. **In fact, as we have previously observed, any suspension in recruitment activity ultimately leads to a bounce when the pent up demand to recruit is relaxed.**

04

SECTOR ANALYSIS



Here is a review of how the key market sectors have fared in 2012, along with our predictions for the remainder of 2012.

THE CITY AND FINANCIAL SERVICES - DEMAND REMAINS SUBDUED

As we have previously reported there was a surge in demand during 2010 and into 2011 as the banks and the wider financial services sector made good the cuts and recruitment freezes caused by the financial crisis. Increased investment in internal auditing was also prompted by the FSA's more intrusive regulatory approach. After the rush to recruit, demand was then badly hit by the Eurozone debt crisis in the third quarter of 2011. The pattern of subdued demand that became established at the end of 2011 remains in place. **Recruitment processes are taking longer, more vacancies are being filled internally, standards can be unrealistically high and there is frequently a shortage of candidates with the specific skills required.**

BANKING – LONDON REMAINS ATTRACTIVE

Vacancies are currently being driven by specific regulatory requirements although some of the larger banks are recruiting good generalist internal auditors at newly qualified level. **However banks are being particular over their requirements and there is some disconnect between banks who believe they are in a buyers market and candidates with specialist skills who believe they are in a sellers market.**

A positive is that when international banks have flexibility regarding where they recruit, London is often preferred. It is still considered the best location to recruit skilled resource. Equally, however, senior staff have greater flexibility to be based away from London should they wish for tax and lifestyle considerations.

After an extended period of stable internal audit leadership, most of the UK's major banks have come under new or relatively new leadership. This has led to some changes in methodology, emphasis and style with the potential for "fall out" that change engenders.

Skills currently in demand include capital markets and in some cases even at relatively junior levels specific asset classes such as fixed income or equities. QA experience is sought as some banks review their audit models. Regulatory skills are also continuing to drive demand as are mathematical skill sets such as market risk audit.

ASSET MANAGEMENT – BUCKING THE TREND

The asset management sector has become a significant source of demand. This activity may be the result of potentially greater regulatory scrutiny from both within the UK and internationally. Also the sector is using more complex products and is up skilling by recruiting bank auditors with the relevant experience. **Whilst the sector does not generally pay as well as other sectors, it frequently offers a better work/life balance and is becoming a popular sector to work in.**

INSURANCE – A QUIETER MARKET

Demand from the insurance sector, having been relatively strong, declined during the first half of 2012. Many of the larger life and general insurers having reorganised during 2011 have completed their recruitment campaigns. Multiple vacancies have largely disappeared. Further, The Lloyd's market, in spite of the demands of Solvency II, has slowed. **A strong business case is now required to increase headcount. However, within the Lloyds insurance market, the number of Head of Audit roles have been notable and were the result of either resignations or decisions to qualitatively improve departments.**

Currently, experienced insurance sector internal auditors are not receiving the number of offers they were. This has not necessarily made it any easier for companies to recruit as many internal auditors prefer the security of their existing employer. Those that are recruiting are doing so against precise criteria. **Niche insurance industry experience is often required. Commonly requested skills include actuarial and financial risk experience.**

The Lloyds sector has undergone a wave of takeover and merger activity. There is likely to be more of this activity which can lead to churn in the recruitment market.



MULTINATIONAL GROUPS – FORTUNES REMAIN TIED TO GLOBAL ECONOMY

We include a separate section on the internal audit departments of multinational groups based in the UK as they are not dependent on the prospects of the UK economy.

After the recession in 2009, demand for internal auditors from the sector recovered more slowly than we expected. However, having returned to the recruitment market in force in the first half of 2011, with record profitability and balance sheets in good repair, demand was sustained throughout 2011. **Vacancies came from across all sectors and new hires were the result of either internal auditors leaving or more usually being promoted into line financial management positions.** Typically vacancies were for professionally qualified senior auditors with internal audit experience gained in a Big 4 environment. Internal audit management positions were scarce. These groups are increasingly able to promote auditors internally into management positions and have become less reliant on external recruitment.

Lack of investment manifests a lack of confidence

Clearly the fortunes of these groups are tied to developments in the wider global economy. Having enjoyed record profitability by taking out cost, many multinationals now need top line growth to sustain earnings. Given a slowing world economy and squeezed revenues, it is not immediately obvious where this will come from. Multinationals have been accumulating cash rather than making investment decisions. This lack of

investment, a manifestation of a lack of confidence, does not bode well for future recruitment.

In the second quarter of 2012 it became apparent that both the rate of vacancies and the speed with which multinationals were looking to recruit slowed. Like other sectors, they have seemingly become more focused on the 'perfect candidate'. Whilst demand for IT auditors appears to be holding up we expect this pattern of slow recruitment will be sustained into the second half of 2012.

COMMERCE – UK ECONOMY HAS STALLED

Commerce covers a broad swathe of UK centric companies operating primarily in the UK. Demand for internal auditors remained surprisingly resilient during 2011 with technology, telecoms and media groups entering the recruitment market during the second half of the year. They joined manufacturers, energy, transport and utility groups who were already active in the recruitment market. Unsurprisingly, retailers and other groups dependent on discretionary consumer spending remained quiet. **The trend towards co-sourcing and outsourcing amongst smaller groups appeared to be continuing.**

The UK economy stalled in the first half of 2012 and the prospects for the second half appear to be no better. Given the proximity of the Eurozone debt crisis and its implications for the UK, it is not surprising that the resilience shown by these companies during 2011 has faltered. A number of companies are now adopting a "wait and see" attitude. Some are registering vacancies to benchmark their own staff without making a serious effort to recruit externally.

Some companies are moving quickly

However, where there is a pressing need to recruit, companies are moving through the selection to offer process relatively quickly and realistic offers are being made. Where the need is not pressing companies remain highly selective and are happy to wait until the 'perfect' candidate becomes available.

Generally it remains easier for companies to recruit in the regions where there is less competition for the available internal auditors. In London and the South East there are still sufficient companies actively recruiting to provide the best candidates with multiple opportunities. Further, internal auditors living in this part of the UK are aware that even if there is not an appropriate opportunity immediately available, there can wait. That is not a luxury that is always available to internal auditors in the regions.

CONSULTANCY – SUBDUED DEMAND FROM THE SECTOR

Demand from the consultancy sector is essentially split between the Big 4 and the mid-tier firms.

There was no significant recruitment activity from the Big 4 during the first six months of 2012. There was limited interest at manager level for internal auditors with specific banking, financial services or commercial experience.

The public sector remains a potential growth area and at auditor and senior auditor level there are opportunities for internal auditors with good client facing skills, particularly those with central government experience.



The mid tier practices have continued to be beneficiaries of the redundancies in the public sector. Work which would otherwise have been completed in-house continues to be outsourced. They are recruiting public sector internal auditors with between 1 and 4 years experience. There are also currently opportunities for internal auditors with specific private sector experience such as insurance.

As the economy and the recruitment market show no immediate sign of picking up, demand is likely to remain subdued from the consultancy sector.

Given the number of graduates the sector recruits and trains every year, if as now, the opportunities for them to leave are not there, they can quickly build up excess staff.

PUBLIC SECTOR – LIMITED RECRUITMENT ONLY

Redundancies, as we reported at the start of the year, came more quickly in the public sector than the government had originally forecast. They have now slowed significantly. Unfortunately in the current environment, more experienced public sector internal auditors are struggling to find work outside of the sector.

In the first half of 2012 there was limited recruitment in central government departments and the not for profit sector. External recruitment in health, housing, education and local authority sectors remains rare.

In reality a proportion of the roles that have been cut in the public sector have simply been displaced to outsourced providers or assimilated into existing co-sourcing arrangements. Witness the demand for public sector internal auditors from the consultancy sector. It would appear that

as new contracts for internal audit services are negotiated, Heads of Department are realising that they do not have the necessary resources.

Demand from the public sector will remain subdued for the remainder of 2012 and most likely beyond.

IT AUDIT – STRONG DEMAND

Demand for IT auditors has remained strong and is at least partially responsible for the overall increase in the number of internal audit vacancies. Clearly, IT audit skills are needed and cannot be sourced internally.

Demand more evenly balanced

Whilst the banking sector and the Big 4 dominated demand in 2011, this year it has been more evenly balanced with higher demand from commerce. Also mid tier practices have needed to recruit additional IT auditors as a result of the closure of the Audit Commission and in response to a significant number of central government contracts that have come up for tender.

Within financial services, demand from the investment banks has been predominantly focussed at AVP and VP level with a number of Tier 1 banks active in the market. Demand from the retail banks is lower and we do not anticipate this will be reversed in the short term. However, demand from the asset management sector was stronger and generally targeted towards juniors with 2-4 years experience within a Big 4. **Demand from the insurance sector was subdued and was more likely to come from specialist outsourced consultancies rather than in-house teams.**



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A proportion of the roles that have been cut in the public sector have simply been displaced.

The Big 4 recruited at senior consultant and assistant manager level throughout 2011. This has led to limited demand in 2012 for delivery level roles with most requirements being sector specific at senior manager level or above. In contrast, mid tier practices have looked to strengthen their delivery teams as they capitalise on the potential work available in the public sector.

In the first six months of 2012 demand for IT auditors increased from the commercial sector and from multinational groups where high levels of travel are often required.

Qualifications becoming essential

Demand, irrespective of whether it has been for technical infrastructure or applications and integration work, has predominantly been for IT auditors with 3 to 6 years experience. Many of the vacancies have represented ideal second jobs whilst others have offered the chance to specialise in specific areas or sectors. The most important attributes currently required are a thorough understanding of risk and control and well developed communication skills. Qualifications are



also becoming essential and an IT audit professional should hold at least one.

The majority of the vacancies registered in the first half of 2012 required specific sector experience. This is now the case generally in internal audit recruitment, and is a limiting factor. The other is the availability of high quality IT auditors. In spite of the overall depressed nature of demand, effective delivery focused IT auditors can currently still expect to receive multiple offers.

THE CONTRACT MARKET – CONTINUING TO PROVIDE OPPORTUNITIES

The contract market provided a steady stream of opportunities during the course of 2011 and this has continued into 2012. Uncertainty in the permanent recruitment market appears to be benefiting the contract market. **Not unreasonably, as companies weigh the risks of permanent recruitment they are opting for the limited commitment associated with employing a contractor.**

There are now few vacancies in the public sector. However the investment banks and asset managers in the financial services sector and the commercial sector more generally are producing a steady stream of requirements. Whilst vacancies are focused on London and the South East there are also regular opportunities in the regions. There has also been an increase in demand from mid-tier consultancies who require contractors to help staff their co-sourcing and outsourcing agreements.

Rates under pressure

Rates are currently coming under pressure particularly from the banks. In some instances they have imposed bank wide rate reductions. Whilst this has reduced company-wide contractor spend it has not played well with career contractors some of whom have responded by looking for alternative positions.

As in the permanent recruitment market, companies are interviewing a higher number of candidates and are taking longer to make decisions.

It is perhaps evidence of how cautious companies are becoming. There is also a higher incidence of contractors being offered permanent positions than usual.

The imposition of AWR regulations in October appears to have had little effect on the market.

However, companies employing contractors on a day rate basis are stipulating that contractors must be employed through limited companies. Fixed term contracts have also become popular but are of less interest to career contractors who prefer the tax advantages of being employed through their own limited companies.

IT audit contractors are now benefitting from similar trends that exist in the general audit market.



“ Companies are interviewing a higher number of candidates and are taking longer to make decisions. There is also a higher incidence of contractors being offered permanent positions than usual.



We, along with most others, were happy when the cracks in the finances of the Eurozone were papered over in 2009. It was convenient to believe that structural adjustments and economic growth would take care of the debts.

NO IMMEDIATE END IN SIGHT

However, governments debts are excessive not simply because they have borrowed too much, but because they are underwriting the debts of their domestic banks. These same banks have been supporting their governments by buying their debt. **The banking crisis will not be over until the sovereign debt crisis is resolved and vice versa.** Tough political choices need to be made whilst economies continue to fester under too much debt and too little growth. Unfortunately we see no immediate end in sight.

SLOWDOWN IS GLOBAL

For those who believe that the grass may be greener elsewhere, the readers may be interested to learn that the vast majority of internal auditors employed in the private sector are employed by companies who make their recruitment decisions on a global basis. If a multinational commercial or financial services group is not recruiting internal auditors in the UK, then our perspective allows us to be pretty sure they are not doing so anywhere in the world. **Currently internal audit recruitment markets are consistent throughout the developed world. Caution prevails.**

VAST MAJORITY OF INTERNAL AUDITORS REMAIN IN SECURE EMPLOYMENT

Whilst Heads of Audit are frustrated because they are unable to recruit the internal auditors they want and internal auditors are frustrated by the lack of opportunity, unless the economic situation deteriorates further, the vast majority of internal auditors remain in secure employment. **To date the casualties are the recruitment industry where much fruitless work is being undertaken and those internal auditors who mistakenly believe they have the skills and experience necessary to compete in the recruitment market when objectively they do not.**

SIGNIFICANT LATENT DEMAND EXISTS

Our view has not changed in the last six months. We perceive there is significant latent demand for internal audit expertise. The economy does not need to return to even historic growth rates for this demand to be released. **What it does need is a resolution to a problem that for almost a year now has regularly prompted market participants to believe the Eurozone is teetering on the edge of a break up.**



Tough political choices need to be made whilst economies continue to fester under too much debt and too little growth.





In this Interim Report we are including a Salary Guide. This Guide is designed to provide internal auditors with advice and guidance on the salaries and the overall remuneration packages currently available to them.

Most internal auditors, even if they are not looking to change employer, are keen to know their market worth. Given the huge diversity of internal auditors this is not easy to address. Further, whilst CV's and experience get interviews, it is character and personality that get offers of employment and a tangible measure of market worth. Equally the way the market rewards internal auditors is not perfect. **Every company, like every internal audit department, is different. Two otherwise similar internal auditors many enter the recruitment market and ultimately accept materially different salaries.** Any offer of employment is usually evaluated against a number of both objective and subjective parameters. Salary is only one parameter, albeit usually the most important one. Further, for many internal auditors the number of potential opportunities open to them can be frustratingly limited. This may be a consequence of their experience or by reason of where they are prepared to work. In many regions of the UK there are now only limited numbers of internal audit departments and no discernible recruitment market.

We provide these caveats and fight shy of calling this section a 'Survey' because we are aware that the internal audit recruitment market is sufficiently diverse and every acceptance of a new position sufficiently unique that it defies simple categorisation. Given that, without doubt internal auditors and their employers want 'guidance' and this is what this section attempts to provide.

The guide is split into three sections:

- The first section is a review of the pressures and influences on salary levels within internal auditing.
- The second discusses salaries within the context of the wider remuneration packages that are usually available to internal auditors.
- Finally, we provide guidance on what we believe to be the most likely salary ranges available to a cross section of internal auditors with specific qualifications and experience, followed by a more generic guide.

Influences

The best that can be said about the UK economy is that it is low growth. Whilst unemployment is seemingly falling, a rise is most likely only being kept in check by weakness in the economy putting a severe squeeze on pay. Real earnings along with living standards are falling. There is little to feel good about.

If recruitment is a form of investment, which we believe it is, then from our perspective companies are not investing. **It is apparent companies are routinely looking to recruit internally rather than invest externally in what is likely to be the best option. Whatever the demand for internal auditors, it is against a backdrop of employers pushing wages down and postponing investment where possible.**

There is significant latent demand for internal auditors. However, where internal audit departments are actually recruiting, they are seeking a precise skill match.

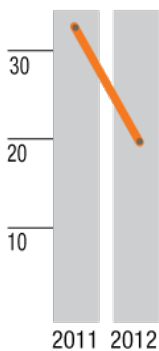
You will have read earlier in this report that there is significant latent demand for internal auditors. However, where internal audit departments are actually recruiting, they are seeking a precise skill match. In our last market report we noted that companies were rigidly controlling costs and a higher proportion of offers than usual were not being accepted because they were deemed to be too low.





Offers rejected as deemed too low

What we have done in this guide, to provide some insight into the market, is to compare the percentage of offers that were rejected as being too low in 2011 with the percentage in 2012.



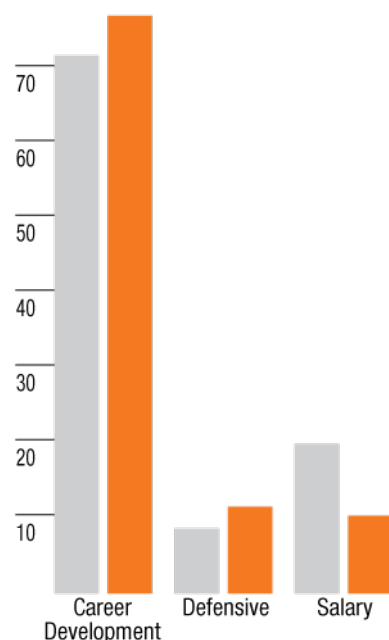
● Offers rejected as too low (%)

In 2011, 32% of offers were considered too low. However a different picture emerged in the first six months of 2012. Most recently only 19% of offers were rejected because of the salary. The fall from 32% to 19% is gratifying and the explanation is most likely the increased pressure on companies to recruit.

For some companies the need to recruit internal auditors externally can only be deferred for so long. Given that offers are likely to be made to those relatively scarce individuals who closely meet their requirements, there is an onus on companies to make offers that will ultimately be accepted. Companies are therefore currently more likely to meet the realistic expectations of prospective recruits.

Motivation for entering the recruitment market

It is interesting to review the motivation of internal auditors entering the recruitment market during the course of the last 6 months against a similar period five years ago and before the financial crisis.



● Motivation for entering the recruitment market 2007 (%)

● Motivation for entering the recruitment market 2012 (%)

The analysis is broken down between those who are primarily motivated to increase their salary, those who feel they have no choice because of real or apparent threats to their job security and the majority who are simply seeking career progression.

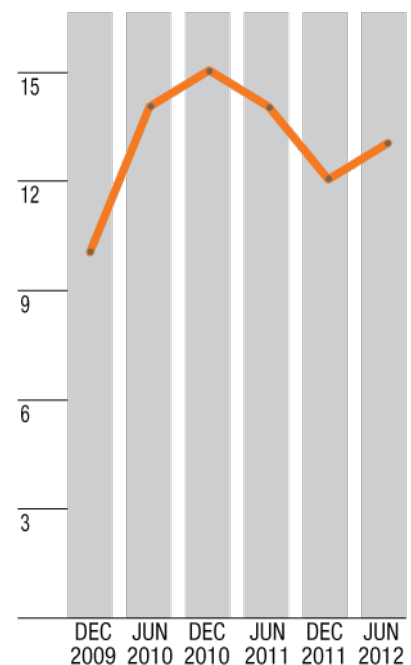
At 12% defensive registrations are close to their long term average and half what they were two years ago.

Companies are retaining staff and in spite of perceptions otherwise, there is not a significant pool of redundant internal auditors prepared to accept whatever

offer is made to them. The most likely reason fewer candidates are not explicitly looking to increase their salary is that they recognise the depressed nature of the recruitment market. Times are widely recognised as tough.

Increase in base salaries

Notwithstanding that the primary motive for the majority of candidates entering the recruitment market is career development, most internal auditors, as a by product of changing employer, will seek a salary increase. We have updated the chart of the average salary increase achieved by internal auditors changing jobs.



● Increase in base salary (%)

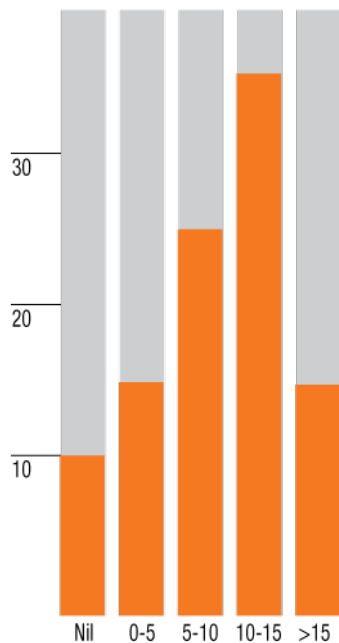
We reported at the start of the year that we would be surprised if it increased on the 12% recorded in the second half of 2011. In fact it has ticked up to 13% and is close to its long term average. It is indicative that there is no flood of internal auditors in the recruitment market willing



to accept whatever salary is offered to them. As the vast majority of them are in secure employment, they not surprisingly wish to be adequately compensated for moving.

Distribution of salary increases

Averages usually hide a wide cross section of results and it is no different in the case of the salary increases achieved by internal auditors changing jobs. During the course of the last year the distribution around the 12-13% average is described in the accompanying chart.



● Distribution of salary increases (%)

The breakdown reveals a wide distribution of increases. In fact 25% of internal auditors moved for increases of less than 5%.

From a salary perspective the current recruitment environment can be summarised as follows. The number of companies actively recruiting is low. However, they need to recruit and will do so provided internal auditors closely

match their expectations. Notwithstanding the recessionary/low growth influences buffeting the economy, the supply of candidates with the requisite skills and experience companies wish to recruit is restricted. **To recruit internal auditors with the necessary skills companies need to make realistic offers that include increases not significantly less than historic norms.**

SALARY Vs REMUNERATION

Whilst base salaries always catch the headlines, offers of employment invariably include other benefits which together with base salary go to form overall remuneration. Base salary and overall remuneration can be significantly different. In this section we will go through the other benefits that usually are or may be included in offers of employment.

Holiday entitlement

As a general rule holiday entitlements are more generous in the public sector. In the private sector the range is between 20 and 30 days. The number of day's holiday granted is frequently related to the level of seniority and can also be linked to the number of years service. If the latter is the case then the initial holiday entitlement is likely to be lower than it might otherwise be. As a strategy it represents a good way of rewarding loyalty and retaining staff but a poor way of attracting staff.

At Audit Senior level we would consider 23-24 days holiday to be usual and for 90% of offers to fall into a 22 to 26 day range. We would be sympathetic to an internal auditor objecting to a 21 day holiday entitlement and be very pleased to be party to an offer of 27 days or over. At Head of Audit level two extra days can be added.

“ The number of companies actively recruiting is low. However they need to recruit and will do so provided internal auditors closely match their expectations.

An increasingly popular benefit is to provide employees with the opportunity to buy additional holidays. This is usually up to 5 days and they are purchased through salary sacrifice.

Bonuses

The majority of companies offer some form of bonus. However, whilst potentially a good way of retaining and motivating staff, they are almost invariably an inefficient way of attracting them.

Bonuses are usually non contractual, often discretionary and may be paid on the basis of corporate or personal performance or a combination of the two. There is often a qualifying period.

The difficulty with bonuses is that whilst an internal auditor entering the recruitment market, having benefited from a bonus, will add it to their base salary, they are more inclined to discount bonuses from potential employers. This goes some



way to explaining what can otherwise be relatively high increases in the base salaries achieved by internal auditors moving between employers.

Given that potential recruits are likely to apply some form of discounting to whatever prospective bonus is offered, it would be ultimately cheaper to simply roll the bonus into base salary.

Bonuses vary considerably and as it stands a typical offer made to an internal auditor will contain a non contractual offer of a bonus. Given the difficulties they tend to engender, bonuses are now more likely to begin accruing from the time that employment starts rather than from the start of an annual qualifying period.

We would expect at Audit Senior level any prospective bonus to be in the range of 5-10% and perhaps double that at Head of Audit level. Anything less would be considered derisory and significantly above generous.

Pensions

For new recruits final salary pensions no longer exist in the private sector. For those who still benefit from them they have become increasingly valuable and the cost of giving them up to join a new employer is often too expensive to consider.

It would be unusual for a company not to offer some form of pension benefit. Pension schemes in the private sector are invariably money purchase where the company commits to making a contribution based on a percentage of salary. Whilst there is often a short qualifying period before contributions commence, a period in excess of six months would be considered unusual.

Most arrangements require the employer to make a contribution based on a fixed percentage of base salary. The employee

may or may not be required to match it. Frequently employers will be prepared to match additional contributions made by the employee up to a fixed percentage. The percentage may increase with the age of the employee, their years of service and their level of seniority.

At Audit Senior level we would consider an employer contribution of 3% matched to an additional 5% employee contribution typical. This leaves the employer contributing 8% out of an overall 13% pension contribution. Generally larger more established companies have more generous pension arrangements.

Cars / Car allowances

Cars or car allowances have become a less common benefit at Senior Auditor level and their popularity with both employers and employees is declining. They can still be expected where a role requires significant travel and at Head of Audit level. In terms of overall remuneration, a car allowance is frequently offered in lieu of a car and is often considered as non pensionable salary when evaluating overall remuneration.

Other benefits

The most valuable of these is Critical Illness Cover which is expensive to provide and it is usually restricted to senior roles. **However, Private Health Insurance is common and may be extended to all immediate family members.** An Audit Senior could usually expect health insurance to be offered only to them and not their family. Life assurance, usually linked to a pension scheme is usual as is payment of a least one professional subscription. Other benefits may include season ticket loans in London, gym membership, subsidised dental care,



Generally larger more established companies have more generous pension arrangements.

personal and accident insurance and staff discounts. These are generally low value benefits.

Flexible benefits

This refers to schemes where employees are offered limited core benefits but have an additional sum made available. This can be taken either as salary or they can choose to buy from a menu of additional benefits. **These schemes became popular 10 years ago particularly in the accounting profession but have not been universally adopted.**

Flexible working

Flexible working refers to the opportunity to vary hours of work. Whilst potentially popular, this is not a common benefit. Most offers of employment in the private sector will list core hours and an employment base which is usually not formally negotiable. However, many companies once employment starts are often prepared to be more flexible on start and finish times and are ultimately more concerned with output rather than simply attendance.



SALARY GUIDANCE

Barclay Simpson analyses the salary data that accumulates from the placements we make in the UK. This provides a guide to salaries for internal audit professionals.

The salary ranges quoted are for good rather than exceptional individuals and take no account of other benefits in addition to the salary that usually accrues to internal auditors, such as bonuses, profit sharing arrangements or pension benefits.

BIG 4	GENERAL AUDIT - LONDON	IT AUDIT - LONDON	GENERAL AUDIT - REGIONAL	IT AUDIT - REGIONAL
Associate (1-3 yrs exp)	£27 – £37,000	£27 – £38,000	£24 – £34,000	£24 – £36,000
Senior Associate (3-5 yrs exp)	£35 – £47,000	£40 – £52,000	£35 – £42,000	£32 – £42,000
Manager (5-7 yrs exp)	£45 – £63,000	£60 – £70,000	£42 – £50,000	£40 – £50,000
Experienced Manager (7-10 yrs exp)	£55 – £70,000	£65 – £80,000	£50 – £60,000	£50 – £60,000
Senior Manager (8-12 yrs exp)	£65 – £90,000	£75 – £105,000	£60 – £75,000	£60 – £90,000
Director (12 yrs exp)	£90,000+	£100,000+	£75,000+	£80,000+

MID TIER	GENERAL AUDIT - LONDON	IT AUDIT - LONDON	GENERAL AUDIT - REGIONAL	IT AUDIT - REGIONAL
Consultant (1-3 yrs exp)	£23 – £33,000	£24 – £36,000	£18 – £26,000	£18 – £32,000
Senior Consultant (3-5 yrs exp)	£30 – £45,000	£36 – £48,000	£26 – £38,000	£31 – £39,000
Manager (5-7 yrs exp)	£40 – £50,000	£50 – £65,000	£38 – £45,000	£40 – £50,000
Experienced Manager (7-10 yrs exp)	£45 – £60,000	£58 – £72,000	£45 – £55,000	£50 – £60,000
Senior Manager (8-12 yrs exp)	£60 – £85,000	£70 – £90,000	£55 – £70,000	£60 – £80,000
Director (12 yrs exp)	£85,000+	£90,000+	£70,000+	£80,000+



COMMERCIAL	GENERAL AUDIT - LONDON	IT AUDIT - LONDON	GENERAL AUDIT - REGIONAL	IT AUDIT - REGIONAL
Auditor (1-3 yrs exp)	£25 – £40,000	£28 – £42,000	£20 – £32,000	£24 – £35,000
Senior Auditor (3-5 yrs exp)	£40 – £50,000	£38 – £60,000	£32 - £42,000	£33 – £45,000
Lead Internal Auditor/ Assistant Manager (5-7 yrs exp)	£48 – £65,000	£55 – £70,000	£40 – £48,000	£43 – £55,000
Experienced Manager (7-10yrs exp)	£55 – £70,000	£65 – £80,000	£45 – £55,000	£50 – £70,000
Senior Manager (8-12 yrs exp)	£65 – £90,000	£75 – £100,000	£55 – £67,000	£65 – £85,000
Director (12 yrs exp)	£90,000+	£95,000+	£70,000+	£80,000+

BANKING - IT AUDIT AND REGIONAL	IT AUDIT - LONDON	GENERAL AUDIT - REGIONAL	IT AUDIT - REGIONAL
Auditor (2-4 yrs exp)	£38 – £50,000	£25 – £35,000	£28 – £38,000
Senior Auditor (3-6 yrs exp)	£48 – £65,000	£33 – £44,000	£35 – £47,000
Lead Internal Auditor/ Assistant Manager (5-7 yrs exp)	£60 – £75,000	£40 – £52,000	£45 – £57,000
Experienced Manager (7-10yrs exp)	£70 – £90,000	£47 – £60,000	£52 – £66,000
Senior Manager (8-12 yrs exp)	£80 – £120,000	£60 – £75,000	£63 – £80,000
Director (12 yrs exp)	£100,000+	£75,000+	£80,000+



INVESTMENT BANKING	LONDON
Analyst	£40 – £50,000
Associate	£50 – £80,000
Assistant Vice Principal	£65 – £80,000
Vice Principal	£80 – £100,000
Director / Senior Vice Principal	£100 – £130,000
Executive Director	£110 – £150,000
Managing Director	£150,000+

RETAIL BANKING	LONDON
Auditor	£30 – £40,000
Senior Auditor	£40 – £50,000
Audit Manager	£50 – £60,000
Senior Audit Manager	£60 – £100,000
Head of Audit / Audit Partner	£100 – £140,000
Director	£120,000+

ASSET MANAGEMENT	LONDON
Senior Auditor	£40 – £60,000
Audit Manager	£55 – £90,000
Director	£90 – £110,000
Managing Director / Head of Audit	£100 – £160,000



INSURANCE - LLOYDS MARKET	LONDON
Senior Auditor	£50 – £60,000
Audit Manager	£60 – £90,000
Managing Director / Head of Audit	£90 – £175,000

SMALL INSURANCE - LIFE AND NON-LIFE	LONDON	REGIONAL
Senior Auditor	£50 – £55,000	£30 – £45,000
Audit Manager	£60 – £70,000	£45 – £55,000
Senior Manager	£80 – £90,000	£60 – £70,000
Head of Audit	£90 – £130,000	£65 - £90,000

LARGE INSURANCE - LIFE AND NON-LIFE	LONDON	REGIONAL
Senior Auditor	£50 – £55,000	£35 – £45,000
Audit Manager	£60 – £70,000	£50 – £60,000
Senior Manager	£80 – £100,000	£65 – £85,000
Head of Audit	£140,000+	£90,000+

As recruitment consultants we spend much of our time talking to and dealing with internal audit and human resources departments. We speak directly with a number of heads of department to discuss their current and future recruitment requirements to gain a broader picture as well as a qualitative perspective which is invaluable for our market review. We also attempt to portray the market in terms of quantitative data based on a sample of 50 internal audit departments.

The core statistics provide the following key information:

Vacancies

- **Number of vacancies generated during the period**
- **Number of vacancies at the end of the period**

This, over time, provides guidance on the rate at which vacancies are being generated and an indication of the ease with which companies are filling these vacancies.

Registrations

- **Number of candidates registering in the period**

This monitors the flow of candidates into the recruitment market and, combined with the number of vacancies generated, gives an insight into the balance of supply and demand.

Defensive registrations

- **The proportion of candidates registering for defensive reasons**

The percentage of candidates registering with Barclay Simpson because they have been made redundant or perceive the threat of redundancy (i.e. who register for defensive reasons), can provide a useful insight into the behaviour of the recruitment market.

Rate of placements

- **The rate at which placements are being made**

This is based on the number of placements made during the period and is a good indication of the propensity of companies to actually recruit rather than simply register vacancies and conduct interviews. It is presented in relative rather than absolute terms with 100% being the highest rate in the three year period under review.



We speak directly with heads of department to discuss their current and future recruitment requirements.



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ABOUT BARCLAY SIMPSON

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Barclay Simpson is an international corporate governance recruitment consultancy specialising in internal audit, risk, compliance, information security, business continuity, legal and treasury appointments. Established in 1989, Barclay Simpson works with clients in all sectors throughout the UK, Europe, Middle East, North America and Asia-Pacific from our offices in London, Edinburgh, New York, Dubai, Hong Kong and Singapore.

We add value by using our unique focus on corporate governance, our highly experienced specialist consultants and access to both the local and international pools of corporate governance talent. Our strength lies in our ability to understand client and candidate needs and then to use this insight to ensure our candidates are introduced to positions they want and our clients to the candidates they wish to recruit.

An overview of the corporate governance recruitment market and an in-depth analysis of the economic and business trends that are likely to shape the overall recruitment market can be found in our Corporate Governance Market Report. We also produce other specialist reports, each of which can be accessed for free on our website:



www.barclaysimpson.com/2012-mid-market-report-corporate-governance

www.barclaysimpson.com/2012-mid-market-report-compliance

www.barclaysimpson.com/2012-mid-market-report-risk

www.barclaysimpson.com/2012-mid-market-report-information-security

www.barclaysimpson.com/2012-mid-market-report-legal

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