

Barclay Simpson
corporate governance recruitment



2010

Market Report

INTERNAL AUDIT



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01. EXECUTIVE SUMMARY

Welcome to Barclay Simpson's 2010 Internal Audit Market Report. This is the 20th year we have produced a market report summarising and analysing recruitment trends in internal audit.

We place great value on professional reaction to the Report and would appreciate your comments.

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.

It can be accessed at <http://www.barclaysimpson.com/corporate-governance-2010-market-report/>

TOP LINE CONCLUSION

A year ago many people had a sense of foreboding. We reported that the consensus economic forecast was for a further 1.5% contraction in the economy and a budget deficit of £78 billion. We noted at the time that there was the potential for a much worse outcome. Given the 4% actual economic decline for 2009 and £175 billion projected deficit our pessimism was not misplaced.

We have believed and have reported for some years that the UK economy was badly imbalanced. Whilst we have been bearish on the economy, we have been bullish on the prospects for corporate governance. However, we should admit that given the unprecedented decline in the UK and wider world economy during 2009, we are genuinely surprised how sustainable employment in corporate governance has proven to be.

There have been redundancies and many of those people made redundant, in an environment where for a period the demand for staff essentially collapsed, have had a particularly disquieting experience finding alternative employment. However, in spite of the failure of corporate governance in the banking sector, which can in no way be attributed to a lack of resource, corporate governance is emerging from the recession as an essential corporate discipline.

Two reviews reported towards the end of 2009. The Treasury commissioned Walker review on how banks should be governed and a more routine review by the Financial Reporting Council of the Combined Code. Both further promote good governance and therefore indirectly the employment prospects of those people who work in it.

For internal auditors and other areas of corporate governance, that is something for which we should all be grateful.



Corporate governance is emerging from the recession as an essential corporate discipline.

02. MARKET ANALYSIS

In the second half of 2009, starting in September, the number of internal audit vacancies increased. This increase was against the most significant fall in demand for internal auditors during the last 20 years. What was essentially a collapse in demand encompassed all sectors of the economy and was replicated throughout the other geographic areas that Barclay Simpson covers: Europe, Middle East and Asia Pacific.

Internal Audit	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	84	79	58	29	46
Closing vacancies	39	37	23	17	24
Candidates registering	312	356	242	226	274
Defensive registrations	17%	19%	28%	23%	19%
Overall salary increase	12%	12%	11%	11%	10%

The source of statistics for the market analysis can be found in the Appendix in section 05.

VACANCIES

Whilst vacancies rose from 29 in the first half of the year to 46 in the second half, the number of vacancies was still almost 50% down on the equivalent period two years ago. The rise in demand when it came was more significant than the bald number would suggest and was loaded in the period between September and October. However, the increase in vacancy generation was not sustained and fell back in the final two months of the year. This trend emerges in the closing number of vacancies which at 24 are somewhat better than the 17 at June 2009 but not far removed from the 23 at the close of 2008. Equally the number of departments with vacancies fell from 28% in December 2008 to only 24% in December 2009, a multi-year low. On a more positive note, and something that is not always clear from the statistics, is the quality of the vacancies.

Whilst the number of vacancies did not change significantly during the course of the year, how determined a company is to fill the vacancy is an important qualitative factor. Companies are currently far more active and determined to fill their vacancies now than they were a year ago. They are prepared to interview and recruit internal auditors rather than simply meandering through a recruitment process and then failing to make a decision.

The budgeted number of internal auditors at 660 is only 1% down on 2008 as is the actual number of internal auditors employed. This confirms what we have maintained for a number of years, employment in internal auditing is more secure than in the wider economy. In the UK as a whole employment fell almost 2% during the comparable period.

	Dec 2008	Dec 2009	Change
Budgeted numbers employed	667	660	-1%
Actual numbers employed	644	636	-1%
Departments with vacancies	28%	24%	-4%

REGISTRATIONS

The number of defensive candidate registrations has fallen throughout the year and in the second half of 2009 was down to 19%. This is a positive sign but does not accurately describe the low level of redundancies in internal auditing during the course of the last 18 months. Believing that your employment is under threat is not actually the same as losing your job. While many may have felt to be under threat of redundancy, the fear has often proven misplaced.

SALARIES

The average salary increase achieved by internal auditors changing job was 10% during 2009, a multi-year low. Those companies that have recruited during 2009 have not felt compelled to offer significant increases. Further, as you will go on to read, it has been many of the smaller companies rather than the large multinational groups that have recruited. They generally offer lower salaries to their recruits, which otherwise redundant internal auditors have often been pleased to accept.



The rise in demand when it came was more significant than the bald number would suggest.



03. MARKET COMMENTARY

The financial services industry casts a long shadow not only over the UK economy but over corporate governance and internal auditing. **As we have written before, a disproportionate number of internal auditors work in financial services.** In the UK those companies outside of financial services with the largest market capitalisations, are in sectors such as energy, pharmaceuticals, telecoms and FMCG. The number of internal auditors their global internal audit departments employ can often be counted in the tens. For a comparable bank it will be in the many hundreds. For every £ of market capitalisation or £ of value added, the number of internal auditors employed in a bank, compared with non-financial services sectors, could be multiplied by a factor of ten. It is a characteristic that to a lesser extent is played out across the entire financial services industry. What happens in financial services matters to the internal audit recruitment market.

We like to keep things simple and our view is that the banking crisis, which has hijacked and changed the priorities of the entire UK economy, was primarily caused by an extended period of cheap money compounded by flawed regulatory and risk management practices. The risk management processes many banks had in place simply failed to recognise the systemic nature of the risks. However, given the central role internal audit plays in risk management, we assume that internal audit should know what the risks are. In failing to avoid the banking crisis either internal audit was not aware of the risks, failed to communicate the risks or having communicated the risks was unable to influence management's decision making. It does beg the question, when it really mattered, what difference did the huge resources devoted to internal auditing and risk management actually make?

Looking back to the early part of the decade, internal auditing could take some credit for the exposure of the accounting scandals that were at the heart of debacles such as Enron and Worldcom. Whilst they were frauds in the United States that resulted in Sarbanes Oxley, they had followed other control failures in the UK that provided the political imperative, that ultimately did so much to promote internal auditing in the UK. The conclusion was the Combined Code on Corporate Governance. The Financial Reporting Council (FRC), having brought forward its regular view of the Code, has recently reported its proposals. Sir Christopher Hogg, the chairman of the FRC found no evidence of failings outside of the banking sector which certainly confirms our view that the standards of corporate governance in the UK are high.

Whatever the shortcoming of governance in the banking sector, which is in the process of being addressed by the Turner and Walker Reviews, they are specific to banking, rather than replicated across other sectors.

The Walker Review on how banks should be governed, does not dwell on the day-to-day operation of internal audit or risk management systems which are no doubt being redesigned to measure the risks they failed to recognise. The Walker Review's main recommendations concern non executive directors having a better understanding and being more able to challenge executive management; shareholders acting more like owners; the disclosure of salary information and about the necessity of having risk functions that executive management actually listen to.



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In October the FSA published its analysis of the feedback on the Turner Report from earlier in 2009 which laid out a number of recommendations required to “create a stable and effective banking system”. The majority of the feedback supported the main recommendations for banks to be better capitalised and more closely supervised. Amongst others the need for an international approach was an issue. Following the feedback the FSA asserted that solutions introduced to tackle the crisis would need to be “radical and internationally agreed in order to be effective”

Given the huge number of internal auditors employed in the banking sector, the internal audit community can hardly make a case that bank failures were the result of insufficient resources being devoted to their departments. Perhaps fortunately, subsequent recruitment patterns seem to confirm that the resources devoted to internal audit since the crash will be nothing less than before. It is clear from the recruitment patterns that have already started to emerge that little has changed.

We are not disappointed as it would be difficult to replace the aggregate demand for internal auditors that the banking and wider financial services industry provides. Given that, what is disappointing, is that a slimmer financial services industry is emerging. The number of regional building societies, banks and specialist financial services companies that have failed and been taken over will further restrict the range of opportunities open to internal auditors.

FALL IN EMPLOYMENT ONLY 1 PERCENT

From our market analysis we can see that internal auditing, if not in absolute, then in relative terms has had a good recession. **A peak to trough economic contraction of 6% has seemingly resulted in a 1% loss in the number of people working in internal auditing. On this basis there is very little evidence that in response to the recession companies have resorted to general cuts in the numbers of internal auditors they employ.** The Big 4, which we might have otherwise expected to make significant redundancies, have substantially retained their staff.



Redundancies have come from corporate failures where employers quite simply have ceased to exist. If you worked in internal audit for Woolworths in 2008, you were not still working for them in 2009. They have also come from the closure of operating divisions and what can always be expected in economic slowdowns; companies use a recession as a cover to remove underperforming employees and replace expensive staff with cheaper ones.

The reasons for the low number of redundancies are clear.

First, many internal audit departments are now woven into corporate management and their ongoing existence has essentially been made mandatory.

Secondly, we spent possibly a decade reporting every year that the total number of internal auditors employed in the economy was falling. Whilst acknowledging the growth of co-sourcing and the huge increase in the external provision of internal audit services, we believe many people would now be surprised how small most internal audit departments actually are. There are many FTSE100 companies that have less than one internal auditor for every £1 billion of market capitalisation. A combination of automation, improved techniques and more capable practitioners provides management with a relatively cheap but highly regarded resource.

Thirdly, as a consequence of the specialist nature of the work and the capability of those involved, it has become a significant challenge for companies to recruit adequately trained individuals. The recent memory of difficult recruitment campaigns does not make internal auditors the once obvious target for redundancy.



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THE INCREASE IN DEMAND

At the start of the last quarter of 2009 there was an unexpected increase in demand for internal auditors. This increase was against a backdrop of an unprecedented fall in demand. Not surprisingly, when both the UK and global economy had been contracting at quite an astonishing rate, few companies wished to make recruitment decisions.



When it came, the increase in demand was confined to the private sector and excluded the public sector and the other major employers of internal auditors, the Big 4. In commerce it also excluded most of the major multinational groups that outside of the financial services industry are the largest employers of internal auditors. Demand came from a number of the major banks. Some, having been restructured, found that they had a number of gaps in their internal audit departments. The number of vacancies involved has the potential to be significant and will most likely provide an enduring source of demand.

The other source was primarily from those companies, some substantial, that employ relatively small departments. This demand came from all sectors of the economy. The problem for smaller departments is that recessions may slow but they do not halt the

natural attrition of staff. In a department of three, losing one member of staff represents a loss of capacity that is not sustainable if audit plans are to be met. **As we discussed last year, the recession has actually increased the demands on many internal audit departments as they have become involved in risk and cost reduction programmes. A further point is that, due to the increasingly specialist nature of internal audit work, many companies lack the ability to recruit internally.**

Not surprisingly therefore, once the economy appeared to have stabilised, a number of companies came to the recruitment market. Many of the positions were quite specialist and included a number of Head of Audit positions. Unfortunately, whilst demand from smaller departments is always welcome, it is not where the bulk of internal audit vacancies come from. The majority of vacancies come from large internal audit departments. They were able to operate throughout the recession at less than their budgeted number of internal auditors. A sustained increase in demand will require their return to the recruitment market.

For many internal audit departments recruiting internal auditors during 2009 was a frustrating experience. In the middle of a recession, with unemployment supposedly rising, they might have expected to be able to recruit close to their ideal. Unfortunately, but understandably, many good internal auditors believed that it was simply too risky to enter the recruitment market and as we have explained, the number of internal auditors that have been made redundant has been relatively low. **However, going into 2010 with the economy moving away from crisis into a more benign environment, it is likely that more internal auditors are going to willingly enter the recruitment market. Perversely this may make it easier to recruit.**



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THE CONTRACT MARKET

When unemployment starts to rise and permanent vacancies are in short supply, in the absence of permanent work, most redundant internal auditors want to at least work on a contract basis. If you have been made redundant, there is only so much you can do to secure another permanent position. In terms of investigating the recruitment market, producing a CV, registering with recruitment consultancies, brushing up on interview technique and doing whatever networking may be appropriate, most of it can be achieved within a couple of weeks. After that in a recession, or certainly during a period when unemployment is still rising, few people will have the opportunity to attend many interviews. **Therefore we always advise unemployed internal auditors to consider contract work. Personal financial considerations aside, it helps ensure people are less stressed about the prospect of unemployment, it can provide useful experience and in cases where there is the potential for a gap between permanent jobs, provides an ongoing employment history to potential employers.**

The contract recruitment market is therefore an important part of the overall recruitment market. In the normal course of events it has historically been a buoyant market with some internal auditors making a career out of being contractors. The best ones, who have a history of providing an excellent service, are rarely out of work. They have a portfolio of clients who will continually come back to them as a reliable provider of internal audit resource. They are used to cover absent staff, they may have specialist expertise or are used on projects and ad hoc consultancy work. In the recession, much of this type of work fell away. It was replaced by those companies who had a pressing need to recruit on a permanent basis, but did not feel sufficiently confident to do so or were subject to blanket bans on permanent recruitment.

Unfortunately the volume of this type of work was not sufficient to compensate for the loss of the more traditional type of work. As a consequence, during the first half of 2009, the number of contract positions fell to historic lows. This was caused by two factors. First, many companies had an outright ban on all external recruitment and secondly in order to keep their staff employed, internal audit

providers such as the Big 4 were prepared to offer their staff at deeply discounted rates. During the second half of the year, once some semblance of corporate confidence had returned, the demand for contract staff rose. However some useful observations regarding the market can be made:

- **First**, not surprisingly, the usual supply of career contractors was supplemented by those who had been made redundant and were simply looking for short term, stop gap employment.
- **Secondly**, the rates available to contractors have fallen victim to the laws of supply and demand and are currently significantly lower than a year ago. Contractors are also needing to be more flexible on the location and sectors that they are prepared to work in.
- **Thirdly**, there are more fixed term contract roles rather than on-going temporary positions. Behind this, some companies have permanent positions but prefer to recruit on a contract basis to maintain flexibility in response to changing economic conditions.
- **Fourthly**, contracts which historically would have been routinely extended, are now more likely to end on or before the initially agreed date. Experienced career contractors are finding that the gaps between contracts are currently longer than they ever have been.
- **Fifthly**, vacancies are coming for all sectors and are not concentrated in any particular areas.

Given that some level of confidence has returned to the recruitment market, we expect the volume of contract work to rise during 2010. While more companies will be prepared to recruit on a permanent basis, unemployment, at least during the first half of the year will most likely still be rising. There is likely to be a significant number of companies who will prefer the flexibility of using contractors. These will be joined by a rising number who will be permitted to use contractors, as they have historically done, to complete ad hoc tasks and provide cover for otherwise unavailable permanent staff.



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IT AUDIT

We reported during 2009 that demand for IT auditors was low both in absolute terms as a result of the recession and relative to the demand for general auditors. While demand for IT auditors rose in the second half of 2009, demand for IT auditors is at least partially correlated to business investment and particularly to the development of new systems. **One of the key elements that contribute to recessions, is that companies simply delay non essential investment decisions.** Deferring the upgrade of existing or the development of new IT systems is probably one of the most common responses companies make to any actual or potential downturn in business. Whilst such decisions do raise potential risk and control issues, the work of the majority of IT audit departments are biased towards systems developments. Not surprisingly, when development work is postponed, the need for IT auditors is reduced. In the short term, internal audit departments are able to manage without replacing IT audit staff.

Given the reduced demand, the supply of IT auditors for any given IT audit vacancy is currently good and there are also more contractors available for interim IT audit work than usual. The exception, as is often the case, is for those experienced IT auditors with specific exposure to certain product areas in banking or the wider financial services industry.

We would make the following observations regarding the skill sets that are currently in demand and are likely to be in demand during 2010;

- The technical IT skills most widely sought after are the various flavours of UNIX, Windows AD and Cisco Networks.
- Demand for technical database security skills, specifically Oracle, Sybase and SQL Server remains strong as does data testing tools such as IDEA and MS Access.
- The demand for IT auditors in 2009 continued to focus on business continuity, resiliency and physical security.



- Information security remains a priority for many companies and therefore IT auditors with a good understanding of IT security governance, IT best practice plus experience of PCI DSS and VOiP are a common requirement.
- Mergers and takeovers, particularly in the financial services industry, have led to an increase in demand for IT auditors to undertake systems integration work and particularly those with good network security and procedural awareness skills.
- Business transformation projects have become more common particularly in the FMCG sector. Companies are consolidating their old legacy and back office systems into more efficient SAP systems. The demand for SAP implementation experience and project management skills became a noticeable feature for 2009. However, we do not know how sustainable this demand will be.

Business investment during the third quarter of 2009 was over 20% lower than the corresponding period in 2008. A significant proportion of that investment will have been made up of IT spend. Whilst some will have been cancelled by companies or operating divisions that no longer exist, the majority will be projects that have simply been deferred. **Therefore, once the business cycle turns, companies if they wish to remain competitive, will be forced to invest. The demand for IT auditors should respond relatively quickly. We are no better qualified than anyone else to predict when that will happen.**



Business investment during the third quarter of 2009 was over 20% lower than the corresponding period in 2008.

HEADS OF AUDIT

The number of redundant Heads of Audit remained at a surprisingly low level throughout 2009. Historically their employment has often fallen victim to economic slowdowns. The fact that it has not is perhaps an indication of the increased maturity of internal auditing.

The number of Head of Audit vacancies increased in the second half of 2009 from what had been an extended period of low demand. Demand came from medium sized companies who having lost their Head of Audit really had no option other than to co-source or recruit externally. External recruitment appears to have been the preferred route.

Head of Audit vacancies have always occurred on such a capricious basis that it is impossible to predict any trends for 2010.



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ANALYSIS BY SECTOR

Here is a review of how the key market sectors fared in 2009, along with predictions as to the likely recruitment activity in 2010.

THE CITY & FINANCIAL SERVICES

There is little doubt that the City hijacked the UK economy. For example, Royal Bank of Scotland, which not all that long ago was a provincial UK bank, came to have a balance sheet that was 150% of the entire UK's GDP. Along the way, profits and tax revenues gushed, no doubt encouraging a lighter regulatory environment than might otherwise have been the case. With the UK government unwittingly the ultimate guarantor, and a thin slice of capital supporting the balance sheet, any material problems in a balance sheet of that size was never going to look good for the finances of the UK government. Few people, and we assume that includes those working in the higher echelons of internal auditing, anticipated it could go wrong in the way it did.

In reality, the City and the wider financial services industry are vital to the economy. It is the largest employer of internal auditors in the UK. Fortunately, the travails of the banking sector does not seem to have damaged the demand for internal auditors. Increasing regulation is likely to underpin demand in what will become a slimmer financial services industry.



BANKING

After the historically depressed levels of demand in the first half of 2009, demand from September onwards rose. Reorganisations as a result of takeovers and mergers drove some of this demand as a number of banks found they did not necessarily have the right people in the right places.

As usual, specialist skills and experience were most often sought. Particular trends included an emphasis on regulatory experience and demand emerged for people with hands on operational experience rather than simply internal audit experience. There was no flexibility in the requirement for high quality internal auditors to meet the skills required. In fact internal auditors with sought after profiles and experience were able to find new positions even in the early months of 2009.

Whilst the flow of candidates into the recruitment market is now improving as confidence returns, many vacancies remain unfilled. **The chronic mismatch between many of the internal auditors looking for new positions and the available vacancies remains. We are optimistic that a more liquid and therefore healthy recruitment market will develop during 2010.**



The fact that bonuses are required to reward those who proved themselves only to be clever some of the time remains the subject of political debate and future regulation.

INSURANCE

The insurance sector has enjoyed a relatively good recession. Redundancies have been rare and unlike other areas of the financial services industry, there has been little corporate distress.

Within general insurance and the Lloyds market, after experiencing difficulty recruiting internal auditors with the necessary experience in the first half of the year, demand slowed in the second half and the number of vacancies fell. Perversely this coincided with more internal auditors with insurance experience having the confidence to enter the recruitment market.

The life and pensions market was subdued during 2009 with little recruitment. Friends Provident fell victim to Resolution and it is likely that the sector will further rationalise in 2010 as banks and other financial conglomerates sell off their non-core life and pension businesses.

In 2010 the industry will most likely experience the increasing prevalence of fraud and growing regulatory requirements. Regulation will include the implementation of the 2008 Pension Act, Solvency II and the Retail Distribution Review. Solvency II will be a key driver. Even if companies have not yet begun to audit its implementation, they are assessing its impact and the skills internal audit will require. To date it has not driven demand for internal auditors but is highly likely to as the deadline approaches.

We expect the insurance industry to retain its characteristic resilience during 2010.

MORTGAGE BANKING, BUILDING SOCIETIES AND CREDIT COMPANIES

This sector was by far the hardest hit by the recession and has experienced corporate failures and significant rationalisation. Internal audit recruitment had effectively ceased by the start of 2009 and as we anticipated this continued throughout the first half of the year. Unfortunately those internal auditors who lost their jobs had little hope of finding positions with other internal audit departments in the sector.

Many of the companies and all the remaining building societies in this sector are provincially based. Their numbers are declining as mergers continue and this is further restricting the choice of financial services employers available to internal auditors who wish to work in financial services outside of London and the South East.

During the second half of 2009 there was some recovery in demand. Mergers and takeovers most often result in internal auditors being required to fill gaps. Whilst the provision of credit is not going to be the growth industry that it once was in the UK, it is a vital part of the economy and one subject to enhanced regulation. Recruitment freezes that were imposed during 2009 are generally in the process of being lifted and should bolster demand in 2010.

MULTI-NATIONAL GROUPS

The multi-national groups that base their internal audit departments in the UK are more dependent on the global rather than UK economy. **They were substantially absent from the internal audit recruitment market during 2009. The almost universal lack of demand from these companies was without precedent and unlike other sectors they have not yet returned to the recruitment market.** Company wide recruitment freezes have been common but not industry specific. Whilst in order to reduce costs many multi-national groups have engaged in extensive rationalisation programs, they have generally not made internal auditors redundant. When they have, it has usually been in specific circumstances such as divisional closures or corporate retreat.

We have already discussed the size of these companies internal audit departments, their spread of interests and their deep human resources. This results in them being able to transfer resources and avoid recruiting externally for relatively long periods of time. They do however constitute a significant part of the overall aggregate demand for internal auditors and their return to the recruitment market will play an important part in the recovery of overall demand. **As their rationalisation programs come to an end and staff numbers stabilise, we should anticipate them returning to the recruitment market during 2010.**



Whilst in order to reduce costs many multi-national groups have engaged in extensive rationalisation programs, they have generally not made internal auditors redundant.



COMMERCE

A number of commercial sectors in the UK were badly hit by the recession. They included retail, transport and distribution, construction, media and leisure. There were corporate failures and significant rationalisation within these sectors that resulted in internal audit redundancies. During the first half of the year only the supermarket groups and FMCG companies undertook any significant recruitment.

In the second half of the year, with the possible exception of manufacturing and construction, unlike the multinationals discussed above, demand for internal auditors increased across all sectors of the economy. Demand came primarily from smaller internal audit departments that had a pressing need to recruit and from the large supermarket groups. They had been able to gain market share from the failure of other retailers and are expanding into new areas such as financial services.

The increase in demand was widespread but not deep. Whilst a welcome fillip to an otherwise depressed market, this increase in demand will not add significantly to aggregate demand.

The companies in this sector are dependent on the UK economy. Unemployment during the first half of the year will probably stabilise and any growth in total employment is likely to be weak. Whatever the enduring strengths of internal auditing, they are unlikely to overcome the headwinds that the UK economy will be experiencing in 2010.

PUBLIC PRACTICE

The Big 4 were absent from the recruitment market throughout 2009. Given the overall contraction in the economy it was hardly surprising. Selected redundancies were made at more senior levels and there were only limited redundancies amongst junior staff. Examination failure was certainly far more likely to result in a termination of a training contract than in earlier years. **However, the mass redundancies previously undertaken by the Big 4 when facing less sizable falls in the economy were not evident. They have used flexible working, salary decreases and sabbaticals and much lower bonuses. However, that has been a welcome price for many of their employees in exchange for retaining a job in an otherwise highly problematic recruitment market. Without doubt, after years of frenetic recruitment and redundancies, the Big 4 have become more savvy at managing their staff numbers.**

The mid tier firms who have made concerted efforts to work with commercial clients met with fierce price competition from the Big 4 during 2009. The Big 4 have frequently charged significantly lower rates to ensure their consultants have remained busy. As a consequence, mid tier firms have retreated back to their core public sector clients and were more likely to make staff redundant during the first half of 2009 than the Big 4. The private consultancies essentially undertook no recruitment during 2009 and as a consequence of their more peripheral involvement in internal auditing, were forced to make redundancies.

In the final months of 2009 mid tier firms returned to the recruitment market for internal auditors and senior auditors and in some instances to recruit for newly created positions. It implies they have been able to add to their portfolio of work in the public sector.

We are not expecting the Big 4 to undertake any significant external recruitment during the first half of 2010 but expect continued public sector recruitment from the mid tier firms.



The Big 4 were absent from the recruitment market throughout 2009.

PUBLIC SECTOR

The public sector did not prove to be recession proof in 2009. Whilst overall the total number of vacancies was similar to 2008, unlike the private sector, the number of vacancies in the public sector fell quite significantly in the second half of 2009. This may bode badly for 2010. **Taking the three main employers of internal auditors; central government recruitment fell whilst demand from local government and NHS audit consortiums remained generally constant. Vacancies were concentrated on replacement delivery level positions in larger departments and at Head of Audit. Very few new positions were created during 2009.**



Within Central Government cost saving is becoming a priority with co-sourcing arrangements and restructuring taking precedence over external recruitment. The use of contractors as an alternative to permanent recruitment is becoming more common. Redundancies were also a feature not only in Central Government but also Executive Agencies and NDPBs. The decision to outsource caused a number of redundancies. A feature of 2009 was the relatively high number of Head of Audit positions that became available. Given the severe budgetary constraints that Central Government will be subject to, external recruitment in 2010 is likely to be rather more limited than in recent years.

Recruitment in local government was more consistent with the usual stream of vacancies at auditor and senior auditor level. Many local government departments are pooling their audit resources in consortium arrangements to reduce costs and partnering arrangements are becoming more prevalent. This is resulting in the recruitment of fewer internal audit specialists and more accountants with audit experience.

NHS consortiums proved to be more resilient in 2009. There are now few in-house internal audit departments left in the NHS. The consortiums have grown and are now often significant businesses in their own right. With secure levels of demand they have been able to recruit against their needs more confidently than most and have been able to move away from relying on contractors to cover busy periods. We expect these consortiums to continue to recruit throughout 2010.

The Charities and Not for Profit sector did undertake redundancies in the early part of 2009 as their revenue streams came under pressure. There were signs of recovery in the latter half of 2009 and going into 2010. International development was a particularly active area and one that is popular with candidates. The Housing and Education sectors are dominated by co-sourced and out-sourced arrangements and undertook little recruitment during 2009.

SUMMARY / PREDICTIONS

Internal auditing has had a good recession with far fewer internal auditors losing their jobs than might have been expected. In 2010, as a result of the stimulus that has been poured into the UK economy, growth will return and it should be enough to ensure an enduring though modest recovery in demand. However any recovery will need to be seen in the context of an environment where unemployment will most likely continue to rise for some months yet. Beyond that there are fiscal deficits that will need to be addressed together with what is going to be a painful restructuring of the UK economy.

In spite of what has been a severe recession, it is likely that candidate shortages will endure. There is every likelihood that the total number of internal auditors employed will begin to rise by the early months of 2010. Given that vacancies, even in the midst of the recession were on occasions proving difficult to fill, the increase in candidates entering the recruitment market are unlikely to offset the anticipated modest increase in demand. Both internal auditors and the departments who employ them are likely to remain cautious at least during the first half of 2010. We are anticipating an improving, but by historical standards not a dynamic recruitment market in 2010.



There is every likelihood that the total number of internal auditors employed will begin to rise by the early months of 2010.

04. SALARIES

OVERVIEW

The average salary increase achieved by internal auditors accepting new positions was 10% in the second half of 2009. Whilst this was a multi-year low it was only down from 12% in 2008 and it was a higher percentage than was achieved in any other area of corporate governance. **The reason for the relatively higher average is that the majority of internal auditors who accepted new positions during the period were already employed. They therefore had no reason to accept anything other than an increase in their existing salary.** Another issue has been bonuses which are generally better at retaining existing staff than attracting new ones. Those people weighing up salary offers tend to include the bonus they are paid by their exiting employer but exclude the potential bonus from their prospective employer. Not surprisingly people are more sceptical about the potential bonuses on offer from prospective employers and are more likely to bargain for higher base salaries as compensation.

OUTLOOK

Even though general unemployment is likely to rise for some months yet, on current trends, internal auditors should retain their relatively strong bargaining position. Notwithstanding that the majority of companies will still be looking to reduce costs, the shortage of internal auditors that has remained a lasting feature of the recruitment market will continue. **Rising demand should ensure that the salary increases achieved by internal auditors changing jobs are likely to be higher in 2010 than they were in 2009.**

SALARY SURVEY

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

To give as accurate a picture as possible, we have taken a range of different internal audit profiles and provided an approximate salary range that they could realistically earn. The profiles 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.



The average salary increase achieved by internal auditors accepting new positions was 10%.

	London	South East	Rest of UK
Auditor Qualified PIIA with internal audit experience gained in an external provider of internal audit services.	£26,000 - £30,000	£23,000 - £29,000	£20,000 - £26,000
Internal Auditor Partially qualified accountant of graduate calibre, with three years experience in the private sector.	£29,000 - £36,000	£27,000 - £34,000	£24,000 - £32,000
Internal Auditor Unqualified multi-site auditor with a high level of field audit experience.	£25,000 - £30,000	£23,000 - £29,000	£21,000 - £28,000
Internal Audit Manager Unqualified multisite audit manager with a high level of experience	£40,000 - £50,000	£38,000 - £45,000	£35,000 - £42,000
Senior Internal Auditor Graduate qualified CIPFA with at least one years PQE experience gained in local government.	£35,000 - £42,000	£34,000 - £40,000	£32,000 - £38,000
Senior Internal Auditor MIIA qualified with four years internal audit experience In the Civil Service.	£36,000 - £46,000	£32,000 - £39,000	£30,000 - £37,000
Senior Internal Auditor Qualified accountant with experience that includes some exposure to internal auditing in a Big 4.	£48,000 - £54,000	£44,000 - £50,000	£38,000 - £44,000
Senior Internal Auditor Qualified MIIA with internal audit experience in the public sector and private sector.	£49,000 - £54,000	£46,000 - £51,000	£42,000 - £47,000
Senior Internal Auditor Qualified accountant with at least three years internal audit experience gained in a Big 4 or commerce.	£52,000 - £58,000	£46,000 - £52,000	£40,000 - £47,000
Internal Audit Supervisor Qualified ACA with experience gained in either a Big 4 risk management services or a commercial internal audit department.	£56,000 - £62,000	£54,000 - £58,000	£50,000 - £54,000
Internal Audit Manager Qualified CCAB/MIIA with experience in both Big 4 risk management services and internal auditing.	£65,000 - £72,000	£62,000 - £68,000	£57,000 - £64,000
Computer Auditor Qualified QiCA/CISA with three years computer audit experience gained in Big 4 risk management services.	£45,000 - £54,000	£43,000 - £50,000	£41,000 - £46,000
Senior Computer Auditor QiCA/CISA qualified with a high level of experience in various IT positions followed by significant experience in computer auditing.	£58,000 - £66,000	£54,000 - £60,000	£50,000 - £56,000
Computer Audit Supervisor/Manager Qualified ACA with computer audit experience.	£60,000 - £68,000	£55,000 - £63,000	£53,000 - £60,000
Computer Audit Manager Graduate QiCA/CISA qualified with significant computer audit experience.	£65,000 - £74,000	£59,000 - £68,000	£55,000 - £62,000

05. APPENDIX

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 for:

VACANCIES

- Number of vacancies at the start of the period
- Number of vacancies generated during 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 each market segment

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.

SALARIES

- Salary survey
- Salary increases

Salary increases are recorded as the increase in base salary achieved by internal auditors moving from one employer to another. It does not include the value of other benefits but does provide a raw guide to the average salary increases that are being achieved in the recruitment market at any given time.