Internal Audit

2018 Market Report North America

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1. Introduction

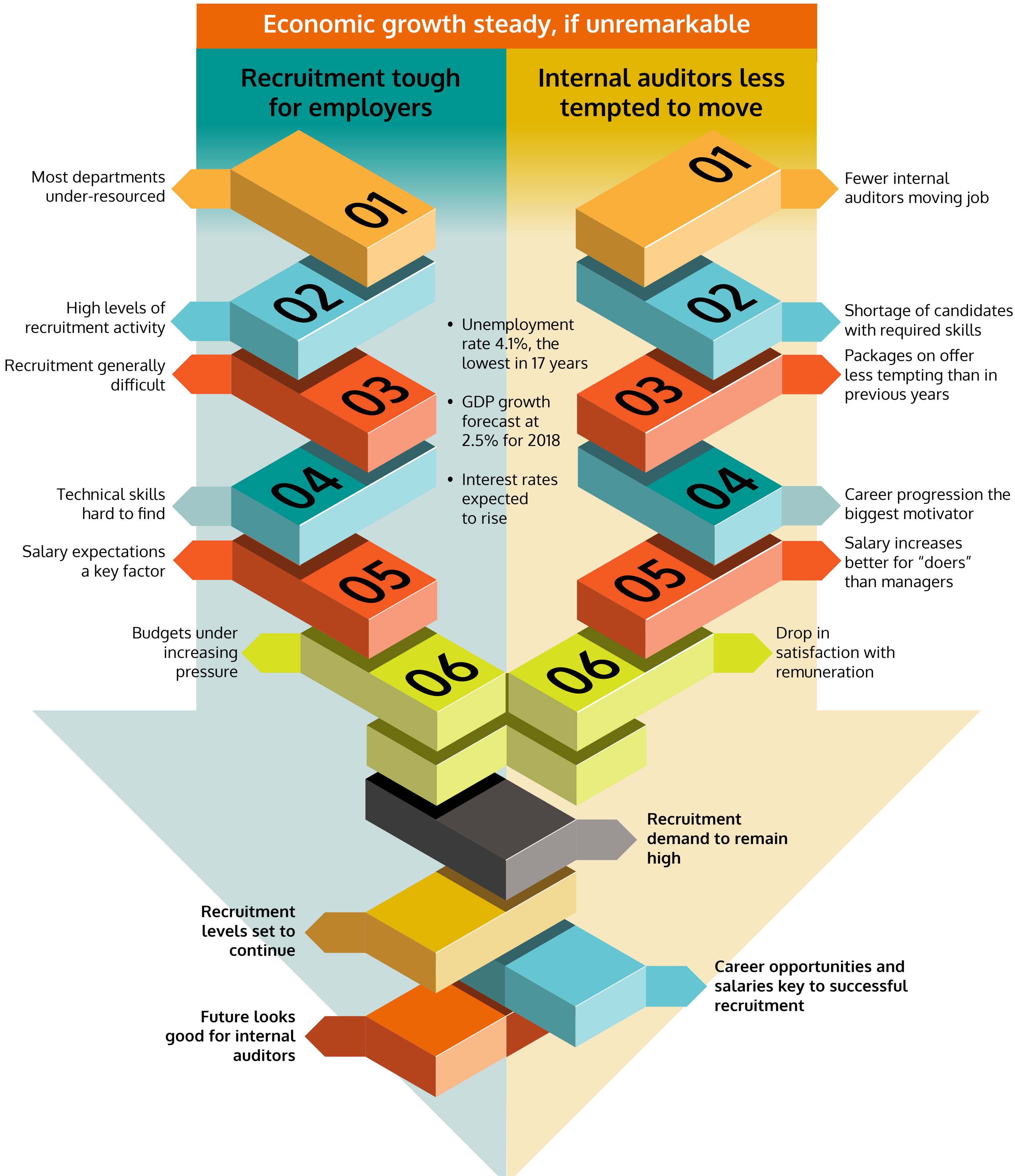
Welcome to the Barclay Simpson Executive Search Inc. 2018 Internal Audit Market Report

Barclay Simpson has been producing corporate governance market reports since 1990. This is our fourth 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 2017.

To understand recruitment challenges from a leadership perspective, this report also includes an interview with Mark Martinelli, Chief Audit Executive for Synchrony Financial.

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

2. At a glance


Economic growth steady, if unremarkable
Recruitment tough for employers
Internal auditors less tempted to move
01
Most departments under-resourced
02
High levels of recruitment activity
03
Recruitment generally difficult
04
Technical skills hard to find
05
Salary expectations a key factor
06
Budgets under increasing pressure
01
Fewer internal auditors moving job
02
Shortage of candidates with required skills
03
Packages on offer less tempting than in previous years
04
Career progression the biggest motivator
05
Salary increases better for “doers” than managers
06
Drop in satisfaction with remuneration
• Unemployment rate 4.1%, the lowest in 17 years
• GDP growth forecast at 2.5% for 2018
• Interest rates expected to rise
Recruitment demand to remain high
Recruitment levels set to continue
Career opportunities and salaries key to successful recruitment
Future looks good for internal auditors

3. Executive summary

Economic growth steady, if unremarkable

Broadly speaking, 2018 continues the pattern of economic growth in the U.S. we have seen in recent years. At the time of writing, the Bureau for Labor Statistics pegs the unemployment rate at 4.1%, the lowest in 17 years. GDP growth is forecast at 2.5% for 2018 and interest rates are expected to rise. Despite comparatively low wage increases throughout 2017, generally, market conditions are good.

From a corporate governance hiring perspective, the market is robust, although not at the height of activity that was seen in 2014/15. While most major banking firms are in the market for audit talent, there are not any firms sole-handedly moving the market in the way that Citigroup, for example, did with audit recruitment in 2014/15, or when MUFG doubled the size of its team between 2015 and 2016. While firms are hiring, it is less related to big-ticket growth or restructuring than it is to necessity and meeting resourcing requirements. In audit there has been relatively little turn-over at the Chief Auditor level, and where there has been, these roles have often been filled internally.

"Trump" effect yet to take place

After the presidential election at the end of 2016, bank stocks rallied on anticipation that President Trump's policies would bring about growth in the banking sector. Over one year into the Trump administration, it is fair to say that there is a high degree of skepticism over whether the President has the political capital and support to drive through regulatory roll-backs as he has promised to do. If he is able to enact these changes, as he has been able to do with his sweeping tax reform plan (itself designed to boost GDP and help raise wages), then banks with over $50 bn in assets will be the clear winners, benefiting from the lighter cost of regulation which will have a direct positive impact on their bottom line. While this would likely be good for the industry, it would not necessarily be positive for internal auditors, or indeed any profession which has a vested interest in holding banks accountable in the face of regulatory scrutiny.

Recruitment demand remains high

Our report reveals that 82% of hiring managers expect to hire in 2018, a similar picture to this time a year ago. This suggests that while the road ahead continues to be uncertain from a regulatory stand-point, basic departmental needs remain to be satisfied. The high level of demand is exacerbated by the fact that only 28% of the auditors who responded to our survey changed job in 2017, down from previous years, and of those that did, the vast majority were non-managers. So, while recruitment continues, it does so more cautiously, with clients eschewing the more expensive price tags that come with hiring managerial staff and opting to instead hire sole contributors. Audit engagements are therefore being prioritized at the expense of audit planning.

Career progression driving movement

Career progression (52%) remains the overwhelming reason most individuals seek to move jobs, with salary increase and finding a better work/life balance evenly tied in second place at 13% each. For the second year running, concern about job security has increased as a motivation, with 9% citing this as the key reason for moving job. If, as our data suggests, we saw the peak of hiring auditors in 2015, as the market cools, confidence in not only existing employers, but also the ability to find new work quickly if required, is dropping slightly.

Future looks good for internal auditors

Assuming the economic indicators in 2018 continue to improve, hiring should remain strong. Looking beyond traditional banking and financial services firms, the new vistas of digital finance and open banking should provide fresh opportunities for internal auditors and it is likely that any regulatory changes will also have consequences, unintended or intended, that may provide avenues of opportunity for those working in the third line of defense.

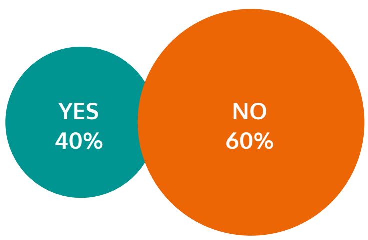
4. Key findings from employer survey

2017 was a testing year for employers, with resources under increasing pressure and a number of factors, including available budgets and a shortage of candidates with the right technical skills, making recruitment difficult. This situation looks likely to continue throughout 2018.

Most departments under-resourced

Nearly two thirds of heads of audit that responded to our survey said that their department was not sufficiently resourced. The 60% figure is virtually identical to 61% last year and paints a picture of firms struggling to fill headcount.

Do you feel your department is sufficiently resourced?



There is a particular pinch point in IT Audit, where just 25% believe their department is sufficiently resourced. Business auditors feel more resourced (45% saying their department is sufficiently resourced), but this leaves the majority of business audit departments under-resourced.

The picture varies by market sector, with heads of audit in commerce & industry more positive about their resourcing than their counterparts in financial services. Fin-tech is the least positive sector with just a third of managers considering their department sufficiently resourced.

Satisfaction with resourcing

Commerce & Industry	58%
Insurance	40%
Investment Banks	39%
Consumer Banks	36%
Asset Management	36%
Fin-tech	33%

Why are departments, pretty much across the board, feeling so up against it in terms of resources?

The general increase in regulation, country-wide, is certainly a factor, with those bearing ultimate responsibility for providing top rate third-party accountability naturally feeling the strain of any perceived lack of resource the most. In addition, given the ever-changing technical demands of IT audits and the growth of technology components even of integrated audits, IT audit teams may justifiably feel that the demand on their time, technical know-how and therefore staff resource is at an all-time high. Put simply, resourcing plans are struggling to keep up with the ambition of audit plans.

The reason hiring managers in financial services are feeling less well-resourced than their counterparts in commerce & industry comes down to the fact that, despite the promise of the current administration to cut regulation in financial services, this has been balanced by a number of high profile fines and enforcement actions against both overseas and domestic banking firms. In 2017, fin-tech firms, long seen as a bastion of lighter regulation and an industry of unfettered innovation, came under increased scrutiny by the OCC and, certainly in respect of consumer protection and consumer data regulations, may feel that the time is coming for third-line audit functions to build up along the lines of the model of more traditional financial services firms.

High levels of recruitment activity

Unsurprisingly, the general perception of under-resourcing is reflected in high levels of recruitment activity in 2017, with 86% of employers claiming to have recruited, or attempted to recruit, externally in 2017.

Recruitment in 2017

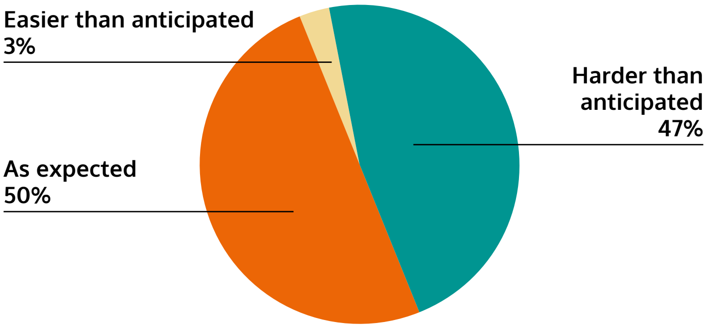
Asset Management	94%
Commerce & Industry	91%
Insurance	91%
Investment Banks	82%
Consumer Banks	80%
Fin-tech	80%

Levels were highest in asset management, commerce & industry and insurance, but still high in all other sectors.

Recruitment generally difficult

Nearly half of audit departments (47%) reported that they found recruitment harder than anticipated in 2017, with just 3% finding it easier.

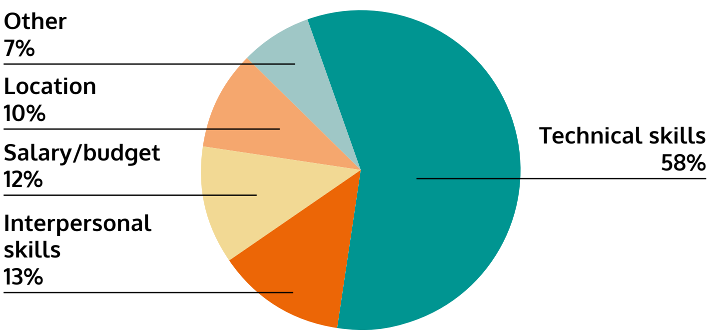
How have you found recruiting in 2017?



Technical skills hard to find

Sourcing candidates with the required technical skills was far and away the greatest challenge for employers in 2017. At 58%, it was over 4 times more of a challenge than any of the other options.

What has been the greatest challenge when recruiting?



Technical skills are particularly difficult to find in investment banking, with the figure rising to 77%. By contrast, the greatest challenge in fin-tech was finding candidates with good interpersonal skills (50%).

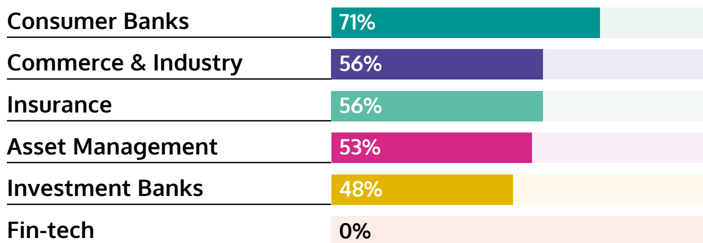
Recruitment within internal audit has for some time been largely "candidate-led", that is, it is generally easier to come by opportunities within internal audit than it is to find the talent to fill them. This has been driven by increased specialization over a number of years, particularly within investment banking,

It is therefore unsurprising that recruitment is often a difficult task for hiring managers, not helped by the fact that it is not always given maximum priority. Technical skills generally trump interpersonal skills in investment banking, where audit is seen sometimes as a more fraught, combative affair, than in newer industries such as fin-tech and open banking where there is likely to be more emphasis on business-partnering and where control functions are less strictly compartmentalized away from the business.

Salary expectations a key factor

Just under half of employers (47%) believe that candidates' salary expectations have made recruitment more difficult. This varies considerably by sector.

Salary expectations have made recruitment more difficult



Candidate salary expectations have made recruitment especially difficult in consumer banking (71%), to a considerably higher level than in investment banking (48%). By contrast, salary expectations in fin-tech were not considered a problem, perhaps a reflection of candidate's willingness to put the benefit of working in this emerging sector ahead of short term salary concerns.

While investment banking internal auditors are still largely found in expensive urban areas such as New York, many consumer banks have their audit functions based in traditionally "low cost locations". As such, it may be that these firms do not offer the kind of broad salary banding that frees up hiring managers to make more costly hiring decisions. In our experience, where a role is benchmarked below the appropriate compensation it is not uncommon that it remains open for a long period of time. Fin-tech firms are seen as innovative alternatives to larger, more bureaucracy-laden banks and institutions and this desirability may mean candidates are happy to accept alternative compensation structures, such as lower basics and high bonuses or long-term incentives such as share options.

4. Key findings from employer survey (cont.)

Diversity & inclusion targets also a factor

In 2017, diversity and inclusion targets affected the recruitment decisions of 30% of hiring managers and as such, are a significant factor in recruitment.

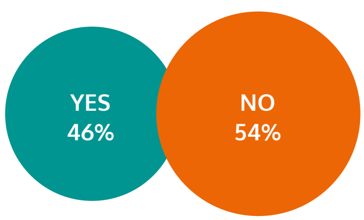
Diversity and inclusion targets are greatest in consumer banking (40%) and drop down to 0% in insurance, with no hiring managers reporting this a key consideration.

Consumer banks may have a stronger focus on diversity and inclusion for a number of reasons, not least because the requirement to comply with community focused financial legislation such as the Community Reinvestment Act and other fair lending requirements make this ethic more built-in. There is a still an imbalance in gender diversity in internal audit and especially IT audit.

Budgets under increasing pressure

Less than half of hiring managers reported that their recruitment budget increased in real terms in the last 12 months. The figure of 46% is a drop from 50% last year and is indicative of the growing pressure on recruitment budgets.

Recruitment budget increase in real terms in last year?



The picture varies by market sector:

Satisfaction with resourcing

Investment Banks	53%
Fin-tech	50%
Consumer Banks	47%
Asset Management	47%
Commerce & Industry	40%
Insurance	27%

Budget increases in investment banking over the past few years is logical, given that not only have banks been growing their audit functions, but the salaries auditors have been making has increased. Whereas an AVP Auditor may have been capped at $110K in 2015, some banks have raised the upper limit for AVP hires to $130K.

Recruitment levels set to continue

Our survey reveals that the high level of recruitment activity is likely to continue, with 82% of Heads of Audit saying they will need to recruit in 2018, a marginal increase on 2016 (81%).

Intention to recruit in 2018

Consumer Banks	93%
Asset Management	87%
Fin-tech	86%
Investment Banks	81%
Commerce & Industry	78%
Insurance	67%

Consumer banking is likely to be very active in 2018, with 93% of hiring managers reporting they plan to recruit. Insurance is likely to be the least active area with 67% of managers reporting they plan to hire in 2018.

It is clear to us at Barclay Simpson that, notwithstanding an unforeseen financial services event or dip, recruitment within internal audit is likely to continue to be strong throughout 2018 and beyond. High profile investigations into Wells Fargo for opening fraudulent checking accounts, along with a record $185m fine from the CFPB, amongst other high-profile cases, have brought consumer banking back into the spotlight. Audit functions have also turned their attention to sales and customer practices, use of customer data and other consumer compliance matters such as fair lending and CRA. In addition, in the short-term there is unlikely to be a major downsizing in the audit functions of investment and corporate banking firms, even if the Trump administration does make good on its promises to roll back Dodd Frank and other regulations, as banks will want to understand the longevity and provenance of any such action before trimming control functions they have taken years to grow.

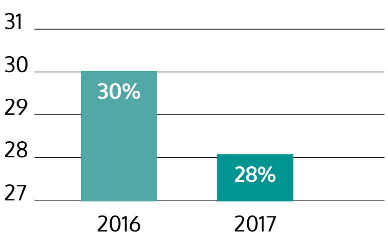
5. Key findings from candidate survey

While career progression remains the biggest motivator to encourage internal auditors into the job market, the salaries and opportunities on offer are seen as less enticing than in previous years. This is particularly the case for managers/overseers of audit projects, who are in much less demand than those who actually conduct the audit work, but there is a drop in satisfaction with remuneration across the board.

Fewer internal auditors being tempted to move

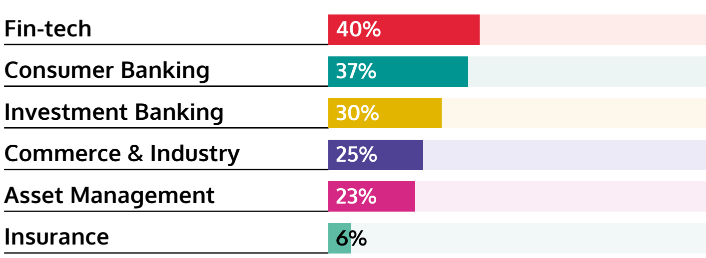
28% of auditors changed jobs in 2017. This is down from 30% in 2016 and drops to 24% for auditors with management responsibility.

Changed employer in the last 12 months



There were significant differences by sector, with 40% of auditors in fin-tech reporting having changed employer and only 6% of auditors changing jobs in insurance.

Changed employer in the last 12 months



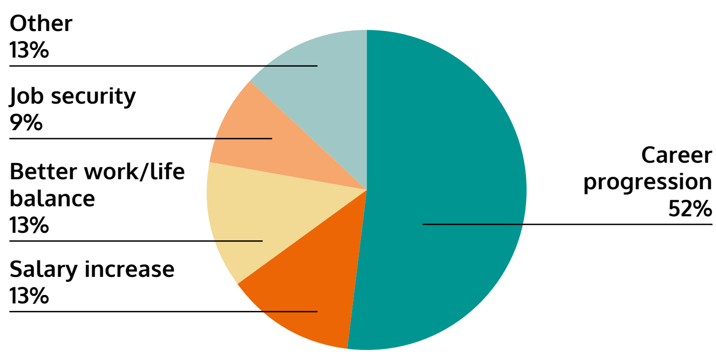
So why are fewer people moving?

A common cause for complaint from job-seekers at the managerial and executive level is a narrowing of the pipeline of opportunities that they may have expected to see at peak levels of internal audit recruitment in 2014/15. This is in line with our experience at Barclay Simpson that focus has turned more to hiring sole contributor and executional roles in internal audit, i.e. those "doing" the audits as opposed to those "overseeing" them or planning audit programs. AVPs continue to be in high demand as do VPs who, while they may lead on executional audits, are not always managing teams of people directly.

Career progression by far the biggest motivator

Career development remains the key driver for changing roles, with 52% of auditors reporting this as their primary motivation. Only 13% of auditors reported changing jobs primarily to improve their salary.

What was your primary motivation in looking for another job?



That said, there is a big difference in motivations between men and women. 75% of men reported changing jobs for better career prospects, whereas only 29% of women reported career progression as a motivator to change employers. Women were more concerned with salary increase (25%) and other factors, such as culture (13%) and job security (33%).

Following on from the commentary above, when opportunities that offer managerial development arise less frequently, the demand and competition for them is therefore higher. Ambitious candidates tend to focus on role title and level of staff supervision when moving roles, and if the opportunity offers neither of these, then there has to be a compelling reason for those individuals to make a move, such as a large increase in salary or the ability to gain exposure to a new and career-enhancing area. Clients seeking candidates to make a "like for like" move without thinking about the incentives for them to do so are all too often frustrated in their recruitment efforts.

Salary increases better for "doers" than managers

The average salary increase achieved by internal auditors who changed employer in 2017 remained at 13%. This compares to an increase in salary of 7% (up from 5% in 2016) for internal auditors who remained with their employers.

Non-managers achieved higher increases when moving jobs (16%), than auditors with management responsibility (8%).

This learning again supports the argument that less innate value is currently placed in audit management than in previous years and that the focus is on hiring "doers", who are moving roles for more competitive basic salary increases.

Men getting higher increases than women

Men (12% increase) fared slightly better than women (9% increase) negotiating their salary when changing employer, a gap we would like to see closed. The role of gender when considering salary increases has never been more discussed, not just within banking but across all industries. While there still seems to be a disparity between the increases women receive compared to men, looked at optimistically, this is likely to narrow as governments, firms and society demand greater parity not only between men and women's pay increases, but in their basic pay across the board.

Bonuses a significant part of remuneration

With 94% of candidates receiving a bonus and the average bonus equivalent to 26% of base salary, bonuses are a significant part of remuneration in internal audit.

Bonuses do vary by sector, though not considerably. Bonuses are highest in asset management (32%) and lowest in commerce & industry (20%). Asset management always tends to pay a higher bonus than banking and the total compensation earned in some asset management firms can be incredibly rewarding.

Bonuses as % of salary by sector

Asset Management	32%
Insurance	31%
Fin-tech	25%
Investment Banking	25%
Consumer Banking	22%
Commerce & Industry	20%

The trend of business auditors (28%) earning higher bonuses than IT auditors (24%) continued in 2017 and it will be interesting to see how this plays out as audit in general becomes more technology focused.

Unsurprisingly, manager's bonuses were higher (30%) than non-managers (13%), however, the comparison between the bonuses received by women and by men, was a surprise, with women in audit reporting higher bonuses (33%) than men (29%). The difference is not great, but this does runs counter to the prevailing narrative and could be an encouraging sign that gender differences in overall remuneration are reducing.

Bonuses are predominately paid in cash (80%) with the remainder paid in equity.

Pension benefits less important than bonuses

Pension, 401(k), benefits are equally universal with 95% of internal auditors receiving them. The average contribution is 5.5% of base salary making the benefits less important than bonuses in overall remuneration.

Most sectors made similar contributions (between 5% and 6%), however fin-tech was lower at 4.7%.

Flexible working becoming more common

Flexible working arrangements have become far more common, with 85% of auditors reporting their employers offered them the opportunity to work flexibly, a significant increase on 2016 (77%). 90% of IT auditors reported they were able to work flexibly, compared to 79% of business auditors. 86% of women reported their employer allowed them to work flexibly, whereas only 79% of men were able to do so.

Flexible working

Fintech	93%
Insurance	93%
Consumer Banking	89%
Asset Management	86%
Commerce & Industry	81%
Investment Banking	67%

Auditors in fin-tech (93%) and insurance (93%) reported the greatest flexibility. Investment banking auditors had the least amount of flexible working at 67%.

The high level of flexible working is just one of the ways in which fintech companies leverage non-financial benefits to compensate for financial ones – flexible working arrangements and higher long-term incentive plans do help to compensate for less attractive basic salaries and 401(K) plans.

Flexible working is becoming more "essential" than "desirable" in the work-force generally, driven by millennials but also by the liberating effect of technological advances. The low rate of flexibility within investment banking is potentially a reflection of a lingering "presenteeism" culture that these firms have historically been known for.

5. Key findings from candidate survey (cont.)

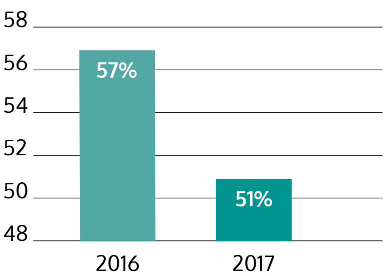
Little change in holiday entitlement

Higher holiday entitlement is still something that employers very rarely choose to use in overall package negotiations, with the overall holiday entitlement 22 days, fractionally down from 23 days in 2016.

Drop in satisfaction with remuneration

In 2017, just 51% of internal auditors reported they felt adequately compensated, a significant drop from 57% in 2016.

Do you believe you are adequately compensated?



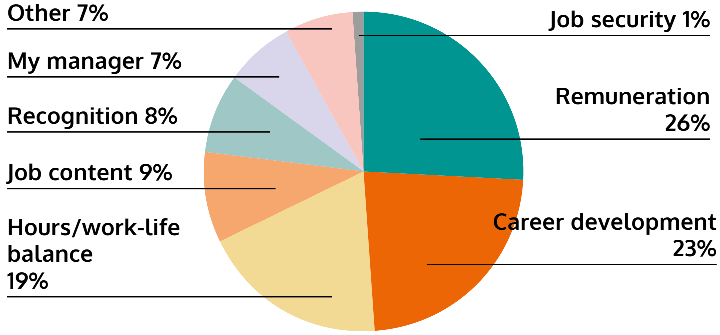
Women (61%) were happier than men (50%) and, unsurprisingly, 71% of those who changed jobs reported feeling satisfied with their salary, compared to only 44% of those who didn't change jobs.

It is interesting that while men seemed to get the largest salary increases when changing jobs, they are also more likely to feel their salaries are inadequate, compared to the 61% of female internal auditors that are happy with their pay and this may be a revealing statistic when it comes to salary negotiations both internally and externally. While it is beyond the scope of this report to decide whether dissatisfaction with a perceived lower salary equates to a heightened willingness to negotiate for a better one, it would fit the perception that men are more confident in salary negotiations as a general rule.

Remuneration is what most auditors would most like to change

Remuneration was cited by 26% of auditors as the thing they would most like to change about their current role, ahead of career development (23%).

What would you most like to change about your job?



Remuneration was the biggest issue for men, with 28% reporting it as their greatest frustration. Salary is less of a concern for women with 39% citing career development and 35% hours/work-life balance as their main frustrations with their current role.

6. Interview with Mark Martinelli, Chief Audit Executive, Synchrony Financial

In order to offer greater perspective on the audit recruitment market, we are continuing to share the thoughts of significant figures in audit. In this report, our guest contributor is Mark Martinelli, Chief Audit Executive (CAE) at Synchrony Financial. We would like to thank Mark for his contribution and would welcome your views on what he has to say.

Introduction to Mark

Mark Martinelli is the Chief Audit Executive (CAE) for Synchrony Financial, managing a team of 60 auditors across the US and India. Synchrony is one of the nation's premier consumer financial services companies, providing private label and co-branded credit card and savings products through Synchrony Bank. Since joining Synchrony in 2014, Mark has led the Internal Audit group through a period of transformational change and growth, in part necessitated by the separation from GE Capital via an IPO in 2015. He has been responsible for building an audit function to support a regulated public entity and provide assurance oversight to meet the heightened standards requirements for a large complex bank. Under his leadership, the Audit function has expanded its data analytics capabilities to drive audit decision making and is further expanding its digital capabilities as it continues to better align the function to Synchrony's emerging risks and needs.

What attracted you to joining Synchrony? After a career with one of the world's largest Tier 1 Banks, why join a relatively smaller organisation over other larger establishments?

After leaving public accounting, I worked at HSBC in a variety of senior financial, audit and business roles. I thought I would never leave there. My joining Synchrony was driven by two critical factors. First, our CEO, Margaret Keane, and her leadership team have an incredible passion for our people, our business and our clients. This came through in many ways, but I knew when I sat down with Margaret to discuss this unique opportunity that there was something culturally special about Synchrony – something I wanted to be part of. Second was the opportunity to be part of an IPO and to be able to build a team from the ground up. One thing I never got to do was build out a function from the beginning. I was fortunate in my career to inherit strong teams and benefited from that greatly, but this was something unique. Setting up the organization in partnership with the new leaders I hired and Human Resources has helped me develop as a CAE – learning to focus on team development and talent building. When I look back at the people we hired and developed since I joined, I'm incredibly proud of what we've accomplished in such a short period of time.

As Synchrony grows as an independent organization, what have been the key challenges for the internal audit department?

When I joined Synchrony, the organization was still operating as part of GE Capital. One of the challenges post IPO was attracting individuals to a 'new' company. GE had strong brand name recognition, so initially it was not easy attracting staff. But as we began to establish the new organization and develop our own brand and culture, we were able to quickly establish ourselves in the marketplace. We benefited greatly from the success of the IPO, as well as from the networking and relationships that my senior team and I had previously built. The other challenge was building the audit function while at the same time looking to meet the requirements of being a public and financial services regulated company. We had to provide effective audit support while simultaneously building the audit function.

What are the strategic challenges of hiring through a period of immense change and/or growth?

Growth and change bring a constant stream of new challenges – uncertain and evolving risk considerations, complicated by the speed of new technologies and competitive pressures. The challenge we face is being able to hire individuals who are change oriented, adaptive and embracing of change.

We are lucky to have some incredible talent within our function, and we look to that talent to fill vacancies as they arise both within audit and the organization as a whole. However, when we need to look to the market, the challenge we face is not hiring an individual that fits our open role, but instead hiring someone with the potential to be successful in multiple roles within our company. They must bring a skill set that is diverse and a curiosity that drives them to take on experiences that are sometimes outside their comfort zone to meet both current and emerging business needs. That mindset and capability is critical when joining an organization facing change and is one of the critical factors we look for in prospective candidates.

How do you foresee technology developments affecting hiring going into 2018?

Technology has accelerated the speed of change. Every day it becomes clearer that understanding technology has become table stakes for internal audit functions. The field will continue to advance at a rapid pace and audit methodologies and knowledge demands will need to adjust to keep pace with that change. With that future in mind, it becomes critically important for internal audit to attract individuals with a deep understanding and curiosity of technologies like cloud, artificial intelligence, robotic process automation and other disruptive technologies impacting our business. While individuals with these skill sets might not innately be interested in internal audit, we must demonstrate the impact they can have on the business from the audit perspective.

You have audit functions in Salt Lake City, Georgia, India and Stamford, Connecticut; what do you find the most difficult skill sets to source across internal audit?

There are three critical skill sets that I look for when hiring auditors:

1) Can they think strategically beyond the scope of audit? They need to be able to think 'beyond the checklist' of what they would traditionally audit and think more broadly about how their actions can impact the business – being more anticipatory in thinking about risks.

2) They need to be able to connect the dots on observations and find the underlying root cause. I find that good auditors can find the issue, but great auditors find the reason why. This type of finding creates much more value add for the organization.

3) They need to have a broader business understanding and capability that goes beyond auditing core areas like operations, compliance and finance. Risks to an organization are so broad, we need people who understand business concepts that go beyond the typical controls of the past. Roughly one third of the audit team's experience is non-audit. Having auditors that have previous business experience has benefited us greatly.

Over the past few years we have seen demands in niche skill sets within IA functions such as data analytics, data governance audit, regulatory reporting auditing and cybersecurity coverage. Is there a particular skill set that you foresee emerging in the near future?

Like many organizations, we have had a significant increase in the reliance on our data analytics team to provide deeper assurance and efficiencies in coverage via continuous monitoring. We continue to see that part of our team grow, not only in internal audit, but across our entire organization. While data analytics could be considered a niche skill set, we think of it as a skill set that should be commonly embedded in all our audit teams – in fact we deploy a data analytics champion on each of our audit teams. We will continue to invest in our staff to develop data analytics skills and knowledge of the applicable tools, like Tableu, so that it is not considered a niche skill set, but rather a required one. This will impact future hiring for us as we will likely look to hire more IT specialists, computer engineers, and mathematicians.

However, if the smartest auditor does not have the soft skills like influencing, communicating and trust-building skills, they will not be successful. We will always be looking for these skills as we hire, because they are critical to the success of the individual and the broader function. If we don't continue to build trust with our stakeholders, we will not be able to audit them effectively.

Is there anything on a candidate's 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?

I generally look for two things: Growth within a single company and a passion for something outside of their core responsibilities. With regard to growth, I would rather talk to an individual with 5 or 6 jobs at the same company, than 10 jobs at 10 different companies. If someone demonstrates growth in a single company, it shows they have sponsors that continue to give them more responsibilities. When I see someone that has a history of steady career growth and is also involved in something that develops them outside of their core job, accreditations or certifications, or involvement with a professional association or university – I will typically be more likely to recruit that individual.

6. Interview with Mark Martinelli, Chief Audit Executive, Synchrony Financial (cont.)

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

Recently, my team was at LSU, where we recruit interns and college graduates. We already had accepted offers that filled our roster. On our last day on-campus we led a round table with students and we had a conversation with a chemistry undergraduate who was interested in internal audit. During our conversation, she told us that her training in chemistry taught her to “sample,” “look for trends,” and “draw conclusions.” Her training taught her to look broadly and look beyond the scope to find the “root cause.” This type of thinking is exactly what we’re looking for in individuals. We made the decision to go over our allotted headcount, made her an offer, and she has been an excellent addition to our team. Her non-audit chemistry education translated well into the data analytics work we perform – expanding her career focus from a scientist to a data scientist. Seeing her successful use of a non-audit education in an audit department is a good reminder for hiring managers to view candidate skills and experience from a broader perspective and not shy away from taking a gamble on a candidate.

Is there any advice you would provide candidates who are looking for a new position within internal audit that you wish you had heard at any point throughout your career?

There are four things I tell employees – it doesn’t matter where they are on their career path, they should always be reminding themselves of these concepts:

1) Lean In – Find ways to contribute to the organization beyond the scope of your current job. Learn to raise your hand and lean forward. One way that we’ve hired people into internal audit has been via our Guest Auditor Program where individuals from the business meeting certain requirements can participate on an audit. Individuals from the business have raised their hands, looking for ways to learn more about controls and Audit.

2) Leverage your Network – It’s critical to not be siloed. Find ways to cultivate your network within and outside of your current organization. This takes time, effort, and will not be pushed forward without the proper attention. Career networking is essential to your brand and career building.

3) Identify Solutions, Not Problems – It is table stakes to be able to identify and highlight issues with a process or control. The real value comes from being able to bring a thoughtful and effective solution – especially as an auditor. I caution employees not to wave a flag about a problem until they’ve had a chance to think through a viable and sustainable solution.

4) Embrace Change – It’s a cliché but change is inevitable. It might be to your industry, your company, your role, the tools you use or skills you have. Figure out how technology or other potential disruptive changes will impact your career and get ahead of them. You need to be alert and proactive with your career. Bottom line, I like to say that the road to success is always under construction.

7. Sector analysis

As illustrated in some of the key findings in sections 4 and 5, while there are common trends across much of the audit recruitment market, there are also differences by sector. Here is a brief analysis of the main market sectors:

Banking Audit

The recruitment market for internal audit in banking remains consistently busy. While not at the peak levels of activity seen in 2015, most major U.S. based banking organizations and foreign banks with presence in the U.S. have actively recruited within their audit teams in 2017 and this looks set to continue throughout 2018. In 2017, there was a change of General Auditor at two of the "big 6" U.S. banks, both internal moves, which is generally less disruptive to the recruitment market status quo.

At the outset of 2017, there was some apprehension over the effects of proposed regulatory roll-backs in financial services. However, this does not seem to have had a wide-ranging impact on audit recruitment with most firms taking a "business as usual" approach and there is a sense that financial services firms, having learned to live within the status quo of regulations enacted following the financial crisis, have not been in a rush to hollow out their own control infrastructures. That said, it is by no means certain what the long-term consequences will be as the political environment develops.

We expect to see a continued focus on specialist and hard to source skill sets, in line with the increased specialization of audit functions. Technical skill sets, such as model risk and quantitative audit, data analytics, etc., will remain in demand for internal audit within the banking sector and the same will be true for regulatory subject-matter expertise. Despite the possibility of CCAR relief for some institutions under new policy proposals, banks are continuing to look for individuals with an understanding of CCAR, either from a risk or finance perspective and, due to the limited talent pool, the time taken to fill these roles tends to be longer than average.

The challenges of "open banking" and the competitive digital marketplace will challenge banks in 2018, and digitization itself will continue to expose unwieldy or just plain outdated systems and processes, including control processes. Auditors will be faced with the need for new methodologies and approaches to ensure controls, while simultaneously firms will be reluctant to hamper the customer experience, which is heavily dependent on open data-sharing and a means of differentiating them from their competition in this new reality. A lack of a centralized regulatory approach to data governance in the United States will not help in this regard and, as is often the case, internal audit will need to engage in a skillful tightrope walk to balance the competing needs of innovation and control.

Asset Management

In an effort to maximize market share, larger firms in the asset management space have continued to acquire smaller boutique firms, creating a steady growth in the industry in 2017-2018. This growth has led to a general re-evaluation of internal controls functions in the face of deepening regulatory scrutiny.

The industry has traditionally maintained lean internal audit functions, but increasing oversight from the SEC, FINRA and a need to provide assurance of competitive business operating models means we forecast growth in these teams over the coming years. Small to mid-size firms continue to rely heavily on third party providers for outsourcing and co-sourcing engagements which may not be viable should regulations continue to increase. Where they do have internal audit functions, these often play more of an advisory role than is traditional in a banking environment.

Banks with asset management arms have continued to expand their businesses and subsequently their internal audit functions. Banking asset management audit groups tend to splinter into more niche asset and wealth management, investment management and private banking teams. Certainly, in 2017, AWM and private banking requirements were consistent and we expect the appetite to recruit auditors with asset management experience to grow in 2018 across all of these areas.

Insurance

Throughout 2017, demand from the insurance industry remained robust for internal auditors across its life, property & casualty and health sectors. However, several notable specialty insurers and reinsurers froze hiring throughout the year in response to record costly catastrophe losses.

This traditionally conservative industry continues to face a number of key risks and challenges, including an evolving governance and regulatory landscape, digital disruption, cyber risk, mergers & acquisitions, business conduct risk and the need to assess the robustness of capital models in the wake of adverse weather events in 2017.

Internal audit functions have adapted to keep pace with these risks in order to provide effective and valued assurance. Audit plans for 2017 focused heavily on federal and state-level governance, the effectiveness of enterprise risk management frameworks, data management assurance and strategy & governance frameworks. This is also likely to be the case in 2018.

Public Accounting & Consulting

Hot topic regulations around CCAR and financial crime (AML, OFAC) remain in sharp focus for many banks and the ongoing consent order requirements they face have resulted in continued reliance on external support from the likes of the Big 4, as well as mid-tier consultancy firms. We expect the appetite to recruit consultants with internal audit and risk management experience to grow in 2018.

Within public accounting, there continues to be strong demand for internal audit professionals at the Senior and Manager levels; individuals with sector experience in specific markets, such as banking & financial services, healthcare and areas of vommerce such as Technology are highly sought after. Big 4 firms continue to hire from their competitors as well as small to mid-sized consultancies.

Public accounting firms are recognized within the recruitment market for paying competitive base salaries, but also for modest bonuses and high travel requirements. Such reasons are frequently cited by consultants as to why they are looking to move into industry. Conversely, industry candidates seeking a more entrepreneurial environment have often found consulting to offer excellent exposure to new regulations and a diverse portfolio of engagements.

IT Audit

2017 proved to be another interesting year in the development of technology audit functions in the U.S. Changes across IT platforms due to emerging technologies have made the requirement for technical backgrounds for IT Auditors more important than ever, even in applications or integrated audit methodologies.

Cloud computing had a big effect on the market, in that organizations have stepped up their pursuit of transition to cloud-based environments. IT Auditors with experience in SaaS tools, with the ability to understand and identify IT risks within a cloud environment such as data privacy, data confidentiality and encryption, have been in high demand in 2017. We anticipate further growth within this area in 2018.

Cybersecurity continues to be another area of exceptionally high demand. The majority of the large banking groups have now built cybersecurity audit “centers of excellence”, providing specific audit coverage across functions such as penetration testing, incident response, vulnerability management, etc. There tends to be increased attrition within these functions as cybersecurity auditors will often move internally into the cyber practice, making candidates with experience in both cybersecurity and IT Audit of great value.

The emergence and development of large technology functions in the 2nd lines of defense has also had an effect on IT Audit, because the internal audit function often provides an internal talent pool for these functions. As they typically provide Risk and Control Self Assessments across the technology platform, in essence a pre-emptive “audit” to identify risks, there is synergy in the skill sets sought. Known internally as either IT Risk Management or a Chief Control Office, these functions have impacted the IT Audit recruitment market, as candidates are in demand from both the 2nd and 3rd lines of defense, increasing both opportunity and competition.

Diversity and inclusion continues to be a hot topic in IT Audit, with a significant increase in the requirement for shortlists that are balanced in terms of gender. Barclay Simpson has attempted to provide a platform for this issue via events such as our Women in IT Audit panel. The panel of female IT Audit Executives who joined us from Goldman Sachs, JP Morgan, Citigroup, and Deutsche Bank answered a range of questions which attempted to understand why IT Audit functions are so under-represented by female employees and consider what can be done to address the situation. This is a conversation we anticipate remaining at the heart of the discourse about representation and access to opportunity within control functions generally.

8. Salary guide

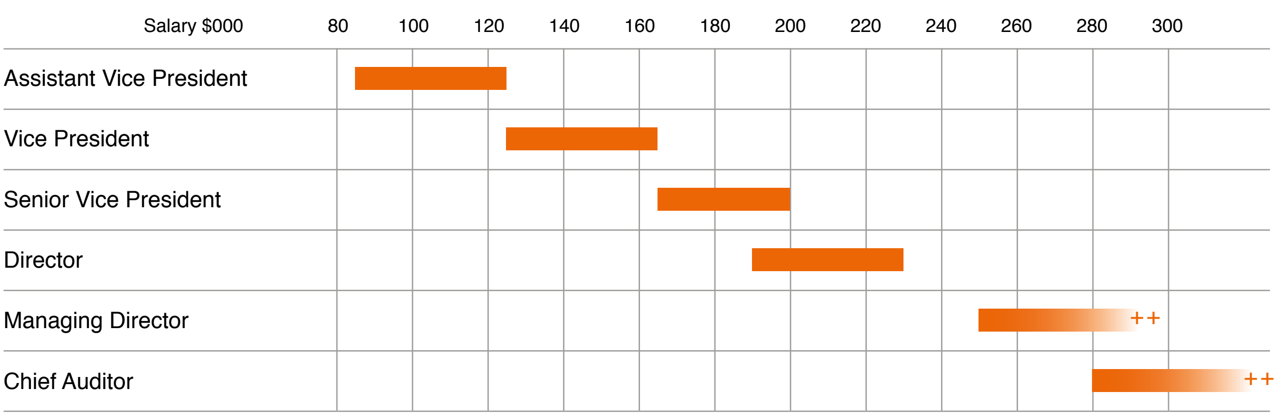
The U.S. banking market is notorious for its variance in job titles. For the purposes of this salary guide we have sought to generically group job titles based on years of experience. These are basic salaries that banking auditors could typically expect to earn in New York as opposed to other geographical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

Please note, under new legislation Barclay Simpson does not ask candidates for salary or bonus history – all information relating to salary has been gathered anonymously via our research survey and from data we have on file regarding postings worked in the past year. We do not share information about an individual's salary history with our clients.

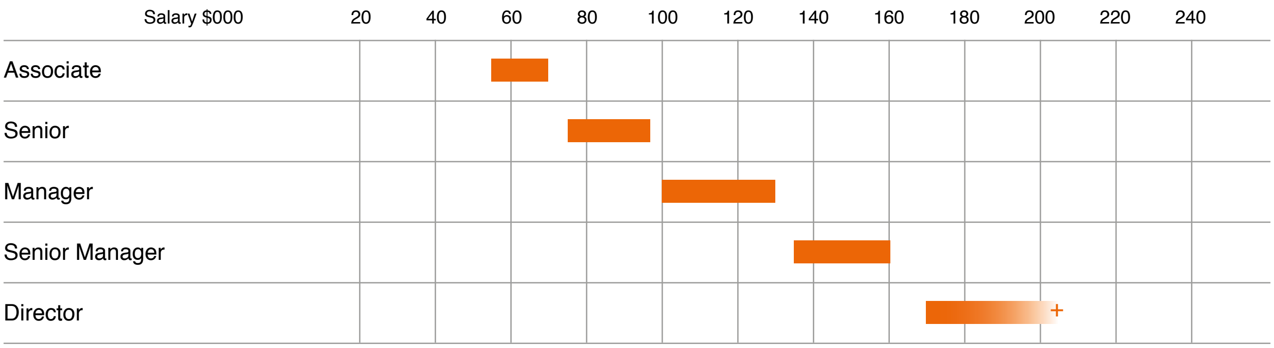
As already covered in section 5 of this report, the average salary increase achieved by internal auditors changing job in 2017 was 13%, while the increase for those who remained with their employer was 7%. Other benefits, in addition to basic salary, are discussed in the next section of this report, section 9.

Should you have any specific questions regarding remuneration please contact Gareth Carpenter, Vice President, gc@barclaysimpson.com on +1 212 786 7490.

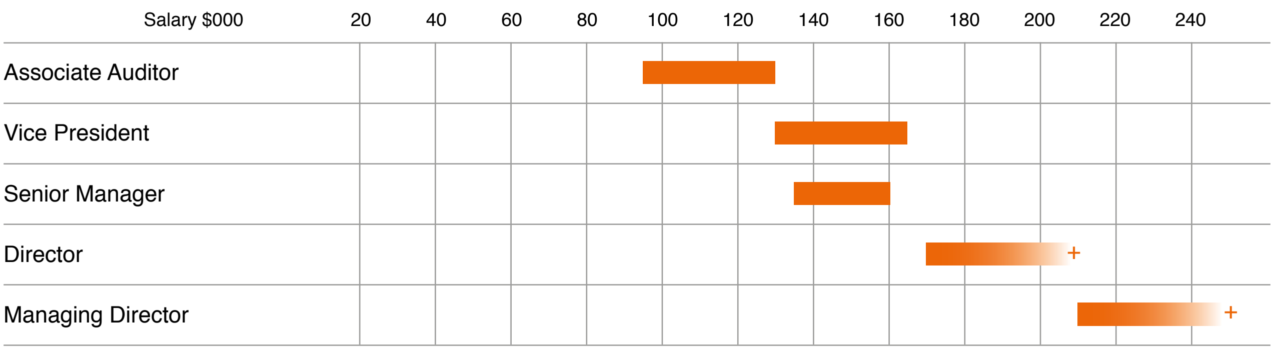
Banking – Business & IT Audit



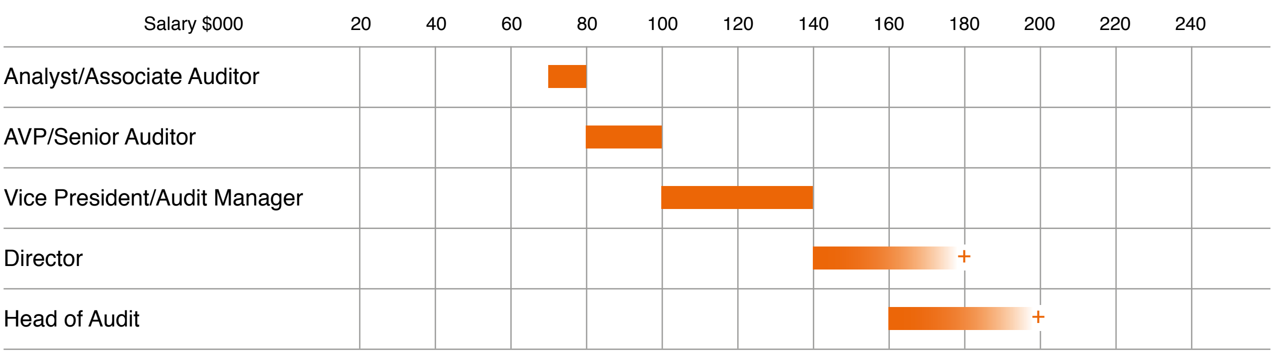
Consulting & Big 4 – Business & IT Audit



Asset & Investment Management – Business & IT Audit



Insurance – Business & IT Audit



9. Other benefits

As of late 2017, prospective employers are no longer able to ask for basic salary history and other forms of compensation information, which means that clients and recruitment agencies have had to change their hiring process questioning to reflect this legislation. Both clients and candidates have therefore been required to be more savvy and nuanced around the question of fair and market-rate compensation and non-financial remuneration.

Benefits above and beyond salary make up around 30% of total remuneration in internal & IT audit. Here is an overview of the other benefits internal auditors might expect to receive.

Bonuses

As reported in section 5, bonuses are almost universal, with 94% of internal auditors reporting they received a bonus in 2017 and the average bonus 25% of base salary. In nearly all areas of internal audit, there is a clear expectation that a bonus will form part of any compensation package.

In 2017, 36% of internal auditors reported their bonus had increased, which is a higher percentage than in previous years. 50% reported about the same bonus and just 14% reported a reduction.

Anecdotally, clients that rely heavily on supplementing modest salaries with very high bonuses invariably struggle to "sell" this to candidates. While candidates value bonuses when they benefit from them, it is psychologically much more difficult to convince them that a high bonus will make up for a disappointing basic salary, as that is where candidates naturally see their intrinsic value lying. This can often cause tensions when negotiating for less traditional firms where longer-term incentives may be used to compensate for this. However, equity participation and shares do tend to stoke the interest of entrepreneurially minded candidates, particularly if there are cultural drivers already pushing them to consider non-traditional firms.

It is very unusual for bonuses to be guaranteed in any shape or form other than at the most senior levels of hiring. Bonuses are almost always paid based on a mixture of company and individual (and sometimes team) performance. Likewise, bonuses are generally pro-rated from the point that a candidate starts work.

401(K) Pensions

95% of internal auditors report benefiting from employer pension contributions, the same percentage as last year.

An equal percentage of employers (39%) contribute either 2.5-5% or 5-7.5% to their employees 401K plans, both up slightly from last year. 11% contribute less than this and 11% contribute more, but the expectation for most large firms is that there would be some form of employer match for 401(K) plans provided, although this is by no means universal with smaller employers.

Most 401(k) arrangements require the employer to make a contribution 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

Bonuses, 401(K) and medical cover constitute the key financial benefits for most internal auditors. Housing allowances may be provided for very senior hires, and sometimes relocation allowances will be provided depending on the importance of hiring a high-value professional in a specific location where their skill sets may be hard to find. The cost of providing medical, dental and life assurance is higher in the United States than in other countries where state provision is more common. Therefore, employers who provide family medical insurance or other very comprehensive plans have a strong point of difference, however, this can be a more effective retention strategy than attraction, as medical benefits tend to be the last thing considered by candidates when they are looking to make a move. Likewise, things such as a good parental leave policy can also be a factor in the decision-making process, particularly with American and European firms offering very different allowances.

Holiday entitlement

As reported in section 5, there has been little change in holiday entitlement, with the overall holiday entitlement 22 days, fractionally down from 23 days in 2016. The typical number is the 20-21 days enjoyed by 33% of internal auditors.

Managers (23 days) benefit more than non-managers (20 days), but otherwise there are few variations by sub-groups or sectors.

Flexible working

Flexible working is the opportunity to vary hours or to work from home. 85% of auditors report they are able to work flexibly, which is up from 77% the previous year, the highest percentage since we measured this in the United States. The lowest percentage of auditors reporting that they benefit from flexible working is in investment banking, at 68%. Investment banking therefore reflects its reputation of requiring more "face-time" in the office, while other industries are departing from this type of presentee culture. It remains true that successful and trusted employees often benefit the most from flexible working, with bosses feeling they have "earned" the right to this as opposed to being given complete free reign over their diaries when still proving themselves. With most employers more concerned with output than simply attendance, a well implemented and communicated flexible working culture can be a highly effective in attracting and retaining staff.

10. Barclay Simpson events

2017 saw Barclay Simpson host a number of events targeted at the internal audit recruitment market, to providing platforms for the exchange of ideas and thought leadership, as well as offering networking opportunities in a very social environment.

Women in IT Audit Breakfast Seminar

In May 2017, Barclay Simpson hosted a Women in IT Audit breakfast seminar at the Knickerbocker Hotel in Times Square. Our panelists were some of the best and brightest leaders in IT Audit and included: Catherine Addona, Managing Director at Goldman Sachs; Beth Tate, Managing Director at Citigroup and Nausheem Wassim, Global Head of Investment Banking IT Audit with JP Morgan. We were very grateful for the facilitation of the panel by Barbara Uhland, IT Audit Director at Deutsche Bank.

Barclay Simpson wanted to showcase this issue given the under-representation of women in IT Audit, not just at the leadership level but generally. To illustrate this, only 17% of IT Audit respondents in this year's market report were women. We and the panel also felt that, given the number of men in positions with hiring responsibility, it was important that men be part of the conversation and so, in contrast to some other events of this nature, the audience on the day included both women and men in IT Audit.

The panelists discussed a range of topics around the challenges facing women in IT Audit, from navigating and overcoming resistance when in positions of leadership to building careers in an industry that does have representation challenges. The main panel event was followed by an enthusiastic Q&A session with the audience.

Annual Internal Audit & Risk Management Wine tasting Event

Every year in November Barclay Simpson hosts a wine tasting networking event which serves as both a networking opportunity and a thank you to our candidates and clients. In previous years we have hosted this event at the Chelsea Wine Vault and this year brought us to Vin Sur Vingt, where their sommelier introduced us to a range of red and white French wines from a variety of regions. The event was exceptionally well-attended and served to facilitate some great networking and connections for our contacts.

More information to follow on 2018 events – keep an eye out for details.

11. About Barclay Simpson Executive Search Inc.

Barclay Simpson Executive Search Inc. is a recruitment consultancy that specializes in recruiting professionals within corporate governance functions, including:

Internal and IT audit, risk management, compliance, cyber security.

Barclay Simpson Executive Search Inc. works with clients across financial services and the private sector. We are part of the Barclay Simpson Group which also has an international network of offices from which we service markets in the UK, Europe and the MENA region.

Barclay Simpson Consultants are specialists, with a deep understanding of our niche markets. We are able to draw upon a network of global contacts nurtured and developed since Barclay Simpson's inception in 1989. To this we add a human approach, understanding the values of clients and aspirations of our candidates to ensure the very best matching possible.

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

http://www.barclaysimpson.us/us-internal-and-it-audit-market-report-2018

http://www.barclaysimpson.us/risk-management-market-report-2018

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

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