2022

Focus on the Future

Internal Audit Resilience and Readiness in the New Age of Risk

Richard Chambers

Table of Contents

Summary

The sweeping global impacts of COVID-19 created what is arguably the greatest disruption for internal audit in the history of the profession. The pandemic heightened risks in virtually every facet of enterprise operations. Internal auditors, however, met the unprecedented challenges through transformative actions and resiliency, according to AuditBoard's *2022 Focus on the Future* survey.[1]

Despite the successes, there remain critical areas to be addressed for internal audit to continue to assert and elevate its role and value. Key results of the survey include:

2022 – 2025 Top Risks and Audit Effort
- Cybersecurity/data protection continues to rank as the greatest vulnerability for organizations, with over 90% of internal audit leaders rating it as a "high risk."
- Other top risks include finding and retaining talent, third parties, regulatory changes, and business continuity and crisis response.
- Audit teams are devoting considerable efforts to cybersecurity/data protection, but they also plan to increase allocated resources to risks around artificial intelligence, sustainability/climate change, and diversity/inclusion by 2025.

Resources and Talent
- Budget and staff levels are expected to grow for most internal audit departments.
- Half of internal audit departments have added personnel working remotely to increase staff resources during the past 18 months.
- Internal auditors want to upskill staff primarily in the areas of analytical/critical thinking, business acumen, risk management, IT, and cybersecurity.
- Upskilling will be accomplished differently for areas related and unrelated to technology.

Effects of Remote Work on Internal Audit
- Internal audit leaders report benefits from hiring remote workers.
- However, remote operations also weakened some relationships within the organization.
- An important component of internal audit effectiveness in this new environment is increased use of data extraction/analysis and cloud-based audit management software.

AuditBoard published a survey and report in June 2021 examining internal audit's resource levels and the top seven risks. This new report, *2022 Focus on the Future*, continues the exploration of cybersecurity/data privacy as the predominant risk area in 2022 and dives into additional key risks that auditors anticipate over the few three years. In addition, we examine future resource and talent needs, areas of audit work that continue to be affected by the pandemic, and how internal audit can sustainably move forward.

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1   AuditBoard collected data from 180 respondents in an online survey from Sep. 27-Oct. 11, 2021. Most respondents were audit leaders in their organizations, primarily based in North America. The respondents represented a diverse group of industries and internal audit departments sizes.

2022 – 2025 Top Risks and Audit Effort

COVID-19 unleashed tremendous challenges and organizations will continue to confront an ever-evolving environment of uncertainties around achieving objectives, running operations, and complying with regulations. These uncertainties invariably will drive internal audit's risk focus.

Audit leaders were asked which risks they viewed as most critical for their organization in 2022 and in 2025. Figure 1 ranks the risks in order of their importance for 2022.[2] Consistent with the AuditBoard survey performed earlier in 2021, cybersecurity/data privacy remains the highest risk category, followed by talent availability, use of third-parties, regulatory changes, and business continuity and crisis response.
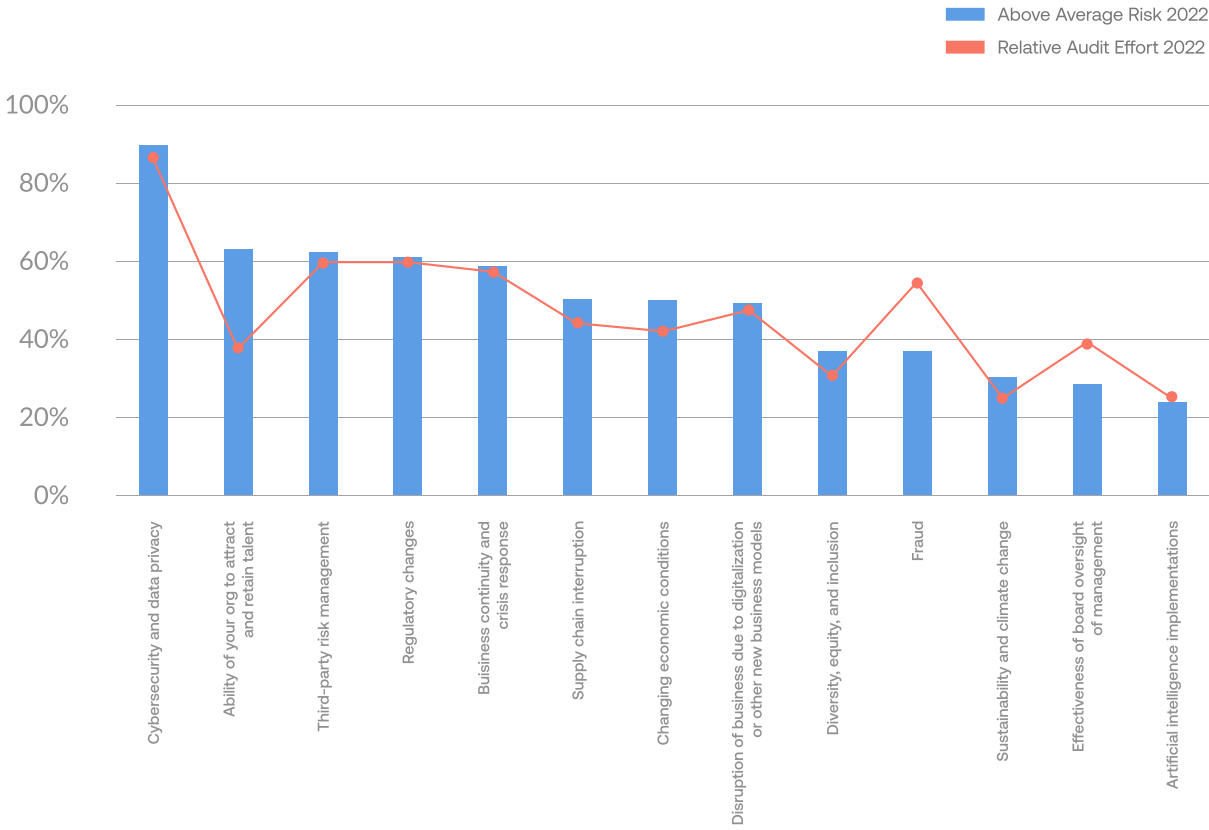
2022 - Risk Assessment versus Effort

Figure 1

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2   Percentage of respondents who assessed the risk of a topic as above average.

Interestingly, while the top five risks are consistent with those ranked by internal auditors in the past, the same cannot be said of emerging risks, including disruption of business models, diversity/ equity/inclusion, sustainability/climate change, and artificial intelligence. While those topics are cited as significant disruptors in the news media and at meetings of executives and boards of directors, our survey results do not indicate that internal audit leaders believe them to be risks that are urgent enough to warrant extensive audit coverage at this time.
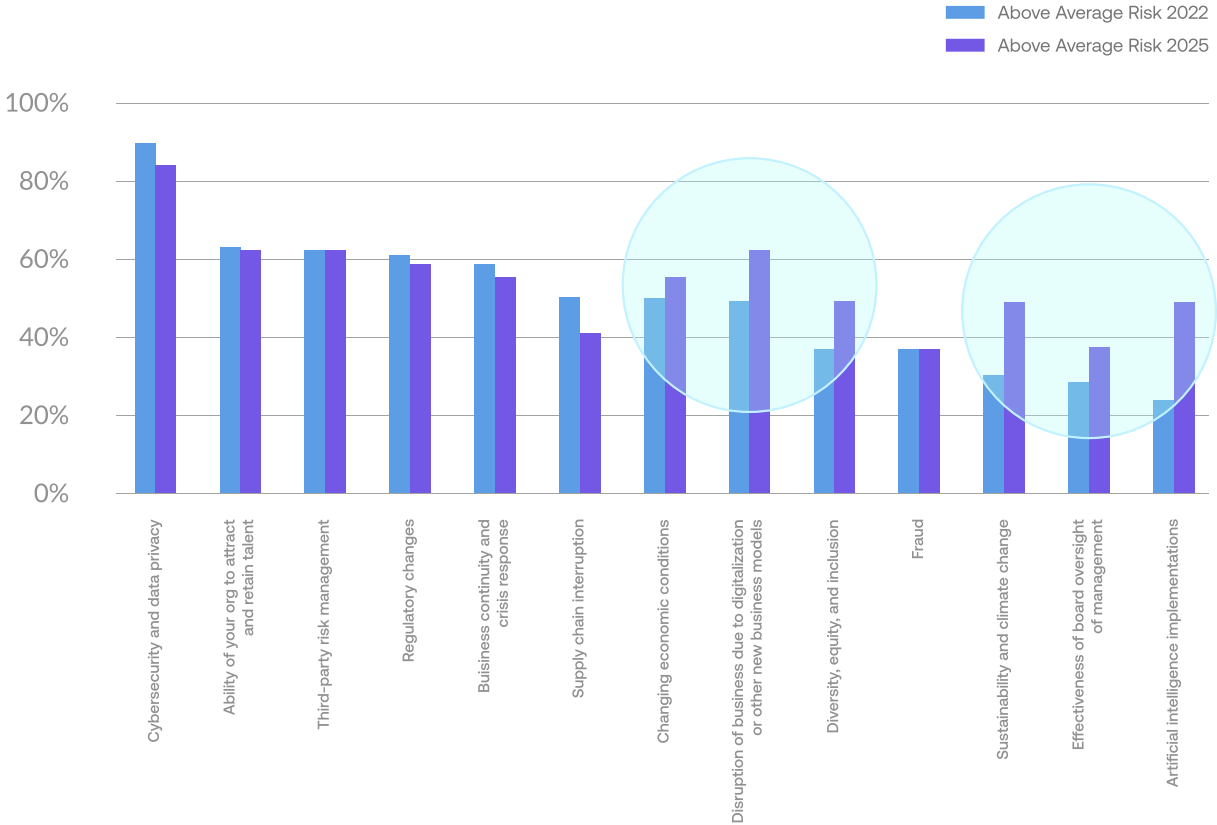
2022 - 2025 Risk Assessment Comparison

Figure 2

Ideally, increased risk should closely match increased audit effort. That said, while some risks are easier to audit than others, it is difficult to justify spending more time on lower risk areas than higher risk areas. For 2022, the survey results indicate audit coverage will correlate fairly well with the risk assessment. For years, cybersecurity and data protection were considered high risks, but they received scant audit effort. Now, audit leaders are reporting internal audit efforts are catching up with the criticality of cybersecurity.

While the top five risks mostly align with audit efforts, Figure 2 shows that some of the 2022 lower-rated risk areas — changing economic conditions, disruption of business, DEI, sustainability and climate change, effectiveness of board oversight of management, and AI implementations — have higher risk assessments in 2025.

In 2025, audit effort devoted to the rising risk areas is increasing — but it is slow and incremental. Figure 3 shows that while audit effort increases for these rising risk areas in 2025, the level of effort is generally lower for rising risks than existing risks with similar risk assessments.
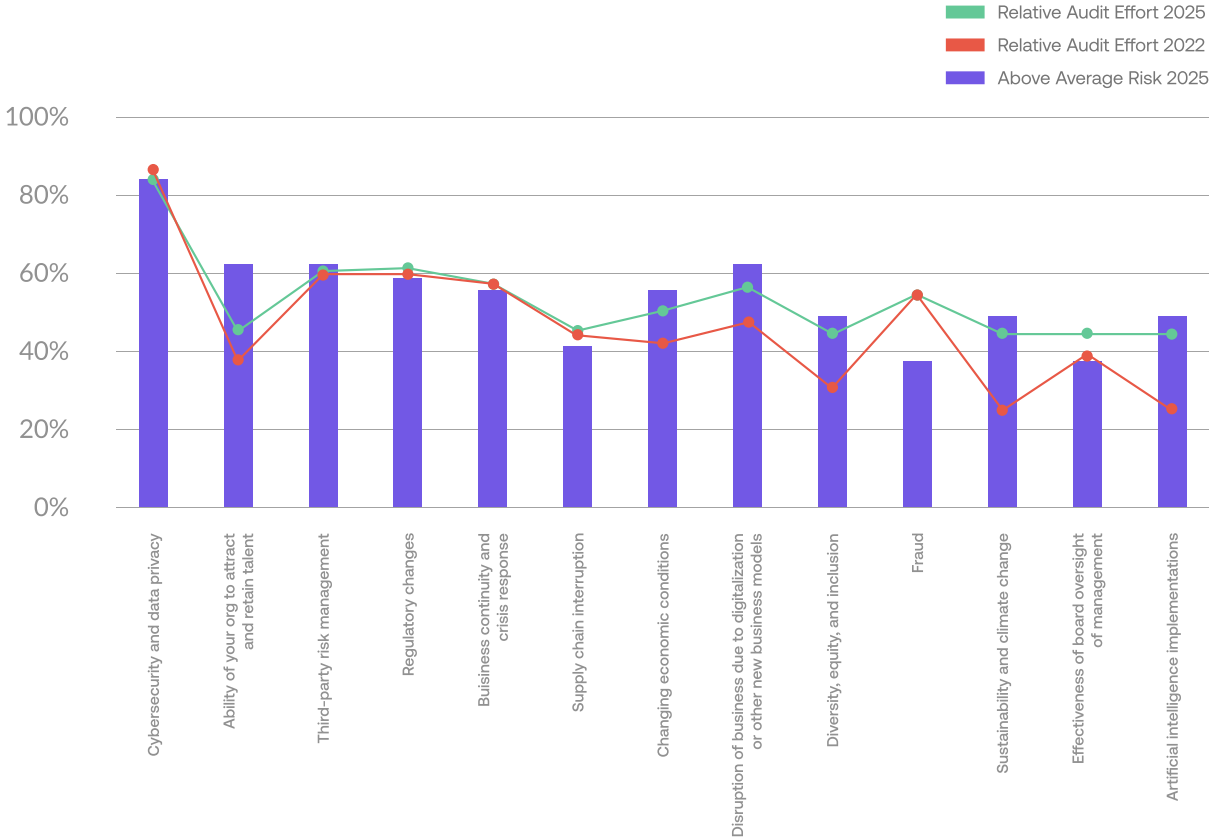
2022 - 2025 Effort Comparison

Figure 3

Why do internal audit leaders believe this sub-group of risks does not become especially critical until 2025 and should be appropriately resourced only in the future – rather than today? In the next section, we explore how resources and talent challenges, including skill gaps, have an impact on internal audit's ability to address the risks in its audit plan.

Resources and Talent

A positive sign for internal audit is that respondents reported having increased resources in 2021 — and are expecting even more by 2025.[3]

In 2021, twice as many internal audit leaders reported an increased budget versus those facing declines, and nearly three times as many increased staff.
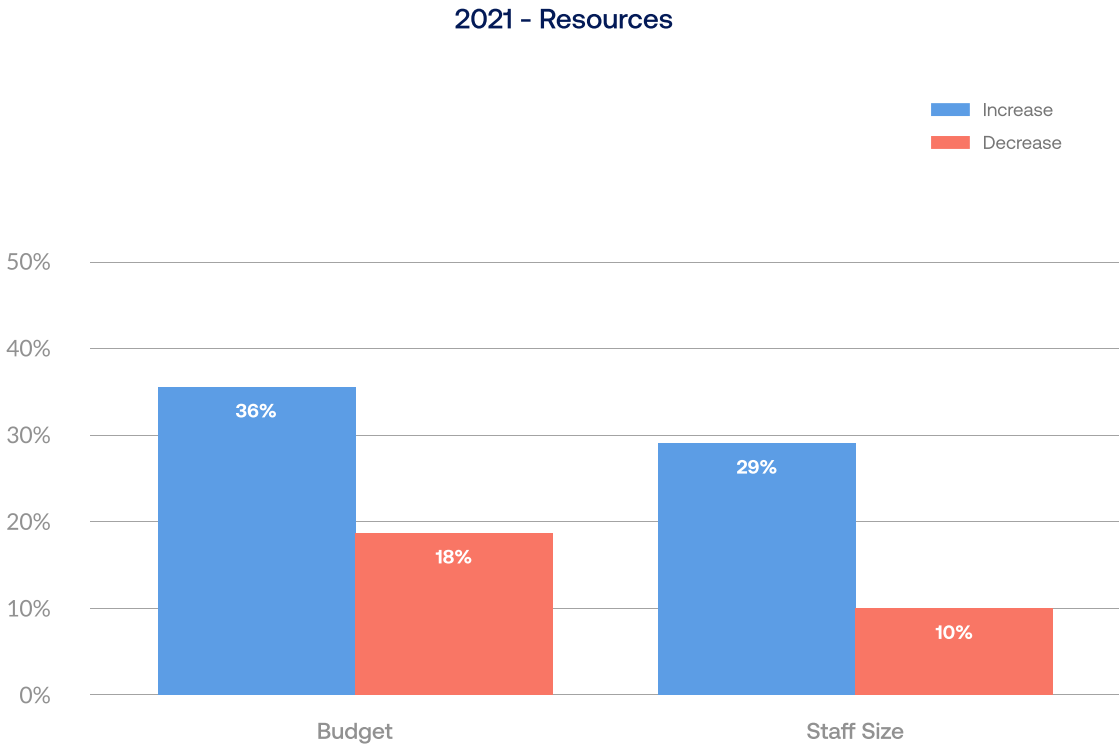
2021 - Resources

Figure 4

That is a significant improvement over the results of AuditBoard's earlier survey, when budgets were decreasing more often than increasing, and fewer than 20% of respondents reported staff increases.

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3   Questions asked were "For 2021, my internal audit department budget (excluding the effect of inflation) has" and "For 2021, my internal audit department's total equivalent staff count has".

Looking ahead, internal audit leaders are even more optimistic.[4] Roughly half of those surveyed expect staff and budget increases over the next 12 to 24 months, while only a few anticipate declines.
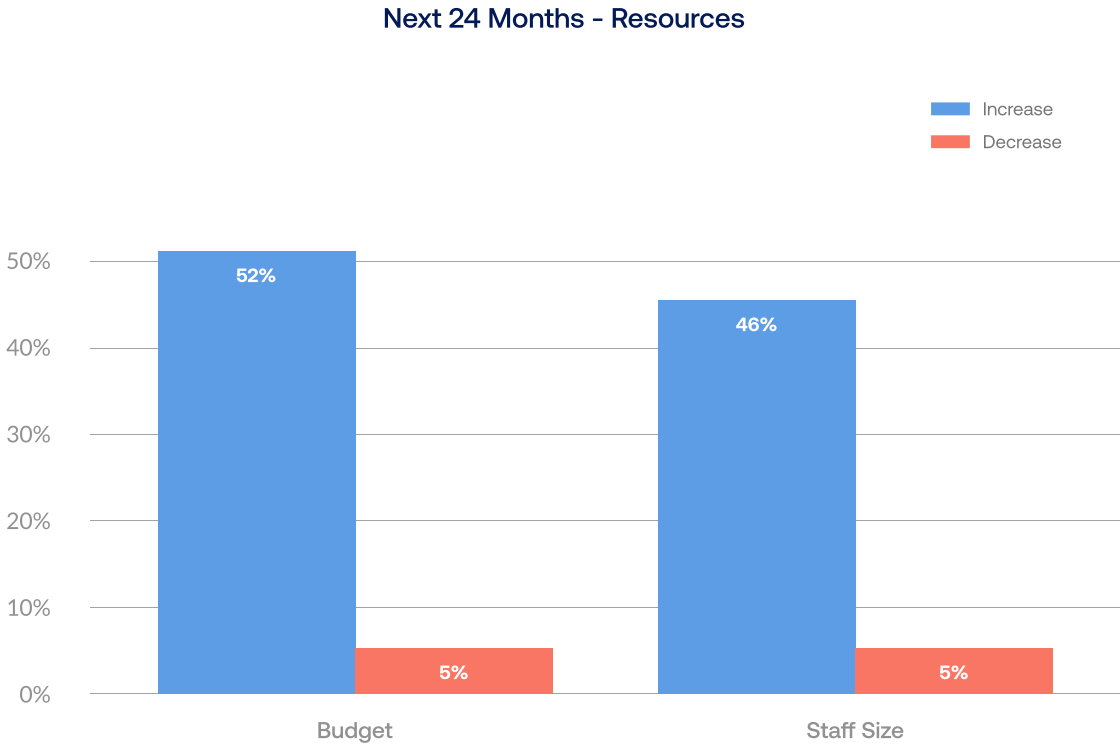
Next 24 Months - Resources

Figure 5

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4   Questions asked were "Over the next 12 to 24 months, I anticipate my internal audit department budget (excluding the effect of inflation) will" and "Over the next 12 to 24 months, I anticipate my internal audit department's total equivalent staff count will".

Staff size is only part of the issue; internal auditors also must be capable of performing work on risks addressed in the audit plan. Of the 11 skills included in the survey, seven are considered critical for improvement by at least a third of audit leaders. They are analytical/critical thinking, communications, cybersecurity, data mining/analytics, business acumen, risk management, and IT.[5]
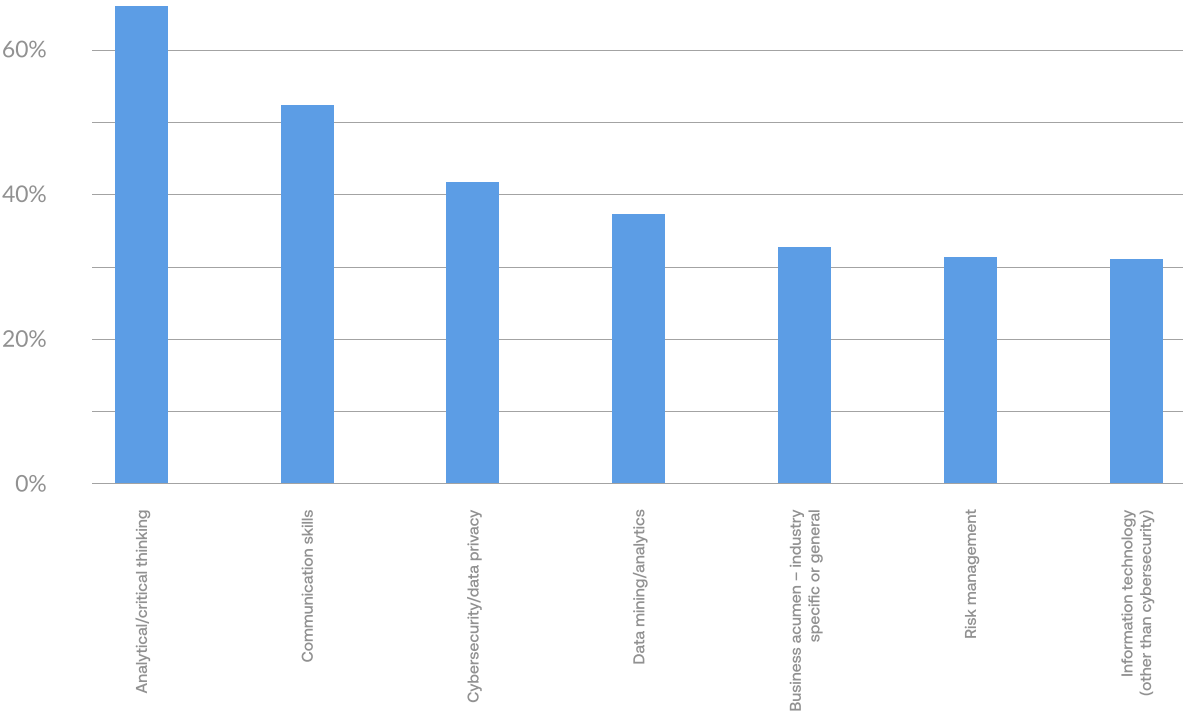
Critical Audit Skills

Figure 6

The top two critical audit skills – analytical/critical thinking and communications — are not new. Those and some of the others have been identified as skills warranting improvement for a number of years. Cybersecurity/data privacy and data mining/analytics are more recent additions to the list, clearly related to the rise of cybersecurity and disruptive business models risks discussed above.

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5   "Please rate the importance of improving/expanding your internal audit talent for each of the following skill areas." Other responses less than critical were: important, desirable, and not needed to improve. The four skill sets not considered critical by most were: fraud, accounting and finance, legal, and quality control.

Once skill gaps are recognized, they need to be addressed and closed. Responses on the preferred method to improve or expand talent in each of the seven critical skills diverged significantly between those related and unrelated to technology.[6]
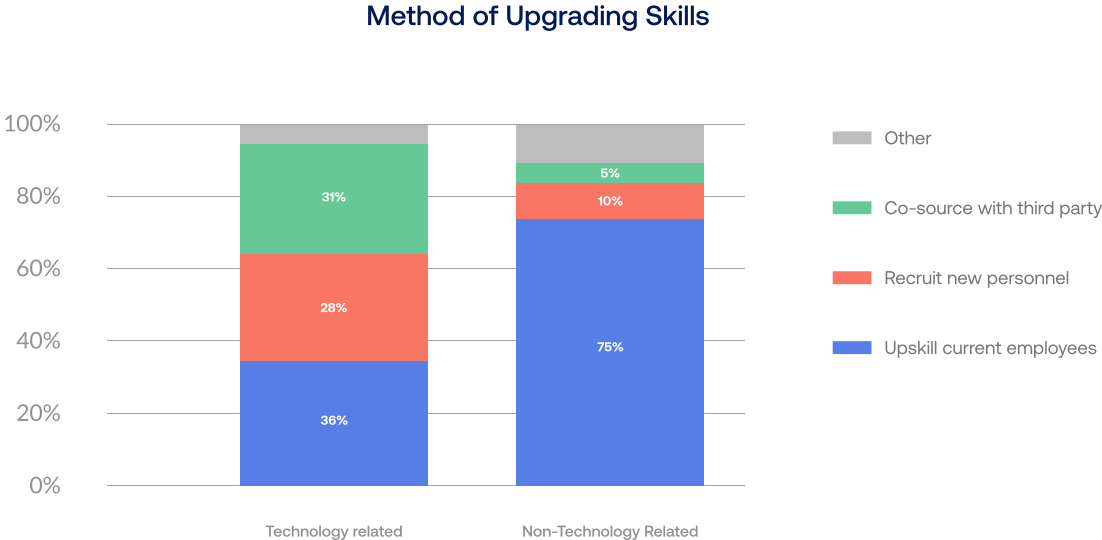
Method of Upgrading Skills

Figure 7

What's more, for certain technology-related skills — cybersecurity, data mining/analytics, and IT — internal audit leaders are not aligned on their preferred approach. Similar percentages of respondents to the survey believe upskilling current employees, hiring talent, and co-sourcing are the best way to address talent gaps.

However, for non-technology-related skills — analytical/critical thinking, communications, business acumen, and risk management — upskilling current employees is by far the favored approach.

Whichever method is used to enhance talent, implementation demands careful planning. Upskilling current employees through training requires identification of available training methods, selection of training resources, delivery of training, and evaluation of training effectiveness. Similarly, it's crucial to hire the right new employees with the right skills, while co-sourcing requires careful consideration of the third party's real — not merely promised — capabilities and how they will integrate with existing personnel.

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6   "When seeking to improve/expand your internal audit talent, which best describes your approach?"

Effects of Remote Work on Internal Audit

COVID has significantly affected how internal auditors and their organizations operate. One significant change is in employees working remotely. While decentralized internal audit departments have been used for years by many large organizations, having a large number of personnel working remotely was not common.

A clear benefit of allowing remote workers is the ability to hire from a broader pool of professionals unbounded by location. But there are two sides of that coin. More than half of internal audit leaders said they hired remote workers, while a quarter saw their workers "poached" by other organizations.

COVID Impact on Personnel

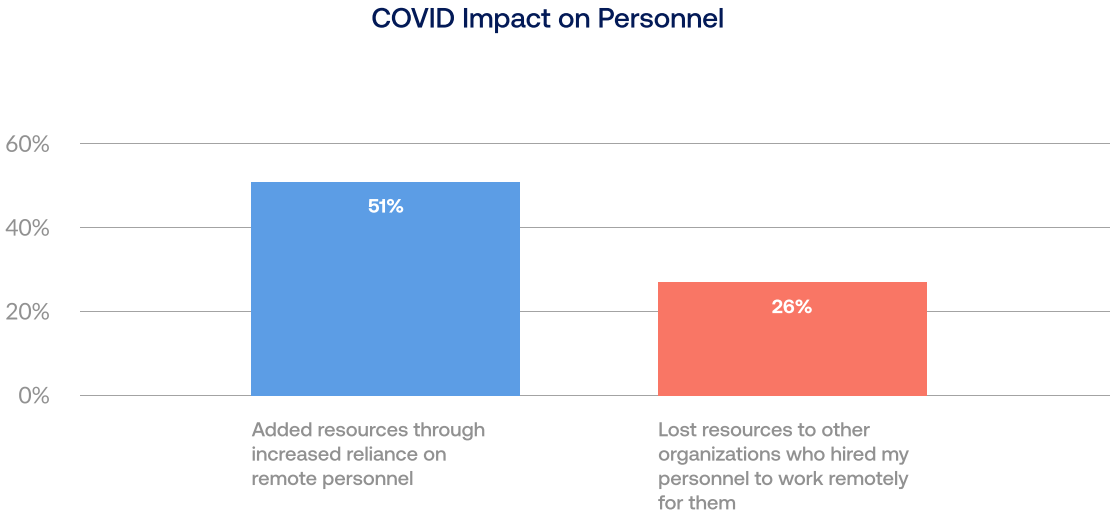|	
51% — Added resources through increased reliance on remote personnel	26% — Lost resources to other organizations who hired my personnel to work remotely for them

Figure 8

Adoption of technology has made remote operations more effective — over 80% of internal auditors expanded their use of specific technologies to enhance their work. Similar to enterprises across sectors, internal audit increased the use of video platforms to hold virtual meetings. What's more, internal audit also is relying more on data extraction/advanced analysis and cloud-based audit management software. Data analytics can be performed regardless of location to provide planning information, audit evidence, and business insight. Cloud-based audit management software helps teams coordinate activities, combine insights, create a single source of record, and consolidate reporting. Internal audit departments will likely find long-term benefits from these improvements, even after life returns more to pre-COVID norms.
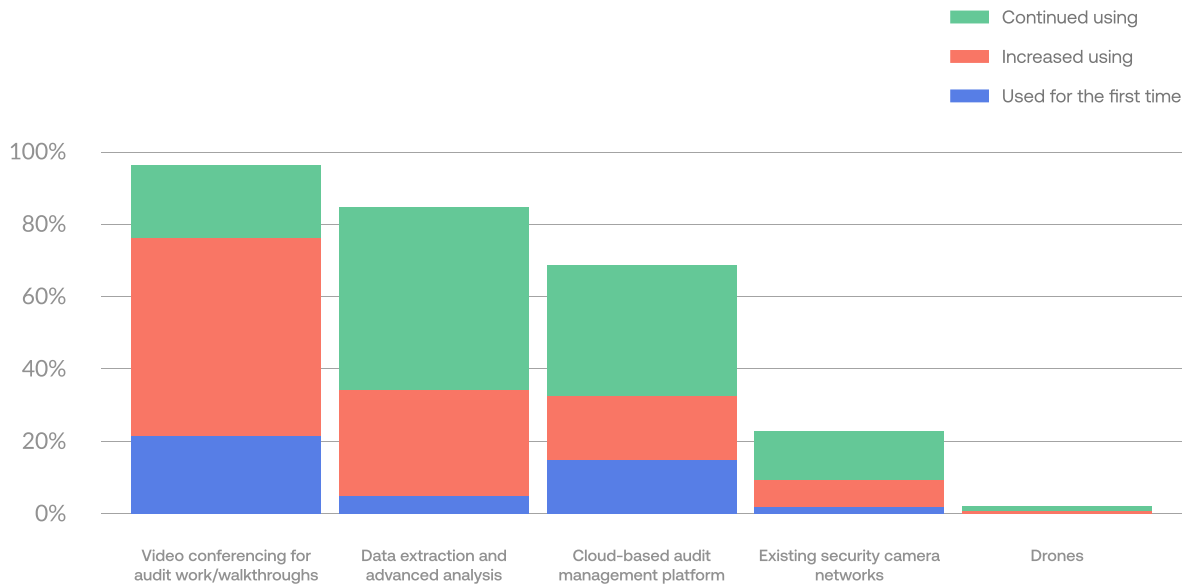
Expanded Use of Specific Technologies

Figure 9

Increased use of remote personnel has some drawbacks, though most organizations surveyed did not report significant issues with executing internal audit work.[7] The most prevalent negative outcome was weakened relationships with personnel outside of internal audit — an observation shared by roughly 40% of audit leaders. Many key aspects of the audit process have relied on strong relationships with those throughout the organization; any challenges must be met before this becomes a serious risk.

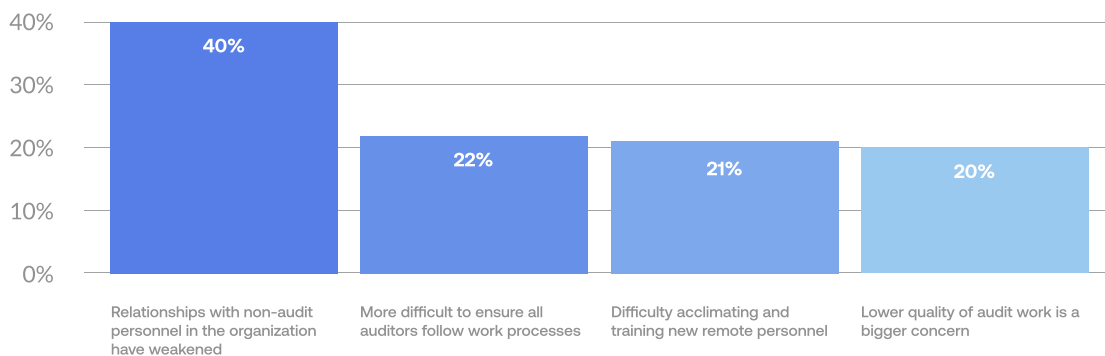## Have Difficulties Using Remote Personnel

Figure 10

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7 Amounts in the graph represent the percentage of responses who agreed with the statements.

Sustaining Internal Audit Resilience in an Era of Risk Volatility

To maintain its resilience in 2022 and beyond, internal audit must be agile, adaptable, and on top of new and emerging risks. Results of the *2022 Focus on the Future* survey offer several important opportunities for internal audit leaders to optimize their impact:

- Identify and, equally important, prepare for emerging risks early, not when they unexpectedly confront your organization. For years, internal audit saw cybersecurity as an emerging risk, but only recently has it drawn increased internal audit resources. Internal audit must increase its focus now on sustainability/climate change, business model disruptions, artificial intelligence, and diversity/equity/inclusion – not several years from now.
- Proactively address skill gaps in internal audit departments. Audit leaders should devise their strategy now, with priorities and actionable plans, to ensure the right people are in place. All too often, internal audit has waited until the last minute (or later) to try to fill known skill gaps.
- Remote workers have brought benefits and a larger job applicant pool to internal audit, and should continue to be considered on a permanent basis. The profession should leverage what was learned over the past year-plus.
- Explore and expand the use of technologies, including appropriate software, where they can bring efficiencies and greater effectiveness.
- Build and maintain relationships with key stakeholders within the organization, whether they return to a central office or work remotely.

As organizations and internal audit emerge from a period of upheaval, there is encouraging news: internal audit can be resilient and ready to increase its value by closely monitoring the risk landscape and challenges that lie ahead. It must update assessments of risk and its audit focus, and ensure proper resources – in personnel and technology – are in place for the future.

Richard Chambers

Senior Internal Audit Advisor
AuditBoard

Richard Chambers is the globally recognized chief practice leader of Richard F. Chambers & Associates, an advisory firm for internal audit professionals, and also serves as Senior Internal Audit Advisor at AuditBoard. Previously, he served for more than 12 years as the president and CEO of The Institute of Internal Auditors (IIA), where he led the organization to record global membership and countless milestones. Prior to The IIA, Chambers was national practice leader in Internal Audit Advisory Services at PricewaterhouseCoopers and vice president of The IIA's Learning Center. Chambers is the author of two award-winning books: *Trusted Advisors: Key Attributes of Outstanding Internal Auditors*, which was released in early 2017; and *The Speed of Risk: Lessons Learned on the Audit Trail 2nd Edition*, in 2019. In March of 2021, he released his latest book, *Agents of Change: Internal Auditors in an Era of Disruption*.

About AuditBoard

AuditBoard transforms how audit, risk, and compliance professionals manage today's dynamic risk landscape with a modern, connected platform that engages the front lines, surfaces the risks that matter, and drives better strategic decision-making. More than 30% of the Fortune 500 leverage AuditBoard to move their businesses forward with greater clarity and agility. AuditBoard is top-rated by customers on G2 and Gartner Peer Insights, and was recently ranked as one of the 100 fastest-growing technology companies in North America by Deloitte.

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