Corporate Governance Recruitment

Market Report Internal Audit

2017

Barclay Simpson
Executive Search Inc.

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Introduction

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Welcome to the Barclay Simpson Executive Search Inc. 2017 Internal Audit Market Report

Barclay Simpson has been producing corporate governance market reports since 1990. This is our third dedicated publication covering North America. This report seeks to provide insight and analysis into the North America banking and financial services Internal and IT Audit market, as well as guidance into compensation trends within internal auditing. It is supported by a survey of employers and of internal auditors and managers registered with Barclay Simpson Executive Search Inc. during November and December 2016.

To understand recruitment challenges from a leadership perspective, this report also includes an interview with Denise DeMaio, the Chief Audit Executive for MUFG Americas.

We place great value on the professional reaction to our reports and would appreciate your comments and any requests for further clarification or information.

Executive summary

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An alternative, radical national agenda

The US economy, at least by the standards of the last decade, remains strong. At the start of 2017 there are fewer claims for unemployment benefits than at any time since the financial crisis, and other pointers suggest the US economy is reaching full employment. Surveys of housing, manufacturing activity and business sentiment remain positive. The election of President Trump was in the face of a seemingly strong economy which, at any other time, would have led to maintaining the status quo. Unfortunately for many Americans, a seemingly strong economy has not necessarily benefited them in terms of their real earnings. President Trump has offered them an alternative, radical agenda.

Tougher in financial services

Whilst our survey, together with our day to day experience of the market, suggests a generally buoyant recruitment market, the financial services industry had a tougher 2016. There were a number of sources of uncertainty during 2016. These included fears of a sharp fall-off in the growth in the Chinese economy, followed by Brexit in the UK and then the run up to the presidential election. However, even though 64% of internal auditors reported it was more difficult than they had anticipated to secure another job, overall, 30% of respondents to our survey reported they had changed job in the last 12 months, up from 28% in 2015. A particularly strong number was the 81% of departments who reported they had attempted to recruit in the final six months of 2016. Despite this, 61% of departments reported that they were insufficiently resourced to meet the demands made upon them. Only 18% reported they had found it easy to recruit. In terms of the salary increases achieved by internal auditors, as we reported last year, 2015 was possibly as good as it gets.

Some insights

Our survey has provided a number of insights into the internal audit profession. For example, women are becoming better represented and staying longer in the profession, but are still paid less and remain under-represented in IT audit. When asked what they would most like to change about their existing role, internal auditors are more likely to want to change the career development opportunities open to them than their salary. 10% cited recognition and 8% their manager! We should also be cognizant that 5% cited job security, something that did not register in 2015.

Rolling back regulation

Since the presidential election, bank stocks have rallied both on anticipation that President Trump's policies would spur inflation and higher interest rates, as well as on the belief that his administration will look to roll back some of the more onerous regulations instituted by Dodd-Frank. The increase in the cost of financial regulation since the financial crisis runs into billions of dollars. Internal audit departments have grown in response to this. What might be good for banks, the financial services industry and other sectors in terms of lighter regulation, might not be so good for internal auditors. The expansion of regulatory oversight has benefited not only internal auditors but other corporate governance practitioners, such as compliance and risk management professionals.

A more positive market

At the start of 2017, whilst there are threats to both the US economy and the employment prospects of internal auditors, the internal audit recruitment market is strengthening. Vacancies are increasing, as are the opportunities for internal auditors.

Market analysis

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Vacancies

Market slowed in first half of 2016

Despite continuing regulatory pressures, vacancy generation in the New York financial services recruitment market slowed in the first half of 2016. Many top tier banks looked to cut their costs and vacancies were characterised by replacement roles, rather than newly created positions.

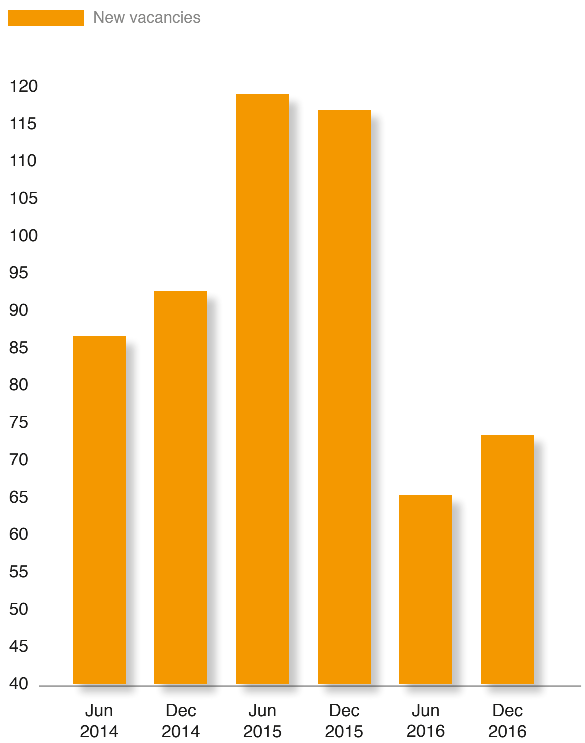
The internal audit recruitment market, like other markets, is cyclical. After the Euro crisis in 2012, confidence returned in 2014, and a period of catch-up got underway as the backlog of otherwise postponed recruitment washed through. This lasted through 2015, but as we anticipated at the start of 2016, vacancy generation had already peaked.

Recruitment markets are also sensitive to uncertainty and, in the case of Brexit, both in the run up to the referendum and as a consequence of the result, a number of European banks operating in New York froze their recruitment. The run up to the Presidential election also had an impact, although the outcome has not unduly affected the recruitment market at the time of writing.

A significant influence on the New York internal audit recruitment market is the drift of jobs away from New York to lower cost locations. In 2016, there was a significant transfer of internal audit positions to cities in states such as California, Florida, North Carolina and Texas. This was especially prevalent within IT Audit with departments following technology functions. This phenomenon is not unique to New York. In London, New York's rival as the dominant global financial center, a similar drift of internal audit and other governance functions to provincial centers and even Eastern Europe is taking place. In both cases, existing employees are usually unwilling to relocate given that they are already working in cities with unique financial ecosystems. This provides the banks and financial services groups concerned with the challenge of recruiting specialists in locations where there are no established pools of expertise.

Our survey confirmed that internal audit departments based outside of New York are having greater difficulty in recruiting than those based in the City.

A further trend is the higher number of junior vacancies being generated by bigger, more established banks. Cost is a driver as these banks are more likely to look to fill senior vacancies internally and then backfill the resulting more junior vacancies. It can also be more cost effective to provide an internally recruited subject matter expert with audit expertise than vice versa. Notwithstanding these issues, vacancy generation was starting to increase in the final quarter of 2016.



Rate of placements

Placements slowed in first half of 2016

To provide a better insight into the dynamics of the recruitment market, this graph plots the rate at which placements have been made across the last three years. It reflects the rate at which candidates are accepting offers of employment.

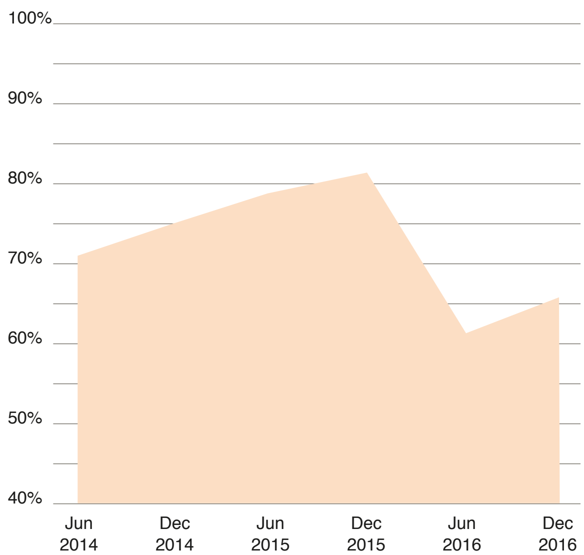
This time last year we reported that there had been high levels of competition for in-demand internal auditors during 2015. We observed that given the pressure on financial services groups to recruit, managers were frequently required to take a pragmatic approach. If a candidate with their preferred set of skills was not available, they needed to decide which skills they were prepared to be flexible about and if not, then be prepared to offer a higher salary.

This was not the case in 2016. There were two reasons. First, at the start of 2016 it became clear that there were no longer the multiple vacancies and same urgency to recruit amongst many of the top tier banks there had been in 2015. A market in which the rate of placements is falling is one where employers simply go through the motions of recruiting. The outcome is interminable interviews, the rejection of seemingly otherwise appropriately qualified candidates and financial offers that we as recruitment consultants find difficult to recommend to candidates. Evidence of this was the fall in salary increases achieved by internal auditors changing job, from 19% in 2015 to 13% in 2016.

Secondly, there were fewer high quality candidates available. As we have observed, many internal auditors had already changed job in 2014 and 2015. Having recently joined their current employer they were less inclined to move in 2016.

The slowdown in the rate of placements provided evidence of a more recent development, the unwillingness of in-demand internal auditors to wait on the protracted recruitment processes of 'big name' employers. More recently, and in the future, the emergence of smaller, more outwardly entrepreneurial financial services groups will most likely improve the rate of placements. When they go to the recruitment market, they are determined to recruit. Their recruitment processes are usually streamlined and effective. They are more likely to treat potential recruits as prospective customers, which is reflected in their higher offer acceptance rates. Many larger financial services groups simply fail to communicate effectively between the ultimate decision maker and the candidate they might otherwise wish to recruit. Recruitment consultants are often excluded from a process they could facilitate and add value to, while smaller entrepreneurial groups benefit from rarely having such inhibitions.

Placement rate



Key findings from employer survey

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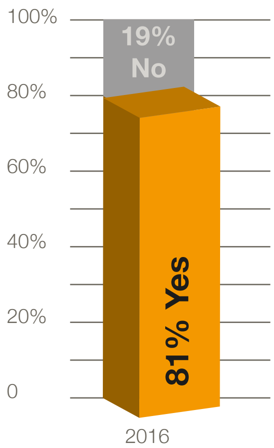
The internal audit recruitment market remains highly competitive. 81% of managers attempted to recruit in the last six months of 2016 and 82% said it was difficult. Salary expectations are generally not considered to be excessive, but sourcing appropriate technical skills is a challenge. With departmental resources stretched, only 10% of managers anticipate not needing to recruit in 2017.

Departmental resources stretched

- Only 39% of internal audit departments believe they are "sufficiently resourced for the demands that are made on it"

High level of recruitment activity

- 81% of internal audit departments recruited or attempted to recruit externally in the last 6 months of 2016
- Only 19% didn't

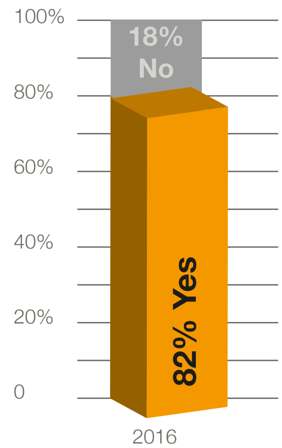


Recruitment budgets remain under pressure

- Only 50% of budgets have seen any increase with 50% the same or less than in 2015

Recruitment a significant challenge

- 82% of departments report they are finding it difficult to recruit



Technical skills the main challenge

- 74% of departments report finding appropriate technical skills as the main challenge
- Interpersonal skills just 26%

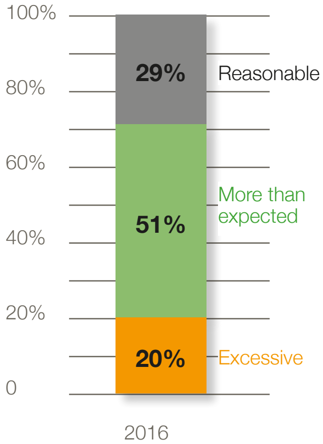
High level of recruitment activity to continue

Preferred search businesses most important source of candidates

- External search businesses responsible for over 50% of internal audit recruitment
- Internal recruitment is becoming a growing source of candidates

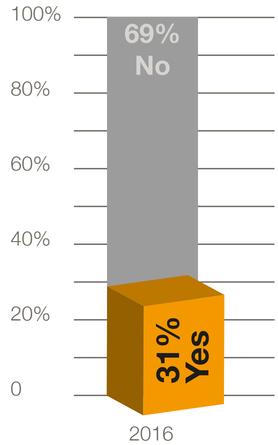
Salary expectations generally not excessive

- Only 20% of departments consider salary expectations to be excessive



Diversity and inclusion targets influencing recruitment

- Diversity and inclusion targets are a factor in recruitment decisions for 31% of internal audit departments
- This rises to 40% in banking



Replacement recruitment to be main driver in 2017

- 42% of internal audit departments report replacement recruitment will be their key driver
- Closely followed by business growth at 35%

Demand set to continue in 2017

- Only 10% of departments report they are unlikely to recruit in 2017

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This year we have surveyed both employers and internal auditors to provide a comprehensive picture of the internal audit recruitment market at the start of 2017. The employment survey covers the attitudes and behavior of internal audit managers who are responsible for recruitment. The compensation survey includes all those working in internal audit and provides a detailed analysis of compensation trends. The conclusions are contained in Section 4 and Section 7 of this report. Here is some additional commentary on the internal audit recruitment market:

As we have already observed, 2015 was something of a hiatus in the current recruitment market cycle. Recruitment activity became less intense in 2016, with far fewer audit departments coming to the market with multiple vacancies. Unlike 2015, recruitment freezes were evident amongst some higher tier banks and others looked to slow their recruitment of internal auditors.

A positive recruitment market

However, overall the market remains positive. 81% of internal audit managers attempted to recruit within the last 6 months of 2016 and only 10% report they are unlikely to recruit in 2017. Asked to comment, specific responses to our survey identified the challenge of recruiting in lower cost cities that a number of banks have relocated their internal audit departments to. They cited the need to be creative in their approach given that internal auditors with the required specialist skills are simply not available locally.

VP recruitment

VP level internal auditors remain the most sought after. Given that 49% of internal auditors report that career development is their primary motive when looking for another position, the target candidates for many VP roles are often AVP level auditors looking for promotion. Career development does not only have to be intrinsic to the role that an internal auditor undertakes, but also their job title. In our experience, internal auditors are sensitive to job titles and, regardless of job content, salary and even flexible working, can potentially reject an offer simply based on the job title.

Candidate shortages

There is no definitive solution to recruiting in a market short of quality candidates. It should not come as too much of a surprise that traditional forms of advertising are becoming less successful. The qualitative comments on our survey revealed a certain vitriol directed towards automated application systems. Some internal auditors consider them selection by ‘buzz word’, dehumanized and a way in which companies potentially lose otherwise highly qualified candidates.

Preferred Supplier Lists (PSLs) are the principal source of candidates for many internal audit managers. These lists are usually constructed by HR, rather than by internal audit departments and the specific hiring manager concerned. In a market where professional networking via social media has become highly developed, ‘in demand’ candidates usually require a more informed approach for them to realistically consider investing time in a recruitment process. They need to understand the brand, career

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path, hiring manager, team structure, compensation make-up and often to meet a consultant in person before contemplating whether they wish to proceed. This requires search consultants who are embedded and understand the internal audit market and who are able to engender a high degree of trust and confidence. Dare we say it, search consultancies like Barclay Simpson.

Auditing “culture”

The demands made on internal audit departments continue to grow and are changing the way internal audit departments perceive themselves. For example, a growing area of responsibility is the audit of ‘corporate culture’. “Culture” has always been a difficult concept to determine. Efforts by major banks to define what culture means for audit purposes and how to conceptualize “culture” in an auditable way, continue to evolve. In recruitment terms, there is likely to be an increasing emphasis on hiring auditors who are focused on understanding conduct risk and what constitutes ethical behavior, as well as more traditional compliance audit and anti-bribery & corruption audit roles.

Diversity

Banks are increasingly placing diversity hiring at the center of their talent acquisition strategies. According to our survey, almost 40% now have gender and inclusion targets (levels are currently far lower in other sectors). We are receiving more enquiries relating to how banks can broaden their diversity. Whilst diverse shortlists are more likely to be requested by banks operating in cosmopolitan centers, such as New York and San Francisco, as banks have looked to hire talent in places with different demographics, maintaining diversity hiring standards is becoming more challenging.

The representation of women

Our survey revealed that women have become better represented in internal auditing. They formed 25% of respondents to our survey, up from 21% in 2015. The average period they have worked in internal auditing is also up - in 2015, women had worked for an average of 8.6 years in internal auditing, rising to 10.5 years in 2016. However, only 11% of women reported they worked as IT auditors. The role and representation of women in IT Audit has been a major topic over recent years. HR functions have been keen to understand why women in IT Audit are under-represented and develop strategies to improve this; alongside other diversity initiatives. Barclay Simpson will be hosting a Women in IT Audit networking event in 2017, where we hope to provide a forum for some of these issues. Outside of our survey, we can report that just over 25% of Barclay Simpson’s IT Audit placements were women, up from 2015, which whilst still lower than optimum, exceeds their representation in IT audit.

Messages to employers

We asked respondents to our survey if there was any comment they would like to make. Many of these comments were used to support observations we have made in this report. We will share some of those directed at their employers. Whilst there were the usual comments regarding remuneration, and notwithstanding the 8% of internal auditors who reported that what they would most like to change about their job was their manager, there was no seething hotbed of resentment. Many were grateful to their employers, enjoyed their job and were satisfied with their employment relationship. Given many Heads of Audit are limited in what they can spend, in terms of a strategy to retain their internal auditors, career development, recognition and flexible working would be good places to start. Despite this, there are clearly many occasions when internal auditors simply outgrow a department and for career development reasons need to move.

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Analysis by sector

Banking

Across banking, candidates with strong specialist skills such as CCAR, capital planning and stress testing continue to be in demand. Where hiring managers are unable or unwilling to be flexible in their requirements, roles remain open for extended periods. As a result, CAE's report a continued reliance on co-sourcing agreements to meet their audit plans.

Foreign Banking Organizations that act as a Bank Holding Company and are therefore regulated by the Federal Reserve, are competing for internal auditors for their CCAR audit teams. They are needed to review annual capital planning and stress-testing arrangements and to mitigate capital risk. As in 2015, quantitative skills remained at a premium during 2016. However, as more internal audit stress testing teams become established, demand will be for replacement hires rather than for newly established roles. How long strong quantitative analysts are prepared to stay in audit is likely to depend on how effectively they are able to be kept technically challenged and therefore motivated.

Insurance

Like so much of the financial services industry, the insurance sector has come under increasingly complex scrutiny by State, Federal and even International regulators. This has impacted the recruitment requirements across the insurance market. The ongoing development of an international capital standard, for example, has led to an increase in demand for capital planning skills in internal audit and control functions.

Across life, property and casualty and health insurance sectors, businesses have sought to build ever more sophisticated models to improve profitability. While several prominent insurers made cuts to their internal audit functions in 2016, there is still high demand for specialist skills across actuarial, technology and model risk areas. Budget restraints have led to several insurers reducing their spending with external consultancies.

In 2017, we expect the demand for highly technical insurance auditors to continue. Companies will most likely have to adjust their recruitment budgets to accommodate the higher salaries such internal auditors command.

Asset Management

As a result of increased scrutiny from the SEC, many small to medium sized asset managers, who have traditionally resourced their compliance departments via consultancies or combining the role with finance positions, have appointed dedicated compliance specialists. This has affected internal audit, as asset managers have used the opportunity to re-examine all of their control functions and bring previously co-sourced or completely outsourced internal audit functions in-house. Regulatory reporting has increased and higher standards of transparency are required.

The industry is consolidating, with larger asset management groups acquiring smaller boutiques. The resulting integration of systems and processes has left multiple legacy systems that pose a challenge to internal auditors looking to extract data. To achieve this, asset managers have increased their reliance on outsourcing and the use of 3rd party service providers to manage their core functions.

Regulators require a high level of assurance regarding 3rd parties and this is dramatically extending the audit universe of the affected asset managers.

Internal audit still acts as an advisory function in many asset managers, which can lead to their independence being compromised. For example, asset managers may look to align internal audit more closely to operational risk and internal control functions, even though internal audit is responsible for building the controls they are responsible for testing. This conflict remains unresolved.

Consultancies

In 2016, as a cost saving measure, a number of banks looked to reduce their reliance on external consultancies. There were some well-publicized layoffs within the Big 4 during 2016 which may not be entirely unrelated. Consultancies are recognized within the recruitment market for paying competitive base salaries, but also for their modest bonuses and high travel requirements. One or both of these are frequently cited by consultants as the reason why they are looking to move in-house within the financial services industry.

However, the ongoing consent order requirements that many banks continue to work under will result in continued reliance on external support. Regulators pay close attention to internal audit skillsets, including scrutinizing the resumes of internal auditors working in the key areas of their focus. Where this is the case, and where financial services groups struggle to recruit or retain internal auditors with the key technical knowledge required, they will continue to “buy-in” such skill-sets in the form of consulting support.

IT Audit

The IT Audit market was stable throughout 2016, with a particular focus on hires at the AVP / VP level. Previously there had been greater focus on executive level recruitment, often Heads of IT Audit and IT Audit Directors, to establish or further develop IT audit functions. For example, every Tier 1 banking group has by now appointed a Head of Data Analytics and the focus on their recruitment in this area is now on hiring technical auditors who can deliver.

The relocation of IT audit functions away from high cost centres such as New York has become common. However, the IT Audit teams concerned are predominantly infrastructure and cybersecurity. Given their need to work closely against integrated audit methodologies, application audit teams typically remain located within operational areas together with business audit functions.

Technology vs Audit

There is an ongoing debate amongst hiring managers about whether they should hire technology professionals into IT Audit roles, or experienced career IT Auditors with traditional backgrounds. Experienced technologists, particularly those covering cybersecurity and infrastructure technologies, have tended to win out. However, in 2016 there was a return to the traditional approach of hiring experienced IT audit professionals with a thorough understanding of IT audit frameworks and methodologies and expertise in various standards, regulations and policies. Hiring managers appear reluctant to manage audit teams that are too heavily biased towards technology rather than audit skills and experience. In the short term this has resulted in greater demand for the IT Audit services of the Big 4.

Interview with Denise DeMaio

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To better understand recruitment challenges from a leadership perspective, each year Barclay Simpson interviews a key audit decision-maker. Denise DeMaio is the Chief Audit Executive (CAE) for MUFG Americas and oversees a team of 250+ auditors across multiple locations in the Americas including New York, California, Arizona, Canada and Latin America. Since joining in 2015, she has led the audit group through a period of immense transformation and growth, having more than doubled the size of the audit function and integrated the audit universe across the subsidiary businesses of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), San-Francisco-based Union Bank, N.A., and Mitsubishi Securities. Barclay Simpson spoke to Denise about some of the insights she has gained during this period.

Tell us a bit about your background. What attracted you to joining MUFG?

After leaving public accounting, my career has been focused on providing internal auditing services primarily for foreign banking organizations. I started my internal audit career at ABN AMRO, a Dutch bank, and performed duties in the U.S., Amsterdam and other countries. I was able to see how internal audit functioned in a global financial organization. I left ABN AMRO, as they split up and joined TD Bank as the General Auditor, where I led the US audit function with over 150 internal auditors and learned more about Canadian banking operations. When presented with the prospect of joining MUFG, it provided me with an opportunity to join a huge global organization, headquartered in Tokyo, but with a significant presence in the Americas. MUFG is unique in that it has the complexity of a large U.S. bank, but the parent company is outside of the US and with that comes its own unique challenges as a global mega bank.

What are the strategic challenges of hiring through a period of immense change?

The initial challenge was to determine the type of skills and expertise necessary for the new organization, as well as evaluating the skills of the current team. In our case, not only did the number of auditors need to be increased, but also the depth of their capability and large-bank audit experience. Also, jurisdictionally, as the bank spans across both the east and west coasts, we needed to source highly skilled talent across our locations. Furthermore, as the bank and internal audit was not yet a well-known player in the marketplace (as it is now), we needed to establish a robust recruiting and branding strategy to attract talent on both coasts.

What have been the key challenges of integrating the audit departments of multiple businesses and legal entities?

This organization at the highest level does not fully operate globally. Therefore, each legal entity has different auditing standards, many of which are not the same standards required by U.S. Regulators. In addition, with the formation of an intermediate holding company and combined operations in the U.S., the level of complexity in meeting stakeholder expectations across our various legal entities and geographical locations has been a challenge. This will continue, as we combine the U.S. operations and audit in line with regulatory expectations.

How do the challenges of hiring across your various locations differ?

The challenges are pretty consistent with all locations. Again, it comes down to the branding of our organization and being able to attract talent from larger organizations; in the past, as an example, the west coast only required regional banking expertise. The difficult skill-sets to source at MUFG are consistent within the industry, including Compliance, AML/BSA, IT, Model and Risk.

How do you foresee regulatory developments affecting hiring going into 2017?

There will be more need for different types of audit skillsets in the future. Not only will technical expertise for IT, Cyber, Compliance and Risk be required, but non-traditional audit capability skills, such as influencing, negotiating and strong written and verbal communication skills. Additionally, there will be a need to have very robust central audit operations and quality control functions to drive consistency in audit execution, reporting and issue follow-up as well as expanded analytics and business intelligence, and reporting requirements to external stakeholders, such as regulatory bodies and independent board audit committees.

Is there anything on a resume that you really don't like to see? What is it that a prospective recruit might say at interview that is most likely to turn you off?

Very generic listing of skills and minimum requirements provided when applying for the job, as well as a lack of longevity in an institution or a company would be a few things that I would not like to see. Someone prioritizing work-life balance, rather than the opportunity to enhance their career would also be a turn off.

Have you ever stuck your neck out and taken a gamble on a candidate? If so, why?

Yes, when the candidate demonstrated the ability to be coached, a desire to learn, and showed a genuine interest in the success of the institution.

How quickly in an interview do you form an opinion of someone?

Given my time constraints, I generally form an opinion of someone in the first five minutes! So, it's therefore really important for a candidate to be able to articulate their value proposition clearly and quickly.

Key conclusions from compensation survey

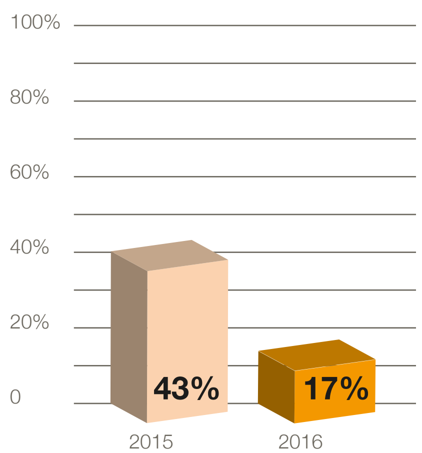
The results from the Barclay Simpson Executive Search Internal Audit Survey suggest that the salary increases achieved by internal auditors were lower in 2016 than in 2015. Despite this, internal auditors appear to be more satisfied with their salaries and remain focused on their career development.

Internal Auditors more likely to have moved in 2016

- 30% of internal auditors have changed job in the last 12 months, up from 28% in 2015
- 5% moved because of job security, a concern that was not raised in 2015 by any respondents

Internal auditors less salary focused

- 49% of internal auditors moved primarily for career development reasons, whilst only 17% were motivated by salary, down from 43% in 2015

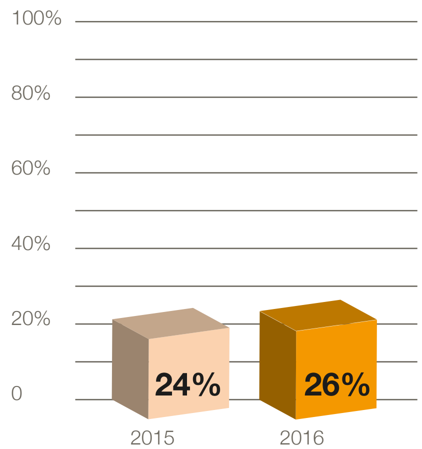


Salary increases down

- Salary increase from changing job down from 19% in 2015 to 13% in 2016
- 5% average salary increase for internal auditors who stayed with their existing employer, down from 6% in 2015

Bonuses slightly up

- Average bonus of 26% up from 24% in 2015
- 76% of bonuses paid in cash, down from 85% in 2015



Pensions less universal, but contributions up

- Drop in number of employers providing 401(K) benefits from 98% in 2015 to 95% in 2016
- Average 401 (k) contribution of 6%, up from 5% in 2015

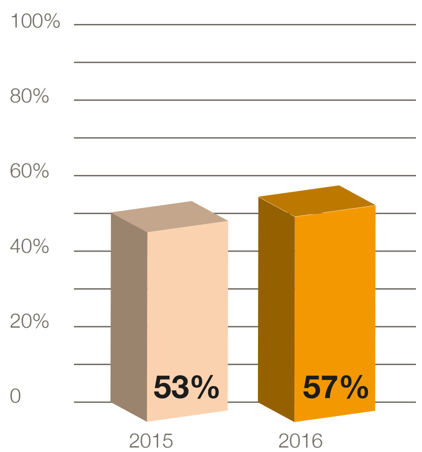
Career development driving recruitment activity

Little change in holidays and flexible working

- Average holiday entitlement 23 days, no change from 2015
- 20-21 days remains typical
- 77% of internal auditors benefit from a significant level of flexible working (80% in 2015)

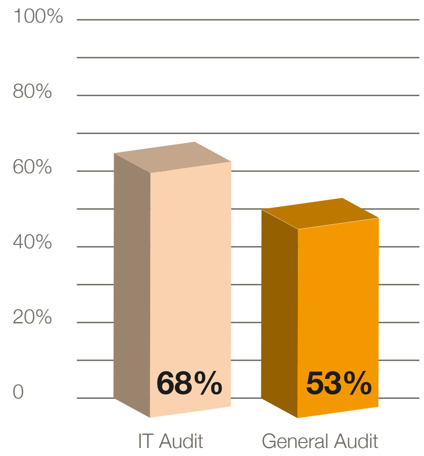
Internal auditors becoming more content with remuneration

- 57% of internal auditors are content with their remuneration, up from 53% in 2015
- Rises to 70% for those who have changed job in the last 12 months
- Only 47% of women are satisfied against 61% of men



Greater contentment in IT Audit

- 68% of IT auditors believe they are adequately compensated against 53% of general auditors, even though the general auditors surveyed are better paid
- Only 11% of women work in IT audit, versus 34% of men



Moving job not always easy

- 64% of internal auditors found changing job more difficult than anticipated

Key conclusions from compensation survey

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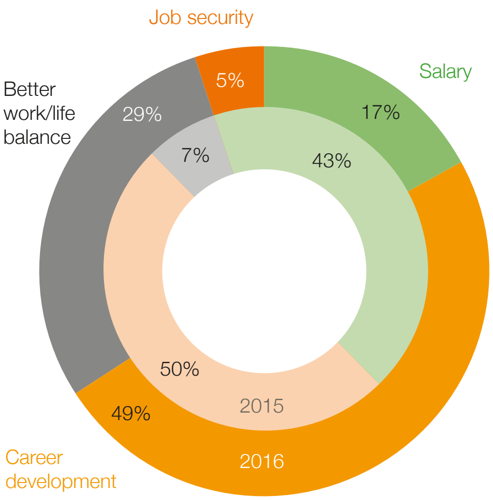
Further analysis

Motivation for entering the recruitment market

This analysis looks at what motivated internal auditors to change employer in the past 12 months. Career development remains the principal motivation, as perhaps it always will. What is noteworthy was the decline in importance that internal auditors attached to salary in their decision to look for another job. This agrees with a general finding from our survey that internal auditors are currently more likely to be satisfied with their salary and more motivated by the prospect of a better work/life balance. The rise in the proportion of women working in internal auditing may explain this in part. In response to our surveys, women have prioritised work/life balance, despite the lower salaries they are often paid. In fact, they are far less likely to move for salary than men. Given layoffs in the banking and insurance sectors, the rise in job security as a motivating factor is understandable.

What was your primary motivation when looking for another job?



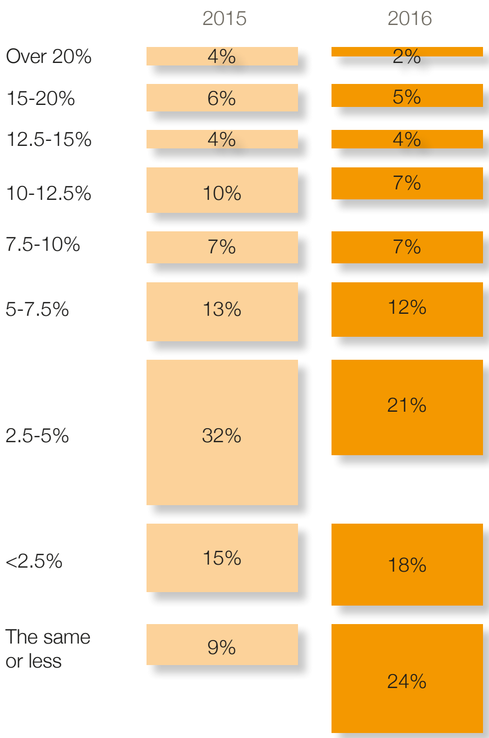
Changing job does appear to go some way to ensuring internal auditors are more satisfied with their compensation. 70% of those who have moved in the last 12 months reported they are satisfied against the 52% who have not.

Salary increases achieved without changing employer

The average salary increase achieved by internal auditors staying with their existing employer has fallen for the last two years. From 8% in 2014, it fell to 6% in 2015 and was 5% in 2016. Within this 5%, allowance has to be made for the number of internal auditors who are promoted internally during the course of the year. Given we have already observed that companies were more likely to have promoted and recruited internally in 2016, the percentage would have otherwise been even lower.

However, given many banks and other financial services groups have been looking to cut costs, curtailing salary increases is an obvious answer in such labour-intensive industries. Also, these percentages cannot be seen in isolation but need to be considered in relation to the rate of inflation. For much of 2016, the rate was below 1%. Despite this, it remains surprising that 24% of internal auditors reported they had received no increase and, overall, 42% of internal auditors reported an increase of less than 2.5%. Even more surprising is that internal auditors are reporting greater satisfaction with their remuneration. We suspect that internal auditors are taking a realistic attitude and appreciate that the financial services industry faced a tougher, more uncertain year in 2016.

What option best describes your salary increase in the last year?

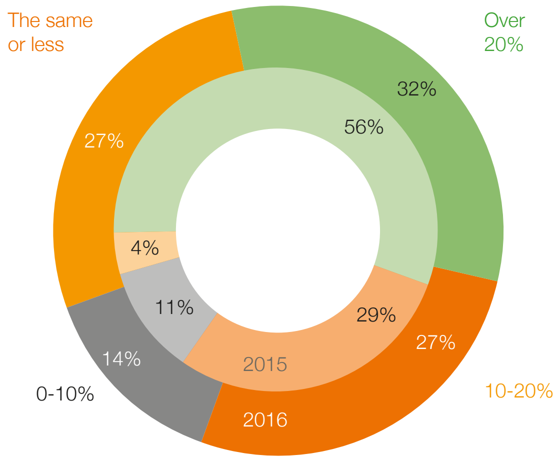


It may be that the 24% of internal auditors who received no salary increase do not have the skills necessary to acquire another job. However, they may simply be prepared to accept a lower salary for work/life or other reasons.

Salary increases achieved by changing employer

The average salary increase achieved by internal auditors changing employer fell from 19% in 2015 to 13% in 2016.

Which best describes how your salary compares to your salary in your previous role?



Given the market conditions that existed during 2016, we are not surprised by the fall in the percentage of internal auditors achieving an increase of over 20%. What is surprising, even for us as search consultants, is the number of internal auditors who moved for either no increase or less. Clearly, many are prepared to move for career development reasons or, as was the case in our survey, a better work/life balance or even job security. For those who were made redundant, a similar or lower salary is understandable.

Salary guide

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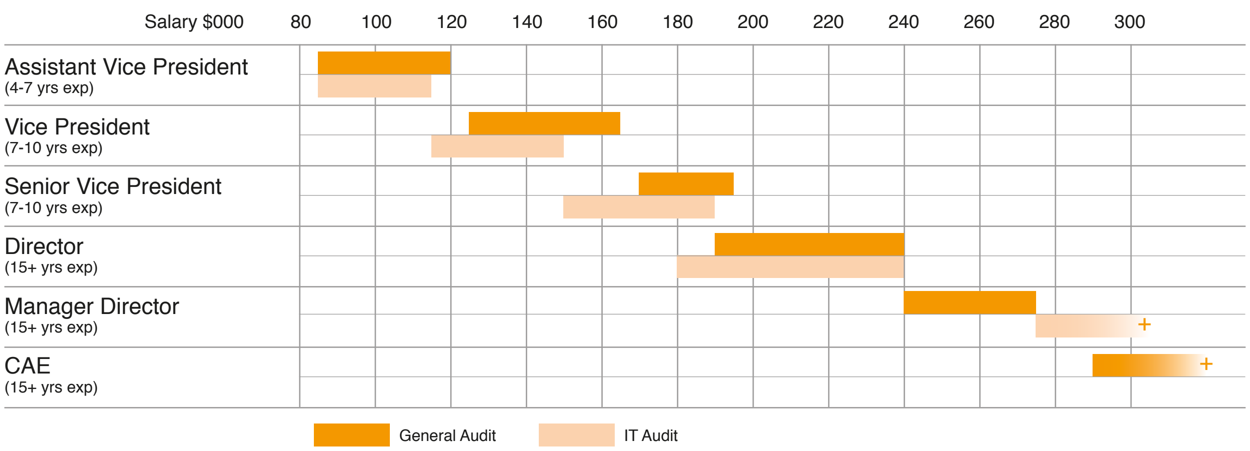
The US banking market is notorious for its variance in job titles. For the purposes of this salary guide we have sought to generically group job titles based on years of experience. These salaries are base salaries only and do not include bonuses. They are the salaries banking auditors could typically expect to earn in New York as opposed to other geographical locations across the United States, and these should always be adjusted for local cost of living and other factors. The salaries in this guide only cover the permanent recruitment market.

The average salary increase achieved by internal auditors changing job in 2016 was 13%, down from 19% in 2015 and by those who stayed with their employer 5%, also down, from 6% in 2015. Other benefits that internal auditors could expect to receive include an average bonus of 26%, an average 401(k) contribution of 6%, health insurance and a holiday entitlement of 20/21 days. Such benefits are discussed in next section. Should you have any specific questions regarding remuneration we would be happy to respond in more detail.



Other benefits

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Base salaries always catch the headlines. However, offers of employment invariably include other benefits. On average, these additional benefits make up around 25-30% of total remuneration in internal auditing. Here is an overview of the other benefits internal auditors might expect to receive.

Bonuses

98% of internal auditors reported they benefited from a bonus, up from 97% in 2015. Bonuses are essentially universal in banking and financial services and only a little less common in industry and commerce.

For those who received a bonus, the average figure rose from 24% of basic salary in 2015 to 26% in 2016. Unlike previous years, the 26% average bonuses paid in banking and financial services was matched by companies operating in the commercial sector. 30% of internal auditors reported to have received a higher bonus in 2016, with only 14% reporting it was lower. A further 56% reported their bonus level was unchanged.

Banks and financial services groups continue to become more cautious. The percentage of bonuses paid in cash fell from 85% in 2015, to 61% in 2016.

Bonuses, whilst potentially a good way of retaining and motivating staff, are almost invariably an inefficient way of attracting them. An issue with bonuses is that whilst an internal auditor entering the recruitment market who has benefited from a bonus may mentally add this to their base salary, they are more inclined to discount bonuses when formulating their expected salary. This goes some way to explaining what can otherwise be relatively high increases in the base salaries achieved by internal auditors moving between employers.

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. Bonuses can vary considerably. Given the difficulties that it tends to engender, bonuses are more likely to begin accruing from the time that employment starts rather than from the start of an annual qualifying period.

401(k) Pensions

95% of internal auditors report benefiting from employer pension contributions, down from 98% in 2015. Typical contributions were the 38% of internal auditors who benefited from contributions in the 2.5-5% range and the 36% in the 5-7.5% range. The overall average rose from 5% in 2015 to 6% in 2016. Employer contributions are higher in commerce and industry, with managers again benefiting from higher contributions than non-managers.

Most 401(k) arrangements require the employer to make a contrition based on a fixed percentage of salary. The employee may or may not be required to match it. Frequently employers will be prepared to match contributions made by an employee up to a fixed percentage.

Miscellaneous benefits

Outside of bonuses, pension and medical cover, few internal auditors receive other benefits such as travel or housing allowances. Medical benefits are highly sought-after. The cost of providing medical, dental and life assurance is higher in the United States than, for example, in the UK and Europe where state provision is common. For those employers who provide family medical insurance, this is seen as a significant benefit and those who provide an all-encompassing plan have a distinct advantage.

Holiday entitlement

We reported last year that there was some evidence that holiday entitlement was increasing when the average holiday entitlement rose to 23 days. In 2016, the average remained at 23 days. The typical number is the 20-21 days enjoyed by 30% of internal auditors. Managers again benefit more than non-managers and holiday entitlements appear to be more generous in the consultancy sector, where 26 days is reported to be the average. That may help compensate for the more irregular hours and travel.

Flexible working

Flexible working is the opportunity to vary hours or to work from home. After a big jump in 2015 when 80% of internal auditors reported they had the opportunity to work flexibly, the figure fell to 77% in 2016. Managers and internal auditors working in commerce are more likely to benefit from flexible working. Those who have not changed job are also more likely to enjoy flexible working. This implies it is a benefit that accrues after a period of employment, rather than one that is immediately conferred. This appears a little at odds with the high percentage of internal auditors who report the principal reason they have changed job is to improve their work/life balance.

Most employers are ultimately more concerned with output, rather than simply attendance. Flexible working is an effective means of retaining staff and, in our experience, of attracting them also.

About Barclay Simpson

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Barclay Simpson Executive Search Inc. is a corporate governance recruitment consultancy specialising in internal audit & IT audit, compliance, risk, legal and security appointments. Barclay Simpson works with clients across the banking and financial services sector and is part of the Barclay Simpson Group which has offices in financial centres across the world. We add value by focussing solely on corporate governance and by employing highly experienced specialist consultants who have access to both US and international pools of corporate governance talent.

In addition to this report on the US Internal Audit and IT Audit recruitment market, we also produce a specialist report on the Risk Management recruitment market in the US. Both reports can be accessed for free at www.barclaysimpson.us:

http://www.barclaysimpson.us/us-internal-and-it-audit-market-report-2017

http://www.barclaysimpson.us/risk-management-market-report-2017

For further information or if you would like to discuss any aspect of either of these reports, please contact Gareth Carpenter, Vice President, **gc@barclaysimpson.com** or call +1 212 786 7490.

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