



SPECIAL REPORT FOR IIA-CANADA

COVID-19: LONGER-TERM IMPACT ON INTERNAL AUDIT – FOCUS ON CANADA

Survey results about budgets, audit processes, and
competencies

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Dear Reader,

It has been eight months since The World Health Organization declared COVID-19 a pandemic on March 11, 2020. During these past eight months, Canada's internal audit leaders have had to answer some tough questions in response to the impact the persistent pandemic is having on business models, and on operating practices, and approaches. It is clear, internal audit functions in Canada are beginning to experience the longer-impacts of COVID-19.

COVID-19: Longer-Term Impact on Internal Audit – Focus on Canada is the second in a series of reports focused on the impacts of COVID-19. It is based on responses from a survey distributed electronically to internal audit leaders, including Canadian Chief Audit Executives (CAEs) and Directors, by email and on social media from June 3-5, 2020. The survey was distributed by The Institute of Internal Auditor's (The IIA) Audit Executive Center (AEC) - The IIA's essential resource to empower CAEs to be more successful. The Institute of Internal Auditors Canada (The IIA Canada) endorses the report and its findings on the longer-term impact COVID-19 is having on internal audit resources, audit planning, and processes in Canada.

The report takes a look at budget, and staffing impacts, the need to increase risk assessment and audit plan updates, audit committee communication, the use of agile auditing techniques, and the need to adopt more flexible audit plans due to the widespread increase in working remotely. It provides insight on how CAEs and internal audit Directors have been adapting to the dynamic risk environment caused by the pandemic.

The IIA Canada stands committed to serving its members by meeting their needs, and by advocating on behalf of Canada's internal audit profession. The research findings contained in **COVID-19: Longer-Term Impact on Internal Audit – Focus on Canada** demonstrates that commitment by providing valuable information and analysis to assist internal auditors navigate through these disruptive times.



Sincerely,

A handwritten signature in black ink that reads "Paul Forgues".

Paul Forgues
Executive Director
The IIA Canada

EXECUTIVE SUMMARY

Profession significantly impacted by the pandemic

The ongoing effects of COVID-19 are changing the way businesses operate and their outlook for the future. Internal audit functions in Canada are starting to experience the longer-term impacts as well.

Budgets have changed dramatically since 2019. When surveyed in June 2019, only 12% of North American respondents had experienced budget decreases in the previous year. When surveyed in June 2020, almost 4 times as many expected budget decreases (45%) (Exhibit 1).

Resources

To download other COVID survey reports from The IIA, visit the [COVID-19 Resource Exchange and Newswire](#). Browse the [Benchmarking](#) section for the reports available.

This report focuses on survey responses from Canadian CAEs and Directors on the longer-term impact COVID-19 is having on internal audit resources, audit planning, and processes. This survey was distributed electronically to internal audit leaders by email and on social media from June 3-5, 2020.¹ Responses were received from 64 CAEs in Canada (13%) and 422 in the United States (87%).²

Demographics between Canada and the U.S. were very similar with the exception of organization type, where Canada had significantly more within the public sector (42%) compared to the U.S. (22%) (Exhibit 11). Where relevant, responses between Canada and the U.S. are compared.

Key findings for Canada include:

Budget and staffing

- Budget is expected to be impacted more than staffing, with 41% expecting overall budget decreases compared with only 23% expecting internal staffing decreases (Exhibit 2).

Risk assessment and audit plan updates

- Respondents from Canada were significantly more likely to say they plan to increase risk assessment frequency, compared to the U.S. (69% vs. 50%) (Exhibit 3).
- Respondents from Canada were also significantly more likely than those from the U.S. to say they plan to increase audit plan update frequency (80% vs. 66%) (Exhibit 4).

1. The World Health Organization declared COVID-19 a pandemic on March 11, 2020. See WHO media briefing on COVID-19 (World Health Organization, March 11, 2020), <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19--11-march-2020>.

2. U.S. totals include 8 respondents from the Caribbean.

Audit committee communication

- In general a much lower percentage of respondents said they plan to increase audit committee communication frequency, compared to those increasing frequency of risk assessment and audit planning.
- Again, respondents from Canada were more likely to say they plan to increase audit committee communication, compared to the U.S. (44% vs. 32%). Although differences were not statistically significant, they are directionally consistent with other statistically significant results (Exhibit 5).

Audit process changes

- Widespread increase in working from home (81% for Canada).
- Widespread decrease in time spent auditing on site (72% for Canada) (Exhibit 6).

Audit strategy changes

- 84% from Canada say they will adopt a more flexible audit plan, similar to responses from the U.S.
- Respondents from Canada were significantly more likely to say they would increase use of agile auditing techniques, compared to the U.S. (58% vs. 36%).
- Respondents from Canada were also significantly more likely to decrease the duration of their audits, compared to the U.S. (41% to 18%) (Exhibit 7).

Audit technology changes

- Few CAEs in Canada or the U.S. anticipate changes in technology use for internal audit in response to COVID-19 (20% or less) (Exhibit 8).

Competency needs

- Communication was at the top of the list for skills that Canadian CAEs wanted to increase “significantly” in their functions.
- Other top areas were cybersecurity, data analytics, and health and safety (Exhibit 9).

More detailed information and graphs are provided in the report. Please note that totals in some charts may not equal 100% due to rounding.

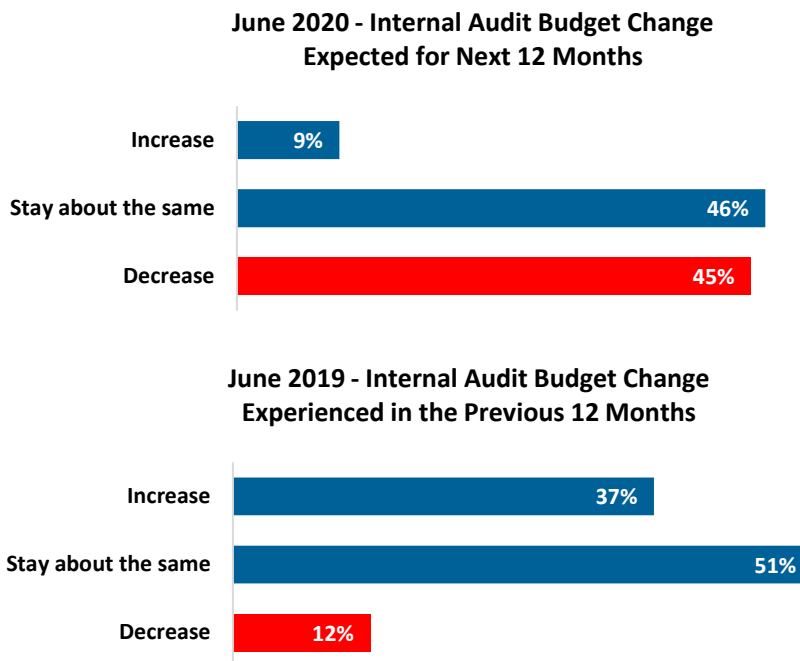
THE NEW FINANCIAL REALITY

Impacts on internal audit budgets and staffing

Dramatic changes for all of North America

Nearly half of North American respondents expect their internal audit budgets to decrease over the next 12 months. This is dramatically different from the normal level of budget decrease reported in surveys of internal auditors in the past. For example, in June 2019, only 12% said that they had experienced a budget decrease for the 12 months prior.

Exhibit 1: Internal Audit Budget (2020 Compared to 2019) U.S. and Canada Combined

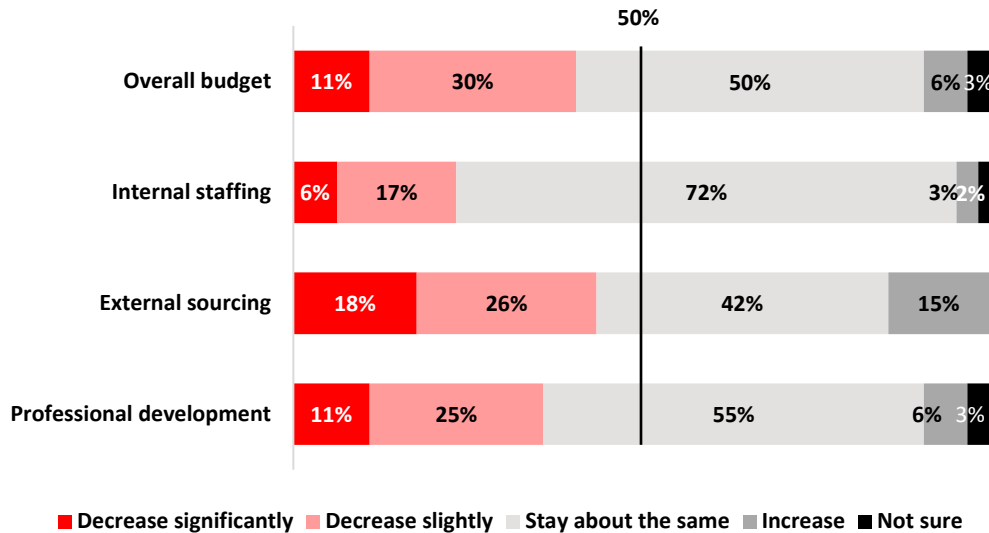


Note: This graph is based on results from two IIA surveys of CAEs and directors in North America. June 3-5, 2020, Q1: Looking forward to the next 12 months, how do you expect your budget to change as a result of COVID-19 in the following areas? $n = 481$. June 3-27, 2019, Q19: Looking back over the past 12 months, did your budget increase, stay about the same, or decrease. $n = 620$.

More impact on budget than on internal staffing

Internal staffing is least impacted compared to other budget categories, with 23% saying they expect decreases. On the other hand, more than 4 in 10 say that they expect decreases to overall budget and external sourcing.

Exhibit 2: Internal Audit Budget Changes Expected in Next 12 Months Due to COVID-19 (Canada)



Note: Q1: Looking forward to the next 12 months, how do you expect your budget to change as a result of COVID-19 in the following areas? Complete response options were 1) overall budget, 2) internal staffing (including salary, bonuses, and benefits), 3) external sourcing (audit services by third parties), and 4) professional development (certifications, training, conferences, etc.). Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Canada only. Totals may not equal 100% due to rounding. $n = 64$.

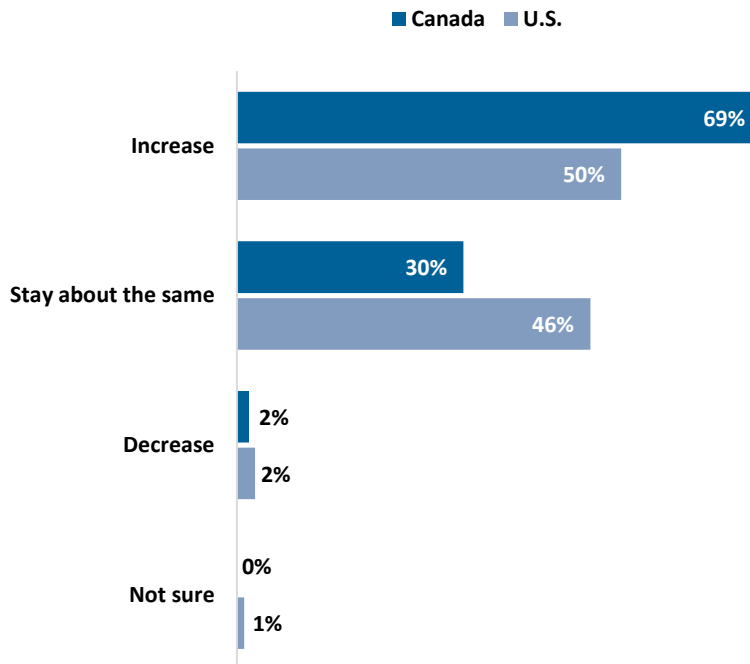
RISK AND AUDIT PLAN UPDATES

Changes in response to COVID-19

More Canadians expect to increase risk assessment frequency

Significantly more respondents from Canada than the U.S. said that they planned to increase the frequency of performing internal audit risk assessments as a result of COVID-19, compared to the U.S. – 69% to 50%.

Exhibit 3: Frequency of Future Risk Assessment in Response to COVID-19 (Canada Compared to U.S.)

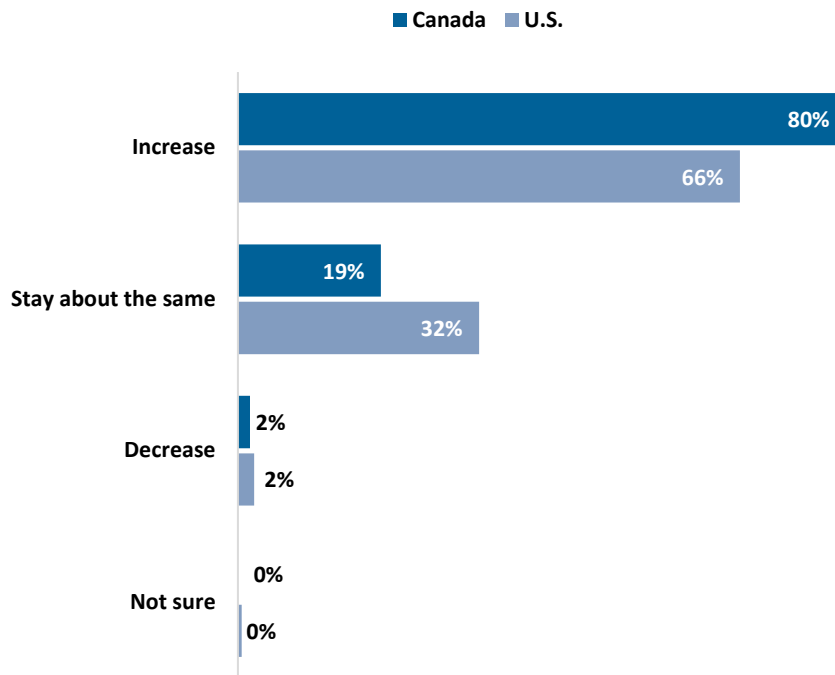


Note: Q2: Looking forward, how do you anticipate the frequency of performing internal audit risk assessments to change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. $n = 64$ for Canada. $n = 421$ for the U.S.

More Canadians expect to update audit plan more frequently

Canadian CAEs were also significantly more likely to say that they would increase frequency of audit plan updates, compared to the U.S. – 80% to 66%.

**Exhibit 4: Future Audit Plan Update Frequency
in Response to COVID-19 (Canada Compared to U.S.)**



Note: Q3: Looking forward, how do you anticipate the frequency of updating the audit plan to change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. *n* = 64 for Canada. *n* = 421 for the U.S.

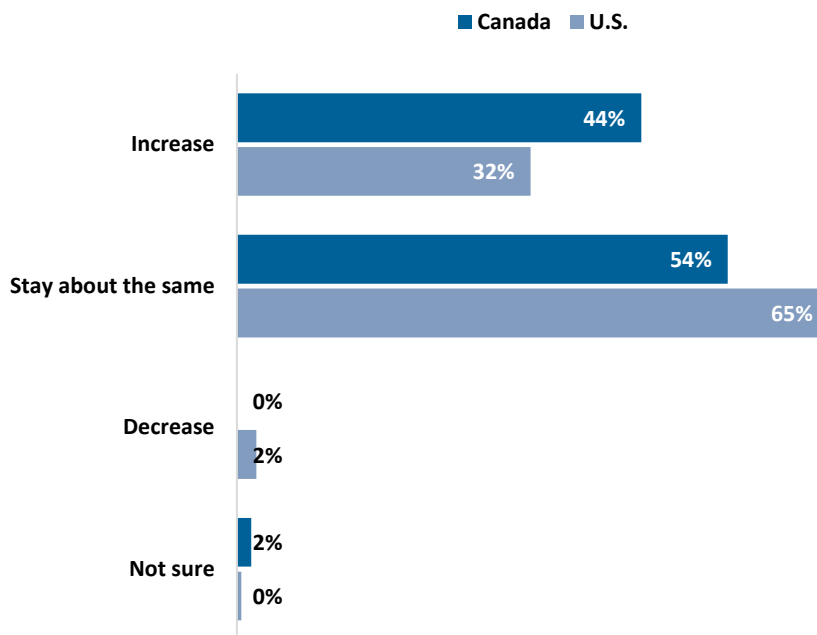
AUDIT COMMITTEE COMMUNICATION

Formal and informal meetings

Canada more likely than U.S. to increase frequency of audit committee communication

Consistent with previous questions, more respondents from Canada indicated they would increase future audit committee communication – 44% compared to 32%. However, the difference between Canada and the U.S. was not statistically significant because of the low number of respondents who chose “increase.”

Exhibit 5: Future Audit Committee Communication Frequency in Response to COVID-19 (Canada Compared to U.S.)



Note: Q4: Looking forward, how do you anticipate the frequency of your formal and informal communications with your audit committee/board/equivalent to change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. *n* = 64 for Canada. *n* = 421 for the U.S.

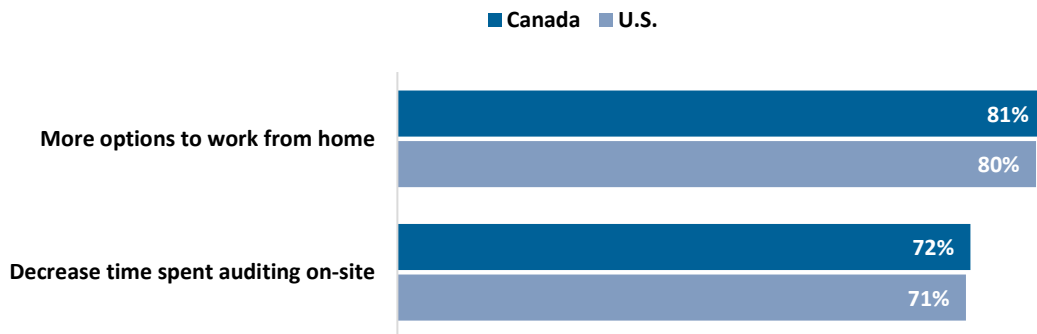
AUDIT PROCESS CHANGES

Widespread modifications

More work-from-home, less on-site auditing

Internal audit functions in both Canada and the U.S. had widespread increases in working from home accompanied by decreases in time spent auditing on site.

Exhibit 6: Audit Process Changes (Canada Compared to U.S.)



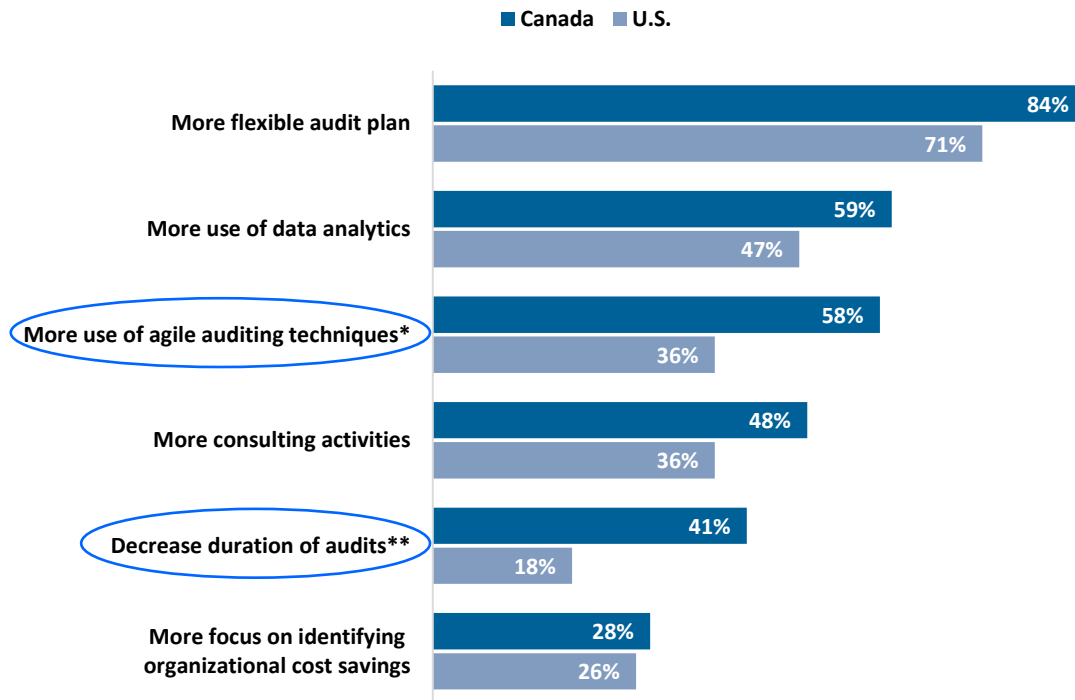
Note: Q5: Looking forward, how do you anticipate your audit process will change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. *n* = 64 for Canada. *n* = 422 for the U.S.

No significant differences between Canada and the U.S.

Canada more likely to increase agile techniques and decrease duration of audits

More than 80% from Canada say they will adopt a more flexible audit plan. Respondents from Canada were significantly more likely to say they will increase agile auditing techniques and decrease audit duration.

Exhibit 7: Audit Strategy Changes (Canada Compared to U.S.)



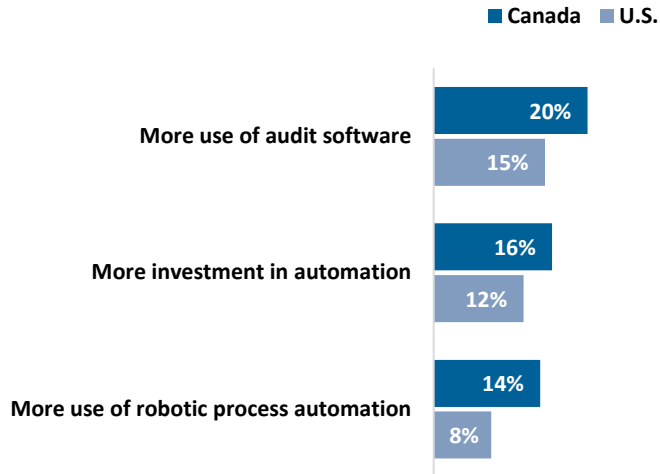
Note: Q5: Looking forward, how do you anticipate your audit process will change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. $n = 64$ for Canada. $n = 422$ for the U.S.

* $p < .05$, ** $p < .001$.

Little change in use of technology

Few CAEs anticipate any change in use of technology in response to COVID-19 (20% or less).

Exhibit 8: Audit Technology Changes (Canada Compared to U.S.)



Note: Q5: Looking forward, how do you anticipate your audit process will change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. $n = 64$ for Canada. $n = 422$ for the U.S.

No significant differences between Canada and the U.S.

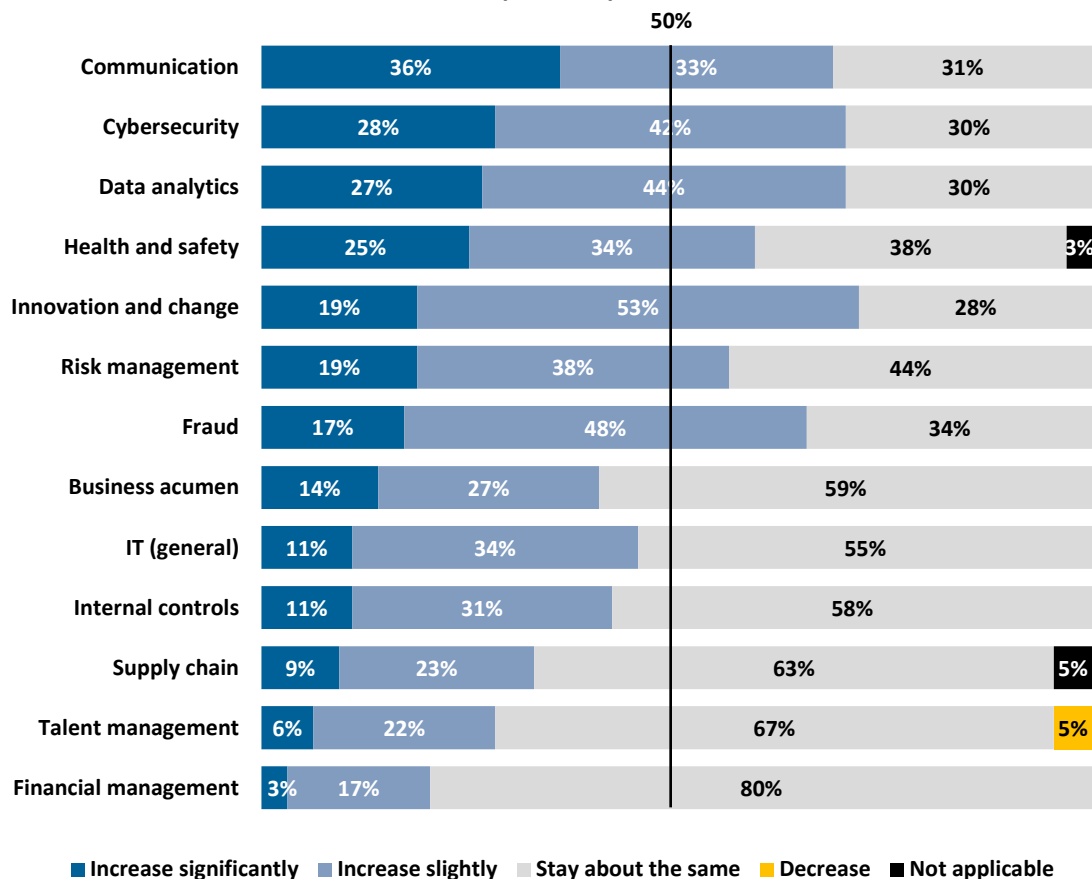
COMPETENCY NEEDS

Changes due to COVID-19

Communications and technology lead the list

CAEs were asked to rate how competency needs for the internal audit function have changed as a result of COVID-19. More than one-third of CAEs said the need for communication skills had “increased significantly,” the highest percentage for all the competencies listed. About one quarter said needs had increased significantly for cybersecurity, data analytics, and health and safety.

Exhibit 9: COVID-19 Impact on Internal Audit Competency Needs (Canada)



Note: Q6: Looking forward, how do you think the need for competencies in the following areas will change as a result of COVID-19? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. n = 64 for Canada.

DEMOGRAPHICS

Response rate from Canada and the U.S.

Exhibit 10: Response Rate Per Country

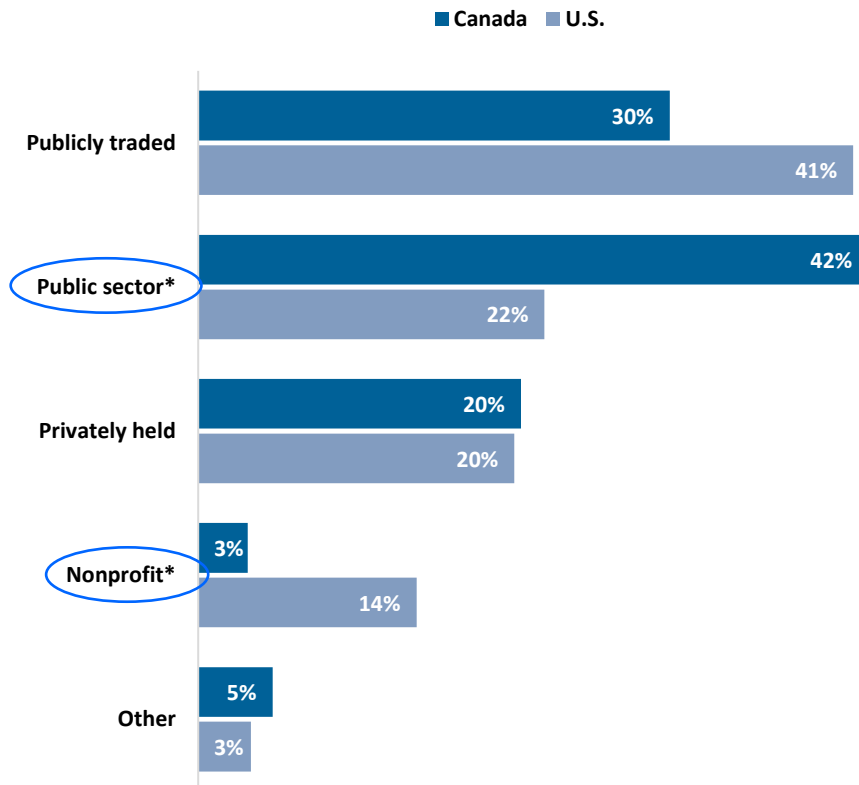


Note: D2: What is your independent state/country? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. U.S. totals include 8 from the Caribbean. $n = 64$ for Canada. $n = 422$ for the U.S.

Canada had more public sector respondents

Almost twice as many respondents from Canada were from the public sector (42%) compared to the United States (22%). A higher percentage of U.S. respondents were from nonprofit organizations (14%) compared to Canadian respondents (3%).

Exhibit 11: Organization Type (Canada Compared to U.S.)

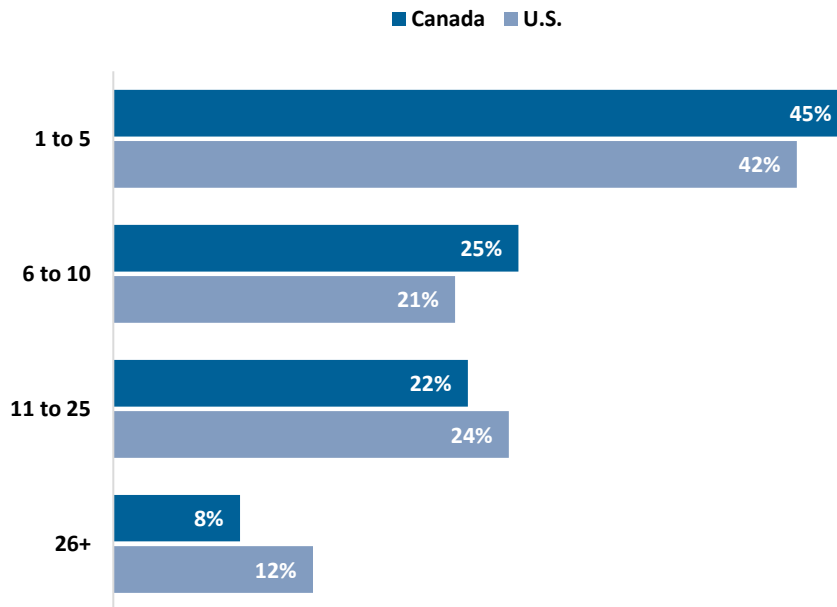


Note: Q8: For which type of organization do you currently work? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. $n = 64$ for Canada. $n = 422$ for the U.S.

* $p < .001$, ** $p < .05$.

Internal audit functions sizes similar between Canada and the U.S.

**Exhibit 12: Internal Audit Function Size
(Canada Compared to U.S.)**



Note: Q8: For which type of organization do you currently work? Survey responses were collected June 3-5, 2020, from CAEs and directors in North America associated with The IIA. Totals may not equal 100% due to rounding. $n = 64$ for Canada. $n = 422$ for the U.S.

This report was developed as a collaboration between The Audit Executive Center, and The IIA Canada.

ABOUT THE AUDIT EXECUTIVE CENTER

The IIA's Audit Executive Center® (AEC®) is the essential resource to empower CAEs to be more successful. The Center's suite of information, products, and services enables CAEs to respond to the unique challenges and emerging risks of the profession. This report is reserved for your exclusive use as a member of the Audit Executive Center. For more information on the Center, visit www.theiia.org/AEC.

ABOUT THE IIA CANADA

The Institute of Internal Auditors Canada (IIA Canada) is affiliated with a global body, serving the needs of more than 7,300 members in Canada. With its headquarters in Ottawa The IIA Canada works in partnership with its 12 Chapters across the country, providing training, publications, and services for its members, and advocating for the profession to key government and regulatory bodies and related organizations.

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 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla. For more information, visit www.theiia.org.

DISCLAIMER

The AEC, The IIA, and The IIA Canada have provided this material for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The AEC, The IIA, and The IIA Canada recommend seeking independent expert advice relating directly to any specific situation. The AEC, The IIA, and The IIA Canada accept no responsibility for anyone placing sole reliance on this material.

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