2022 North American Pulse of Internal Audit

Benchmarks for Internal Audit Leaders

The Institute of Internal Auditors

About the
Pulse of Internal Audit

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NUMBER OF RESPONSES

CAEs	430	85%
Directors/ senior managers	75	15%
Total	**505**	**100%**

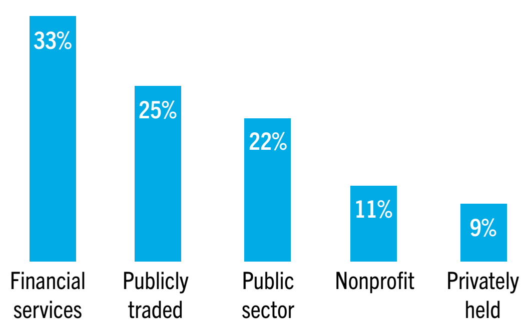
The IIA has conducted the annual Pulse of Internal Audit survey (Pulse) every year since 2008. Each survey collects valuable benchmarking information from internal audit leadership about risk, audit plans, budgets, staff, and more.

The online survey for the 2022 North American Pulse of Internal Audit report was conducted Oct. 5 to Nov. 9, 2021. Respondents primarily came from organizations headquartered in the United States (83%) and Canada (10%), with the remaining 7% coming from outside North America.

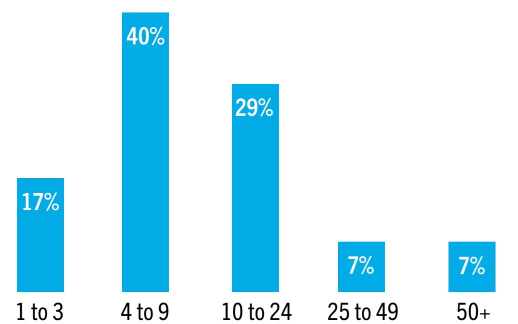
This report generally analyzes financial services respondents separately because their responses can differ significantly from others. The financial services category was created by extracting financial services respondents from the broader organization types (as shown in the graph below). In addition, the term CAE is used in Pulse reports generically to reference all survey respondents.

Learn more about The IIA's Pulse of Internal Audit research and download additional reports at ***www.theiia.org/Pulse***.

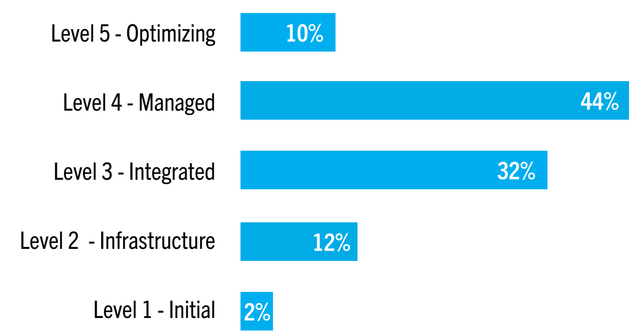
Organization Type With Financial Services Breakout



Internal Audit Function Size (Full-time Equivalent Employees)



Internal Audit Maturity



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Executive Summary

In an era where disruptive change has become the norm, the need for accurate benchmarking is paramount. The IIA's 2022 *North American Pulse of Internal Audit* report delivers such benchmarking data for internal audit leaders. Updated with a new digital-friendly format, the Pulse report is designed for CAEs to use year-round and share with audit committees and executive management.

Building on more than a decade of survey results, the 2022 report reveals important trends in four key areas:

- **Budgets and Staff Levels –** There appears to be continued uncertainty and cautiousness. Internal audit budgets and staff levels held up year-over-year, but organizations have generally stopped short of giving internal audit more resources. Travel budgets have continued to face widespread, sustained cuts.
- **Staff Turnover –** Internal audit appears to be experiencing the "Great Resignation," with many functions reporting voluntary turnover as the reason behind staff decreases.
- **Risk –** For the first time in the survey history, sustainability and nonfinancial reporting risk levels edged upward, especially for publicly traded organizations. But the boost is not seen in audit plans yet.
- **Audit Plans –** Cybersecurity is trending up on audit plans for all respondents. For publicly traded organizations, Sarbanes-Oxley (SOX) is increasing steadily.

Beyond benchmarking, the Pulse report also offers insights into how CAEs lead their functions, including areas of responsibility outside of internal audit, top 3 areas of concern for internal audit leadership, and how CAEs would spend extra budget.

How to Use This Report for Benchmarking

Organization Types and Industries

This report is designed to be used as a benchmarking tool for understanding and managing internal audit functions. To help leaders find the best point of comparison, metrics are often compared against five organization types — publicly traded, privately held, public sector, nonprofit, and financial services. The financial services category was created by extracting financial services respondents from the other four organization types. This page shows the industries most commonly represented in these organization types. Please note that dates in the graphs reference the years the survey was administered (not the date the report was released).

Publicly Traded

Manufacturing	37%
Mining, quarrying, and oil and gas extraction	10%
Transportation and warehousing	7%
Accommodation and food services	7%
Retail trade	6%
Health care and social assistance	6%
Utilities	6%
Information	5%
Other	18%

Privately Held

Manufacturing	22%
Utilities	11%
Professional, scientific, and technical services	11%
Wholesale trade	11%
Transportation and warehousing	9%
Other services (except public administration)	7%
Construction	7%
Educational services	4%
Other	18%

Public Sector

Educational services	32%
Public administration	32%
Health care and social assistance	9%
Utilities	9%
Other	18%

Nonprofit

Health care and social assistance	58%
Educational services	23%
Other	19%

Financial Services

Financial institutions	48%
Insurance	38%
Asset management	5%
Broker-dealer	1%
Other	8%

Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q6: What is the primary industry classification of the organization for which you work (or your primary client if you are a service provider)? Totals may not equal 100% due to rounding. *n* = 123 for publicly traded. *n* = 165 for financial services. *n* = 111 for public sector. *n* = 45 for privately held. *n* = 52 for nonprofit.


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Elevating Impact

Section 1. Budget & Staff

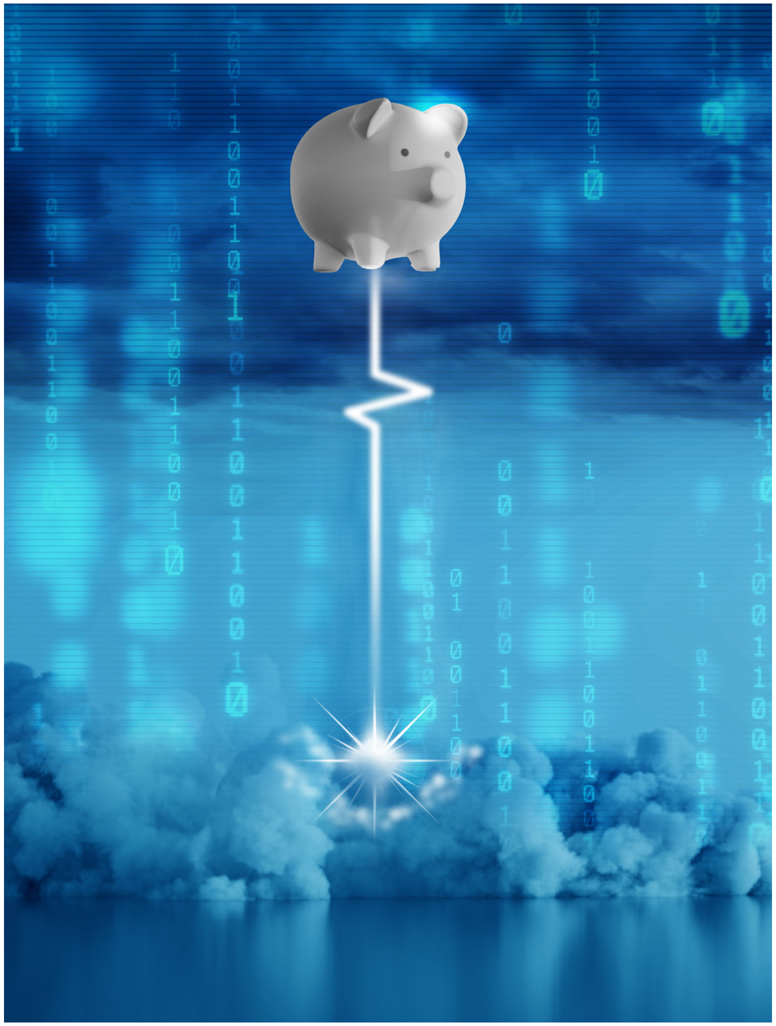
Overview

Since 2008, the Pulse survey has asked CAEs whether their budgets and staff have increased, decreased, or stayed the same. These metrics provide a key barometer for measuring COVID-19's impact on internal audit.

In general, damage control in response to the pandemic's initial wave has subsided, with the percentage of functions cutting budgets and staff nearly returning to pre-COVID-19 levels.

However, there has been less appetite to increase budget or staff levels. The number of functions reporting budget increases in 2021 was the second lowest in the survey's 13-year history. (Only 2020 was lower.) Similarly, the percentage of functions with staff increases improved only marginally from 2020 to 2021.

These metrics may indicate a lack of confidence/certainty about future organizational growth or a challenge in identifying and hiring desired talent.

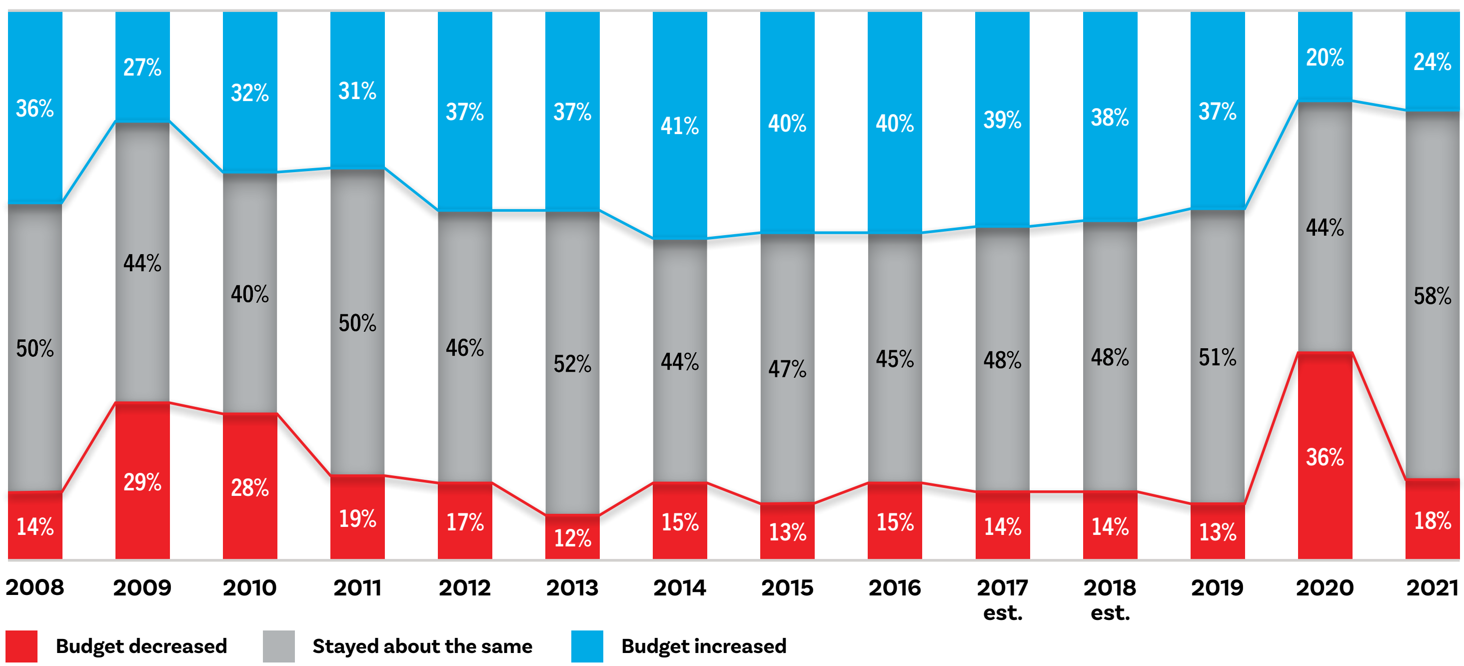


Budget Trend – Long-term

Willingness to increase internal audit budgets is still low

Sluggish growth in internal audit budgets may reflect general uncertainty or cautiousness among organizations as the world continues to struggle with COVID-19 disruption, as well as a reluctance to travel. In 2020 and 2021, functions with budget increases were at their lowest levels since the start of the survey in 2008 (20% and 24%, respectively). In addition, 2021 had the largest percentage of functions where budgets stayed about the same since the survey began in 2008. On the positive side, the percentage reporting budget cuts has nearly returned to pre-COVID-19 levels.

Budget Increases/Decreases for Internal Audit in the Prior Year



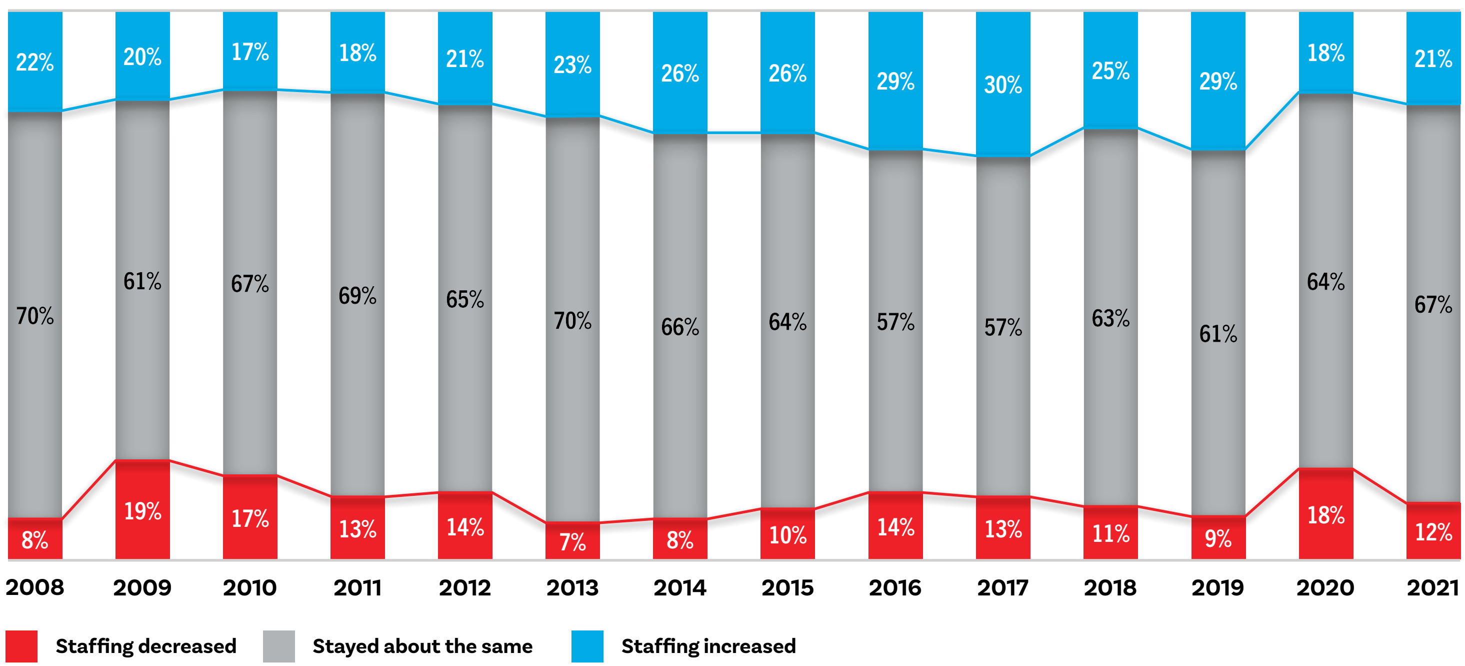
Note: The IIA's North American Pulse of Internal Audit Survey, multiple years. Question: Looking back over the past 12 months, how has your overall internal audit budget changed? Totals may not equal 100% due to rounding. Data for 2017 and 2018 were estimated because the question about budget was not included in the survey during those years.

Staff Trend – Long-term

COVID-19 has lesser impact on staffing than on budgets

The Global Financial Crisis of 2008-2009 provides a parallel benchmark to the current pandemic. For both, the impact on internal audit was less dramatic for staff levels than budgets. However, the appetite to increase staff has not rebounded from COVID-19 with the same rigor as it did for the Global Financial Crisis. This may indicate a lack of confidence/certainty about future organizational growth or challenges in identifying and hiring desired talent. As with budget reductions, staff reductions dropped nearly to pre-COVID-19 levels in 2021.

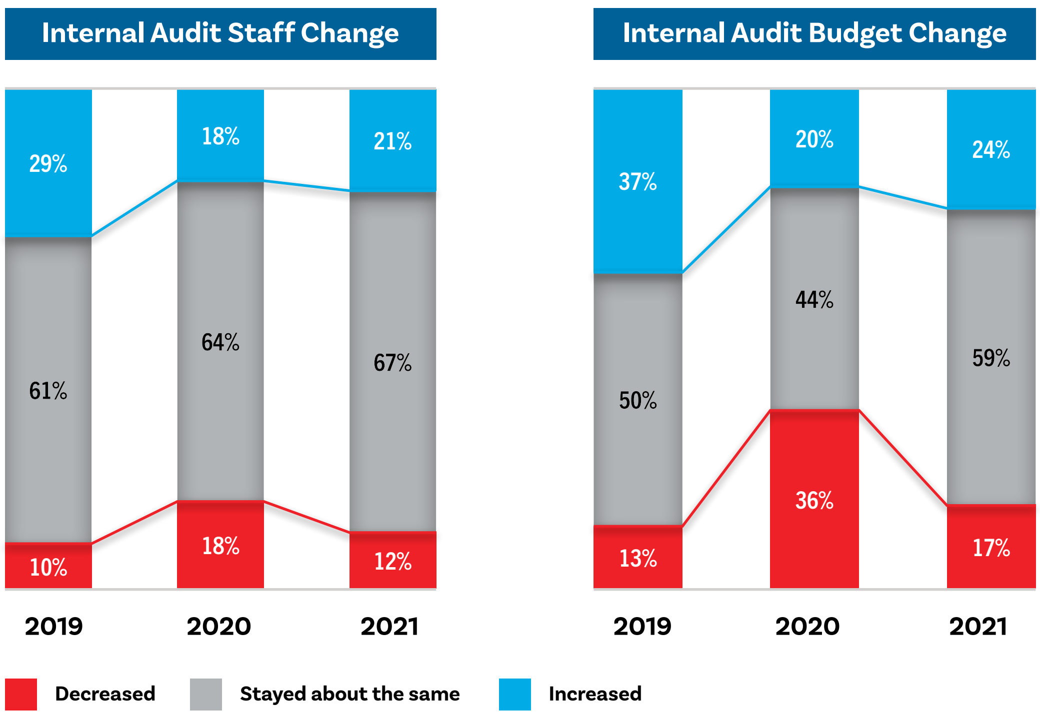
Staff Increases/Decreases for Internal Audit in the Prior Year



Note: The IIA's North American Pulse of Internal Audit Survey, multiple years. Question: Looking back over the past 12 months, how has the number of in-house and/or sourced staff within your internal audit function changed? Totals may not equal 100% due to rounding.

Budget and Staff Trends – Short-term

Reductions have slowed down, but willingness to increase has not fully returned to pre-COVID-19 levels



Note: The IIA's North American Pulse of Internal Audit Survey, multiple years. Question: Looking back over the past 12 months, how has the number of in-house and/or sourced staff within your internal audit function changed? *n* = 619 for 2019. *n* = 581 for 2020. *n* = 495 for 2021. Question: Looking back over the past 12 months, how has your overall internal audit budget changed? Totals may not equal 100% due to rounding. *n* = 608 for 2019. *n* = 581 for 2020. *n* = 492 for 2021.

One way to assess the degree of internal audit's recovery is to look at budget/staffing trends since 2019.

Both budgets and staffing returned to near pre-COVID-19 levels for respondents who said they experienced reductions in the previous 12 months.

However, when it comes to growing budgets, those reporting increases were minimal. In addition, there were directional differences among organization types, with some seeing lower percentage growth in 2021 than 2020. (See additional details on the next page.)

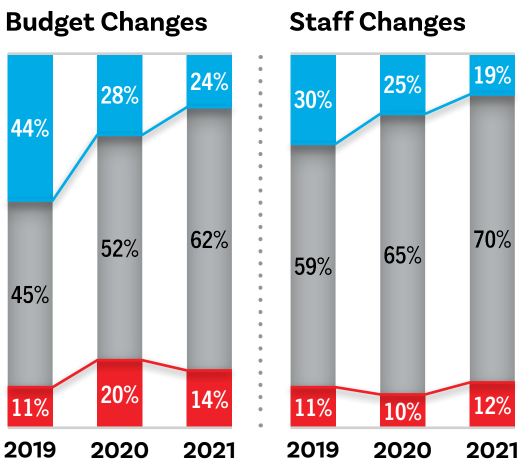
Organization Type Comparisons

Staff and budgets are trending down or flat for financial services and nonprofits

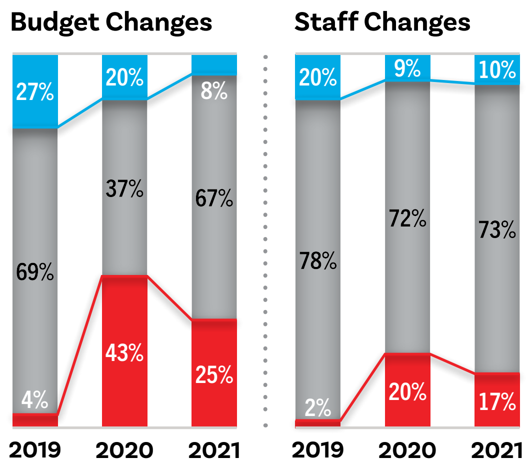
Recovery from COVID-19 impacts can be viewed by looking at trending for functions with decreases (red) and increases (blue).

Financial services and nonprofit increases are trending down. In contrast, the percentages have generally returned to pre-COVID-19 levels for publicly traded, privately held, and the public sector.

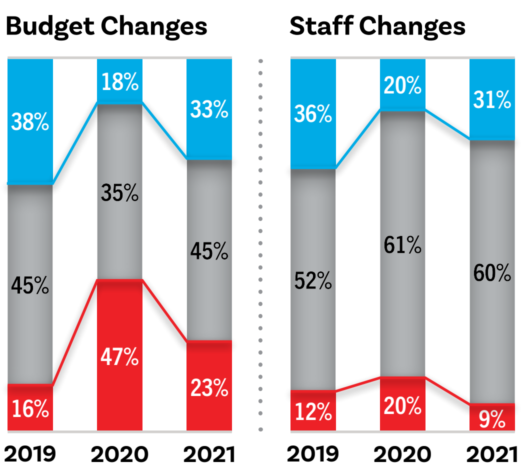
Financial Services



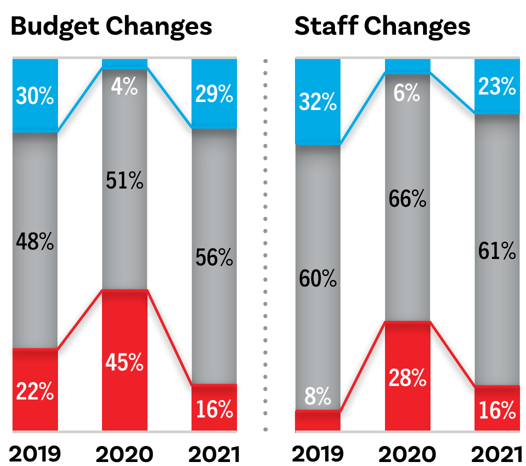
Nonprofit



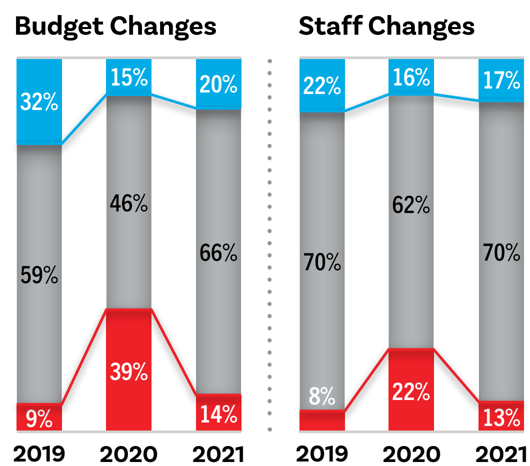
Publicly Traded



Privately Held



Public Sector



Note: The IIA's North American Pulse of Internal Audit Survey, multiple years. Question: Looking back over the past 12 months, how has the number of in-house and/or sourced staff within your internal audit function changed? Looking back over the past 12 months, how has your overall internal audit budget changed? Totals may not equal 100% due to rounding.

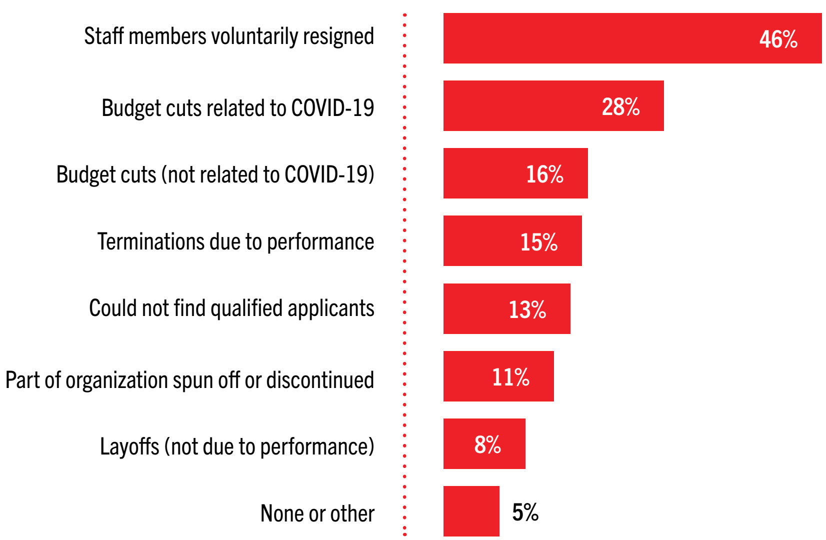
Decreased | Stayed about the same | Increased

Reasons for Staff Changes

Voluntary resignation cited by nearly half who reported staff reductions in the past year

Among the 12% of survey respondents who reported decreased staff in 2021, nearly half (46%) said staff resigned voluntarily, possibly indicating that the “Great Resignation” is affecting internal audit. A substantial portion said decreases were related to COVID-19 budget cuts (28%) or other budget cuts (16%). (Respondents could choose more than one option.)

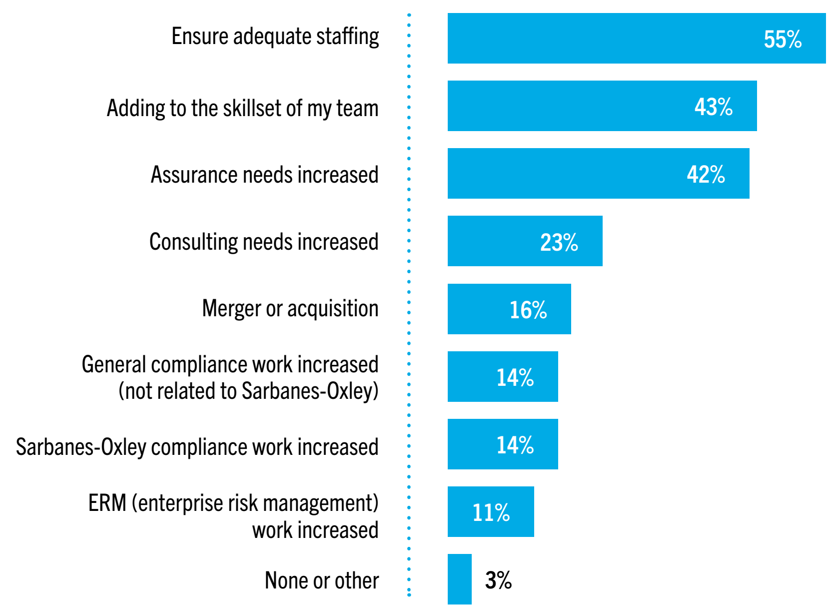
Reasons for Decrease in Staff Size



Note: The IIA’s North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q15: What were the primary reasons for the decrease in staff size? (Choose all that apply.) *n* = 61.

Among the 21% of survey respondents who reported increased internal audit staff in 2021, the need to ensure adequate staffing was the top reason cited. About 4 in 10 said they needed to increase team skills and/or meet more needs for assurance. (Respondents could choose more than one option.)

Reasons for Increase in Staff Size



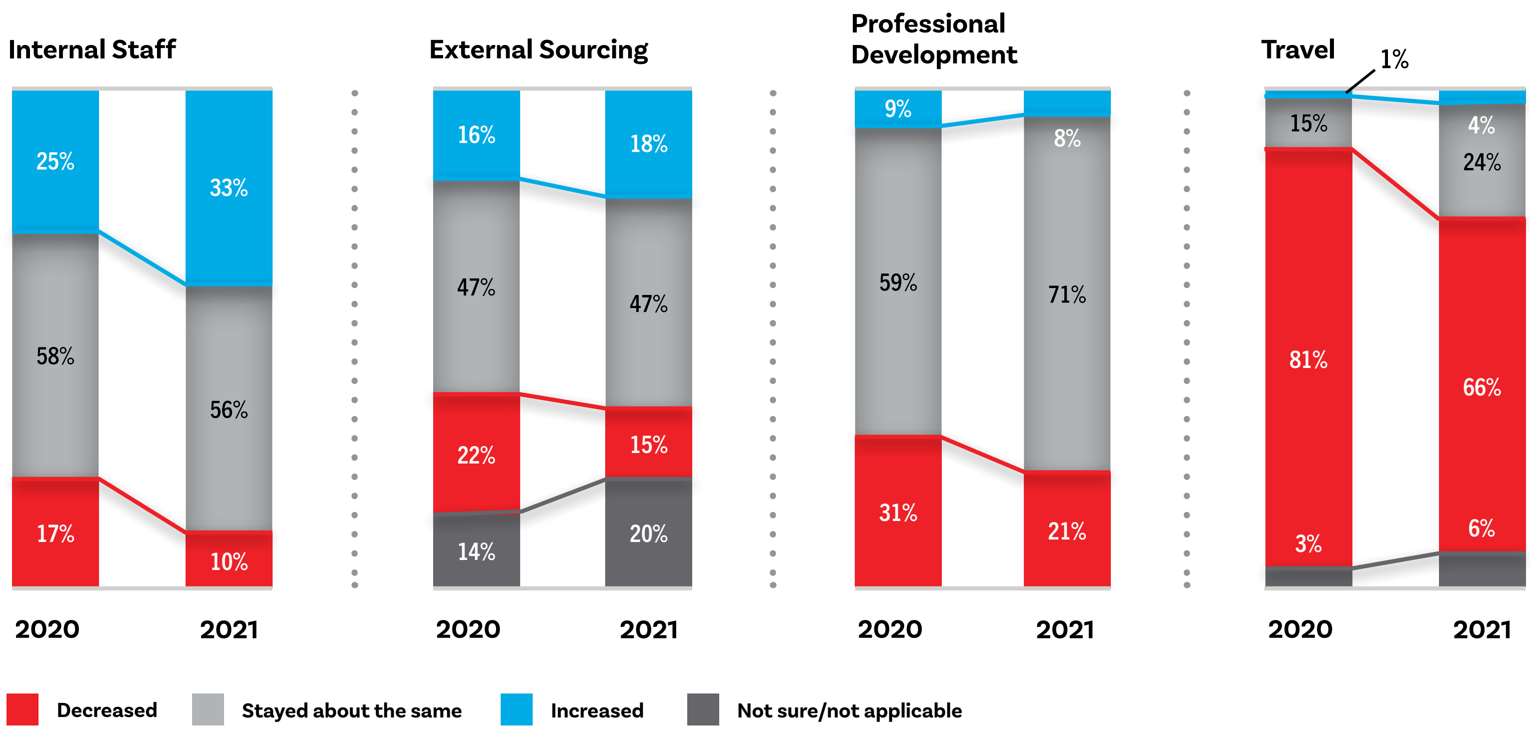
Note: The IIA’s North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q12: What were the primary reasons for the increase in staff size? (Choose all that apply.) *n* = 106.

Budget Details

Travel continues to be cut, but staff and external sourcing are increasing for some

Internal staff was the budget area most likely to increase in 2021, with 33% of internal audit functions reporting increases (up 8 percentage points from the previous year). This increase may reflect both added staff and greater staff costs, such as increased salaries. Travel budgets saw widespread and sustained cuts – 81% in 2020 and 66% in 2021. A relatively positive trend across all categories was that the percentage of respondents reporting cuts was significantly lower in 2021 than in the previous year.

Internal Audit Budget Areas



Note: The IIA's North American Pulse of Internal Audit Survey, multiple years. Question: Looking back over the past 12 months, how has your budget changed in the following areas? Totals may not equal 100% due to rounding. *n* = 588 for 2020. *n* = 505 for 2021.

How CAEs Would Spend More Budget

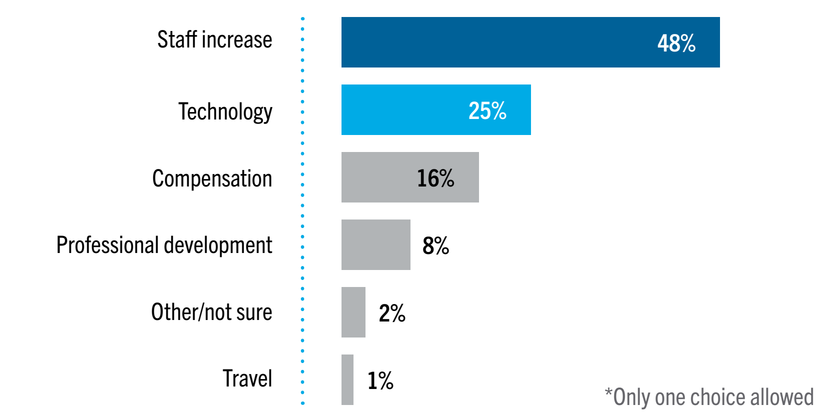
Almost half would like to increase staff, and another quarter would spend more on technology

If CAEs had access to additional funds beyond their current budgets, almost half (48%) said their top priority would be to increase staff. The second most common priority was technology, chosen by 25%.

However, sufficiency of funding for the internal audit function had an interesting effect on the responses. As funding sufficiency increased, the percentage who chose technology also increased (from 20% to 33%), but the percentage who chose staff decreased (from 61% to 31%).

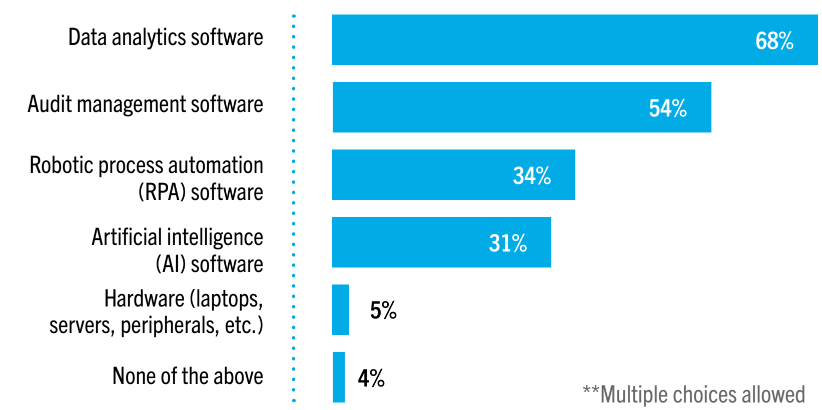
Among those who would spend more on technology, the top focus areas were data analytics software (68%) and audit management software (54%).

Areas Where CAEs Would Spend a Budget Increase*



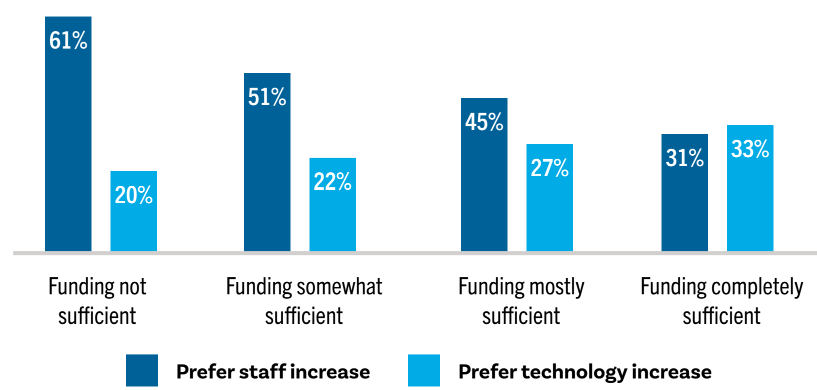
*Only one choice allowed

Focus Areas for Technology Increase**



**Multiple choices allowed

Preference to Increase Staff vs. Technology (Compared to Internal Audit Funding Sufficiency)



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q22: If your internal audit function were to receive an unexpected budget increase, in which area would you primarily spend it? *n* = 505. Compared to Q21: In your opinion, how sufficient is the funding for your internal audit function relative to the extent of its responsibilities? The graph category titled, "funding not sufficient" includes those who selected "not at all sufficient" and "generally insufficient." *n* = 504. Q25: For which types of technology would you increase budget allocation? (Choose all that apply.) Shown to those who chose "Technology" for Q22. *n* = 127.

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Deloitte named Partner for the AWS Cloud Audit Academy

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Through access to a global network and backed by leading industry and business innovation experience, Deloitte is ready to help you take advantage of the Amazon Web Services (AWS) Cloud Audit Academy and assist in guiding your organization's audit and compliance cloud transformation to see your possible and make it your actual.

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Section 2. Risk & Audit Plans

Since 2008, the Pulse of Internal Audit survey has asked internal audit leaders about risk and their audit plans related to 13 broad risk areas. These risk areas were kept the same year-over-year to allow for the highest validity for trending.

This section takes a high-level look at current risk levels and audit plans for the year ahead.

As in previous years, technology was a common component for risk areas that respondents rated as high/very high risk. Cybersecurity, IT, and third-party relationships rated as the top 3 risks. Compliance and operational risks rounded out the top 5.

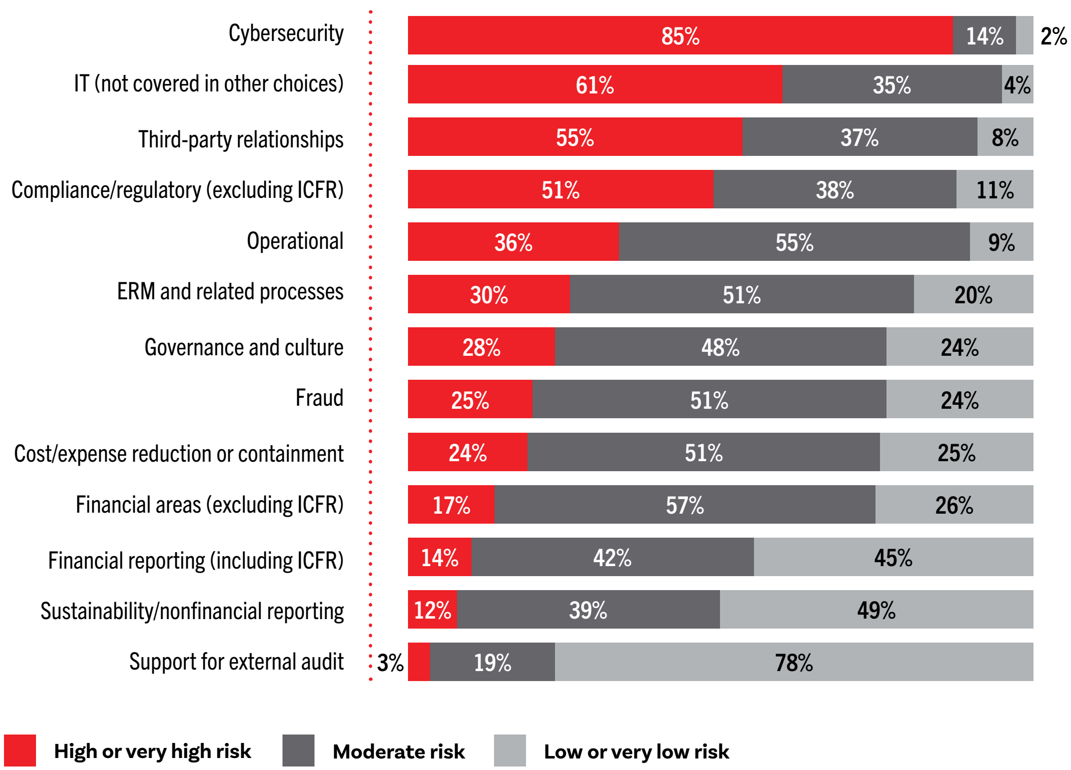
Audit plan allocations reflect a balancing act between audits driven by risk and audits made necessary by regulations (such as SOX) or operational needs.

In organizations where SOX is implemented (including financial services), internal audit functions allocate an average of 26% of their audit plans to SOX. Nevertheless, the remainder of the audit plans in these organizations is allocated to the other risk areas in roughly the same ranking and proportions as their counterparts who have not implemented SOX.

Risk Levels

Technology drives the three highest risks

Risk Levels — All Respondents



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q27: How would you describe the level of risk in your organization in the following risk areas? Totals may not equal 100% due to rounding. ICFR = internal controls over financial reporting. *n* = 481.

Technology is the common driver of the top 3 highest risk areas — cybersecurity, IT, and third-party relationships, which often include IT services.

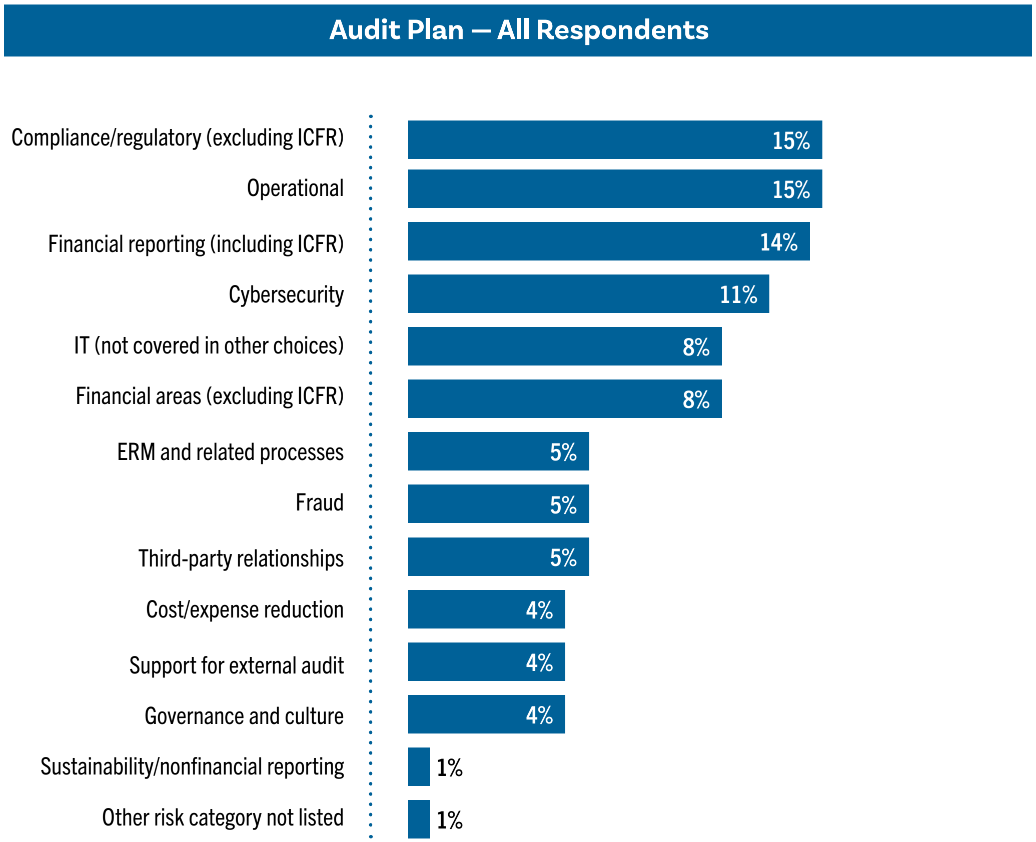
Cybersecurity in particular is a ubiquitous concern, with 85% of respondents saying it is a high or very high risk in their organizations.

Other risks are more relevant depending on organization type, such as financial reporting (including ICFR)* and fraud. Breakdowns by organization type in the following section provide additional insights.

**ICFR refers to internal controls over financial reporting. This category includes SOX testing and compliance. SOX compliance is generally required for publicly traded organizations in the United States.*

Audit Plans

Audit plans balance compliance requirements with cyber risks



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q28: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. *n* = 505.

The top 3 risk areas for audit plan allocation overall are compliance/regulatory (excluding ICFR*), operational, and financial reporting (including ICFR). Engagements in these risk areas consume significant resources, but may be necessary to support consistent operations and avoid compliance failures.

Two of the next highest ranked areas of allocation are cybersecurity and IT, which combined equal 19% of the overall audit plan. These were the two highest-rated risk areas.

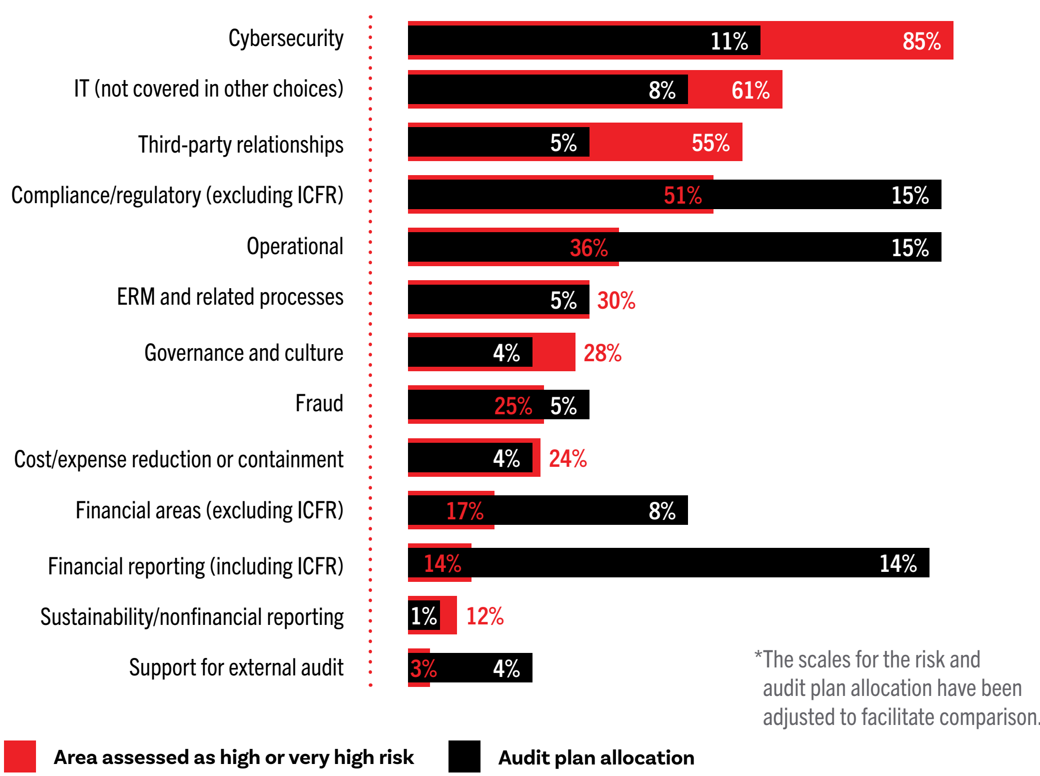
One risk area with high risk but low ranking in audit plans is third-party relationships. One possible explanation is that third-party relationships may be included in audits of other risk areas (e.g., IT or operations).

**ICFR refers to internal controls over financial reporting. This category includes SOX testing and compliance. SOX compliance is generally required for publicly traded organizations in the United States.*

Risk Compared to Audit Plans

Audit plan allocation is a balancing act between risk and necessary audits

Risk vs. Audit Plans — All Respondents



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q28: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Totals may not equal 100% due to rounding. *n* = 505. Q27: How would you describe the level of risk in your organization in the following risk areas? *n* = 481. ICFR = internal controls over financial reporting.

This graphic shows the balancing act that takes place between risk and required audits. Risk ratings appear in red and audit plan allocation appears in black.*

Where black bars extend beyond red bars, audit plan allocation is relatively high compared to risk ratings. These tend to be areas required for compliance or operations, including compliance/regulatory (excluding ICFR), operational, financial areas (excluding ICFR), and financial reporting (including ICFR).

Where the red bars extend beyond black bars, audit plan allocation is relatively low compared to risk ratings. These risk areas tend to relate to technology, including cybersecurity, IT, and third-party relationships. (Audits of third-party relationships may be included in audits of other risk areas, such as IT or operations.)

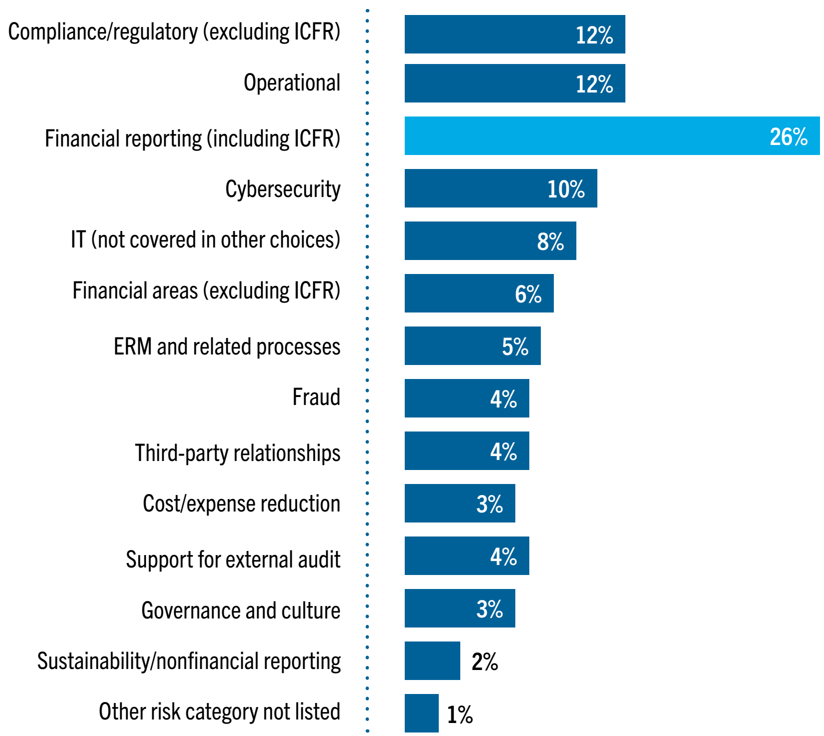
To a lesser extent, governance and culture was another area of higher risk rating and lower audit plan allocation. However, this may reflect that governance or culture audits may not be done annually.

SOX Impact on Audit Plans

Financial reporting dominates audit plans where SOX is implemented

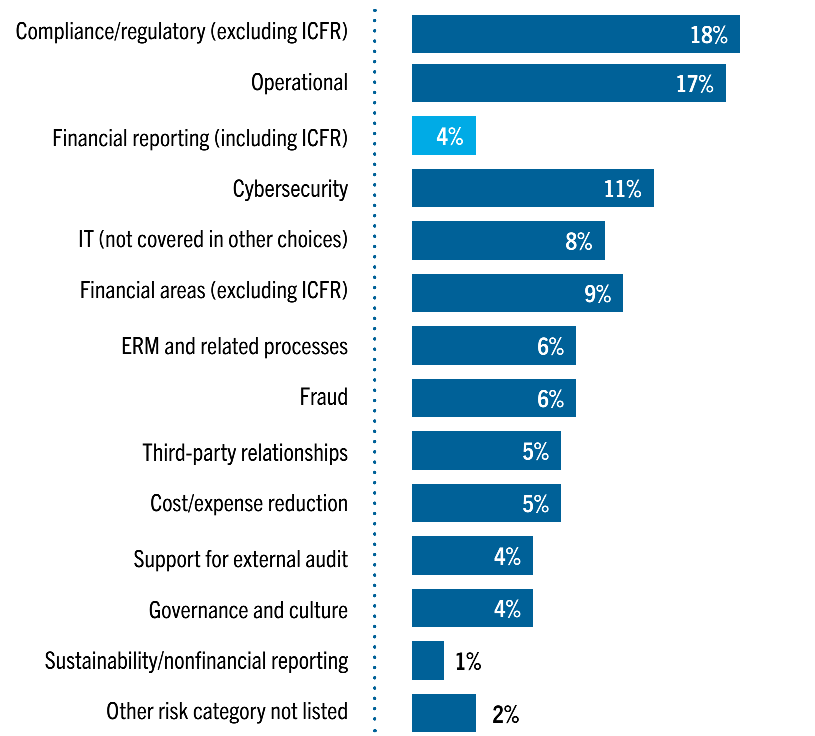
SOX implementation increases the percentage of audit plan allocated to financial reporting dramatically — 26% compared to 4%. However, whether SOX is implemented or not, the order of audit plan allocation for other risk areas remains approximately the same.

Audit Plan With SOX Implemented



Internal audit functions in organizations where SOX is implemented are typically larger than other internal audit functions (median of 12 FTEs compared to 6 FTEs for others). Additional staff may enable these functions to adequately cover other risk areas even though a high percentage of the audit plan is allocated to SOX.

Audit Plan Without SOX Implemented

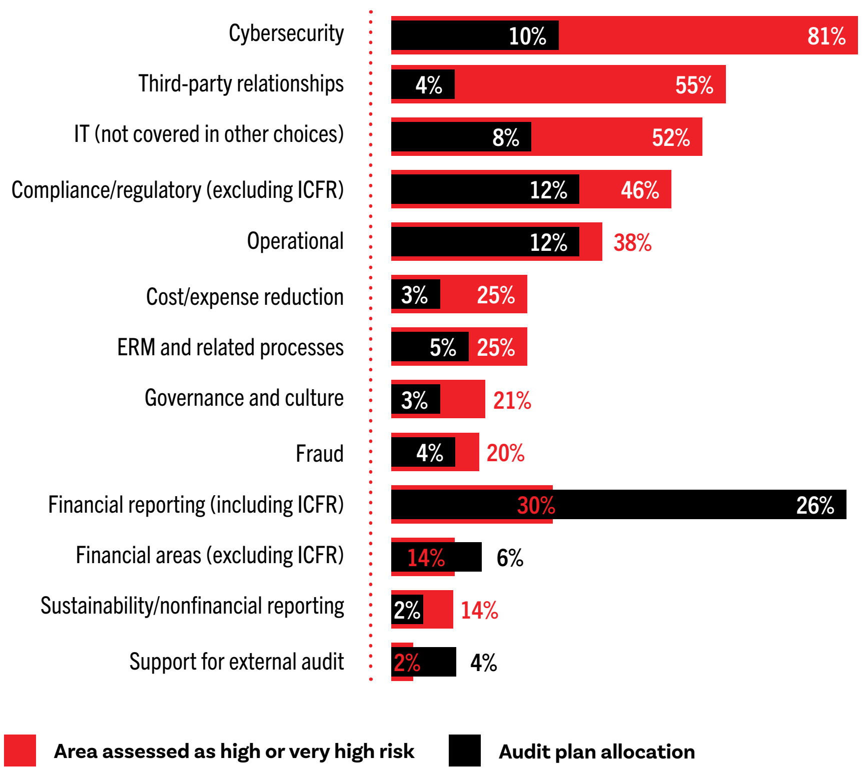


Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q28: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Totals may not equal 100% due to rounding. *n* = 229 for SOX implemented. *n* =273 for SOX not implemented.

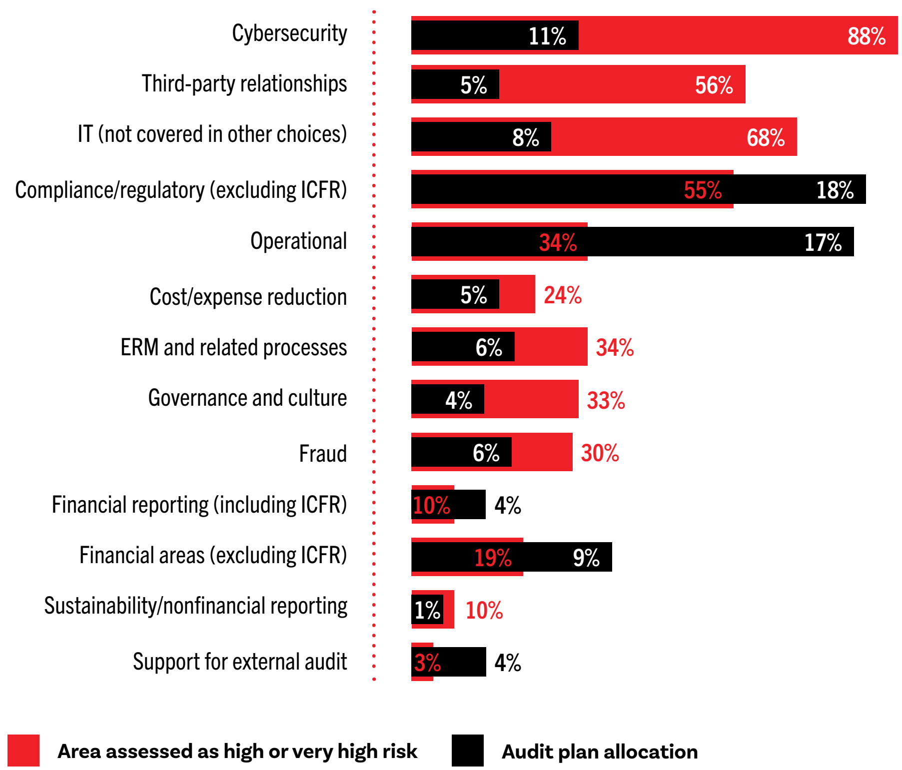
SOX Impact on Risk and Audit Plans

SOX implementation substantially reduces allocation to compliance (excluding ICFR), operational risks

Risk vs. Audit Plans With SOX Implemented



Risk vs. Audit Plans With SOX Not Implemented



*The scales for the risk and audit plan allocation have been adjusted to facilitate comparison.

Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q27: How would you describe the level of risk in your organization in the following risk areas? Q28: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Totals may not equal 100% due to rounding. *n* = 224 for SOX implemented. *n* = 229 for SOX not implemented.

Section 3. Trends for Risk & Audit

This section shows four-year trends for risk levels and audit plans, using a data visualization technique called bump graphs.

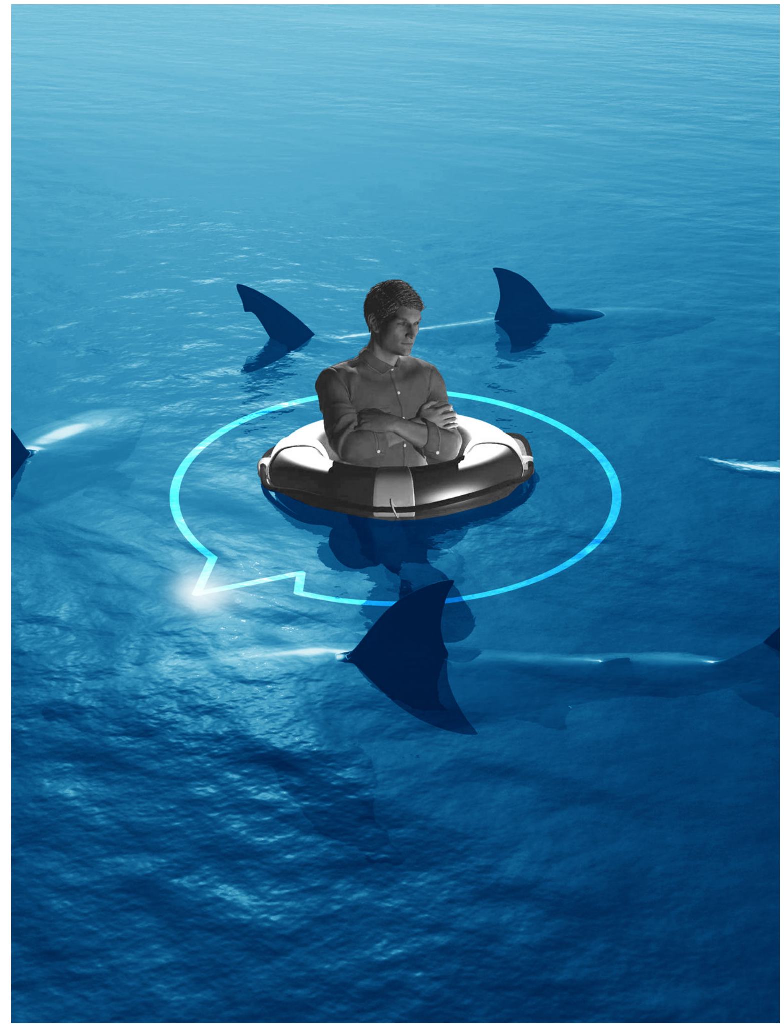
In each graph, the risk areas are listed from highest to lowest based on respondent ratings. In addition, the size of the circles are proportional to the percentages of respondents who rated the risk as high or very high.

The colors indicate notable trends, with red for increases and blue for decreases. Dotted lines indicate a change that falls just short of the identified threshold for percentage changes for each graph. Lines connecting circles help show changes in rank over time.

The graphs reference the year the survey was administered (generally in the fourth quarter), not the year the report was released.

Overall notable trends in risk rankings include the consistent growth in cybersecurity and third-party relationships as significant risk areas. Sustainability/nonfinancial reporting also saw a sharp increase in 2021.

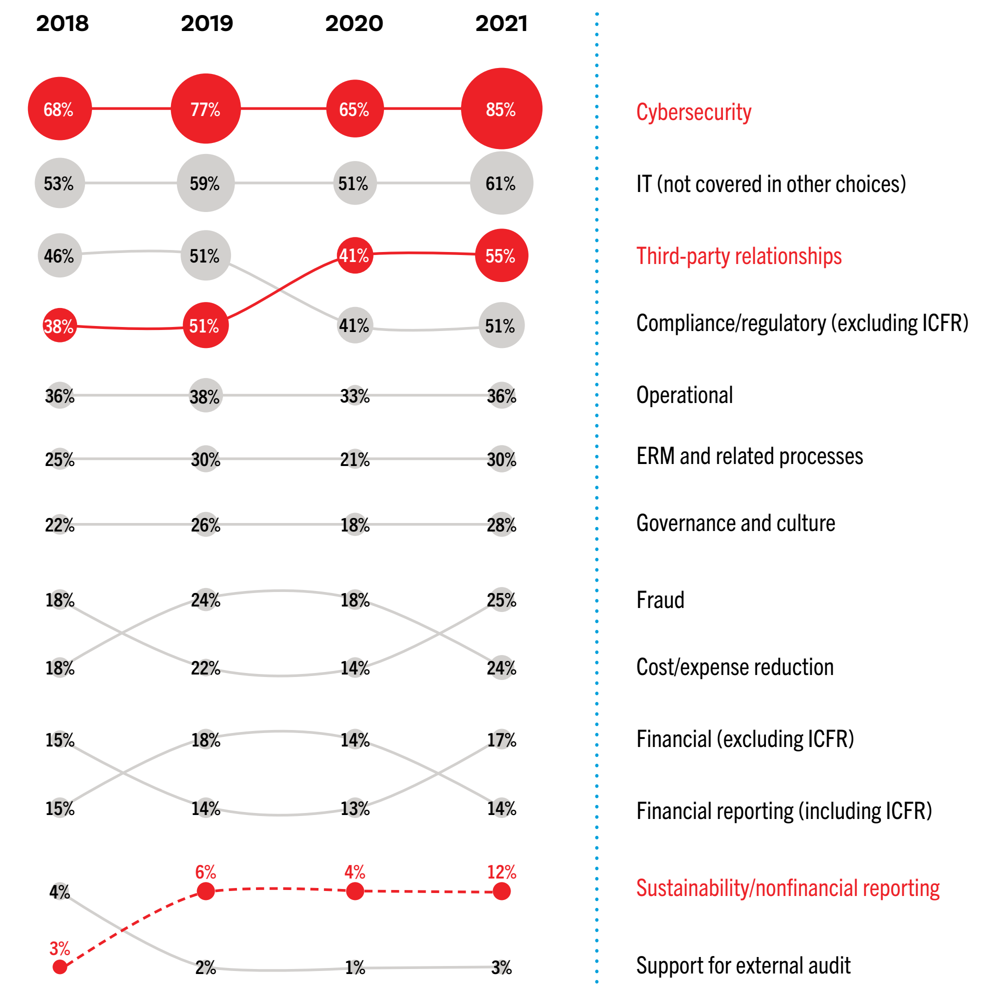
For audit plan allocations overall, compliance/regulatory (excluding ICFR), operational, and financial reporting (including ICFR) are consistently in the top 3, with cybersecurity showing a significant increase. Growing concern for sustainability/nonfinancial reporting risks has not yet translated into greater audit plan allocation.



All Respondents

Technology risks are trending up, along with third-party relationships and sustainability

Trends for Risk Areas Rated as High/Very High Risk



Two of the top 3 highest risk areas this year have been trending up since 2018 (cybersecurity and third-party relationships).

For the first time since 2018, the risk level for sustainability/ nonfinancial reporting has increased substantially compared to the prior year. This appears to be driven by publicly traded organizations (as shown in the graphs that follow).

Interestingly, risk level assessments across most categories dropped slightly in 2020. (This 2020 dip can be seen in the organization type risk trends, as well.)

Nevertheless, the order of risks from high to low in 2020 was consistent with prior years, and in 2021 risk levels returned to roughly pre-COVID-19 levels.

It is possible that the COVID-19 disruption in 2020 overshadowed other risks temporarily.

■ **Increased 10+ percentage points since 2018**

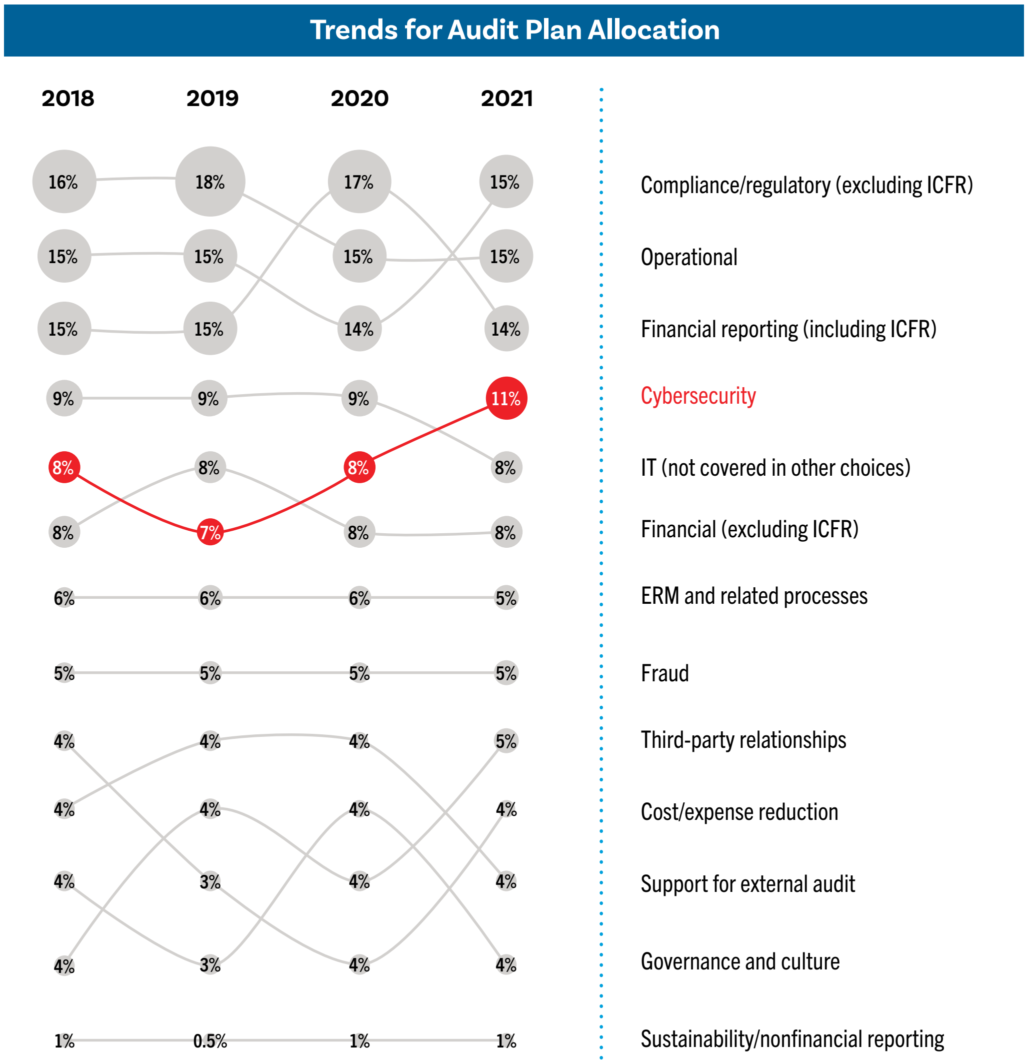
■ **Decreased 10+ percentage points since 2018**

--- Dotted line indicates a change nearing 10 percentage points

Note: The IIA's North American Pulse of Internal Audit Survey. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls over financial reporting. All respondents. *n* = 507 for 2018. *n* = 626 for 2019. *n* = 587 for 2020. *n* = 505 for 2021.

All Respondents

Allocation for cybersecurity is increasing in audit plans overall



Audit plan allocations stay remarkably consistent year-over-year.

The only area for respondents overall that increased by more than 2 percentage points since 2018 is cybersecurity.

However, the views by organization type that follow show that there are changes within sectors that do not show in the overall average.

Increased 2+ percentage points since 2018

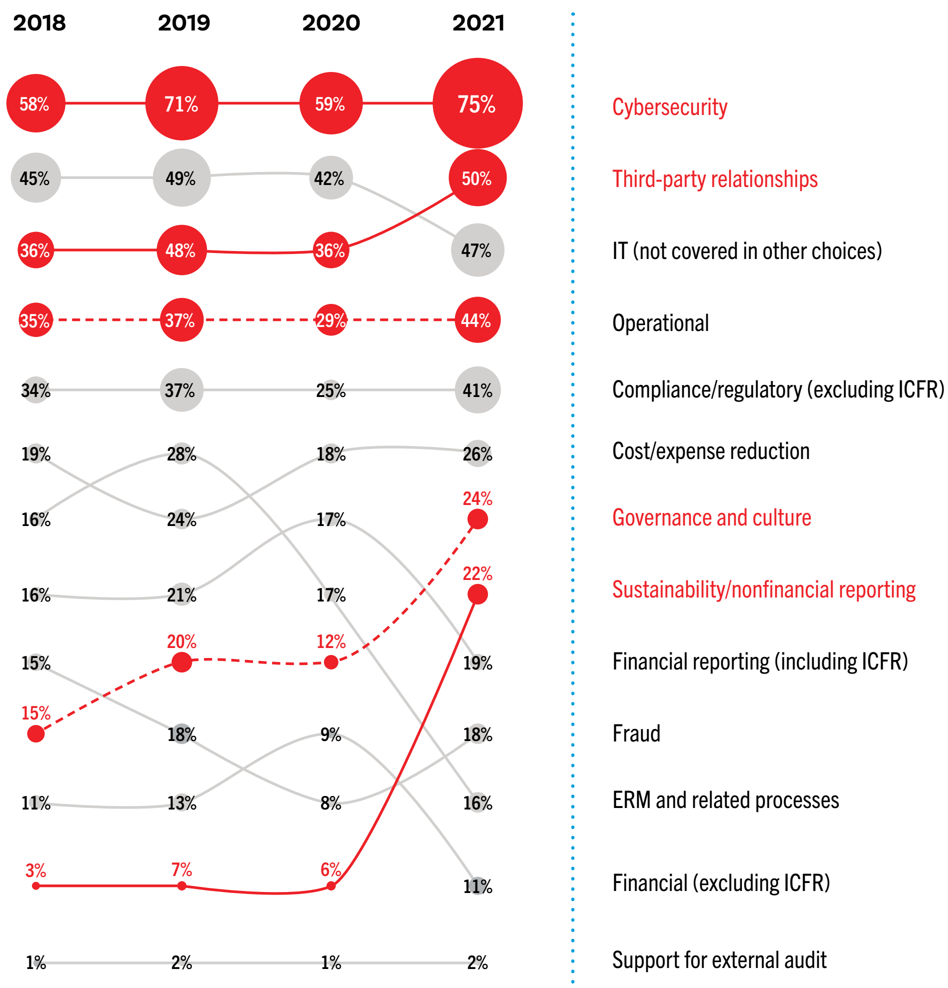
Decreased 2+ percentage points since 2018

Note: The IIA's North American Pulse of Internal Audit Survey. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. *n* = 636 for 2018. *n* = 512 for 2019. *n* = 220 for 2020. *n* = 505 for 2021.

Publicly Traded Organizations

Increases are especially steep for governance and sustainability

Trends for Risk Areas Rated as High/Very High Risk



Risks for cybersecurity and third-party relationships are trending up for publicly traded organizations, similar to the overall average.

However, this sector saw notably steep increases for governance and culture, as well as sustainability/nonfinancial reporting.

It's interesting to note that operational risk increased substantially since 2020 but stayed at the same ranking (fourth highest).

Industries Represented

Manufacturing	37%
Mining, quarrying, and oil and gas extraction	10%
Transportation and warehousing	7%
Accommodation and food services	7%
Retail trade	6%
Health care and social assistance	6%
Utilities	6%
Information	5%
Other	18%

■ **Increased 10+ percentage points since 2018**

■ **Decreased 10+ percentage points since 2018**

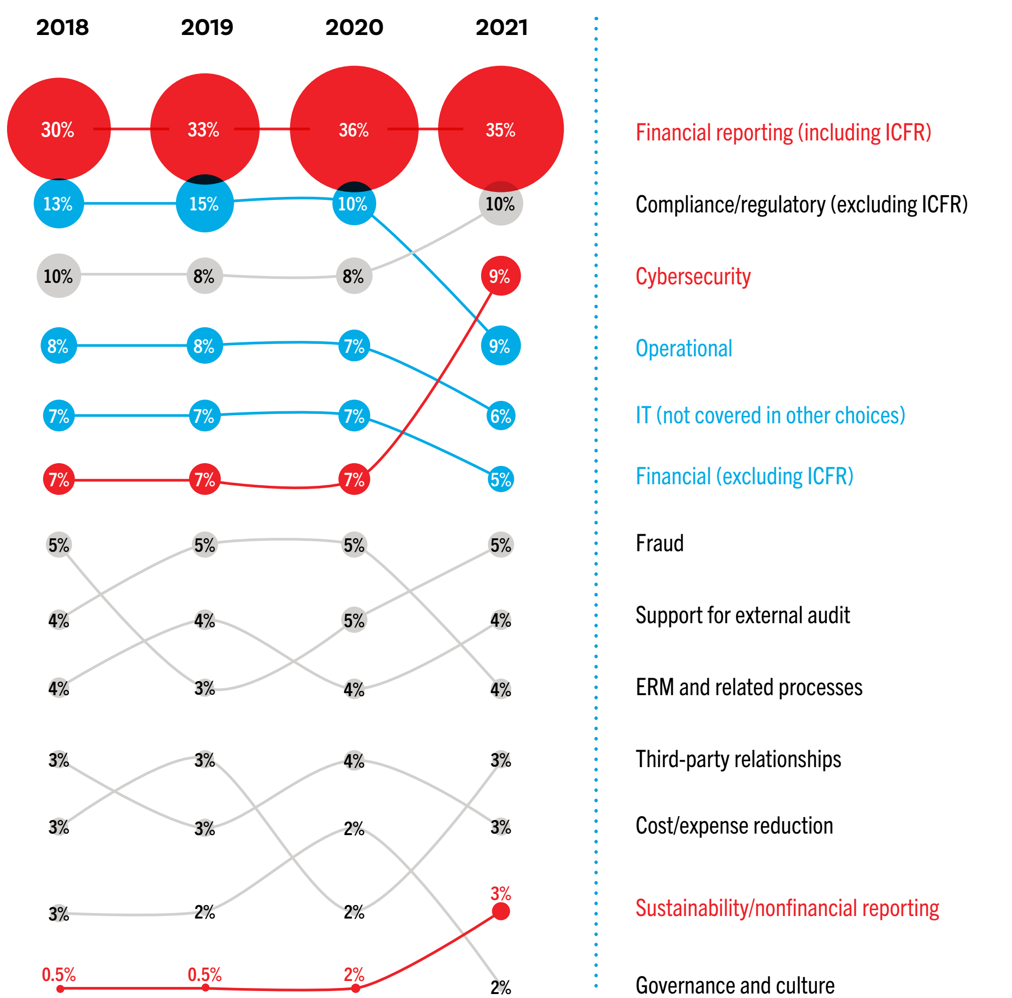
--- Dotted line indicates a change nearing 10 percentage points

Note: The IIA's North American Pulse of Internal Audit Survey. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls over financial reporting. Publicly traded only (financial services excluded). *n* = 194 for 2018. *n* = 57 for 2019. *n* = 82 for 2020. *n* = 169 for 2021.

Publicly Traded Organizations

Allocation for financial reporting dwarfs all other areas and is increasing

Trends for Audit Plan Allocation



Audit plans for publicly traded organizations are greatly impacted by SOX requirements, currently averaging 35% of the audit plan and trending up since 2018.

Audit plan allocation is also increasing for cybersecurity and sustainability/nonfinancial reporting, which were also areas of increased risk. Decreasing areas are operational, IT, and financial (excluding ICFR).

Industries Represented

Manufacturing	37%
Mining, quarrying, and oil and gas extraction	10%
Transportation and warehousing	7%
Accommodation and food services	7%
Retail trade	6%
Health care and social assistance	6%
Utilities	6%
Information	5%
Other	18%

Increased 2+ percentage points since 2018

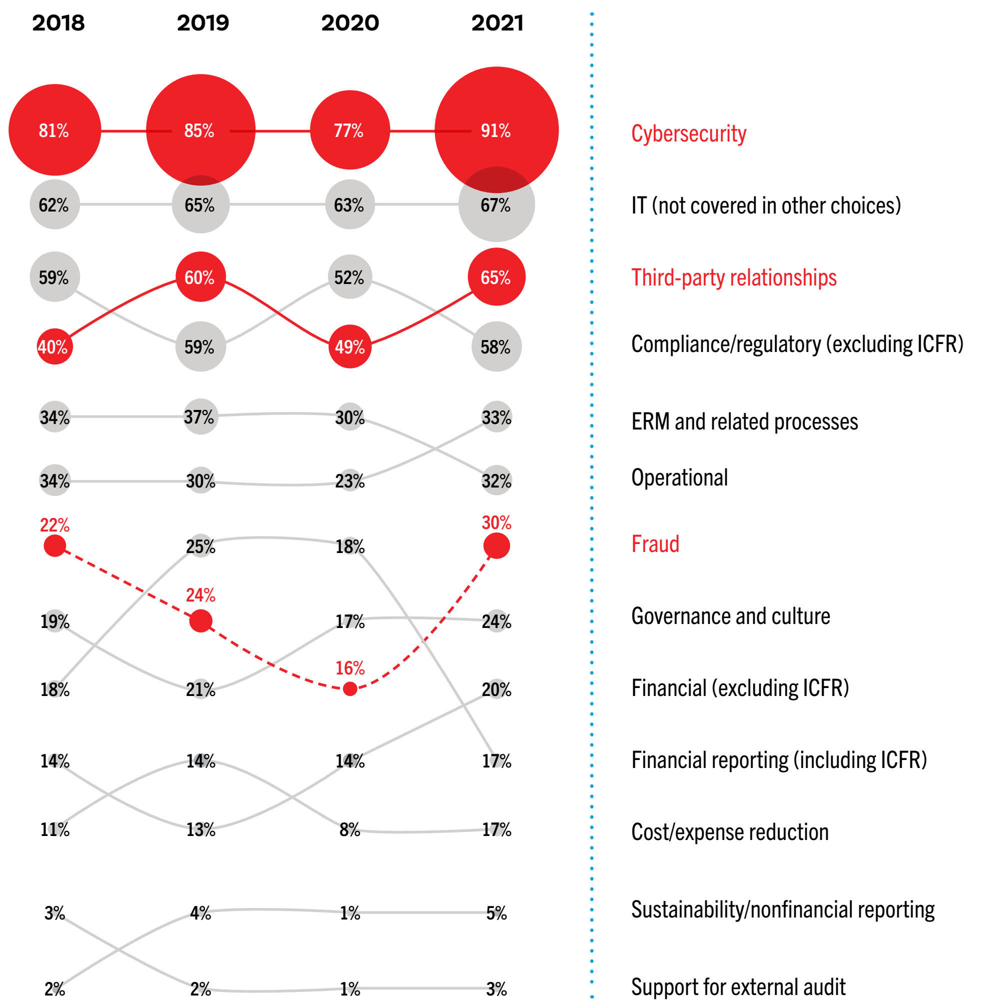
Decreased 2+ percentage points since 2018

Note: The IIA's North American Pulse of Internal Audit Survey. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Publicly traded only (financial services excluded). *n* = 157 for 2018. *n* = 185 for 2019. *n* = 68 for 2020. *n* = 123 for 2021.

Financial Services

Risk levels are increasing for cybersecurity and third-party relationships, but not for IT in general

Trends for Risk Areas Rated as High/Very High Risk



For financial services respondents, third-party risks have increased 25 percentage points over 2018, indicating an area of renewed concern.

Cybersecurity risk levels are also increasing to a lesser degree, but IT in general are not.

Fraud risk levels are climbing.

Industries Represented

Financial institutions	48%
Insurance	38%
Asset management	5%
Broker-dealer	1%
Other	8%

Increased 10+ percentage points since 2018

Decreased 10+ percentage points since 2018

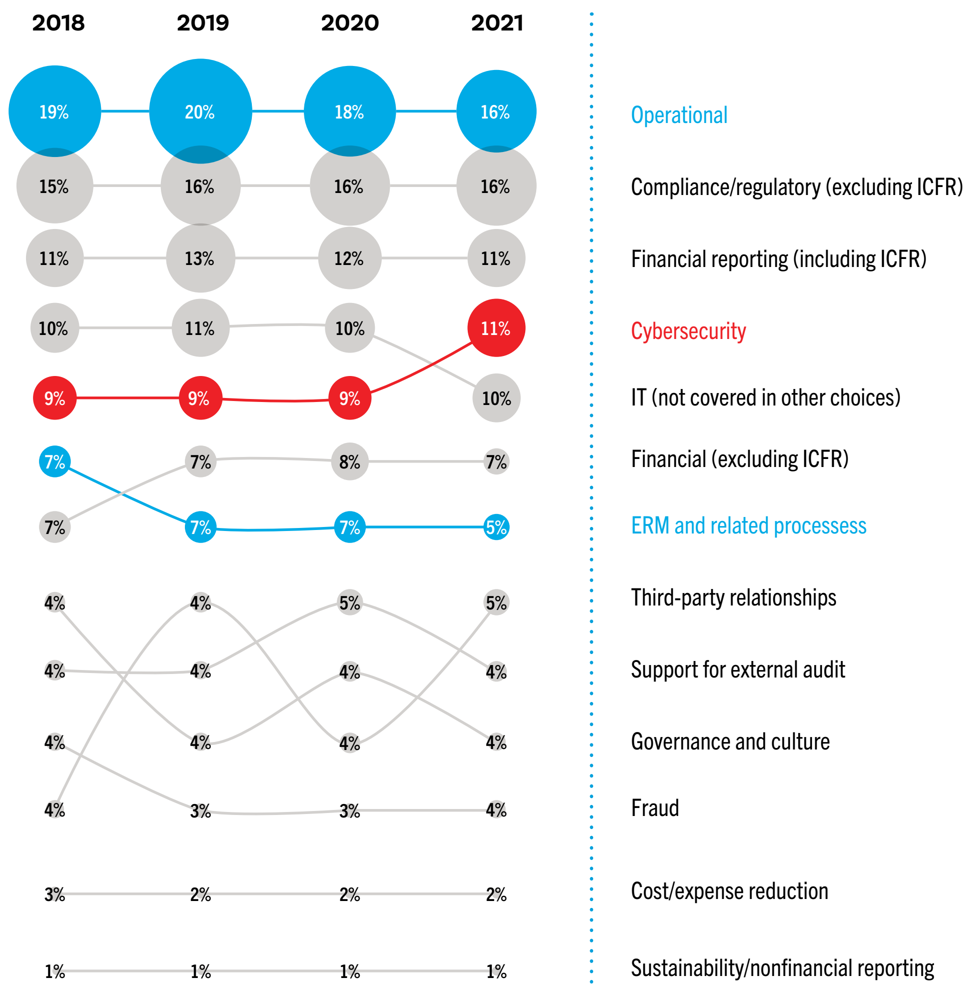
--- Dotted line indicates a change nearing 10 percentage points

Note: The IIA's North American Pulse of Internal Audit Survey. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls over financial reporting. Financial services only. *n* = 150 for 201. *n* = 189 for 2019. *n* = 180 for 2020. *n* = 165 for 2021.

Financial Services

Allocation for operational and ERM is dropping, while cybersecurity is increasing

Trends for Audit Plan Allocation



Financial services audit plans are reducing allocation for operational and enterprise risk management (ERM) while increasing allocation for cybersecurity.

Rank order has stayed generally consistent since 2018.

Industries Represented

Financial institutions	48%
Insurance	38%
Asset management	5%
Broker-dealer	1%
Other	8%

Increased 2+ percentage points since 2018

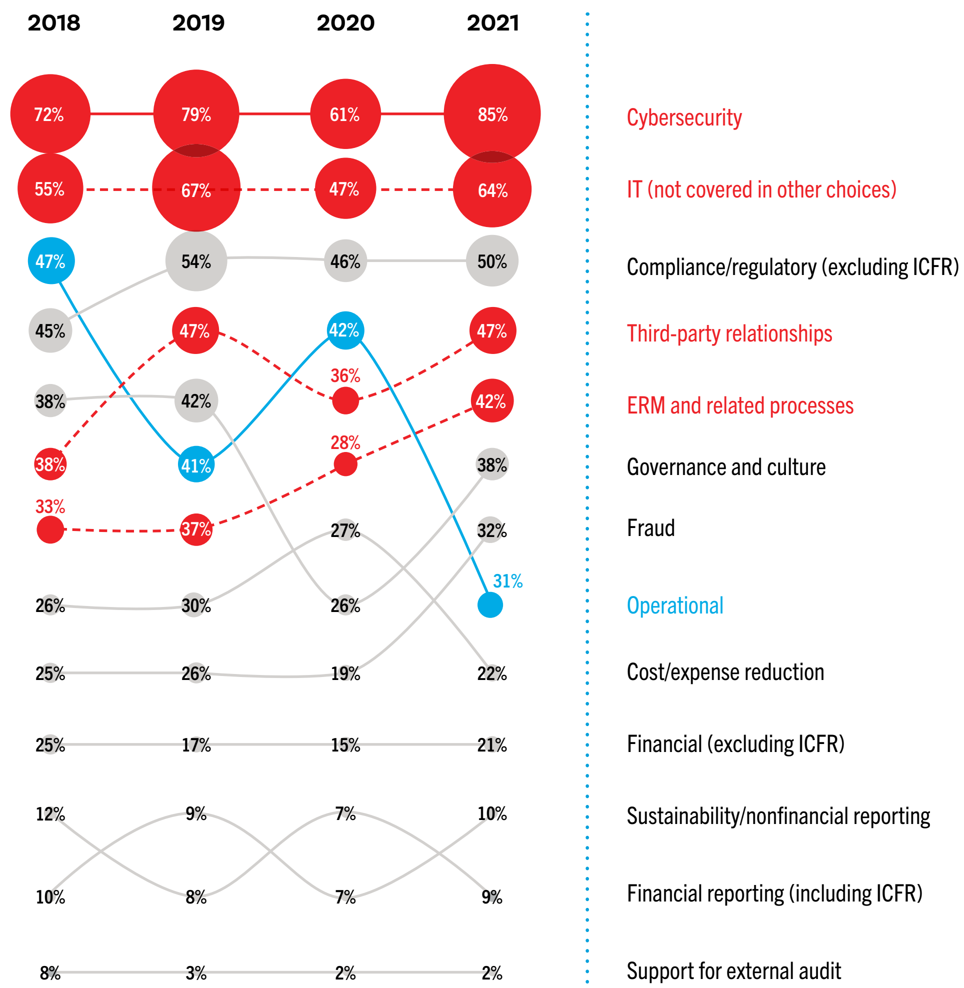
Decreased 2+ percentage points since 2018

Note: The IIA's North American Pulse of Internal Audit Survey. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Financial services only. *n* = 151 for 2018. *n* = 189 for 2019. *n* = 71 for 2020. *n* = 165 for 2021.

Public Sector

Operational risks have lost prominence

Trends for Risk Areas Rated as High/Very High Risk



Operational risk is losing prominence in the public sector, dropping in rank and in percentage substantially since 2018.

Taking its place are rising risk levels for cybersecurity, IT, third-party relationships, and ERM.

Industries Represented

Educational services	32%
Public administration	32%
Health care and social assistance	9%
Utilities	9%
Other	18%

Increased 10+ percentage points since 2018

Decreased 10+ percentage points since 2018

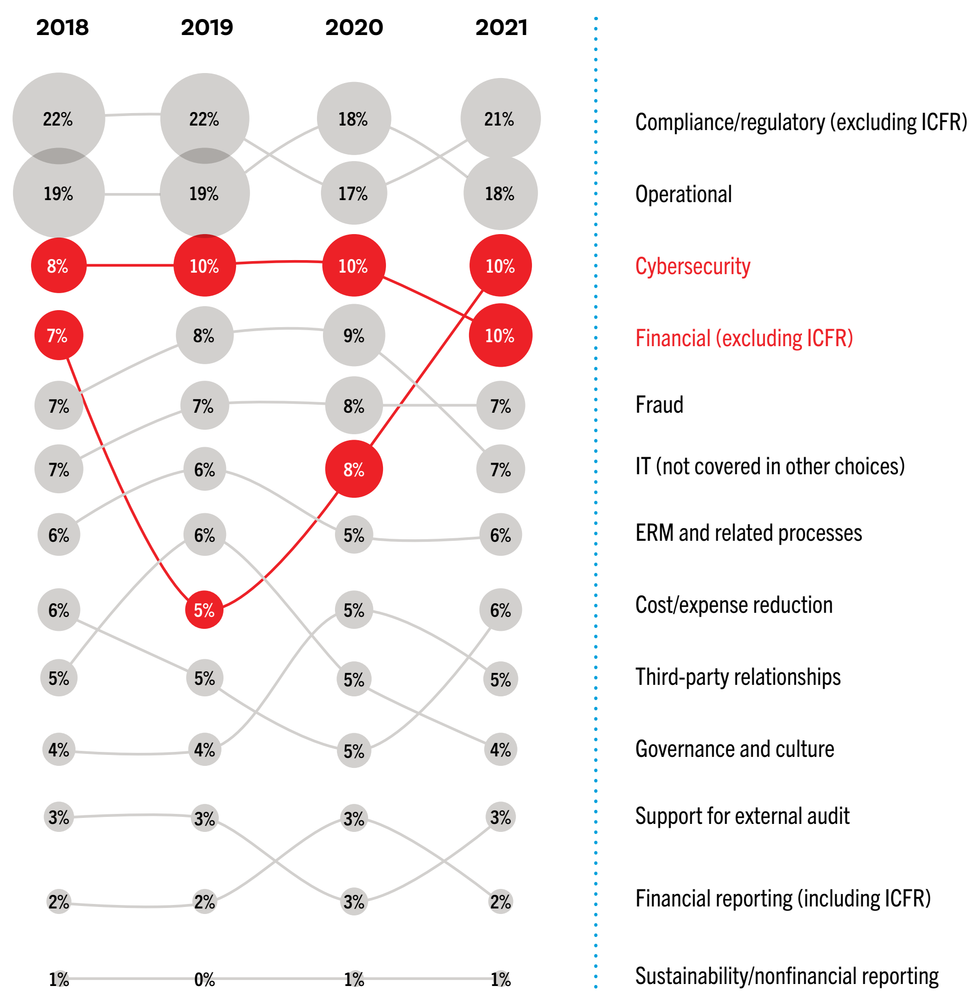
--- Dotted line indicates a change nearing 10 percentage points

Note: The IIA's North American Pulse of Internal Audit Survey. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls over financial reporting. Public sector only (financial services excluded). $n = 94$ for 2018. $n = 135$ for 2019. $n = 142$ for 2020. $n = 111$ for 2021.

Public Sector

Cybersecurity is a rising priority in audit plans

Trends for Audit Plan Allocation



Compliance/regulatory (excluding ICFR) and operational remain at the top of the public sector audit plan.

Allocation has increased for cybersecurity and financial (excluding ICFR).

Industries Represented

Educational services	32%
Public administration	32%
Health care and social assistance	9%
Utilities	9%
Other	18%

Increased 2+ percentage points since 2018

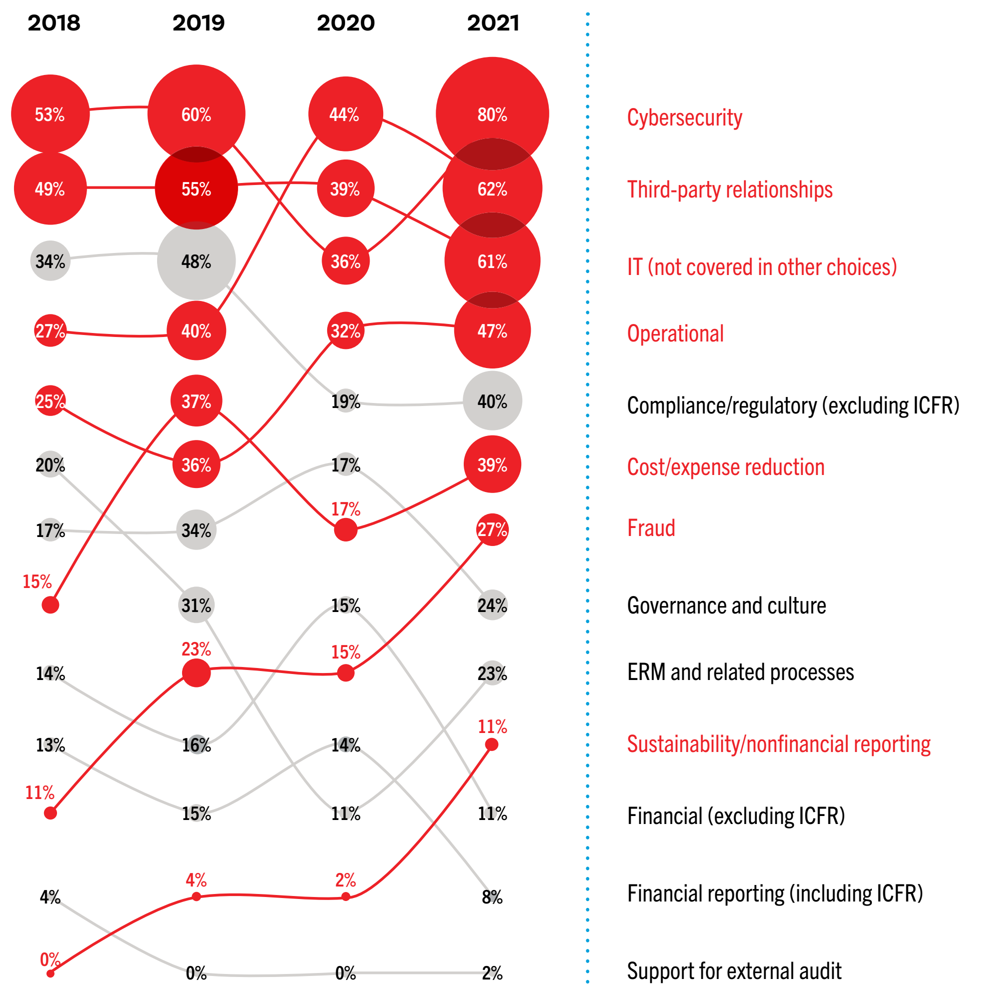
Decreased 2+ percentage points since 2018

Note: The IIA's North American Pulse of Internal Audit Survey. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Public sector only (financial services excluded). *n* = 96 for 2018. *n* = 136 for 2019. *n* = 51 for 2020. *n* = 111 for 2021.

Privately Held Organizations

Risk levels have ballooned in multiple areas

Trends for Risk Areas Rated as High/Very High Risk



Since 2018, risk levels have ballooned in multiple areas for respondents from privately held organizations, especially third-party relationships (35 points), cybersecurity (27 points), cost/expense reduction (24 points), and operational (22 points).

Industries Represented

Manufacturing	22%
Utilities	11%
Professional, scientific, and technical services	11%
Wholesale trade	11%
Transportation and warehousing	9%
Other services (except public administration)	7%
Construction	7%
Educational services	4%
Other	18%

■ **Increased 10+ percentage points since 2018**

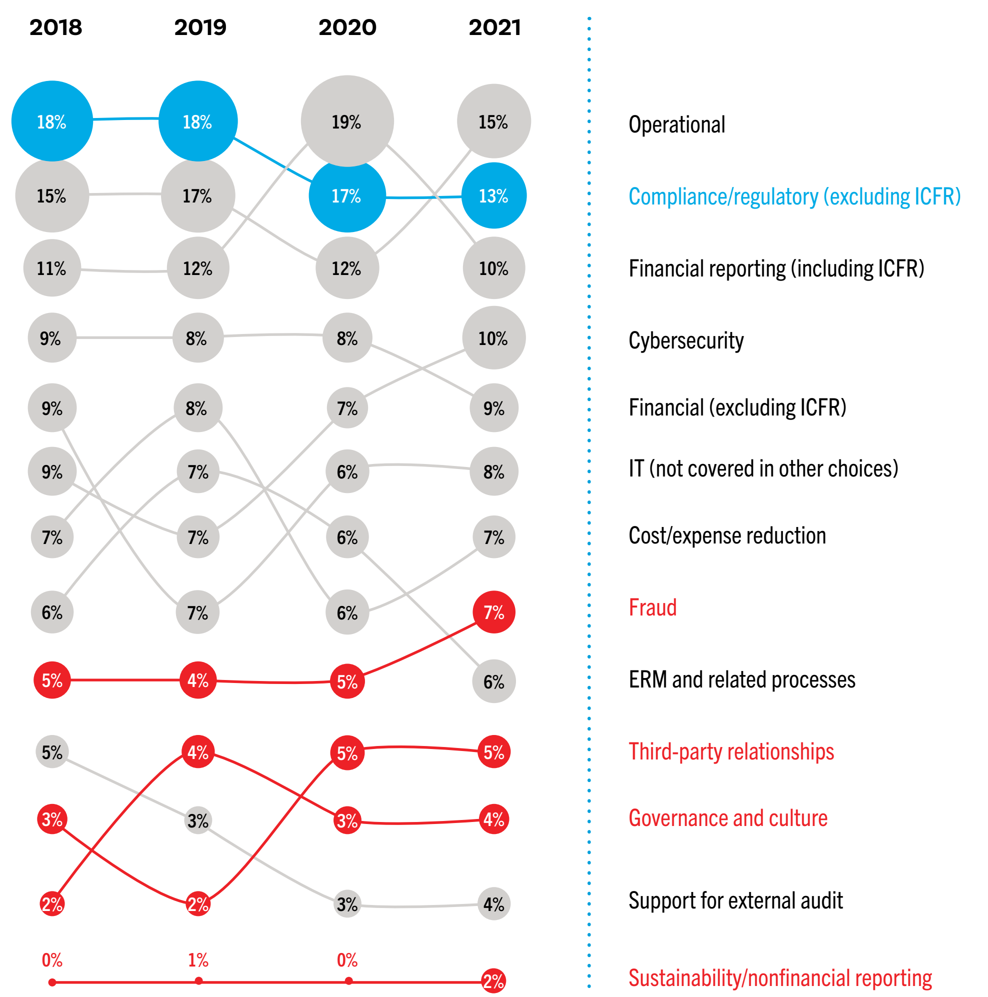
■ **Decreased 10+ percentage points since 2018**

Note: The IIA's North American Pulse of Internal Audit Survey. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls over financial reporting. Privately held only (financial services excluded). *n* = 53 for 2018. *n* = 62 for 2019. *n* = 47 for 2020. *n* = 45 for 2021.

Privately Held Organizations

Audit plan levels for compliance are dropping, while allocation to higher risk areas increases

Trends for Audit Plan Allocation



With risk level ratings increasing dramatically since 2018, privately held organizations have adjusted their audit plans. Allocation has decreased for compliance/regulatory (excluding ICFR), an area where risk levels were not rising as steeply. Audit effort was increased for areas with increasing risk: fraud, third-party relationships, governance and culture, and sustainability/nonfinancial reporting.

Industries Represented

Manufacturing	22%
Utilities	11%
Professional, scientific, and technical services	11%
Wholesale trade	11%
Transportation and warehousing	9%
Other services (except public administration)	7%
Construction	7%
Educational services	4%
Other	18%

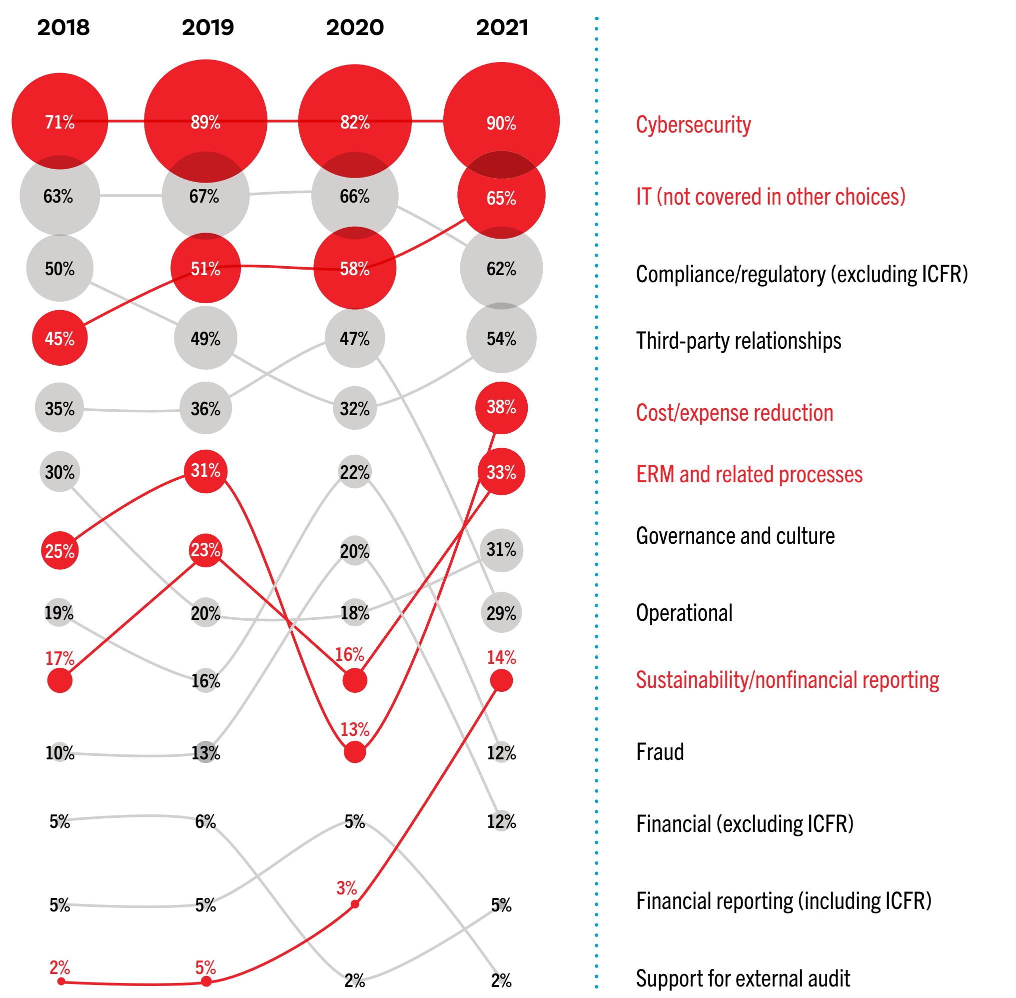
■ **Increased 2+ percentage points since 2018**
■ **Decreased 2+ percentage points since 2018**

Note: The IIA's North American Pulse of Internal Audit Survey. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Privately held only (financial services excluded). *n* = 151 for 2018. *n* = 189 for 2019. *n* = 71 for 2020. *n* = 165 for 2021.

Nonprofit Organizations

Risk levels are rising for cybersecurity, IT, cost/expense reduction, ERM, and sustainability

Trends for Risk Areas Rated as High/Very High Risk



Risk level ratings for cost/expense reduction and ERM dropped sharply in 2020, but returned to pre-COVID-19 levels and increased in 2021.

Cybersecurity and IT are elevated and continuing to rise.

Sustainability/nonfinancial reporting had a notable increase since last year.

Industries Represented

Health care and social assistance	58%
Educational services	23%
Other	19%

■ **Increased 10+ percentage points since 2018**

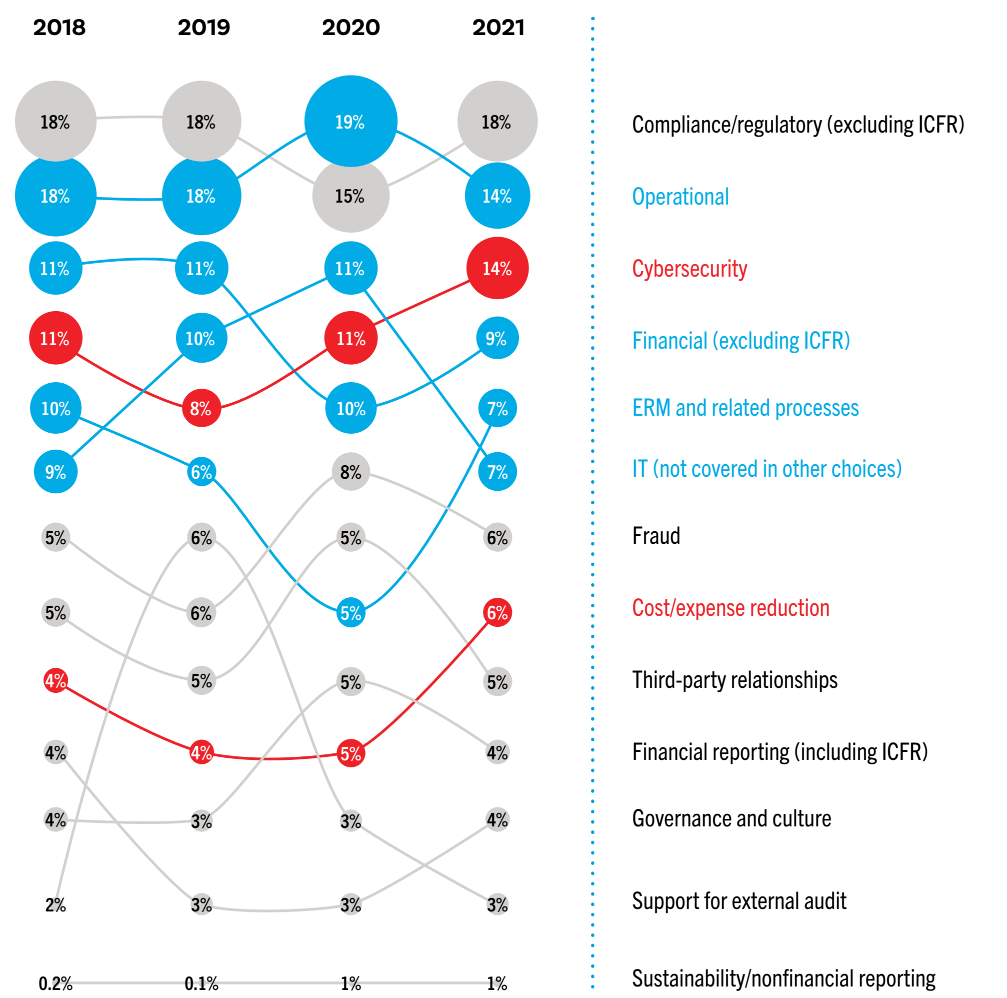
■ **Decreased 10+ percentage points since 2018**

Note: The IIA's North American Pulse of Internal Audit Survey. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls over financial reporting. Nonprofit only (financial services excluded). *n* = 54 for 2018. *n* = 48 for 2019. *n* = 45 for 2020. *n* = 45 for 2021.

Nonprofit Organizations

Many adjustments made to audit plans from 2020 to 2021

Trends for Audit Plan Allocation



There were notable adjustments to audit plans for nonprofit organizations from 2020 to 2021, including substantial changes for operational, cybersecurity, and ERM.

Looking at trends since 2018, audit plan allocation is increasing for cybersecurity and cost/expense reduction.

Respondents for this sector primarily come from health care and educational services, which have experienced significant disruption from the COVID-19 pandemic.

Industries Represented

Health care and social assistance	58%
Educational services	23%
Other	19%

Increased 2+ percentage points since 2018

Decreased 2+ percentage points since 2018

Note: The IIA's North American Pulse of Internal Audit Survey. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls over financial reporting. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Nonprofit only (financial services excluded). n = 48 for 2018. n = 46 for 2019. n = 10 for 2020. n = 52 for 2021.

Section 4. Leadership Metrics

This section provides metrics designed to give internal audit leaders benchmarks about their roles and how they lead their functions.

Several topics are new to the Pulse survey this year, including CAE responsibilities and CAEs' top 3 concerns about leading their audit functions.

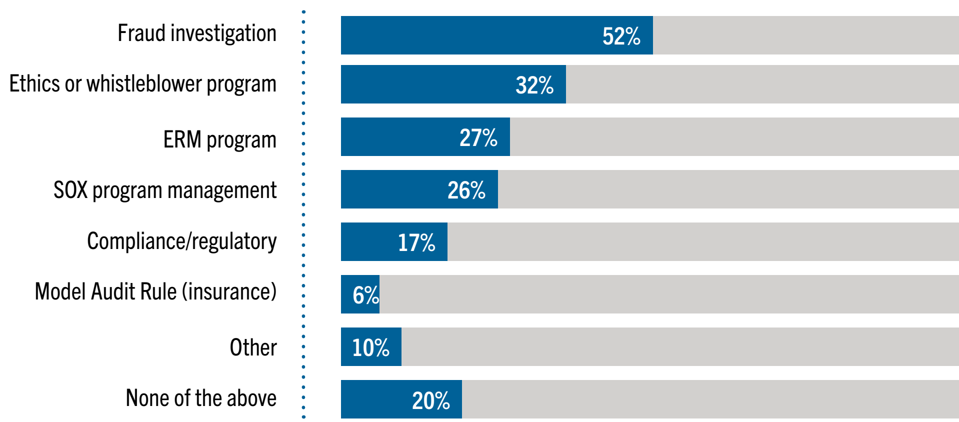
Other topics have been addressed before but are covered in more detail this year, including COVID-19 impact, internal audit function maturity, reporting lines, and internal audit function size.

Finally, demographic information is provided about CAEs themselves, including generation, gender, years of experience, and credentials.

CAE Responsibilities

Areas of responsibility outside of internal audit are primarily fraud, ethics, ERM, and SOX

CAE Responsibilities — All Respondents



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q36: In addition to your role as head of internal audit, for which areas are you responsible? (Choose all that apply.) *n* = 495.

CAEs and other internal audit leaders often manage more than just the internal audit function. For example, more than half of survey respondents said they were responsible for fraud investigation and one-third said they managed the ethics or whistleblower program. One-fourth managed the ERM program or SOX for their organizations.

Organization Type Differences (Next Page)

Responsibilities vary among different organization types, as shown in the graphs on the following page. For example, fraud investigation was highest for the public sector (70%) and lowest for financial services (35%).

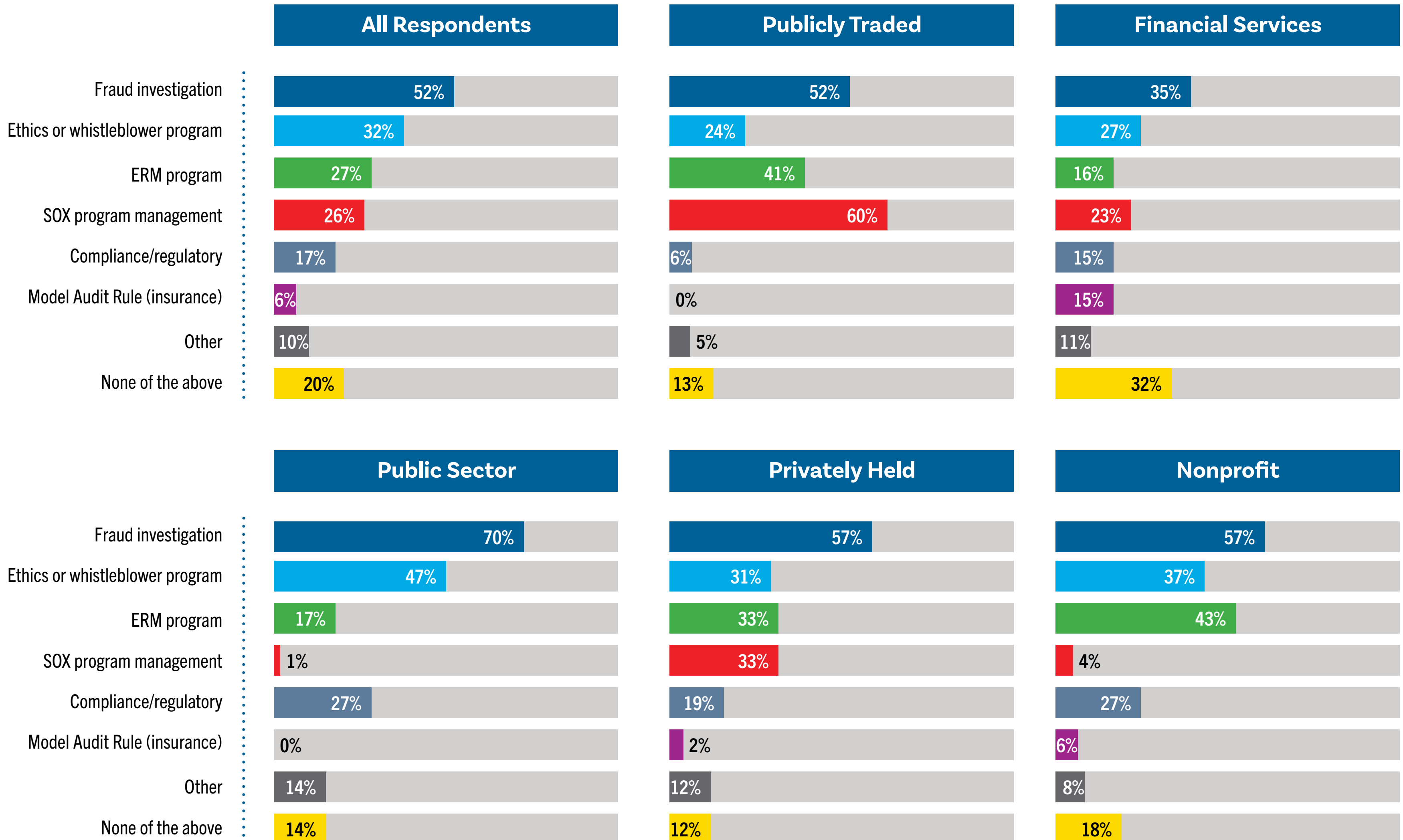
As expected, responsibility for SOX program management was highest for publicly traded organizations (60%), but it was also substantial for privately held organizations (33%).

Even with their high level of responsibility for SOX program management, publicly traded organizations also had higher-than-average rates of responsibility for ERM programs.

Finally, financial services organizations had the fewest areas of responsibility beyond internal audit of all organization types.

CAE Responsibilities Compared to Organization Type

Financial services had the fewest areas of responsibility outside of internal audit

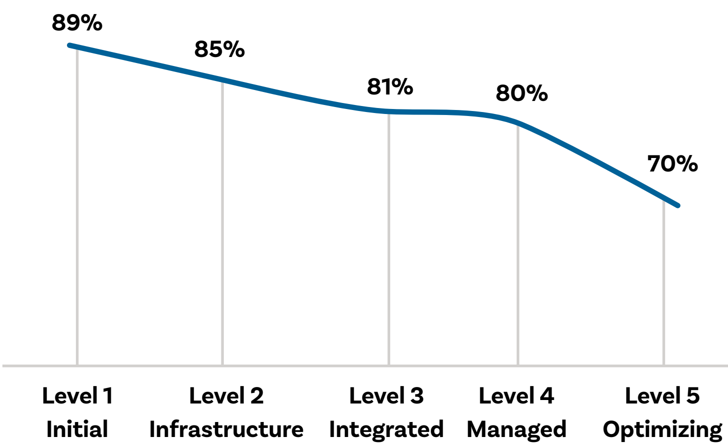


Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q36: In addition to your role as head of internal audit, for which areas are you responsible? (Choose all that apply.) *n* = 122 for publicly traded. *n* = 162 for financial services. *n* = 109 for public sector. *n* = 42 for privately held. *n* = 51 for nonprofit.

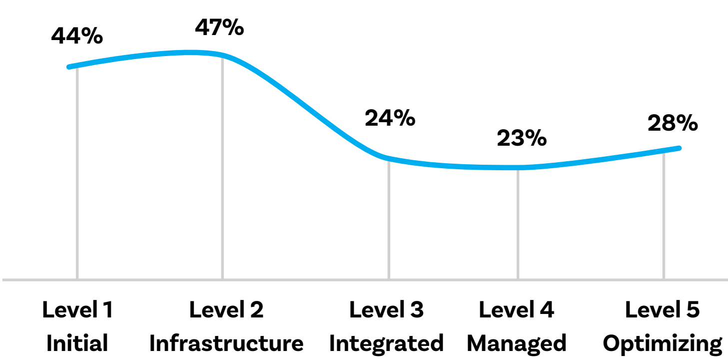
CAE Responsibilities Compared to Maturity

More internal audit maturity is associated with less responsibility outside of internal audit

CAEs Responsible for Some Non-internal Audit Activity



CAEs Responsible for the ERM Program



The level of internal audit maturity* had a noticeable relationship with CAE responsibilities. In general, as maturity increased, responsibility for activities outside of internal audit decreased, as shown in the graph top left. The graph reflects the percentage of respondents who indicated they had at least one area of responsibility other than internal audit.

A specific area with a strong relationship to internal audit maturity was responsibility for ERM program management. It was relatively high for Level 1 and 2 and dropped lower for Levels 3, 4, and 5.

It is possible that less mature functions are working within less mature organizations where there are fewer resources to cover ERM and other activities, so extra responsibility falls to internal audit.

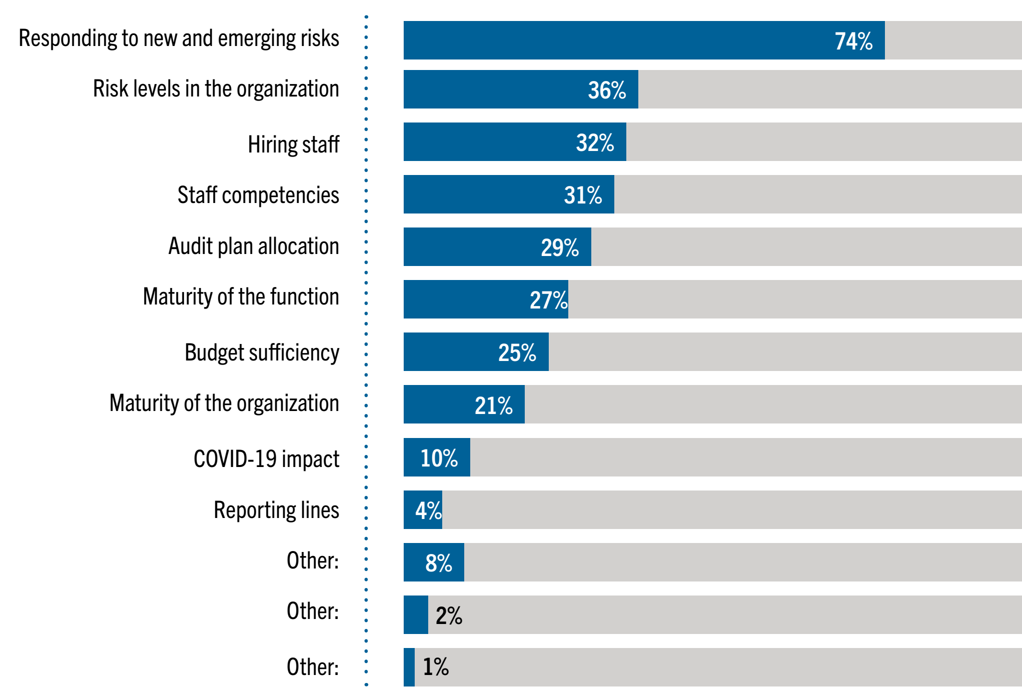
**Internal audit maturity was self-assessed by the CAE based on the Internal Audit Ambition Model developed by IIA – Netherlands and LKO/NBA.*

Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q36: In addition to your role as head of internal audit, for which areas are you responsible? (Choose all that apply.) Compared to Q38: Which of the following best describes the maturity of your organization's internal audit function? These maturity levels are based on the Internal Audit Ambition Model produced by IIA–Netherlands. *n* = 492.

Top 3 Concerns for Leading Internal Audit Functions

Responding to new risks was a top 3 area of concern for many, but few cited COVID-19 as a top risk

Top 3 Areas of Concern



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q37: In terms of leading your internal audit function, which 3 areas are of most concern to you? (Choose 3.) Totals may not equal 100% due to rounding. *n* = 505.

Survey respondents were asked, "In terms of leading your internal audit function, which 3 areas are of most concern to you?" They could choose three of the response options provided or type in their own.

Responding to new and emerging risks was a top concern among respondents, with nearly three quarters (74%) choosing it among their top 3. In contrast, only 10% said COVID-19 impact was a top 3 concern.

About a third chose hiring staff and/or staff competencies, but, interestingly, few chose both, indicating that for some functions, the primary issue is number of staff, while others are concerned about staff having the right competencies.

Few differences were noted based on organizational characteristics, except that functions where SOX was mandated or implemented were significantly more likely to choose audit plan allocation as a top 3 concern (35%) compared to other respondents (24%).

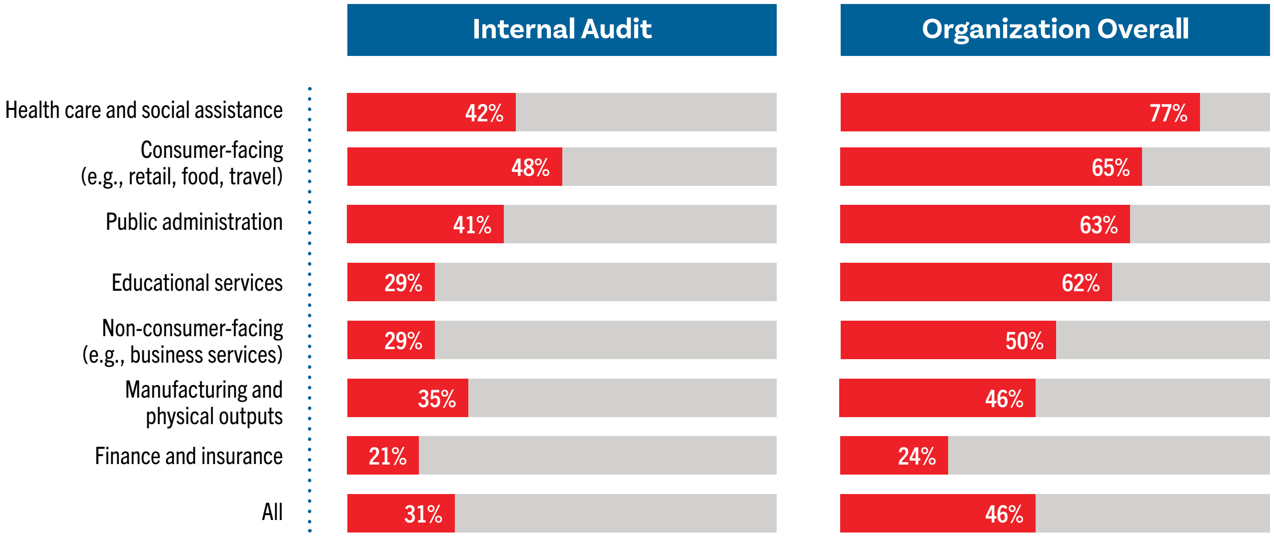
Finally, in the free response portion of the question, other concerns mentioned were:

- Internal audit use of technology
- Technology skills on staff
- Staff retention
- Succession planning
- Innovation
- Efficiency
- Management support

COVID-19 Impact

COVID-19 had more impact on organizations overall than on internal audit

Negative COVID-19 Impact — Internal Audit vs. Organization Overall



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q45: Please choose the option that best describes COVID-19's impact on your organization as a whole. Q43: Please choose the option that best describes COVID-19's impact on your internal audit function. Response options were positive, neutral (neither positive nor negative), negative, not sure/not applicable. Those who chose not sure/not applicable were removed from analysis. *n* = 497.

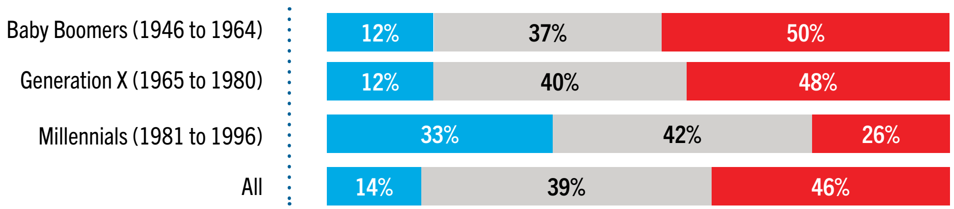
COVID-19 appeared to be harder on organizations overall than on internal audit functions.

About one-third (31%) of respondents said internal audit experienced negative impact from COVID-19, compared to nearly half (46%) who said there was negative impact for the organization overall.

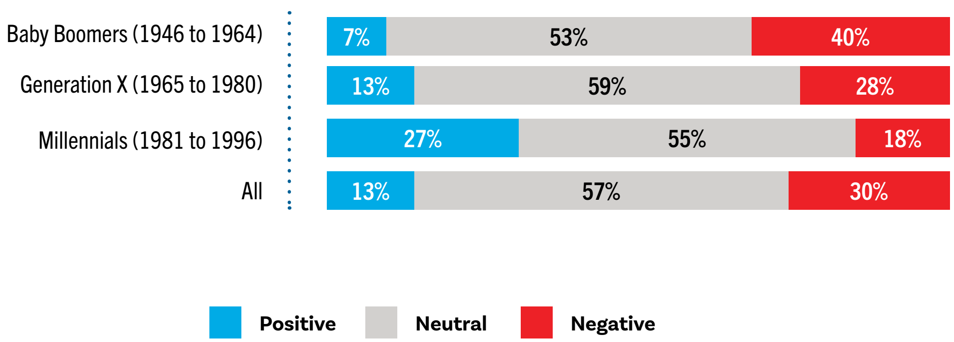
COVID-19 Impact Compared to Age

Millennials were more likely to say COVID-19 impact was positive compared to other generations

Perception of COVID-19 Impact on the Organization Compared to Generation



Perception of COVID-19 Impact on Internal Audit Compared to Generation



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q45: Please choose the option that best describes COVID-19's impact on your organization as a whole. Q43: Please choose the option that best describes COVID-19's impact on your internal audit function. Response options were positive, neutral (neither positive nor negative), negative, not sure/not applicable. Those who chose not sure/not applicable were removed from analysis. *n* = 497.

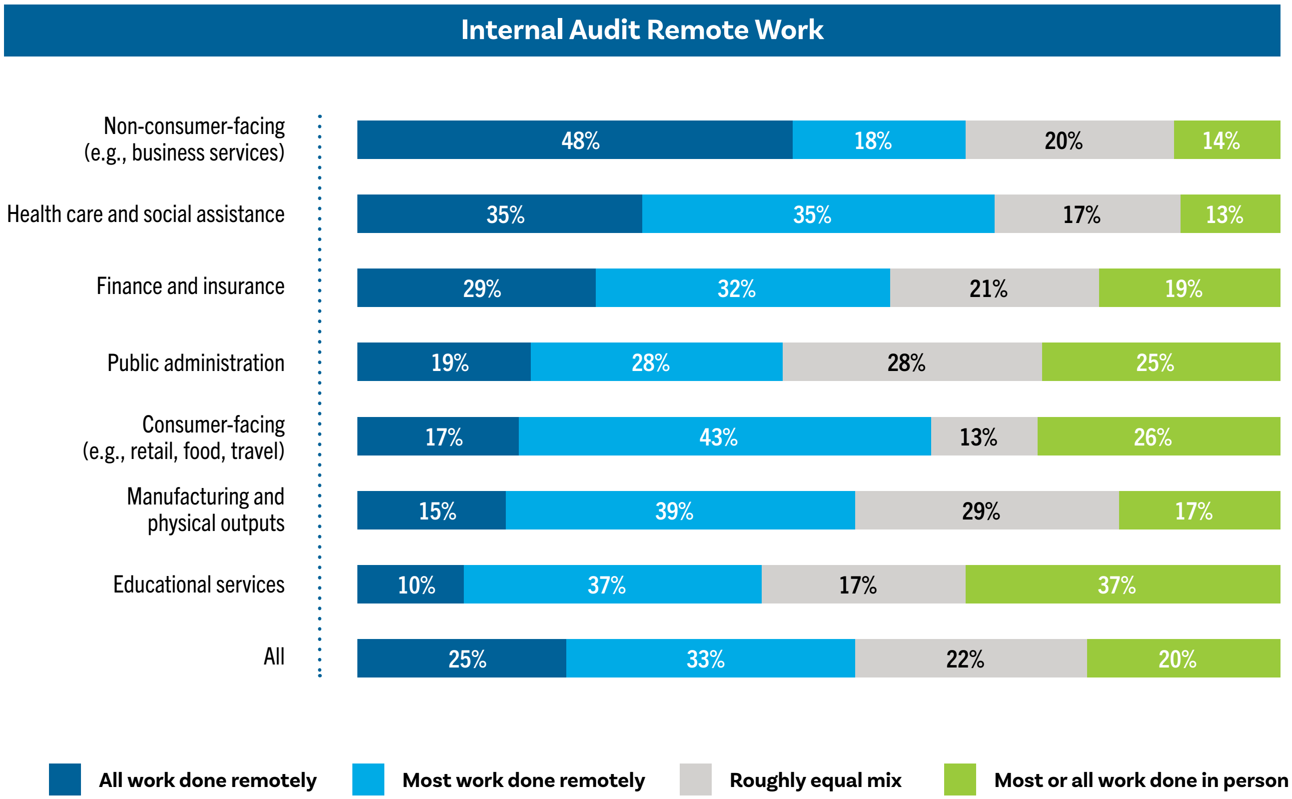
The age of the respondent made a significant difference in how the impact of COVID-19 was perceived — both for the organization as a whole and for internal audit.

Millennials were nearly three times more likely to consider the pandemic's impact on the organization as a whole as positive compared with other age groups. Millennials were about half as likely to consider it as negative.

For the impact on internal audit specifically, positive assessments increased more incrementally as age decreased, with 7% of Baby Boomers seeing the pandemic as positive compared with 13% of Generation X and 27% of Millennials.

Remote Work

More than half said most or all internal audit work is currently done remotely



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q18: In terms of working remotely vs. in-person, how is your internal audit function currently operating? Totals may not equal 100% due to rounding. *n* = 505.

Remote work appears to be here for the foreseeable future. At least half of Pulse respondents from most industries said most or all internal audit work is done remotely at the time the survey was conducted (shortly before the rise of the COVID-19 Omicron variant). Only a few (20%) said that most or all work is done in person. Unlike other industry groups, more than a quarter of respondents from educational services, consumer-facing, and public administration industries reported most or all work was done in person.

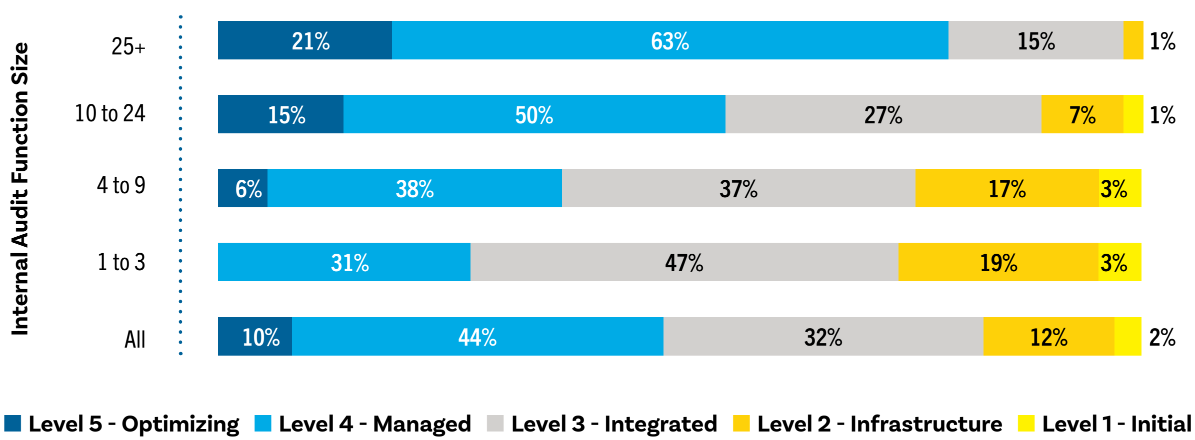
Maturity

Larger functions assess themselves at higher maturity levels than smaller functions

The Pulse survey asked internal audit leaders to rate their functions' maturity using the levels from the Internal Audit Ambition Model, developed by IIA–Netherlands and LKO/NBA.

As function size increased, the percentage at the top 2 levels increased as well. At the largest size, 84% were at the top 2 levels, compared with 31% at the smallest size. Overall, 54% of respondents reported maturity at the top 2 levels.

Ambition Model Levels Compared to Function Size



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q38: Which of the following best describes the maturity of your organization's internal audit function? These maturity levels are based on the Internal Audit Ambition Model produced by IIA–Netherlands. Totals may not equal 100% due to rounding. n = 86 for 1 to 3. n = 198 for 4 to 9. n = 145 for 10 to 24. n = 73 for 25+. Total n = 502.

Internal Audit Ambition Model Levels

Level 1 — Initial
Functioning at an initial stage of development, with ad hoc or unstructured activity.

Level 2 — Infrastructure
Developing administrative infrastructure, along with policies, processes, and procedures.

Level 3 — Integrated
Integrated into the organization and conforming to IIA *Standards*.

Level 4 — Managed
Well-managed, with a visible role in the organization and a long-term vision and plan.

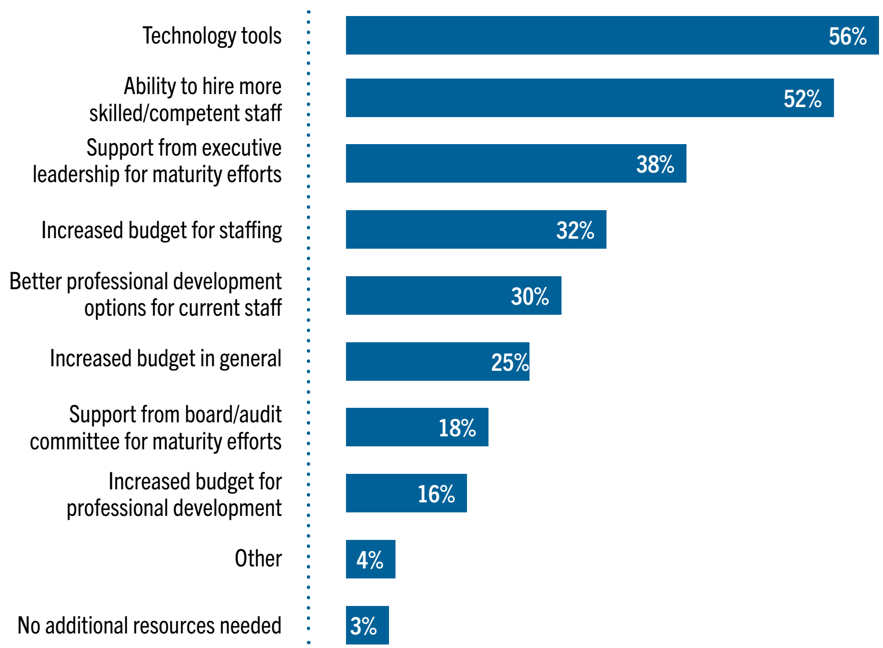
Level 5 — Optimizing
Optimizing value with continuous improvement for both internal audit and the organization.

Learn more about the Internal Audit Ambition Model, developed by IIA-Netherlands and LKO/NBA at ***https://www.iia.nl/kwaliteit/ambition-model***.

Maturity Enablers

Internal audit leaders look to technology and/or additional skilled staff to increase maturity

Most Helpful Enablers to Increase Internal Audit Maturity



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q39: What types of support would help your internal audit function the most with increasing or maintaining its maturity? (Choose all that apply.) *n* = 505.

As a follow-up to the maturity assessment, internal audit leaders were asked to indicate which types of support would help their internal audit functions most with increasing or maintaining maturity. They could choose multiple responses.

Technology tools and the ability to hire additional skilled/competent staff were the two most popular choices. As noted earlier, smaller functions were more likely to give themselves lower maturity ratings, so this may be another indication that more staff may be needed to achieve higher maturity levels.

Respondents were more likely to indicate a desire for more support from executive leadership than from the board/audit committee, perhaps because support from the board/audit committee was already in place.

Reporting Lines

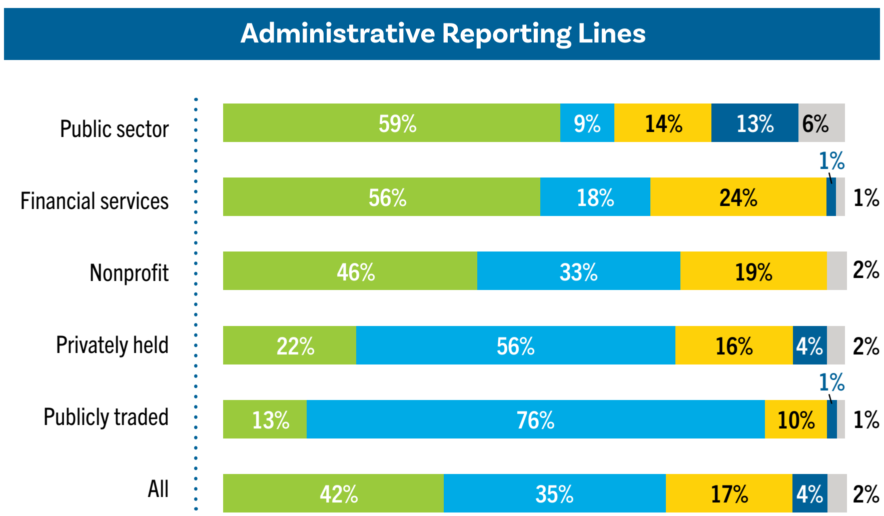
Administrative reporting varies widely — some sectors report to the CEO, but others to the CFO

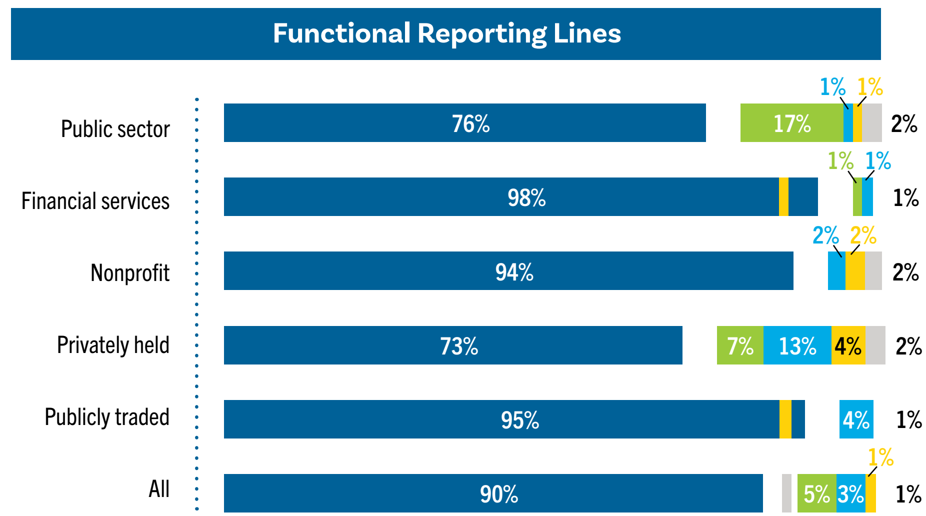
Administrative reporting* lines vary more than functional reporting lines. Public sector and financial services tend to report to a CEO, president, or agency head. In contrast, privately held and publicly traded most often report to the chief financial officer or equivalent. Nonprofit is mixed.

**Administrative reporting line refers to oversight of day-to-day matters, expense approval, human resource administration, communication, internal policies, and procedures.*

For public sector and privately held organizations, about 1 in 4 report functionally* to a role other than audit committee, board, or equivalent. In other organization types, 94% or more report to the audit committee, board, or equivalent.

**Functional reporting line refers to oversight of the responsibilities of the internal audit function, including approval of the internal audit charter, the audit plan, evaluation of the CAE, and compensation for the CAE.*





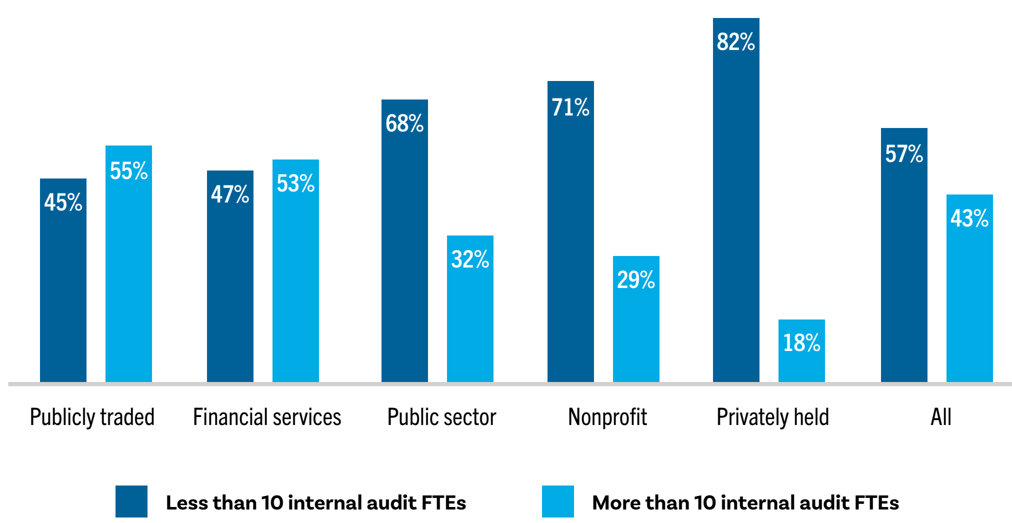
Audit committee, board, equivalent | CEO, president, agency head | Chief financial officer or equivalent | Other executive leadership | Other

Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q41: What is the primary administrative reporting line for the chief audit executive (CAE) or head of internal audit in your organization? Q40: What is the primary functional reporting line for the chief audit executive (CAE) or head of internal audit in your organization? Totals may not equal 100% due to rounding. *n* = 496.

Internal Audit Function Sizes

Publicly traded and financial services functions tend to be larger

Internal Audit Function Size Compared to Organization Type



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q8: How many full-time equivalent employees (FTEs) are in your internal audit function? (in-house and sourced combined) *n* = 496.

Smaller internal audit functions are the norm in the public sector, nonprofit organizations, and privately held organizations.

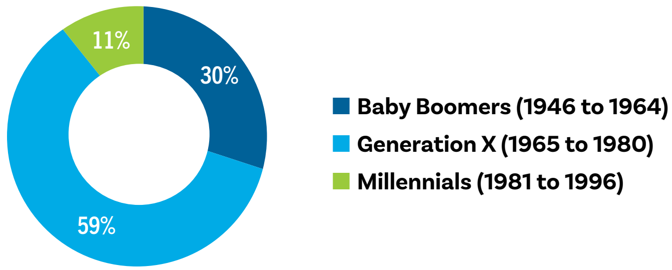
In contrast, publicly traded organizations and financial services are roughly evenly split between smaller and larger function sizes.

Smaller audit function sizes are defined as having less than 10 FTEs, and larger sizes as more than 10 FTEs.

Age and Gender

The public sector contains more Baby Boomer CAEs than the overall average

Respondent Generation

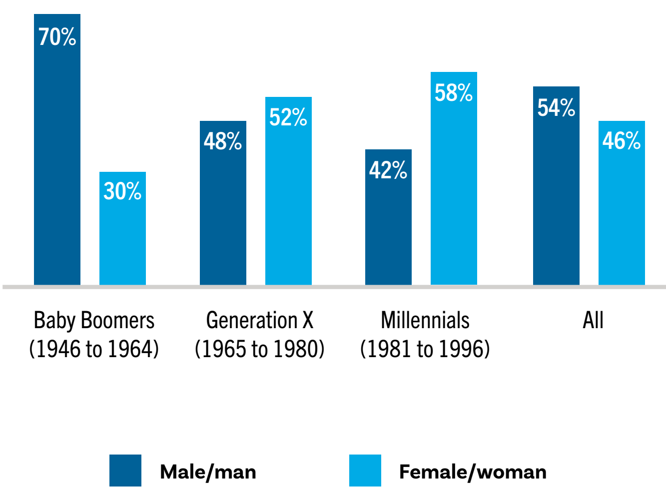


Among the internal audit leaders who took the Pulse survey, 59% of positions were filled by Generation X; 30% were filled by Baby Boomers, and 11% by Millennials.

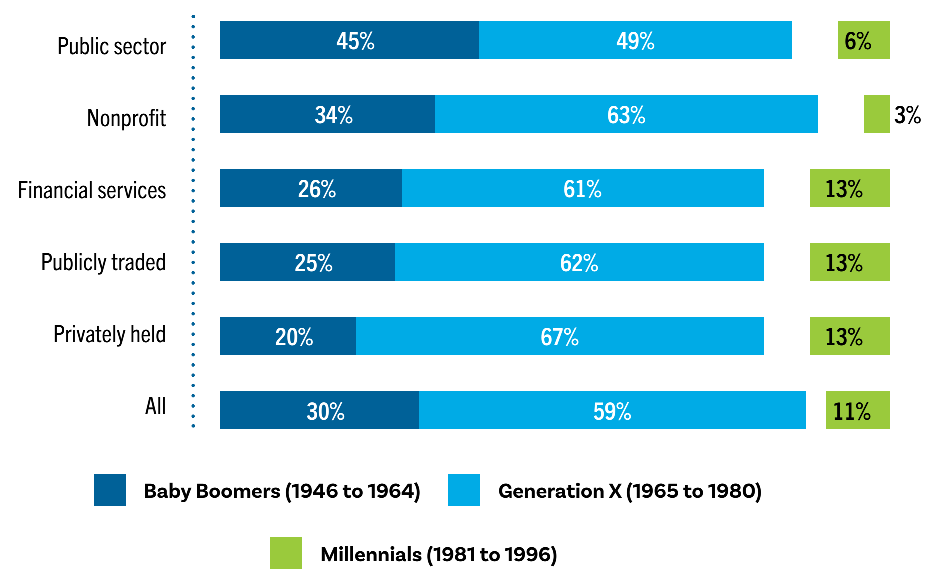
Among the different organization types, the public sector stands out as having significantly more Baby Boomers than the overall average (45% compared to 30%).

The ratio of men to women is clearly changing with the generations. Baby Boomers had more men than women, Generation X was about equal, and Millennials had more women than men.

Generation Compared to Gender



Generation Compared to Organization Type

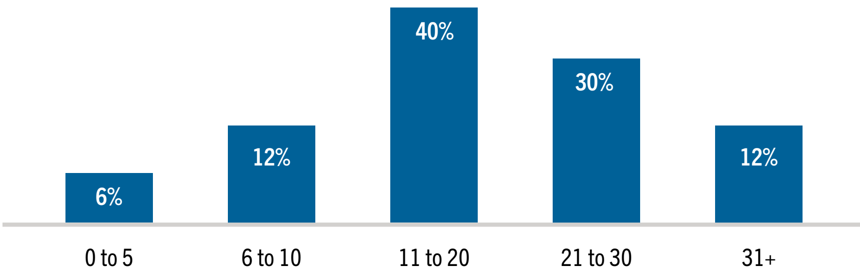


Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q54: Please select your year of birth. n = 417. Q55: Please select the gender identity that best matches you. *n* = 458.

Experience and Credentials

Respondents had high levels of experience and credentialing

Years of Internal Audit Experience

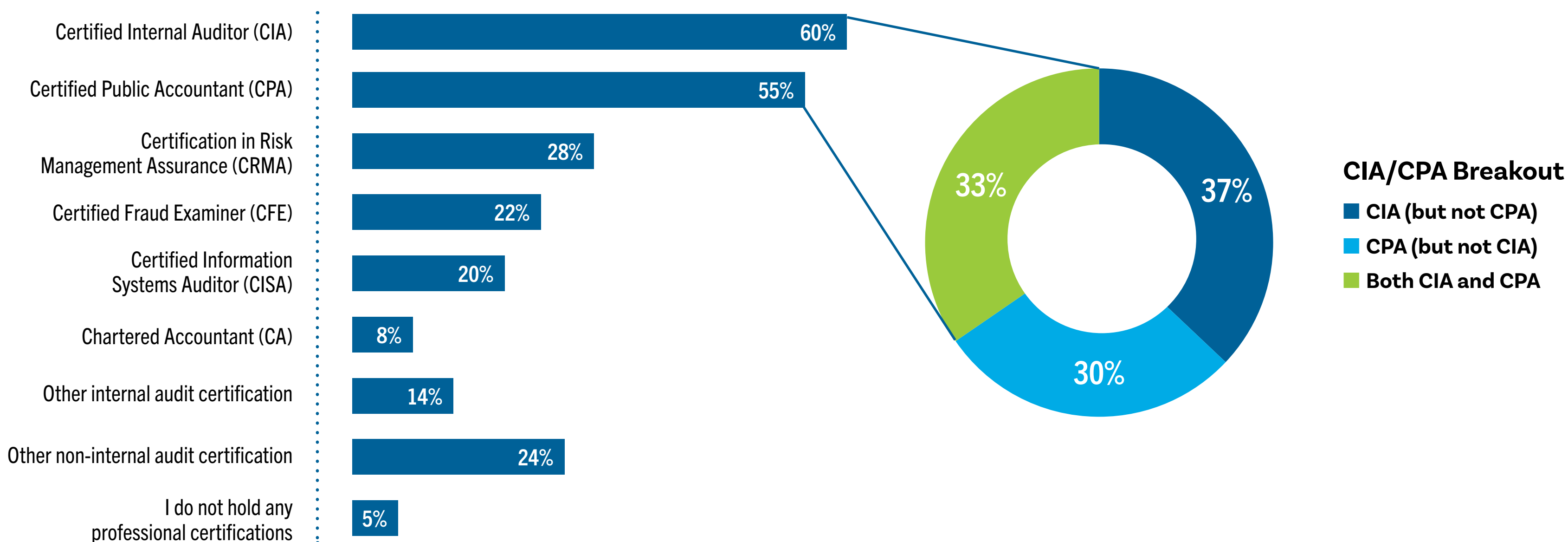


Internal audit leaders who took the Pulse survey had a high level of internal audit experience. More than 80% of them had been in the profession for at least 10 years.

The most common credentials held by survey respondents were CIA (60%) and CPA (55%). Among those with a CIA and/or CPA, about roughly equal numbers were CIA only (37%), CPA only (30%), or both (33%).

Respondents with credentials for risk management (CRMA), fraud (CFE), or information systems (CISA) ranged from 20% to 28%.

Credentials



Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 5 to Nov. 9, 2021. Q53: Approximately how many years have you been working in internal audit? $n = 496$. Q52: Which of the following professional certifications or designations do you hold? (Choose all that apply.) $n = 504$.

About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 210,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit ***www.theiia.org***.

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