



2024

# Focus on the Future Report

Widening Risk Exposure Gap  
Demands Internal Audit Transformation



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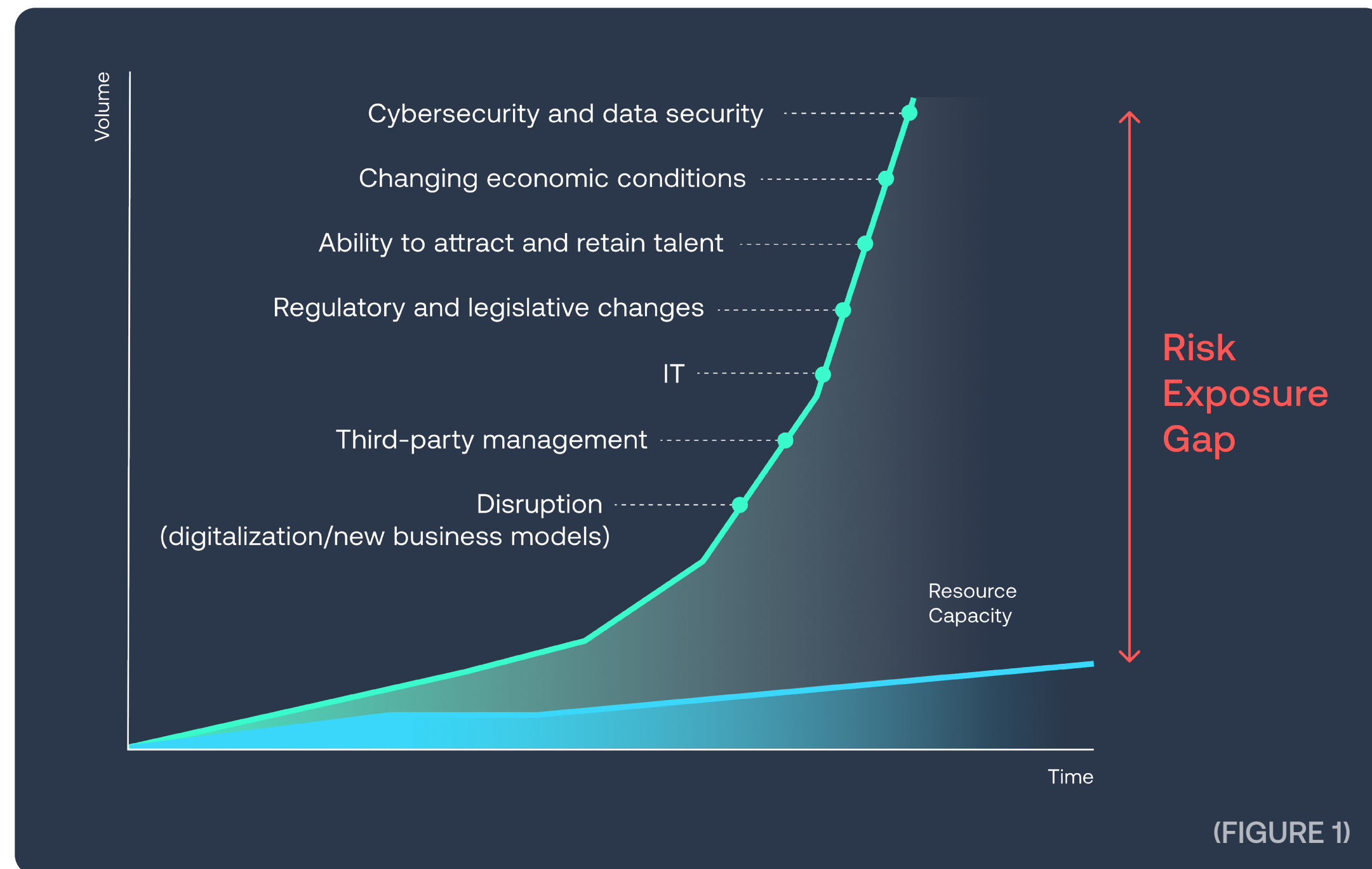
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# Introduction

Organizational risks keep accelerating and evolving, becoming more complex and interconnected than ever — but risk and assurance teams’ capacity to address risk are not keeping pace. **The result: a widening risk exposure gap, defined as the gap between existing risk management capacity and the fast-growing landscape of risk demands** (see Figure 1).



Permacrisis, [a new term](#) to define an “extended period of instability and insecurity” with one disruptive crisis after another, describes this new normal. **In this environment of heightened risks, the role internal audit plays is more important than ever.**

Historically, internal audit has been slow to respond to emerging risks<sup>1</sup>, but permacrisis demands otherwise. And yet, AuditBoard’s *2024 Focus on the Future* survey<sup>2</sup> reveals a continuing level of inertia, suggesting that internal audit executives may be thinking more optimistically — and less strategically — than they should be, given the chaotic risk landscape. According to the data, internal audit leaders:

- **Assess top risks as less important in 2024 than in 2023**, including changing economic conditions, the ability to attract and retain talent, and regulatory/legislative changes. Have these risks truly become less urgent?
- **Expect comparatively low audit coverage for some high-ranking risks**, including number two-ranked changing economic conditions and number three-ranked talent attraction/retention. Is this a troubling lack of alignment between coverage levels and risk importance?
- **Predict modestly increasing budgets and stable headcounts for 2024**, despite ongoing macroeconomic uncertainty, continued higher than historical inflation, talent shortages, and a workforce visibly in flux. Are these predictions realistic?
- **Are delaying critical technology investments** in generative artificial intelligence (AI), automation, advanced analytics, and integrated risk management (IRM) technology. Does internal audit not see the critical need for making these investments now?

<sup>1</sup> A review of The Institute of Internal Auditors (IIA) annual “Pulse” surveys since 2017 demonstrates this trend.

<sup>2</sup> AuditBoard collected data from 453 respondents globally in an online survey conducted in August and September 2023. Most respondents were CAEs and internal audit directors.



Those issues may signal an even greater shortcoming, according to survey findings.

**Use of internal audit strategic plans is lagging, with only one in five functions reporting that they have a comprehensive, well-documented strategic plan.**

Without a strategic view of the future — including a clear-eyed assessment of strengths, weaknesses, opportunities, threats, priorities, and areas of leakage — internal audit is unlikely to recognize actions needed to enable success. There is no bigger threat to organizational success than a mismatch between exponentially increasing risks and a failure to respond due to lack of vision, resources, or initiative.

Permacrisis is no time for overconfidence or complacency. The widening risk exposure gap demands that every organization adapt, looking critically at strategy and paving a deliberate path toward the transformations needed to stay viable and relevant. Internal audit must also heed this demand.

**With its unique ability to offer valuable insight and foresight, internal audit is well positioned to help organizations meet these unprecedented challenges head on.** To that end, *2024 Focus on the Future* examines current trends through a critical lens focused on helping the profession better understand and navigate the bedlam in today's risk landscape. Importantly, it includes key transformational opportunities for internal audit leaders to prioritize strategic planning, AI technology use and governance, cross-functional collaboration, and high-impact communications. Organizations need internal audit more than ever, and the door is wide open. But the profession, and each individual, must transform to help organizations close the growing gap between risk management demand and capacity.





# Top Takeaways From the 2024 Focus on the Future Survey

## #1 RISK **Cybersecurity and data security.**

More than 80% of internal audit leaders rate this risk highly for 2024. It also earns the top spot for expected audit effort in 2024.

**However, audit efforts continue to be misaligned with some key risks.**

*Focus on the Future* identified two top-ranked risk areas that appeared to receive insufficient audit focus in 2023. The misalignment is expected to continue in 2024.

## #2 RISK **Changing economic conditions.**

*Ranks 9th in planned 2024 audit coverage.*

## #3 RISK **Ability to attract and retain talent.**

*Ranks 11th in planned 2024 audit coverage.*

## **Strategic planning: a missed opportunity — and likely IIA Standards mandate.**

No well-run organization would fail to have a multiyear strategic plan. But according to our survey, most internal audit functions don't consider it a priority.

**Only 20%**

have a comprehensive, well-documented plan looking two to three years out.

**24%**

have no strategic plan, but focus primarily on next year priorities.

**56%**

have thought through some elements, but documentation is informal or inconsistent.

## **Artificial intelligence: a wake-up call for internal audit.**

AI presents both threats and opportunities, but survey results show that neither is high on the radar of most internal audit organizations.

**ONLY 25%**

of organizations have defined the risks of or created guidelines for their use of AI.

**ONLY 40%**

of internal auditors have a clear understanding of how AI is used in their organizations.

**66 to 75%**

have yet to explore or implement generative AI in internal audit.



# 2024 Top Risks: A State of Permacrisis Is Fueling a Risk Exposure Gap

Permacrisis is driven by the velocity, volatility, and complexity of the risks dominating today’s risk landscape. **To understand the risk exposure gap being created, internal audit must have a clear view of the urgent risk areas impacting organizations.** To that end, each year *Focus on the Future* takes a fresh look at the leading risks commanding internal audit’s attention.<sup>3</sup>

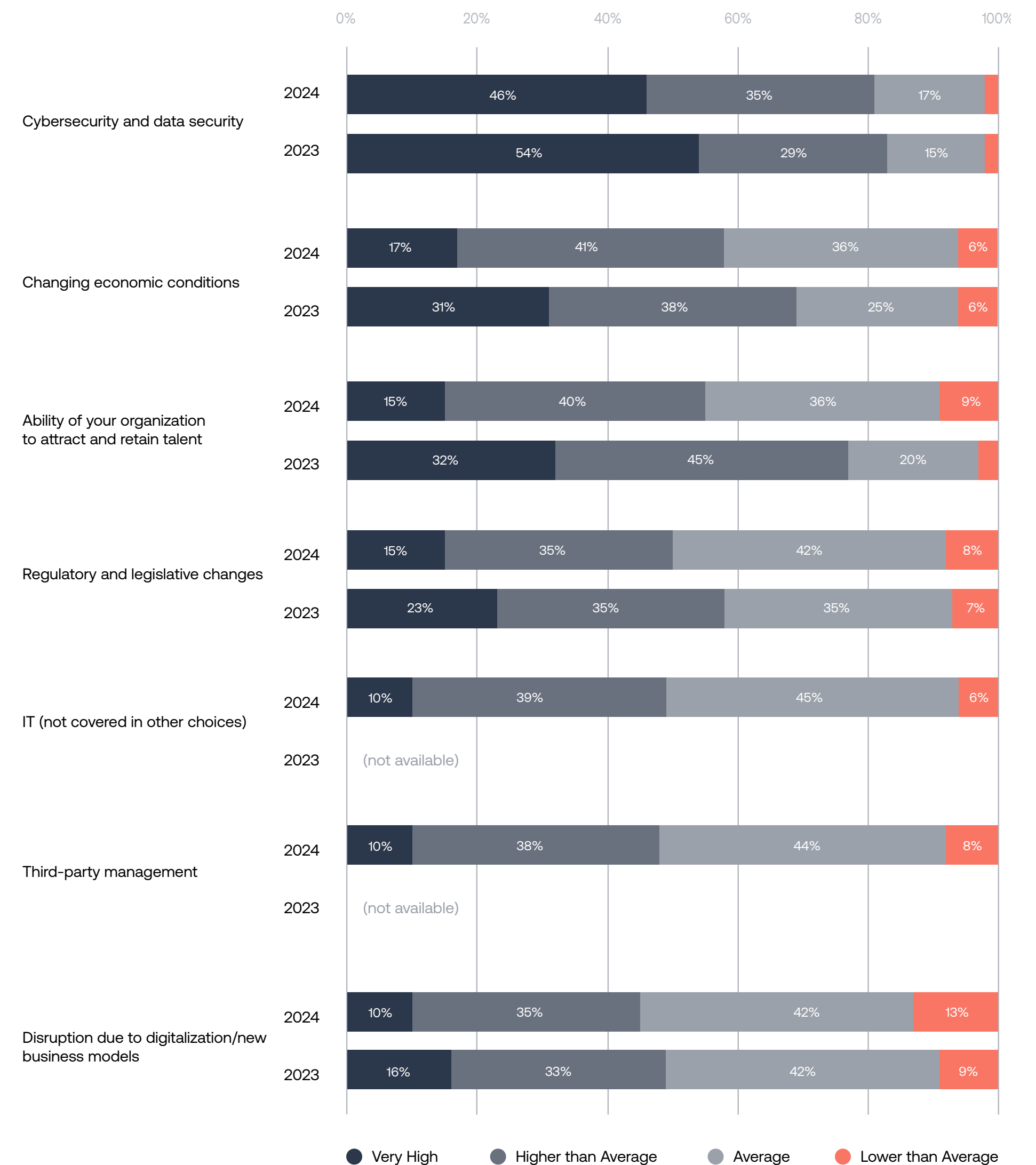
Unsurprisingly, as shown in Figure 2, many of the risks that dominated the landscape in [the 2023 survey](#) are expected to carry over into 2024. None of these risks are expected to abate; many are growing in complexity and impact. However, internal audit leaders’ collective predictions for 2024 rank three of the top four risks lower than in 2023.

<sup>3</sup> **Question:** In developing your 2024 internal audit plan, what is the level of risk for your organization in each of the following areas?

**Base:** 393.

**Risk areas assessed:** Cybersecurity and data security; business disruption due to digitalization or other new business models; organization’s increased use of advanced technologies (e.g., AI, RPA, ML, visual recognition); IT (not covered in other choices); Environmental, Social, and Governance (ESG); organizational culture; ability of your organization to attract and retain talent; changing economic conditions (e.g., inflation, uncertainty due to geopolitical events); regulatory and legislative changes; supply chain interruption; third-party management; business continuity and crisis response; finance, liquidity, interest rate changes, insolvency; fraud.

(FIGURE 2) Top 7 Risk Areas — 2024 vs. 2023 Rankings





## CYBERSECURITY RETAINS TOP BILLING

**Of the top four risks, only number one-ranked cybersecurity and data security maintained its high profile from 2023 to 2024**, with 81% of internal audit leaders rating the risk as “very high” or “higher than average” for their organizations in 2024, versus 83% in 2023. Cybersecurity also received top billing in the Internal Audit Foundation’s inaugural [2024 Risk in Focus – North America](#) report, sponsored by AuditBoard. When asked to identify their organizations’ top five risks, 85% of CAEs and internal audit directors in that study selected cybersecurity, making it the number one risk overall.

### **Cyber and data security risk has only grown in importance over the past year.**

As threats and attacks continue to proliferate, 2023 has been a transformative year for related regulatory and legislative activity. In September, the U.S. Securities and Exchange Commission (SEC) released its [new cybersecurity rule](#) requiring assessment and disclosure of material incidents within four business days, and several states followed California’s lead to [enforce new data privacy statutes](#) inspired by the European Union’s General Data Protection Regulation (GDPR). Companies may have less time than they think to prepare for compliance, and internal auditors should be supporting their organizations in getting the right enabling processes and technologies in place as soon as possible.

## MARKET TURBULENCE, TALENT, AND REGULATORY CHANGES ARE STILL PROMINENT — *But Many Auditors Signal Improved Outlooks*

Respondents rate other top risks collectively lower for 2024 versus 2023. Is this wishful thinking? Or are internal auditors simply becoming conditioned to a state of permacrisis? Let’s take a closer look at each risk:

- **#2: Changing economic conditions.** Organizations continue to feel the multilayered impacts of the worst global pandemic in 100+ years, the most significant war in Europe in 80 years, the highest inflation rate in 40 years (Q2 2022), the most aggressive monetary policies in decades, and banking industry failures that have severely shaken public confidence in the nation’s financial institutions. Turmoil in the Middle East creates the potential for further impacts. Organizations need to be nimble and have the resources to respond to the unexpected.
- **#3: Ability to attract and retain talent.** The American workplace in 2023 defied expectations while fostering fresh worries, painting a less-than-rosy picture for 2024. Despite a series of [tech layoffs](#), unemployment overall is still relatively low and the [number of open jobs](#) in the U.S. increased in the third quarter of 2023. Despite fears of a recession, 26% of 54,000 workers surveyed globally in PwC’s [Global Workforce Hopes and Fears Survey 2023](#) say they’re likely to change jobs in the next year. A resounding 65% of respondents in *2024 Risk in Focus – North America* cite “human capital” as a top-five risk facing their businesses (number two risk overall).
- **#4: Regulatory and legislative changes.** The pace of change continues to accelerate. Beyond the new cyber and data privacy rules, environmental, social, and governance (ESG) regulatory and standard-setting activity is [on the rise globally](#), as are [potential laws to regulate social media](#) and AI. The 2024 U.S. presidential election is not expected to alter the pace of change in the short term, as regulatory and legislative efforts tend to take years to ramp up. This wave of new laws and regulations contributes to an environment of rising uncertainty, as organizations are just starting to appreciate what the rules mean, how to implement them, and what their longer-term impact may be.



The remaining risks rounding out 2024's top seven are (in order) **aspects of IT not covered in other choices, third-party management, and disruption due to digitalization and/or new business models**. Notably, all of those risks tie into [digital risk](#), cybersecurity, ESG, and the need for effective integrated risk management across the enterprise — many of which are growing concerns.

## EMERGING OR LONGER-TERM RISKS NOT SEEN AS IMMINENT IN 2024

### ESG

Last year's report called out a "divided response" among internal audit leaders on ESG, despite widespread warnings of increasing urgency and impacts by the World Economic Forum and other organizations. At that time, there was already significant global momentum toward ESG rulemaking, including the United Kingdom's Climate-Related Financial Disclosure Requirements and the European Union's Corporate Sustainability Reporting Directive (CSRD). The past year only added fuel to the fire, given the hottest summer on record and additional ESG regulatory and standard-setting activity globally.<sup>4</sup> However in this year's survey, respondents rank ESG 13th among the 14 risks listed, coming in ahead only of supply chain interruption. ESG risk is increasing, and internal auditors may find themselves the target of scrutiny if they fail to align efforts accordingly.

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<sup>4</sup> The IFRS Foundation's International Sustainability Standards Board (ISSB) issued its inaugural sustainability standards [IFRS S1 and IFRS S2](#) in June, the E.U. adopted the European Sustainability Reporting Standards (ESRS) for all companies subject to CSRD in July, and the SEC is expected to release its sustainability disclosure rules by the end of 2023.

### Organizational Culture

While last year's survey found 46% of respondents ranking their organizational culture risk as either "very high" or "higher than average," only 38% responded similarly in the latest survey. However, internal audit views on culture risk may lack a strong foundation. You cannot manage what you do not monitor, and AuditBoard's *2023 Organizational Culture and Ethics Report* found that many internal auditors are not prioritizing culture assessment. Thirty-seven percent of internal audit functions had not undertaken any formal assessment of culture, and most relied on less formal, engagement-level approaches involving more subjective analysis. While bottom-up, piecemeal approaches to culture assessment do provide value, internal auditors should move toward more holistic, top-down approaches that offer a more comprehensive view on overall culture health. No organization is immune from culture failure, and internal audit has a critical role to play in ensuring that organizations are making efforts to understand, measure, and gain assurance on culture health.

#### FORWARD-THINKING AUDITOR TIP

**Embrace ambiguity and complexity as an opportunity.** A state of permacrisis truly is the new normal. Nobody knows what's next, which is why organizations need internal audit's insight and foresight now more than ever. Focus on increasing your business acumen, and looking beyond known risks to emerging and potential risks. Break down silos and further increase coordination with risk and compliance colleagues to elevate how your organization monitors and manages risk. The Institute of Risk Management [recommends several collaborative methods](#), including horizon scanning, SWOT analysis, and the [PESTLE emerging risk assessment framework](#).



## AUDIT EFFORT VS. RISK: ONGOING MISALIGNMENT ON KEY RISKS

If not closed, the risk exposure gap can have devastating impacts on an organization, from the escalating costs of cyber attacks and third-party failures (e.g., supply chain, service disruption, data security) to material weaknesses. Accordingly, internal audit’s focus should align with the most significant risks facing organizations. Unfortunately, the 2023 and 2024 *Focus on the Future* surveys signaled gaps between planned audit efforts and key top-ranked risks.<sup>5</sup>

While highly ranked risks such as cybersecurity, IT, and regulatory and legislative changes appear to be getting the focus they deserve in 2024, **audit efforts still lag for two of the key risks noted in 2023**, with even fewer internal audit functions reporting that they expect to devote significant effort in these areas versus 2023.<sup>6</sup> With particular regard to changing economic conditions (number two overall risk) and talent (number three overall risk), it’s worth asking: Why don’t these critically important vulnerabilities receive more attention on their own, given their obvious impact on so many other critical audit areas?

<sup>5</sup> **Question:** What percentage of your total internal audit work do you expect to devote in 2024 to each of the following risk areas?

**Base:** 393.

**Risk areas assessed:** Cybersecurity and data security; business disruption due to digitalization or other new business models; organization’s increased use of advanced technologies (e.g., AI, RPA, ML, visual recognition); IT (not covered in other choices); Environmental, Social, and Governance (ESG); organizational culture; ability of your organization to attract and retain talent; changing economic conditions (e.g., inflation, uncertainty due to geopolitical events); regulatory and legislative changes; supply chain interruption; third-party management; business continuity and crisis response; finance, liquidity, interest rate changes, insolvency; fraud.

<sup>6</sup> The percentage of internal audit functions expecting to devote >10% of their audit effort to changing economic conditions dropped from 13% to 11%, and the organization’s ability to attract and retain talent from 16% to 9%.

(FIGURE 3) *Top 7 Risks vs. Expected Audit Effort*

| Top 7 Risks for 2024                                      | 2024 Risk Ranking | 2024 Audit Coverage Ranking | Internal Audit Functions Expecting to Devote >10% of Audit Effort |
|---|-------------------|-----------------------------|---|
| Cybersecurity and data security                           | 1                 | 1                           | 47%   |
| Changing economic conditions                              | 2                 | 10                          | 11%   |
| Ability of your organization to attract and retain talent | 3                 | 12                          | 9%  |
| Regulatory and legislative changes                        | 4                 | 3                           | 29%   |
| IT (not covered in other choices)                         | 5                 | 2                           | 35%   |
| Third-party risk management                               | 6                 | 5                           | 19%   |
| Disruption due to digitalization/new business models      | 7                 | 8                           | 11%   |

Taking a closer look at the **top four areas of expected audit coverage** in 2024:

- **#1 in coverage: Cybersecurity and data security.** Appropriately, this top risk is slated to receive the most extensive coverage—which is expected, considering the escalating, pervasive, and volatile nature of the risk and interconnection with other top-ranked risks (e.g., regulatory and legislative changes, third-party risk management, IT, disruption due to digitalization/new business models).
- **#2 in coverage: IT (not covered in other choices).** This coverage also seems understandable, because auditing critical and complex technology risks takes significant expertise, work, and coordination. IT risks span every aspect of the organization, and new technologies often fall under the umbrella of [“shadow IT”](#) — IT devices, software, and services used and purchased outside the direct control of centralized IT functions.



- **#3 in coverage: Regulatory and legislative changes.** While respondents in finance and government tend to assign more effort to compliance risks than those in other industries, it deserves widespread focus given the uncertain, fast-changing environment.
- **#4 in coverage: Fraud.** With approximately one in four internal audit functions planning to devote significant efforts to fraud (the number nine-ranked risk), this is a noteworthy outlier. Internal auditors may feel pigeonholed into thinking they need to focus on it, or management and/or audit committees with antiquated habits may be insisting on it. Fraud is a cross-cutting risk that spans the organization, and poor risk management increases the risk of fraud. But how does it stack up against an organization's other risks? If fraud audit efforts constitute leakage from other important areas, internal auditors should advise stakeholders on where time may be better spent.

Of course, internal auditors may have valid reasons for a supposed misalignment. But they should examine potential areas of misalignment and ensure their reasoning is defensible.

### *Audit Plan Focus Areas — Greatest Reductions and Increases*

This year's survey asked internal audit leaders to identify all areas addressed by their 2023 and 2024 audit plans (see *appendix for full results*). An analysis of which risk areas get attention, as well as which areas are most commonly being added or removed from audit plans, yields a few noteworthy insights:

- **Risks most commonly removed from audit plans in 2024 are traditional risk areas** (e.g., treasury, accounts payable, inventory, payroll, physical security, executive compensation, sales and receivables, procurement). This may indicate that internal audit functions are pulling back in these areas to make room in others. With more added to internal audit's plate every year, what other option is there?

- **Focus on executive compensation appears to be waning**, with only 20% of audit plans focused on the area this year and 15% next year. While this is clearly a sensitive area, [it is important to audit regularly](#), since management often designs its own compensation. Also, the SEC's 2022 adoption of a new rule implementing the Dodd-Frank Act's provisions on [incentive-based compensation recovery \(clawback\)](#) strongly signals that regulators seek greater transparency and accountability in this area.
- **Risk areas most commonly added in 2024 have been around for quite a while.** These include next-generation technologies (e.g., RPA, AI, machine learning), corporate culture, ESG, business continuity planning, and third-party risk management. This suggests that many functions have lagged in addressing emerging risks.

### **FORWARD-THINKING AUDITOR TIP**

**Follow the risks.** If you look critically and strategically at your level of audit effort relative to your risk assessment and risk ranking, you will most likely find gaps. Yesterday's high risks may not be tomorrow's. As military leaders often caution, "Threats are constantly changing — it's a mistake to prepare to fight the last war." Devote time early on to identify and monitor emerging risks, and do not wait until risks have fully matured and been understood and addressed by the organization.



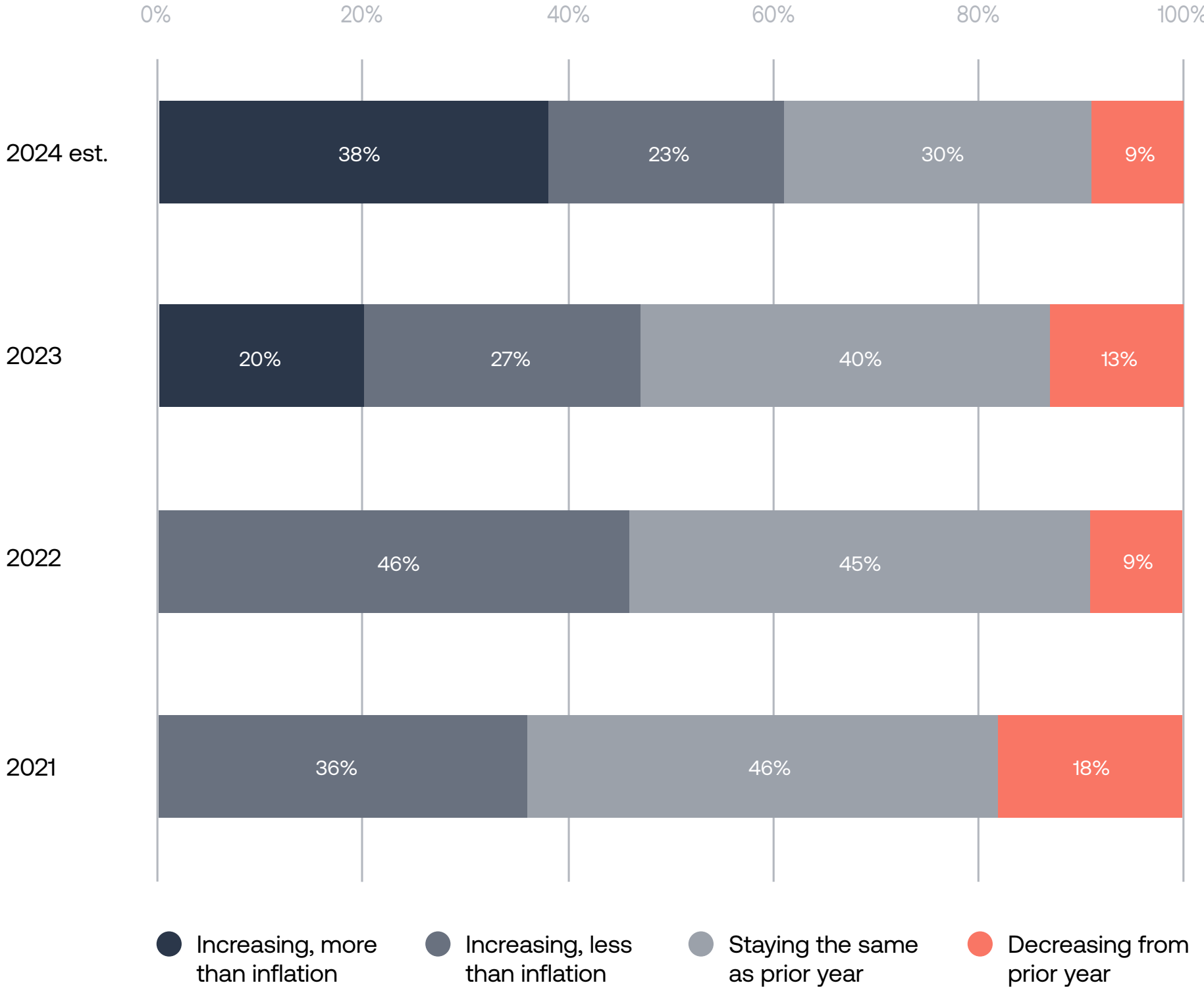
# Resources and Talent: Optimism at Odds With Ongoing Uncertainty

Budget and resource limitations impact internal auditors’ ability to help their organizations scale the risk exposure gap. Planning for effective coverage requires a clear and realistic outlook on both resources and talent. Accordingly, it’s worrying that internal audit leaders continue to predict increasing budgets and stable staffing plans against a backdrop of continuing macroeconomic uncertainty, recessionary fears, and the ongoing transformation of the U.S. workforce. AuditBoard’s Focus on the Future has tracked this trend of optimism since our 2022 report (2021 data). Below is a more detailed look at each area.

## INTERNAL AUDIT BUDGET OUTLOOK

As shown in Figure 4, more than 60% of 2024 Focus on the Future respondents anticipate their 2024 budgets will increase (38% more than inflation, and 23% less than inflation).<sup>7</sup> Compared with prior years, fewer respondents expect their budgets to stay the same, and only 9% expect decreases. In other words, most respondents are optimistic. But as history shows, such optimism is often overstated and misplaced.

(FIGURE 4) Actual and Expected Internal Audit Budgets, 2021–2024



<sup>7</sup> **Question:** Compared to 2022, my 2023 internal audit department budget:  
**Base:** 453.  
**Answer options:** Increased more than 6.5% (the CPI rate of inflation for 2022); increased, but less than 6.5% (the CPI rate of inflation for 2022); stayed the same; decreased.  
**Question:** Compared to 2023, I anticipate my 2024 internal audit department budget will:  
**Base:** 453.  
**Answer options:** Increase more than 3% (expected 2023 inflation); increase, but less than 3% (expected 2023 inflation); stay the same; decrease.



Will 2024 internal audit budgets truly increase more than they did in 2023? The chaotic and volatile state of the global economy seems at odds with this optimism, given high inflation and interest rates, shaky confidence in capital markets, conflicts in Europe and the Middle East, unsteady relations between the U.S. and China, and more. Risk leaders surveyed in the World Economic Forum’s 2023 [Chief Risk Officers Outlook](#) are not optimistic: 86% of chief risk officers selected “macroeconomic indicators (growth, inflation, interest rates, liquidity etc.)” as a top five macro external risk “highly likely to have a severe impact on your organization by the end of 2023.” Neither are 80% of the approximately 1,200 global risk experts anticipating consistent volatility over the next two years (surveyed in the World Economic Forum’s [Global Risks Report 2023](#)).

**How can we make sense of this seeming contradiction — internal audit budget optimism against a backdrop of ongoing macroeconomic instability? Executives are [closely watching](#) global events and regulatory changes to gauge the likely impact to their organizations, but many are not yet ready to take action to cut budgets or delay software purchases and hiring. So, while the economics may not look great, they also don’t look horrible — and executives watch and wait. When reality hits, however, budget cuts may happen quickly.**

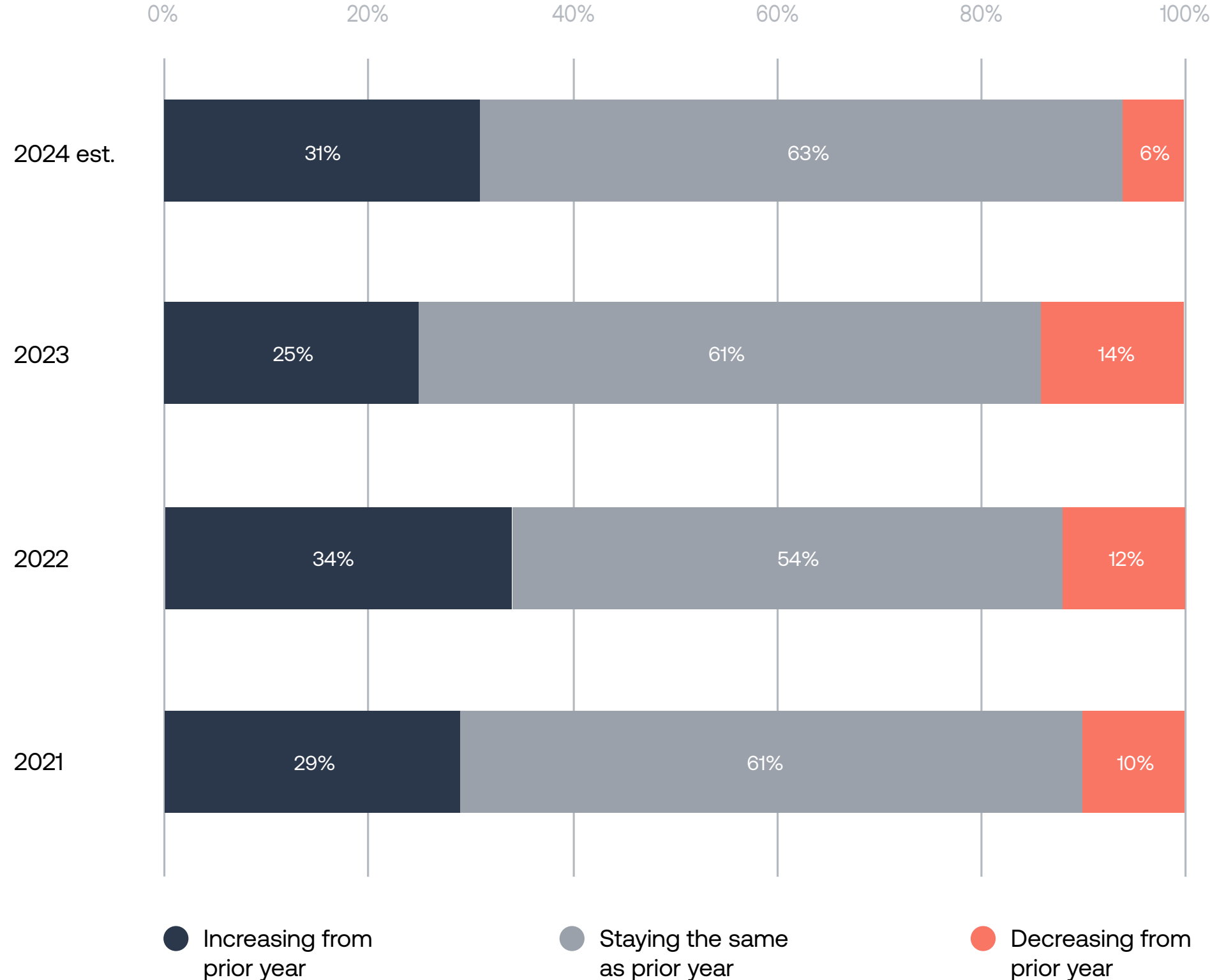
**FORWARD-THINKING AUDITOR TIP**

***Make sure you are maintaining a realistic view of potential resource fluctuations.*** Undertake scenario planning in the event that budgets and staffing are suddenly changed. Contemplate how the audit plan can be adjusted in the event of a reduction or increase.

**INTERNAL AUDIT STAFFING OUTLOOK**

As shown in Figure 5, a large majority of respondents anticipate staffing staying the same in 2024. Although fewer respondents anticipated decreases in 2024, expectations have been fairly stable year over year.<sup>8</sup> That said, the 31% of internal audit leaders who anticipate growing their headcount in 2024 should ask themselves: In the face of severe talent constraints in the workforce, where will internal audit departments find these auditors? Also, with wages going up and so few budgets likely to keep pace with inflation, how will they be paid?

(FIGURE 5) Actual and Expected Internal Audit Headcount, 2021–2024





So what’s happening here? First and foremost, leaders often fail to anticipate staffing reductions until the hiring freezes hit. (While the *2024 Focus on the Future* survey finished in September, budget and staffing decisions often take place in October.) In addition, less experienced internal audit leaders may optimistically assume they’ll “just find the talent.” Recent studies focused on internal audit recruiting do not back up this optimism.<sup>9</sup>

The truth is that even a minor economic shock could change everything, shifting these sunny 2024 projections back to 2023’s reality. This reinforces the need for internal audit to be prepared with up-to-date risk assessments, well understood talent strategies, and benchmarking data so leaders are prepared to respond quickly.

#### FORWARD-THINKING AUDITOR TIP

**Reimagine your approach to recruiting and retention.** Merely replacing or increasing staffing with “traditional” internal auditors is not enough. Internal audit’s next-generation talent pool must evolve to effectively address an organization’s next-generation risks. It’s critical to consider candidates from non-traditional backgrounds, rethink benefits (e.g., flexibility, remote/hybrid schedules), and adapt working styles to better meet worker preferences (e.g., varied assignments, increased transparency, direct engagement, leading with empathy).

**Look ahead. What audit work would be eliminated if resources were cut?** Be prepared for discussions with executives and the board so they understand the “cost” of an inadequately staffed internal audit function during times of permacrisis.

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<sup>8</sup>**Question:** Compared to 2022, my 2023 internal audit department’s total equivalent staff count:

**Base:** 453.

**Question:** Compared to 2023, I anticipate my 2024 internal audit department’s total equivalent staff count will:

**Base:** 453.

<sup>9</sup>The IIA’s [2023 Pulse of Internal Audit](#) found that the top three primary recruiting challenges in the U.S. are compensation expectations (64%), too few applicants (51%), and competition from other organizations (49%). Protiviti’s [2023 Next-Generation Internal Audit Survey](#) assessed that 43% of internal audit leaders’ top HR/people-related concern is the ability to recruit qualified candidates, and 39% the ability to retain people.



# Internal Audit Transformation: Opportunities for 2024 and Beyond

As we've discussed in this report, survey results show that some internal audit leaders appear complacent or ambivalent about taking action now to address new and changing risks, budgets, and staffing. That mindset may leave them ill-equipped to tackle today's challenges or embrace tomorrow's opportunities.

**To help our organizations close the risk exposure gap in an era of permacrisis, internal audit must be transformational.** The historic view on internal audit transformation tends to fall back on enhancing capabilities by implementing new policies, checklists, and tools. Those baseline changes are essential for creating a foundation for more strategic and far-reaching initiatives. But they're no longer enough to help our organizations scale the risk exposure gap. Next, we will examine several opportunities to help change that trajectory and transform internal audit.

## TRANSFORMATION INITIATIVES: FOUNDATIONAL PRIORITIES LIMIT CAPACITY FOR INNOVATION

While internal audit leaders are prioritizing a range of opportunities for transformation<sup>10</sup>, the lion's share of their focus is still taken up by more traditional or foundational areas (see Figure 6).

- **The three top-ranking efforts are very traditional or foundational areas:** improving stakeholder communications, enhancing capabilities for identifying emerging risks, and enhancing capabilities for continuously monitoring risks.
- **The next three highest-ranking efforts focus on still-prominent “hot topics” from a few years ago:** expanding use of automation and analytics, restructuring relationships with risk and compliance, and deploying skill enhancement strategies.
- **The lowest-ranking efforts comprise newer areas:** embracing agile audit methods, restructuring functions to better align with organizations, adopting cloud-based IRM technology, and deploying next-generation technologies.

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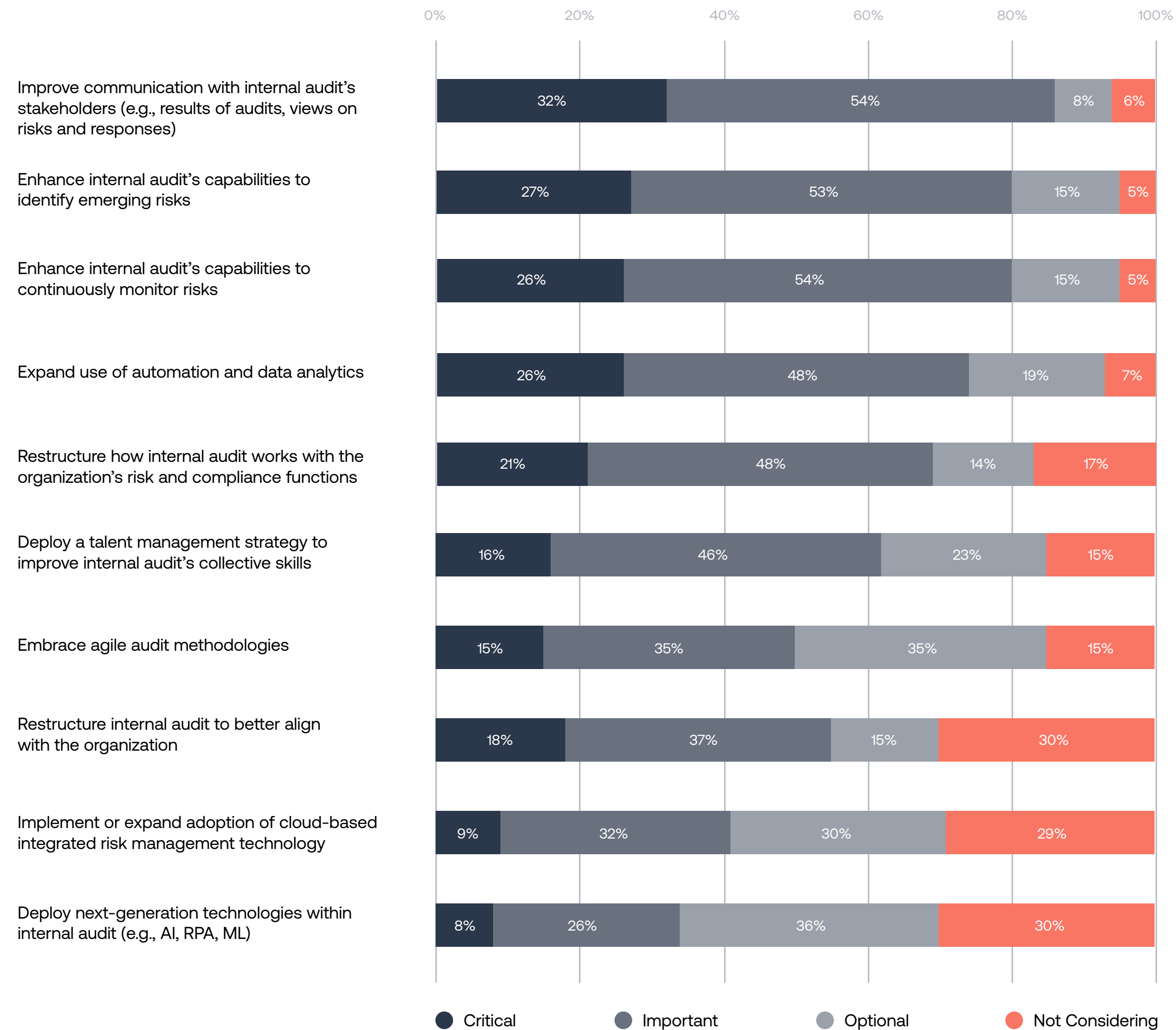
<sup>10</sup>**Question:** How do you expect to prioritize the following transformational efforts in 2024?

**Base:** 381.



This distribution reflects the reality that internal audit must fix its foundational areas before enabling transformation in newer areas. That is understandable but noteworthy, given time spent on foundational priorities takes away from efforts to innovate elsewhere.

(FIGURE 6) 2024 Internal Audit Transformation Efforts



Protiviti's 2023 [Next-Generation Internal Audit Survey](#) offered similar findings and insights, with **52% of CAEs and internal audit directors expressing that “competing priorities, together with a lack of capacity, are barriers or inhibitors to an increased focus on innovation and transformation.”** When asked to identify the area that most contributes to making an internal audit function relevant, number one (selected by 24% of respondents) was “using high-impact reporting to deliver and communicate value” — a foundational transformation to build upon. But as Protiviti's report also pointed out, effective, impactful communications are the end sum of several factors, including strong enabling technologies, access to the right talent, and optimization of activities throughout the audit lifecycle.

**Internal audit must evolve to stay relevant.** That means fueling genuine innovation that is regarded as more than a “program of the month.” It also means continuing to transform our skills and teams. PwC's [Global Internal Audit Study 2023](#) found that less than half (45%) of internal audit leaders are very confident that internal audit has the talent and skills the function will need in the next three to five years.<sup>11</sup> Further, more innovative internal audit functions are more likely to attract and retain top talent. Don't stop optimizing the basics, but press forward in exploring, experimenting, and implementing improvements leveraging new thinking and new technologies.

<sup>11</sup>Protiviti's report assessed that fewer than six in ten internal audit functions have access to the talent they need across the next-generation competencies of internal audit strategic vision, resource and talent management, organizational structure, aligned assurance, high-impact reporting, continuous monitoring, agile audit approach, dynamic risk assessment, advanced analytics, automation; process mining, and machine learning and AI.



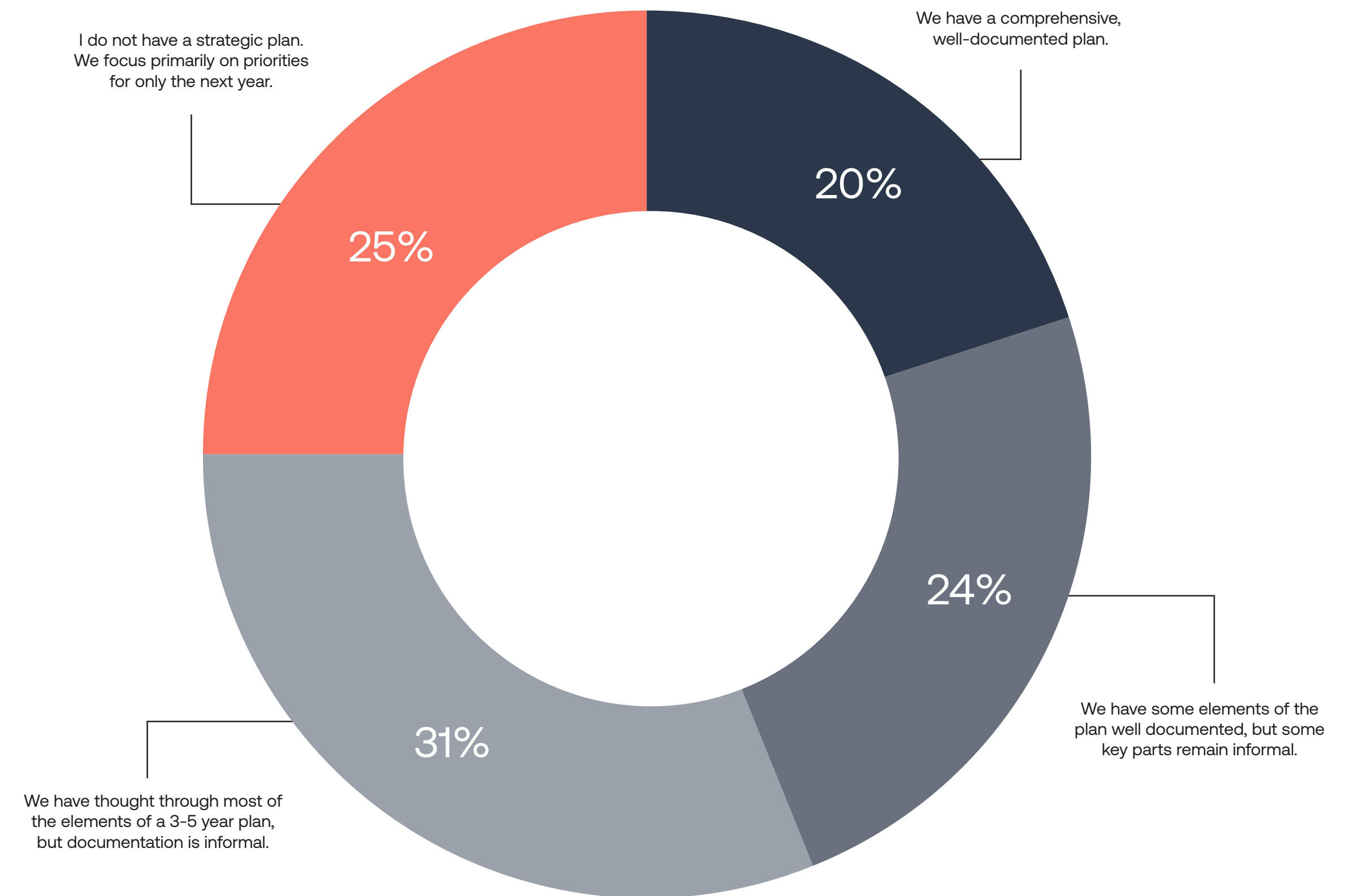
### FORWARD-THINKING AUDITOR TIP

**Focus on creating more dynamic, high-impact communications.** Every internal audit function can benefit from creating more genuinely impactful reporting. Take a fresh look at how you are communicating and force yourself to consider new ideas. Protiviti’s *2023 Next-Generation Internal Audit Survey* describes several characteristics shared by high-impact communications. Make a plan to enable timely, relevant, risk-informed, concise, and insightful communications that effectively deliver and articulate internal audit’s value.

### STRATEGIC PLAN: A LAGGING PRACTICE LIKELY TO BECOME A COMPLIANCE MANDATE

For the first time, *Focus on the Future* explored internal audit’s use of forward-looking strategic plans.<sup>12</sup> As shown in Figure 7, results suggest that use is not widespread, with only one in five functions saying they have “a comprehensive, well-documented strategic plan” looking out three to five years. Meanwhile, one in four have no strategic plan whatsoever, focusing only on next year priorities. Lastly, while a slim majority report either having thought through or documented some elements, such documentation is either informal or inconsistent.

(FIGURE 7) Internal Audit Use of Strategic Plans



<sup>12</sup>**Question:** Does your internal audit function have a strategic plan focused on 3-5 years out?

**Base:** 381.



**Strategic plans are a natural way of leading and thinking, as well as a key mechanism CAEs can use to proactively manage and transform the internal audit function.** The best managed internal audit functions have been using formal strategic plans for decades. Nobody knows for certain what lies ahead, and a well-developed strategic plan (see [IIA guidance](#)) is a key tool for preparing for chaos and ambiguity. A strategic plan isn't there to provide all the answers, but it can help identify and address the questions and support internal audit in its ability to recognize the levers needed to respond effectively.

**The IIA announced plans for a [new requirement](#) (expected publication by January 2024).** If adopted, the new standard would require every internal audit function to have a long-term strategic plan that the CAE reviews annually with management and the audit committee. Given the likelihood that there will only be 12 months to comply following adoption, this is a gap the 80% of internal audit functions without formal strategic plans should work to bridge in the coming year.

#### FORWARD-THINKING AUDITOR TIP

***Make sure you have a well-documented internal audit strategic plan that includes a comprehensive talent management strategy to help you adapt to the unknowns ahead.*** Not only should this include creative sourcing and recruiting, but also development and mentoring, upskilling, retention, and succession planning. Identify skills gaps (current vs. future state) and how internal audit capabilities/strategy can be better aligned with the organization's overall strategy, vision, and evolving risk profile.

## ARTIFICIAL INTELLIGENCE: LOW MATURITY, HIGH UNCERTAINTY, AND IMMENSE OPPORTUNITY

AI presents significant threats and opportunities, both for our organizations and our profession. In particular, the highly anticipated debut of generative AI has kick-started incredible momentum and global discussion over the past year. That's why it's surprising that, according to the *2024 Focus on the Future* survey, neither its threats nor its opportunities are registering particularly high on internal audit's radar. **This should be a wake-up call for our profession. If we follow the risks, why aren't we consistently focusing on AI?**

### *Organizational Use and Governance of AI*

Respondents rated their agreement with four statements representing leading practices for internal audit in understanding how AI is used in their organizations.<sup>13</sup> Overall, the responses display very little certainty and a tremendous amount of gray area. As shown in Figure 8, only 4 to 10% of respondents indicate strong agreement with any statement, and 24 to 30% neither agree nor disagree with each statement. **A mere 40% report having any clear understanding of how AI is being used, and only one in four indicate that their organization has defined the risks of, or created guidelines for, its use of AI.**

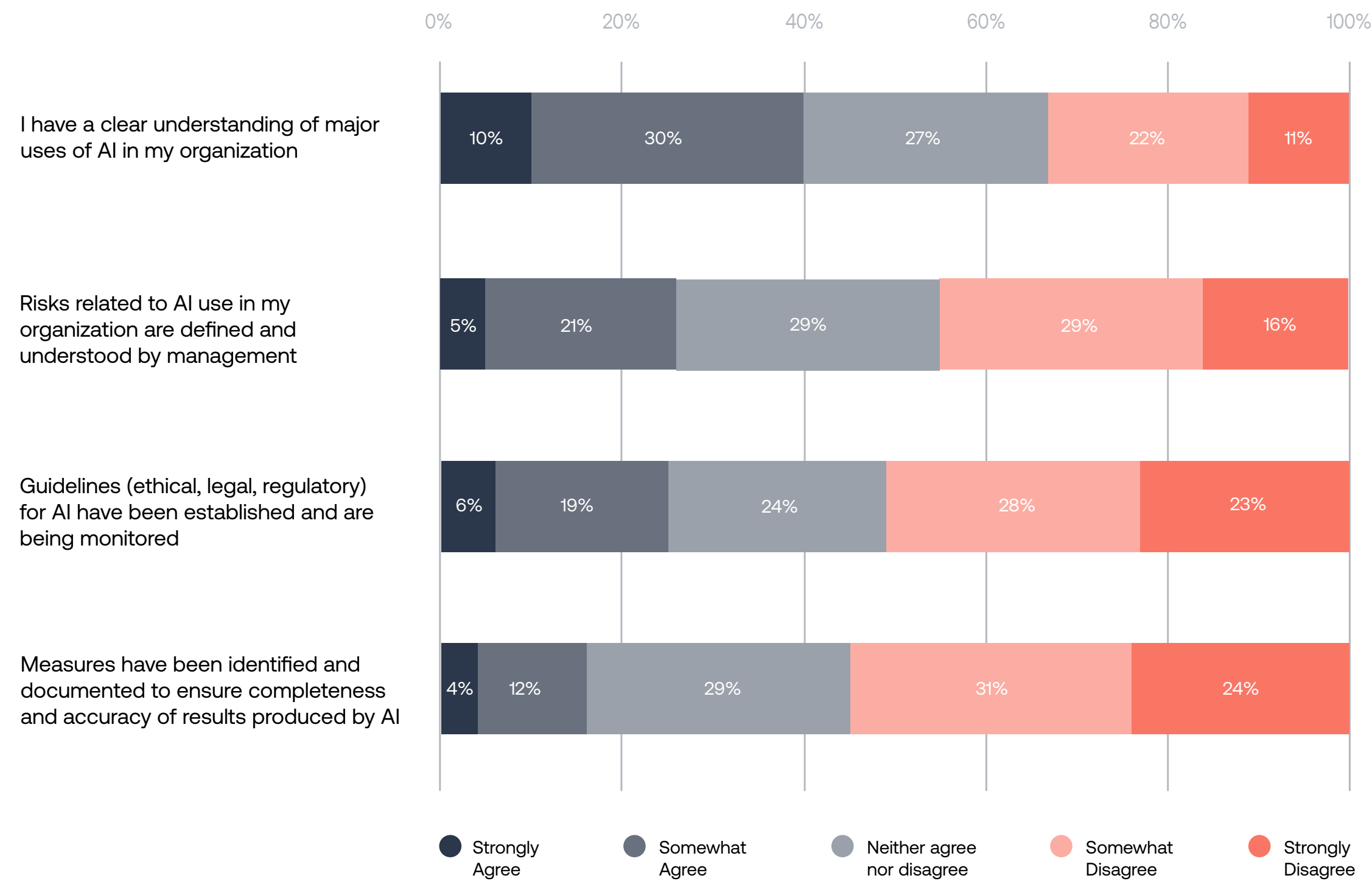
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<sup>13</sup>**Question:** Please indicate the level of agreement with the following statements regarding your organization's use of artificial intelligence.

**Base:** 357.



(FIGURE 8) Organization's Use of AI



Also telling: **The vast majority of organizations have not taken meaningful action toward ensuring that AI-produced results are complete or accurate.** In response to “measures have been identified and documented to ensure completeness and accuracy of results produced by AI,” only 16% strongly or somewhat agree, and over half somewhat or strongly disagree.

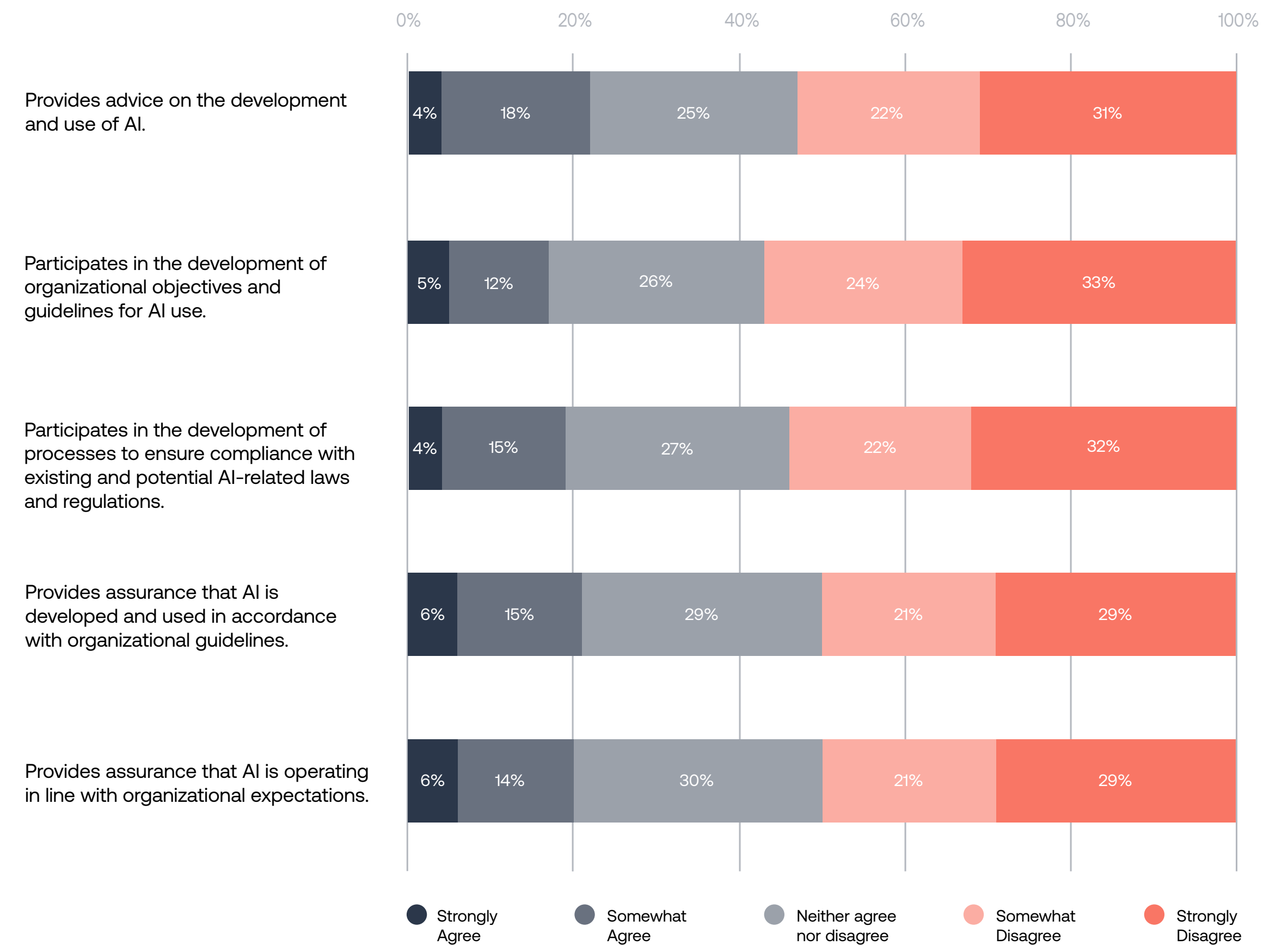
<sup>14</sup>**Question:** Please indicate the level of agreement with the following statements regarding internal audit’s involvement with AI use in your organization.

**Base:** 357.

### Internal Audit Involvement With Organizational Use of AI

The survey also sought to understand the current state of internal audit’s involvement with developing or providing assurance on organizations’ AI processes and guidelines, including assessing alignment with organizational objectives and expectations.<sup>14</sup> As Figure 9 shows, responses indicate that, **at present, internal audit’s involvement with AI is quite low.**

(FIGURE 9) Internal Audit Involvement With Organization’s Use of AI





## Internal Audit Use of Generative AI

Lastly, the survey asked internal audit leaders to reveal if and how they're currently using generative AI in their work.<sup>15</sup> As illustrated in Figure 10, **at most 10% of internal audit functions were using generative AI in any way**, and two-thirds to three-quarters had not yet expended any efforts in exploring or implementing generative AI. This is decidedly modest use, especially considering the availability, affordability, and ease of use of many generative AI technologies.

Given the developing nature of generative AI, it's only natural for internal audit to approach with caution. Internal audit use of generative AI will undoubtedly evolve, and survey responses can only provide a point-in-time snapshot. **Internal audit should nonetheless be more aggressive in how it engages with AI.**

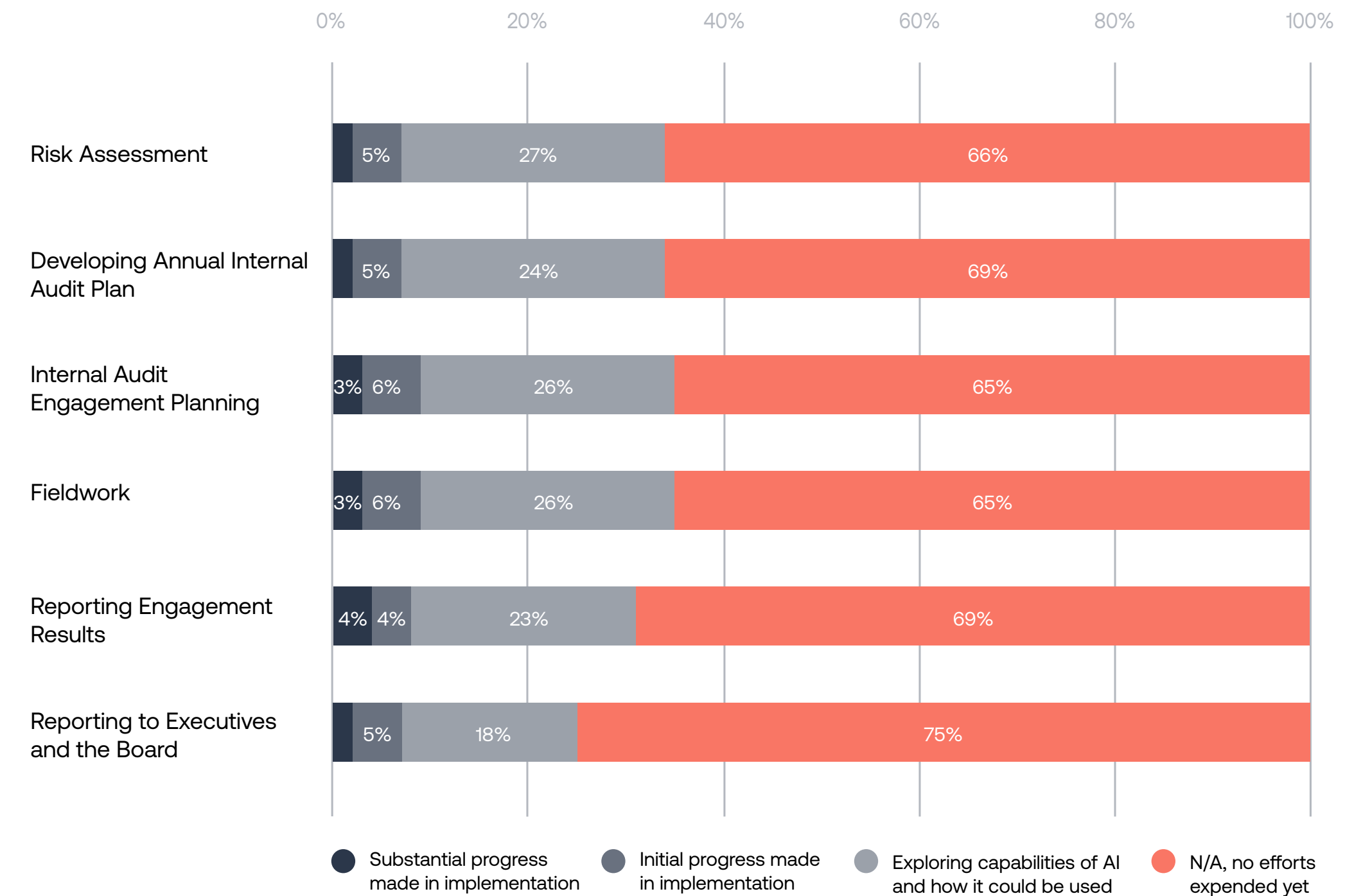
In the world at large, **generative AI appears to have hit a rate of adoption faster than any technology in history.**<sup>16</sup> In less than a year since OpenAI launched ChatGPT, the velocity of adoption has reached warp speed. Further, the velocity of the entire life cycle is also happening incredibly fast (e.g., regulatory activity, reputational impacts, academic studies on impacts). So far, this progress is happening at a faster rate than internal audit has absorbed. But take a moment to consider: With this much change in year one, what's ahead?

It's no revelation that AI brings both opportunities and threats. But it does seem revelatory that most internal auditors don't appear focused on either aspect. It's a timely reminder that, although we hear a lot about AI, **most organizations are still immature in how they understand, use, and self-regulate it.**

<sup>15</sup>**Question:** What is your internal audit team's current level of use of generative AI (e.g., ChatGPT, Domo, Beautiful.ai)?

**Base:** 357.

(FIGURE 10) Current Internal Audit Usage of Generative AI



<sup>16</sup>An April 2023 [McKinsey Global Survey](#) (notably, only six months after ChatGPT's launch) found 79% of respondents reporting exposure to generative AI, 22% regularly using it in their work, and 33% whose organizations were using it in at least one function. It also assessed that only 21% have policies governing employee use of generative AI — and the majority are not working to mitigate its top risks (e.g., AI-related cybersecurity, inaccuracy, IP infringement, personal/individual privacy, organizational reputation, workforce/labor displacement).



## Understanding Internal Audit's AI Problem

Some internal auditors are interested and engaged with generative AI, but most are not ready to take decisive action. **Beyond a dangerous sense of complacency — and budget, time, and knowledge constraints — there seems to be a common perception that AI is not yet “safe.”**

[In a recent article co-written with Anand Bhakta](#), AuditBoard's Senior Director of Risk Solutions, we introduced a helpful analogy to explore this hesitation: the dawn of cloud computing. In cloud computing's early days, regulators and others questioned its wisdom and safety; for instance, in the financial services industry, many institutions stayed away. Over time, however, organizations and internal auditors began to learn about and validate the cloud's capabilities and safeguards. Eventually, the cloud was acknowledged as a competitive advantage embraced by both financial institutions and regulators.

A similar pattern seems to be unfolding with AI, and it's likely to continue until organizations begin to better understand how to use and govern these technologies. As with the cloud, internal audit must step up to explore and validate AI's capabilities and safeguards. Through this process, we need to educate ourselves, our executives, and our boards.

Fortunately, AI doesn't seem to be overwhelming organizations — yet. That may help explain why internal auditors aren't getting ahead of AI: Perhaps their organizations haven't asked them to. **But the big picture is that neither internal auditors nor organizations can afford to put off investing in using, governing, and gaining assurance on AI.** Inform management and the audit committee and take the plunge.

## A Momentous Opportunity for Internal Audit

Internal audit has important opportunities in two primary directions: Using AI within internal audit, and providing guidance and assurance to the organizations we serve.

**AI tools are a capacity multiplier offering access to an enormous body of knowledge — a great supplement (e.g., to augment planning) to internal auditors' skills and expertise.** Once internal auditors begin to realize AI's potential, adoption will increase. Despite significant upfront investments in understanding what data is needed, where to find it, and how to interpret it, these technologies are generally easy to maintain and of little additional cost. Plus, top talent will absolutely expect your organization to be leveraging next-generation AI technologies, as this is a key way they can supplement and develop their skills.

Internal audit can also showcase its value by helping organizations to:

- Identify and understand AI's uses and risks.
- Advise on processes and governance.
- Monitor regulatory progress and compliance (e.g., intensifying calls for [regulatory oversight in the U.S.](#); [E.U. Parliament's AI Act](#), which could become a global blueprint).
- Provide eventual assurance on compliance readiness.
- Find ways to harness AI to benefit organizations.



In a light-hearted effort to draw the profession's attention to generative AI, [Richard Chambers' Audit Beacon](#) published a simulated interview with ChatGPT. Fortunately, ChatGPT knows its own limitations, saying, "While AI can assist in processing large volumes of data and identifying patterns, human auditors bring contextual knowledge, professional skepticism, and the ability to make informed judgments that consider ethical, regulatory, and strategic aspects." Crucially, ChatGPT also knows about our beans: "Internal auditors do analyze financial data, but their role extends beyond counting beans."

## FORWARD-THINKING AUDITOR TIP

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***Begin asking more questions about AI, and make AI use and governance part of internal audit's plans.*** You don't have to know everything about AI to make an impact. Get started by educating yourself and increasing your level of comfort. Then, focus on asking the right questions to understand if and how management is recognizing and managing AI's risks. As internal auditors, one of the biggest risks you should be thinking about is regulatory compliance. Adoption of new laws and regulations is likely to increase exponentially, and updated guidance from The IIA, ISACA, and AICPA is likely to follow. For existing guidance:

- [\*Artificial Intelligence — Considerations for the Profession of Internal Auditing.\*](#) IIA, 2017.
- [\*The Artificial Intelligence Revolution — Part 1: Understanding, Adopting, and Adapting to AI; Part 2: Revisiting The IIA's Artificial Intelligence Framework.\*](#) IIA, 2023.
- [\*"Auditing Guidelines for Artificial Intelligence."\*](#) ISACA, 2020.
- [\*Auditing Artificial Intelligence.\*](#) ISACA, 2018.
- [\*A CPA's Introduction to AI: From Algorithms to Deep Learning, What You Need to Know.\*](#) AICPA and Chartered Professional Accountants Canada, 2019.
- [\*NIST AI Risk Management Framework, Playbook, and Perspectives.\*](#) NIST, 2023.



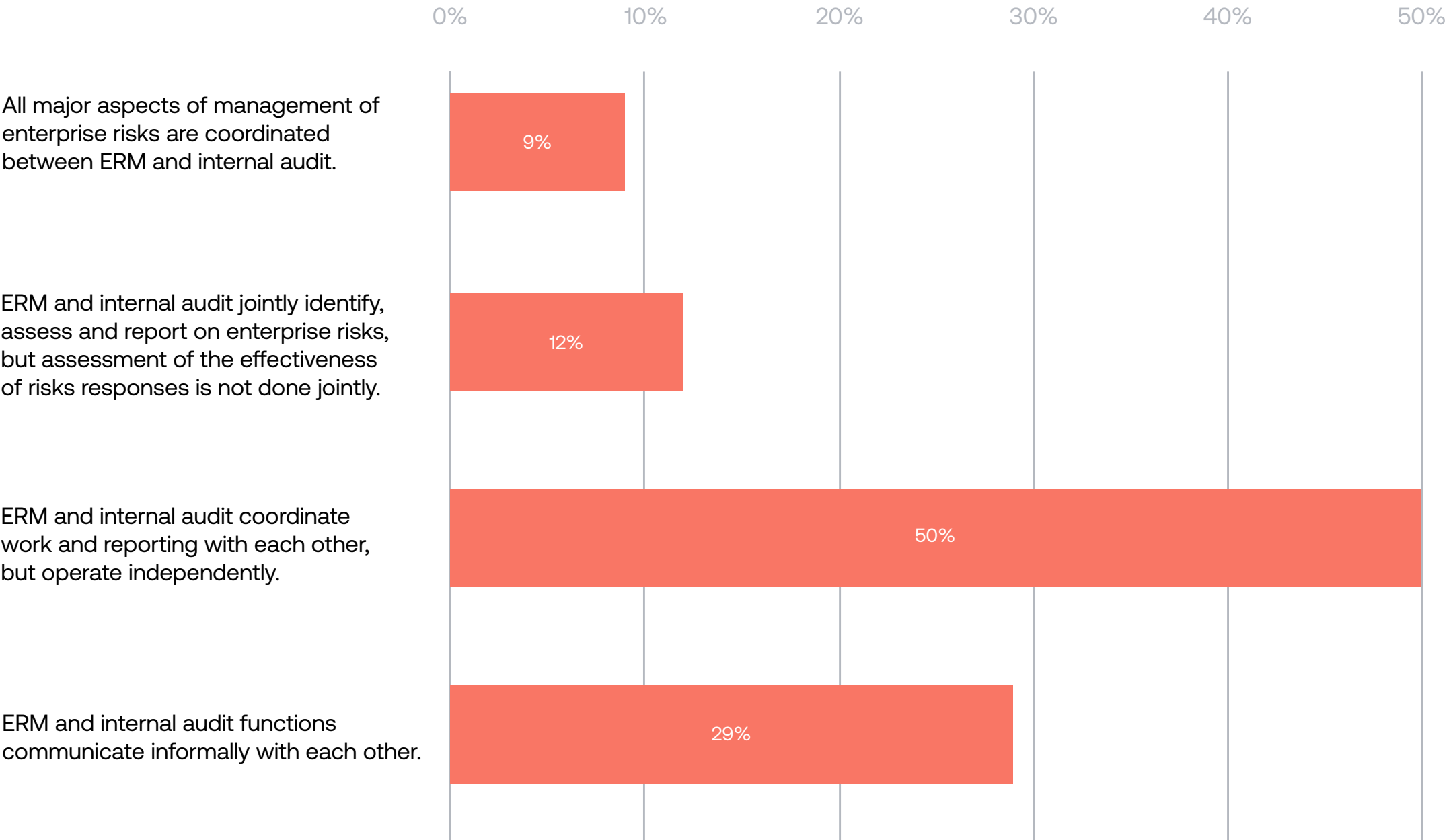
### COLLABORATION GAPS WIDEN THE RISK EXPOSURE GAP

Internal audit must continue to improve how it collaborates with its risk and compliance colleagues. To identify emerging risks on the horizon, all the people holding the binoculars should be sharing information about what they're seeing. It's a key way internal audit can enhance continuous risk monitoring — a critical capability in helping our organizations to scale the risk exposure gap. **Poor collaboration will only further widen the gap.**

To that end, *2024 Focus on the Future* explored the relationship structures and interactions between internal audit and enterprise risk management (ERM).<sup>17</sup> For organizations where the CAE does not have responsibility for ERM, the results show that, in many organizations, internal audit and ERM are missing out on key opportunities.

**In most organizations, the level of cooperation is limited** (see Figure 11). Only 9% of respondents report that the functions coordinate on all major aspects of managing enterprise risks. Another 12% jointly identify, assess, and report on enterprise risks but conduct separate risk management effectiveness assessments.

(FIGURE 11) *Current Interaction Between Internal Audit and ERM*



<sup>17</sup>**Question:** Which of the following options best describes the interaction between internal audit and ERM?

**Base:** 216.

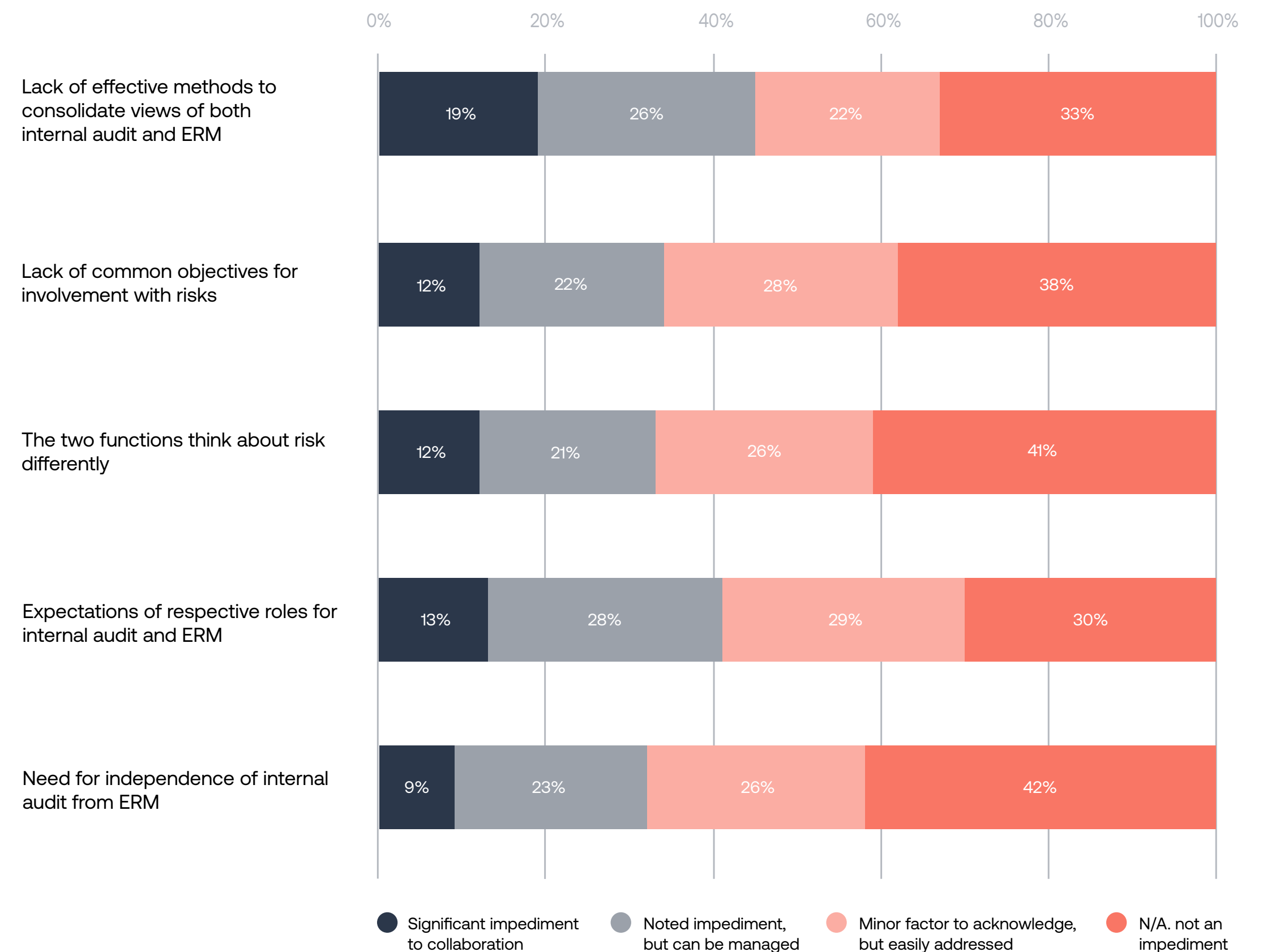


**Interestingly, most CAEs don't see major impediments to collaborating with ERM.** As illustrated in Figure 12, in response to all the answer options provided<sup>18</sup>, over half either do not consider them impediments or consider them easily addressed. An additional quarter believe the impediments can be managed. Less than one-fifth see any significant impediments to collaboration.

With so few impediments, why are ERM and internal audit not collaborating more often? It may simply boil down to a question of habit: They are conditioned not to, subconsciously imagining invisible fences that no longer exist or thinking of it as too much work. In other cases, they may view mild levels of collaboration as optimal, or feel they already have enough irons in the fire. One thing is for certain: Gaps in collaboration are not effective for facing risk bedlam — especially since such gaps can be reduced.

**Greater alignment and collaboration between ERM and internal audit is critical to closing the risk exposure gap.** As we work to identify the risks continually emerging on the horizon, we must take an all-hands-on-deck approach that more effectively leverages information, perspectives, competencies, and resources across the organization.<sup>19</sup>

(FIGURE 12) *Impediments to Collaboration Between Internal Audit and ERM*



<sup>18</sup>**Question:** To what extent do the following impediments make it difficult for internal audit to collaborate with ERM?

**Base:** 215.

<sup>19</sup>The IIA's [2020 update of its Three Lines Model](#) reinforces this guidance, emphasizing the need for alignment, communication, coordination, and collaboration between functions.



“Many organizations still have functional silos that are rigid and hard to traverse, information and data that is difficult to access or trust, and communication gaps that are behavioral and tough to change. Together, these create ‘walls’ that restrict agility, stifle innovation, and limit the power of working as one organization...IA’s objectivity and ability to ‘connect the dots’ means that it has the potential to ‘see through’ — and ultimately break down — these walls, to create new value, and give its stakeholders the confidence to navigate the risk multiverse.”

— PwC *Global Internal Audit Study 2023*

#### FORWARD-THINKING AUDITOR TIP

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- ***Break down silos and improve cross-functional collaboration between internal audit and ERM.*** Make it part of internal audit’s strategic plan. Risk resilience demands that internal audit and other second-line functions combine forces and connect initiatives. When you don’t have strong collaboration across the lines, you leave the risk exposure gap unattended and it only becomes worse.



# A Call to Transformative Action for Internal Audit

We live in one of the most disruptive periods in history. Risk velocity and volatility have increased exponentially, creating a state of continuous chaos — permacrisis.

For the internal audit profession — barely 20 years into a risk-based approach to serving our organizations — this era is extraordinarily challenging. Navigating the immediate future, and ultimately the remainder of this decade, will mandate transformative thinking followed by decisive action. Below is a forward-looking checklist to consider for 2024 and beyond.

- **Adopt a transformational mindset.** True transformation starts with mindset. Whatever your past habits, move forward by embracing ambiguity and complexity, forging a culture of experimentation, innovation, and learning, and reimagining your approach.
- **Think and manage more strategically.** Create and maintain [a good strategic plan](#) for your internal audit function. This can help you organize your thinking, force discipline in definitions, facilitate implementation, and continue asking the right questions.
- **Be tech fearless.** Embrace the potential of AI and other emerging technologies. It's natural to be cautious, and even skeptical, about new technologies, but the accelerated pace of AI adoption means internal audit cannot afford to sit on the sidelines. Be a leader in helping your organization to understand, govern, and make the most of its technology investments.

- **Set your sights on becoming a more impactful communicator.** Ensuring genuinely impactful reporting is a key foundational transformation for helping internal audit stay relevant and provide value to stakeholders. Communications should be timely, dynamic, visually effective, concise, authentically insightful (going beyond what's already known), customized to consider the needs of various stakeholders, and [use the active voice](#).

- **Collaborate more extensively with risk and compliance colleagues.** Cross-functional collaboration is absolutely critical for [creating resilient organizations](#) capable of withstanding permacrisis.

- **Enhance your capabilities to identify emerging risks.** Today's risks tend to have uncertain time horizons and be chaotic, complex, volatile, ambiguous, and difficult to manage. Improved collaboration with second-line function professionals, [paired with IRM technologies](#), continuous communication with management and the board, and [systematic processes \(e.g., PESTLE\)](#) for gathering and documenting insights, can be critical to enhancing your understanding of emerging risks.

In a period of great uncertainty and ambiguity, too many internal audit functions are paralyzed by inaction. As the late U.S. President John F. Kennedy once said, “There are risks and costs to action. **But they are far less than the long-range risks of comfortable inaction.**” **Success for the internal audit profession will be cast by the choices we make now, in this time of permacrisis.**



# About the Author



## **RICHARD CHAMBERS**

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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, Richard was national practice leader in Internal Audit Advisory Services at PricewaterhouseCoopers, the Deputy Inspector General of the U.S. Postal Service, and the Inspector General of The Tennessee Valley Authority. Richard is the author of three award-winning books: [\*Trusted Advisors: Key Attributes of Outstanding Internal Auditors\*](#), which was released in 2017; [\*The Speed of Risk: Lessons Learned on the Audit Trail 2nd Edition\*](#), which was released in 2019; and [\*Agents of Change: Internal Auditors in an Era of Disruption\*](#) which was released in 2021. He recently launched The Audit Trail Academy to afford internal audit practitioners the opportunity to explore the key themes from each of his books in interactive seminars that he leads. Richard can be reached on [LinkedIn](#) or by email at [rchambers@richardchambers.com](mailto:rchambers@richardchambers.com).

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# About AuditBoard

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APPENDIX

# Audit Planning — Areas Audited 2023 and 2024

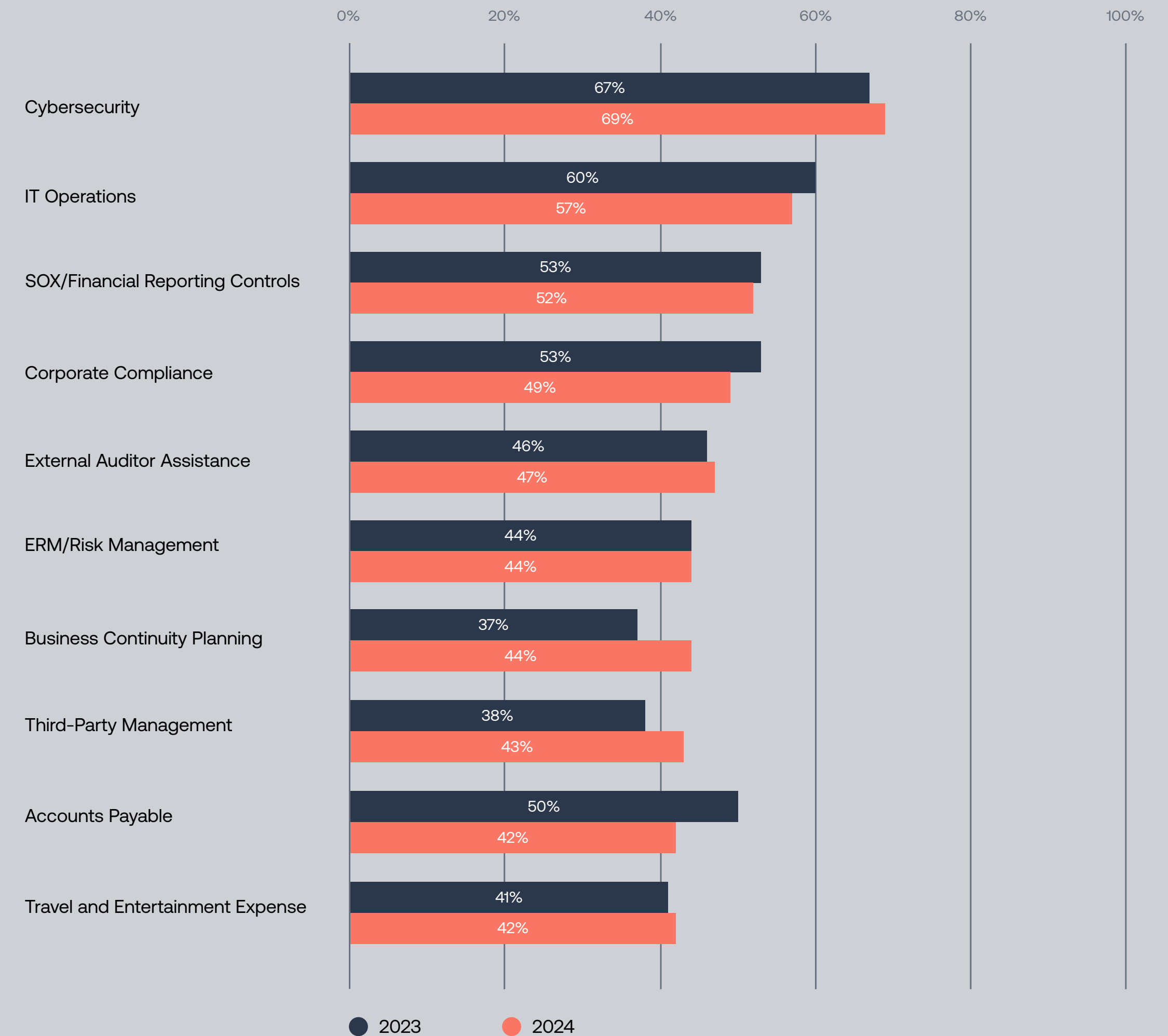
The 2024 *Focus on the Future* survey asked internal audit leaders to detail all areas in which they did any amount of work in 2023, as well as which areas they expect to include in their 2024 audit plans.<sup>20</sup> (Note: These findings do not represent level of effort — simply inclusion on the audit plan.) The ten areas most frequently included in audit plans are shown in Figure 13. As would be expected, cybersecurity receives top billing here as well. Also, SOX audits continue to be a high priority for internal audit — 20 years on. The only real surprise: Why do audits of travel and entertainment expenses appear so frequently?

<sup>20</sup>**Question:** Please select all the audits that A) were on your internal audit plan in 2023 and/or B) are expected to be on your audit plan in 2024.

**Base:** 346.

**Answer options:** Corporate Culture; ESG; ERM/Risk Management; Corporate Compliance; Ethics/Hotline; Business Continuity Planning; Disaster Recovery; Crisis Communications; Accounts Payable; Accounts Treasury; Executive Compensation; Equity/Stock; SOX/Financial Reporting Controls; Sales and Receivables; FCPA/Anti-Corruption; Royalties; Commissions; Product/Service Innovation; Product Launch; Marketing; Procurement; Warranties and Rebates; Travel and Entertainment Expense; Talent Management (Acquisitions/Succession Planning/Dispositions); Learning and Development; Payroll; Inventory; Supply Chain; Transportation/Logistics; Engineering; Quality Assurance; EH&S/OSHA; Cybersecurity; Penetration Testing; Next-Gen Technology Assessments (i.e. RPA, ML, AI); IT Operations; Data Management; IT Asset Management; Physical Security; Mobile Devices; Identity and Access Management; Data Center Audits; Systems Development Life Cycle (SDLC); System Pre-Implementation Reviews; Change Management; Merger/Divestiture/Special Transaction Assessments; SOX/IPO Readiness; Post-Acquisition Review; Third-Party Management; Vendor Audits; Distributor Audits; Financial Forensic Audit; External Auditor Assistance; Industry-Specific Audits (please describe).

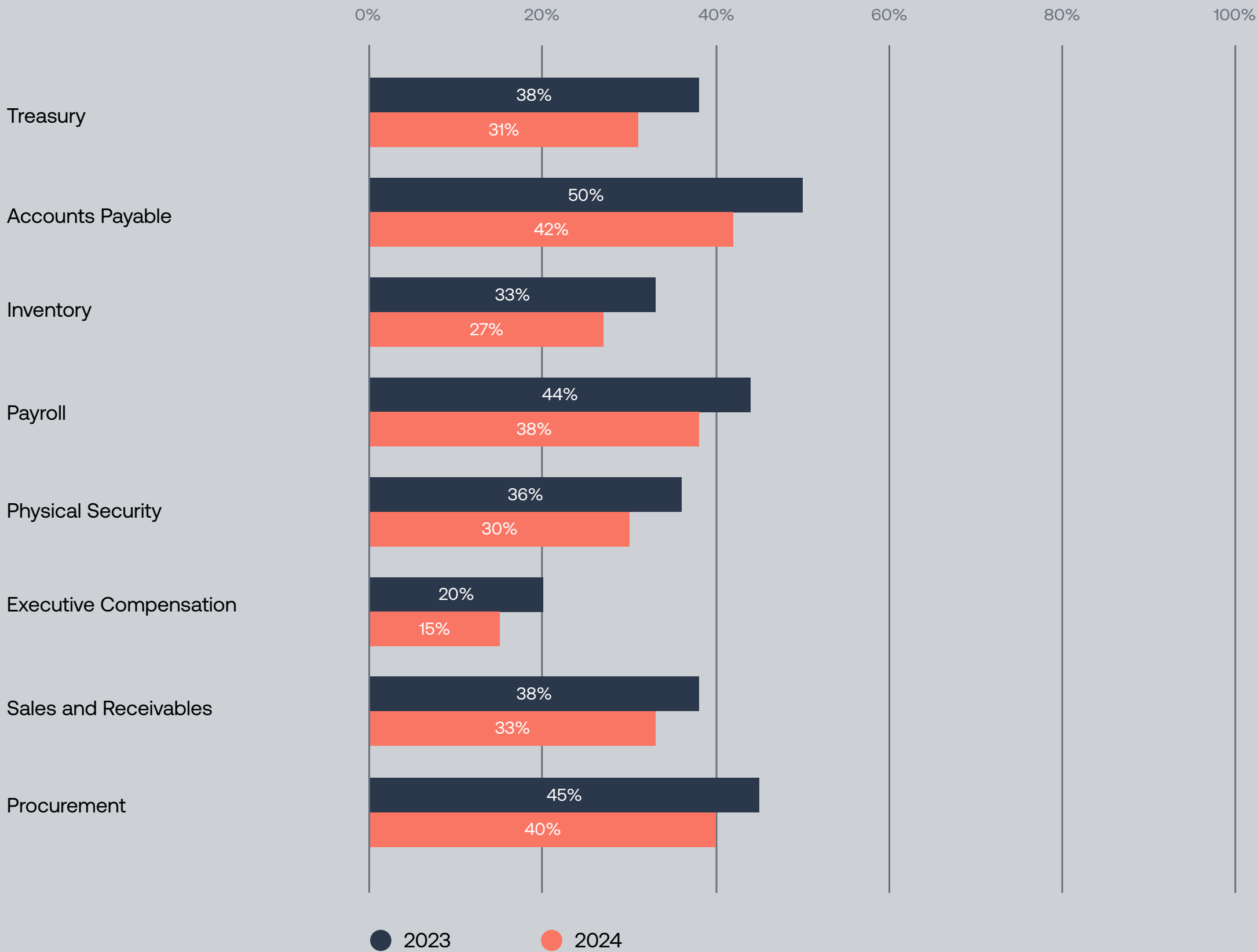
(FIGURE 13) Top 10 Most Frequently Audited Areas



# NEWLY REMOVED OR ADDED AUDIT FOCUS AREAS

Please refer to the discussion on page 10 for insights regarding the audit areas most frequently removed or added from audit plans (see Figures 14 and 15). While some additions and removals are undoubtedly due to audits occurring on a rotational basis, this analysis assumes such rotations would balance one another out.

(FIGURE 14) Newly Removed Audit Focus Areas — Greatest Reductions



(FIGURE 15) Newly Added Audit Focus Areas – Greatest Increases

