2020 NORTH AMERICAN PULSE OF INTERNAL AUDIT

Bridging Critical Gaps

The Institute of Internal Auditors

AUDIT EXECUTIVE CENTER

About the Pulse of Internal Audit

NUMBER OF RESPONSES

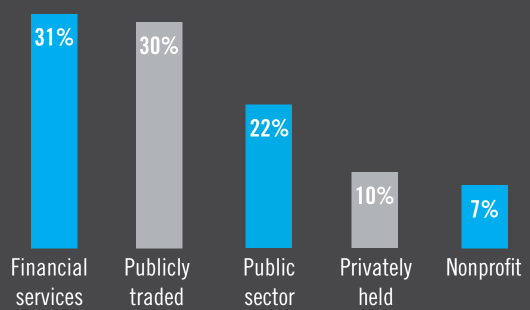
CAEs	**541**
Directors/senior managers	**89**
Total	**630**

The IIA's Audit Executive Center® (AEC®) has gathered insight from leaders in the profession through the annual Pulse of Internal Audit survey (Pulse) since 2010. Each survey collects information about internal audit leadership, including valuable benchmarking information such as audit plan allocations and staff level changes.

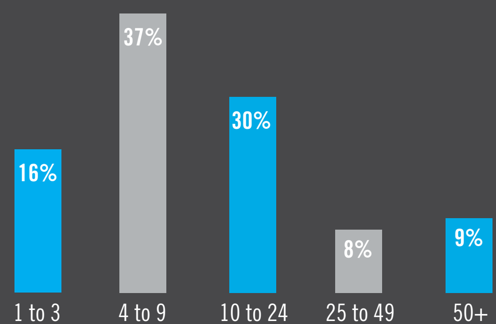
The online survey for the 2020 North American Pulse report was conducted in 2019. Respondents primarily come from the United States (88%) and Canada (10%), with the remainder coming from a variety of other countries. For analysis, financial services respondents are separated from other organization types into a separate category (as shown in the graph below).

The survey results are analyzed and presented in multiple reports, some of which are available to the public through The IIA's Pulse of Internal Audit resource page (visit www.theiia.org/Pulse). More in-depth reports are available exclusively to members of the AEC. For more information about joining the AEC, visit www.theiia.org/AEC.

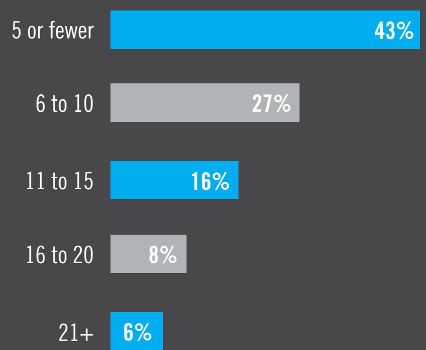
Organization Type With Financial Services Breakout



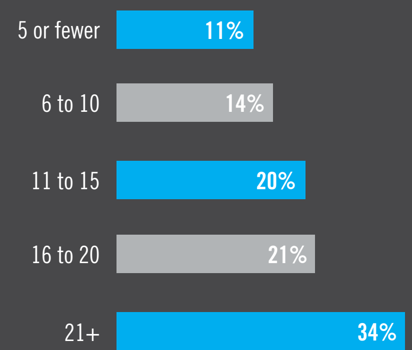
Internal Audit Function Size (Full-time Employees)

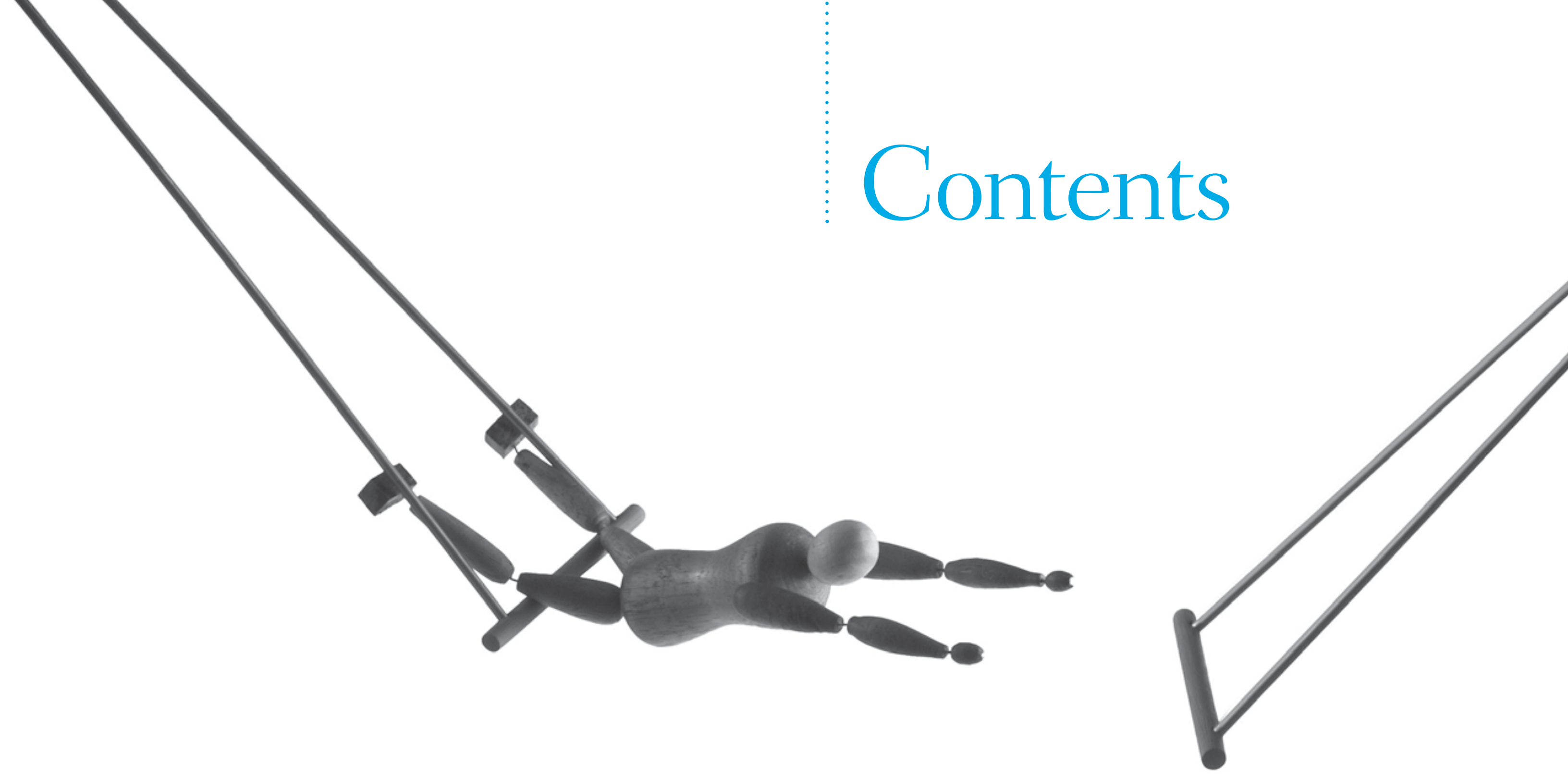


Years of CAE/Director Experience



Years of Internal Audit Experience





Contents

Richard F. Chambers
CIA, QIAL, CGAP, CCSA, CRMA
President and CEO

Dear Readers,

The annual *North American Pulse of Internal Audit* report has changed significantly since The Institute of Internal Auditors published its first edition in 2010. Based on a survey of internal audit leaders in the U.S. and Canada, the report was designed to provide an annual snapshot of the profession. In recent years, the report's scope grew to deliver insights into key risk areas, relationship building, and promoting the value of internal auditing.

The Pulse's evolution mirrored the growth of internal audit's role, as stakeholders, regulators, and the public increasingly gained awareness of the value of independent assurance and sound organizational governance. To look at today's pressing risk and governance issues more closely, The IIA introduced two new reports last year — *OnRisk: A Guide to Understanding, Aligning, and Optimizing Risk* and the *American Corporate Governance Index* (ACGI).

This allows the *2020 North American Pulse of Internal Audit* to go back to its roots. Internal audit leaders will find a renewed and deeper focus on audit plan allocations, risk levels, staffing, reporting lines, and audit function maturity. I urge you to read this year's Pulse report alongside the 2019 ACGI and OnRisk 2020 reports. Taken together, these publications offer a comprehensive picture of key risks, the health of organizational governance, and the state of the internal audit profession.

Sincerely,

Richard F. Chambers

Richard F. Chambers
President and CEO
The Institute of Internal Auditors

Executive Summary

The 2020 North American Pulse of Internal Audit has an important story to tell about how organizations perceive the profession. While growth in staffing reflects continued stakeholder support, survey results suggest many organizations do not fully leverage internal audit services for certain key risks.

The 2020 Pulse data, which includes input from more than 600 internal audit executives, show that many internal audit plans did not allocate *any* resources to certain key risk areas. For example:

- Almost one-third did not include cybersecurity/information technology.
- More than half did not include governance/culture or third-party relationships.
- Ninety percent did not include sustainability.

What's more, CAE perceptions about risk levels increased dramatically over the past four years in many risk areas. CAEs who rated cyber as a high or very high risk to their organizations jumped from 60% for 2017 to 77% for 2020. Third-party relationships (35% to 51%) and IT (39% to 59%) saw similar sharp increases. Yet audit plan allocations do not reflect that urgency, instead changing more slowly and gradually. Audit plan allocation for cyber increased from 6.3% to 7.3%; third-party relationships went from 3.3% to 3.8%; and IT dropped from 9.2% to 9%.

The 2020 Pulse report includes in-depth analysis of key risk and audit plan allocation trends, including breakouts for organization types, which audit leaders and stakeholders can use to benchmark against those of their peers. These side-by-side comparisons show the stark difference between how CAEs view risks and how internal audit resources are allocated.

A significant majority of CAEs rate their internal audit functions as mature enough to support strategic risk-management, long-term planning, and continuous improvement. However, a notable percentage rate their functions at lower levels, even among larger internal audit functions.

These findings suggest internal audit has work to do, and the cohort of internal audit leaders who will address those challenges is changing. Generation X and Millennials now fill two-thirds of leadership roles, with Baby Boomers occupying just one-third. This year, 40% of survey respondents were women, showing an increase in gender diversity at the highest levels of the internal audit profession, compared to earlier surveys.

The coming decade offers the profession significant opportunities, driven by increasing public demands for accountability and transparency. To leverage that opportunity, internal audit must forge a clear path toward higher levels of maturity and work with stakeholders to ensure that all key risk areas are within its scope of work.


3

Introduction

The three pillars of risk management — the board, executive management, and the internal audit function — must recognize, adapt, and respond quickly to countless internal and external factors that influence how organizations operate and thrive. Yet many internal audit functions appear to be passive observers in certain key risk areas, according to the 2020 North American Pulse of Internal Audit survey.

This finding may reflect a combination of gaps in internal audit knowledge, ability, or willingness to take on key risks, and decisions by organizations on directing internal audit resources. Indeed, for many internal audit functions, the scope of work is largely focused on financial reporting and regulatory compliance, which reflects a 20th century mindset about internal audit's role.

Section 1: Audit Plans Missing Key Risks

The 2020 Pulse survey paints a troubling picture that shows many internal audit functions allocate no portion of their audit plans to certain key risks, such as third-party services, governance and culture, cybersecurity, and sustainability (Exhibit 1.1).

Indeed, 90% of survey respondents said they did not plan to devote any part of their audit plan for the next 12 months to sustainability, one of the fastest-growing areas of investor interest. While sustainability has emerged only recently as an issue of greater interest to stakeholders, other well-established and potentially significant risk areas also fail to appear on audit plans for many respondents. For example, more than half (52%) say their functions allocate no resources to auditing third-party relationships, while 55% do not assess governance and culture.

One of the most surprising and alarming findings is that nearly one-third (32%) of those surveyed do not expect to allocate any internal audit resources to cybersecurity, an ever-present and dynamic risk that consistently rates among those most concerning to boards and executive management (Exhibit 1.1). This troubling situation is worse among public sector functions, where more than half (54%) report no resource allocation to cybersecurity (Exhibit A.3).[1]

Section 2: Too Many Functions Performing at Lower Levels

The Pulse survey asked audit leaders to rate the maturity of their functions based on descriptions of audit functions in the Internal Audit Ambition Model.[2] One-fifth of respondents (20%) rated their maturity below the level where the internal audit function conforms to IIA *Standards* (Exhibit 2.1). A greater percentage of the respondents with smaller internal audit functions rated them as less mature, as might be expected. Yet the data show that a percentage of large functions also rated as less mature (Exhibit 2.2).

Section 3: Internal Audit Leadership Is Changing

The percentage of women in internal audit leadership grew from 33% of survey respondents in 2017 to 40% in 2020. The public sector leads all organization types, with 52% of respondents identifying as female. While publicly traded companies saw the biggest gains over the past four years, this group still lags behind other organization types, with women accounting for only about one-third of survey respondents (Exhibit 3.3).

More than half of audit leaders responding to the Pulse survey indicate they are Generation X, with Millennials adding another 10%. Audit leaders from privately held and publicly traded companies had the lowest percentage of Baby Boomers (Exhibit 3.5).

Section 4: Metrics for Internal Audit Leaders

This report includes benchmarking metrics on audit planning and risk assessment, staffing, and more. The report also features four-year audit plan trends and breaks them out by organization types.

A comparison between audit plan allocation and risk ratings reveals contradictions between the risks CAEs rate as high or very high and the effort level reflected in their internal audit plan. According to Pulse survey respondents, risk levels are dramatically increasing for cybersecurity, IT, and third-party relationships, yet those risks individually fail to average even 10% of audit plan allocations (Exhibit 4.2).

For the majority of Pulse survey respondents, the size of audit functions remained about the same over the past year. The number of functions that experienced increases in staffing is more than double the number that experienced decreases. When coupled with data reflecting that the average increase was slightly greater than the average decrease, the results suggest internal audit functions continue to grow (Exhibits 4.14 and 4.15).

1. This statistic is based on public sector Pulse survey responses except for responses from those in the public sector who work in financial services and insurance because this industry was analyzed separately. See Exhibit A.3 in Appendix A.

2. Els Heesakkers, et al., *The Internal Audit Ambition Model* (Amsterdam: IIA–Netherlands and NBA-LIO, 2018), 5–26, https://www.iia.nl/kwaliteit/ambition-model #introduction.

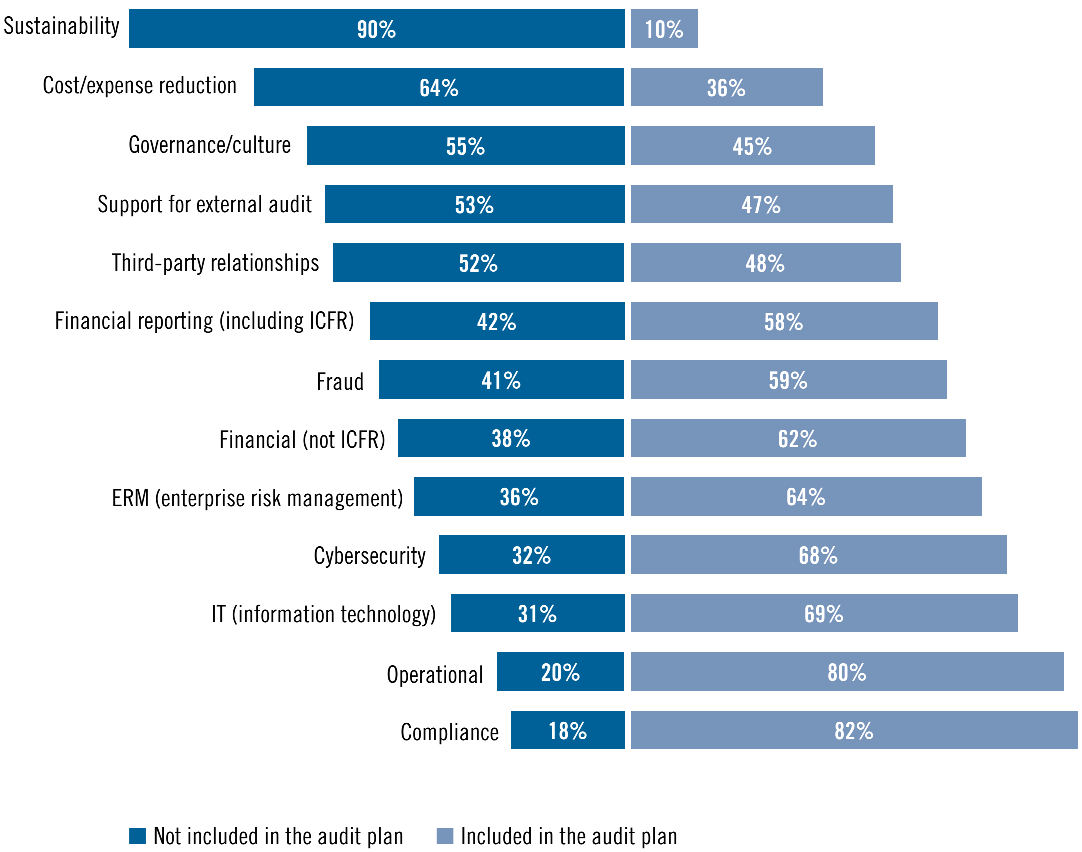
SECTION 1

Audit Plans Missing Key Risks

Providing independent and objective assurance is fundamental to internal auditing. When key risks fail to show up in an audit plan, the internal audit function may fail to achieve its mission. This year's Pulse survey indicates that certain key risks are missing from many audit plans.

Past Pulse reports noted with concern low audit plan allocations for third-party relationships, governance and culture, cybersecurity, and other key risk areas. This year's findings reinforce a continuation of the worrisome trend. Exhibit 1.1 provides an overview of the percentage of respondents including selected risk areas in their audit plans. Appendix A shows the results filtered by organization type and selected industries.

Exhibit 1.1: Risk Coverage in Audit Plans – All Respondents



Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. *n* = 630.

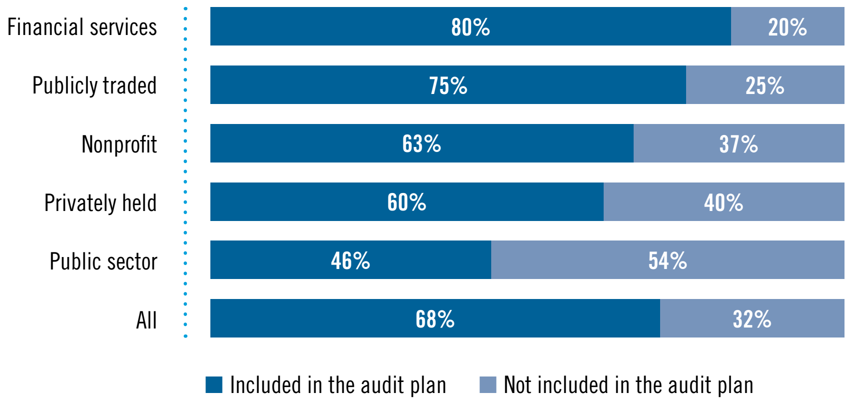
Cybersecurity

CAEs continue to assess cyber among the top risks, a sentiment echoed consistently by executive management and boards.[3] More than three quarters of Pulse respondents said that cybersecurity is a high or very high risk (Exhibit 4.1 in Section 4). Yet, the number of functions that report no audit plan resources related to this risk remains surprisingly high. Nearly one-third (32%) of respondents report they devote no portion of the audit plan to this ubiquitous and dynamic risk (Exhibit 1.1). Indeed, the 2019–2020 NACD Public Company Governance Survey lists cybersecurity as the third most important area for board improvement behind strategy execution and strategy development.[4]

The percentage of CAEs reporting cybersecurity is not in their audit plan is significantly higher among public sector functions, where more than half (54%) report no resource allocation to cybersecurity (Exhibit 1.2). This finding is cause for alarm considering the abundant evidence that cyber criminals are ready to exploit weaknesses in public systems. Successful cyberattacks have shut down operations in major cities, including Atlanta; Baltimore, MD; Albany, NY; and Tallahassee, FL. Smaller cities are particularly vulnerable to ransomware attacks, which cripple municipal systems and hold them hostage until a pricey payoff is made.[5]

When considered by organization type, financial services organizations appear to dedicate the most audit resources to cybersecurity. Eighty percent of these respondents report including cybersecurity in their audit plans (Exhibit 1.2), and nearly half of those respondents dedicate 10% to 19% of their audit plan to the risk.[6]

Exhibit 1.2: Cybersecurity Included in the Audit Plan



Note: Q14.3: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." Topic: cybersecurity. $n = 189$ for financial services; $n = 185$ for publicly traded; $n = 46$ for nonprofit; $n = 62$ for privately held; $n = 136$ for public sector.

3. NC State University's ERM Initiative and Protiviti, *Executive Perspectives on Top Risks 2020* (Menlo Park: Protiviti, 2019), 1–24, https://www.protiviti.com/CA-en/insights/protiviti-top-risks-survey.

4. *2019–2020 NACD Public Company Governance Survey* (Arlington: National Association of Corporate Directors, 2019), https://www.nacdonline.org/insights/publications.cfm?ItemNumber=66566.

5. Joe Panettieri, "Ransomware Attack: 2nd Florida City Pays Hackers $460,000 to Unlock Data," *MSSP Alert*, June 26, 2019, https://www.msspalert.com/cybersecurity-breaches-and-attacks/ransomware/lake-city-florida-pays-hackers/.

6. 2020 North American Pulse of Internal Audit survey, Q14.3: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: cybersecurity. Percentage of audit plan allocation. Financial services only. $n = 189$.

As shown in Exhibit 1.3, function size correlates with the likelihood that cybersecurity is covered in the audit plan. While only 50% of the smallest functions have cybersecurity in their audit plans, the number rises to 83% among the largest functions.

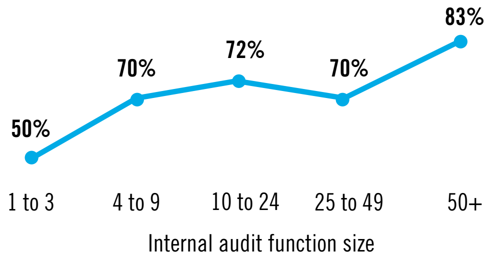
In addition, financial reporting regulations, at least indirectly, may drive greater coverage of this issue in the audit plan. While 77% of respondents who comply with Sarbanes-Oxley (SOX) include cybersecurity in their audit plans, only 60% of non-SOX compliant organizations do.[7]

IT (Information Technology)

For information technology — defined as the use of technology for communications and information gathering and storage — size largely dictates audit plan coverage. Overall, 69% of Pulse survey respondents report they include IT in their audit plans. Yet the range in coverage from smallest to largest functions is significant, starting with a low of 53% and going up to 85% (Exhibit 1.4).

Sufficiency of funding also appears to play a role. Three-quarters of respondents who describe resources as "completely or mostly sufficient" include IT in their audit plans, compared to about 60% of other respondents.[8]

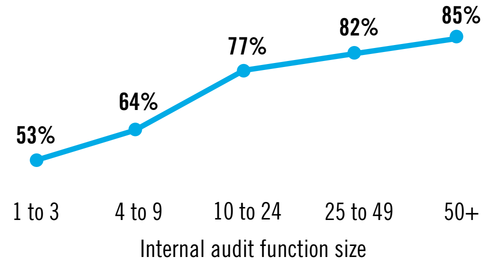
Exhibit 1.3: Cybersecurity Included in Audit Plan (Compared to Internal Audit Function Size)



68% for all respondents

Note: Q14.3: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: cybersecurity. $n = 101$ for 1 to 3; $n = 229$ for 4 to 9; $n = 182$ for 10 to 24; $n = 50$ for 25 for 49; $n = 55$ for 50+. $n = 617$ for all.

Exhibit 1.4: IT Included in Audit Plan (Compared to Internal Audit Function Size)



69% for all respondents

Note: Q14.9: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: information technology. $n = 101$ for 1 to 3; $n = 229$ for 4 to 9; $n = 182$ for 10 to 24; $n = 50$ for 25 for 49; $n = 53$ for 50+. $n = 615$ for all.

7. 2020 North American Pulse of Internal Audit survey, Q14.3: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: cybersecurity. $n = 262$ for those mandated by law to comply with Sarbanes-Oxley. $n = 301$ for those who have not implemented Sarbanes-Oxley.

8. 2020 North American Pulse of Internal Audit survey, Q14.9: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: information technology. Compared to Q20: In your opinion, how sufficient is the funding for your internal audit department relative to the extent of its responsibilities? Response rates were 358 for completely or mostly sufficient, 153 for somewhat sufficient, 115 for insufficient. $n = 626$ for all.

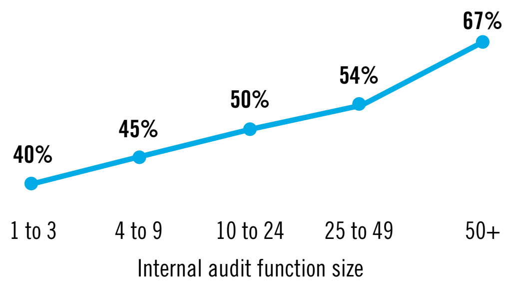
Third-party Relationships

Less than half (48%) of respondents say their functions devote any portion of the audit plan to third-party relationships (Exhibit 1.1). This finding should raise concern because most organizations rely heavily on third-party providers in key risk areas. For example, the 2019 Pulse data showed that 8 in 10 organizations had third-party contracts for IT services.[9]

Notably, Pulse respondents indicate growing concern about third-party relationships. The percentage of CAEs rating this risk as high or very high spiked from 38% to 51% between 2019 and 2020 (Exhibit 4.1). Financial services organizations are the most likely to dedicate audit plan resources to this risk (69%), while just 39% of nonfinancial industries include third-party relationships in their audit plans. In manufacturing, only 31% of respondents address this risk area.[10]

Additionally, the size of the audit function correlates with the likelihood of covering third-party relationships in the audit plan. Of functions with 1 to 3 employees, 40% include third-party relationships in audit plans, compared to 67% of functions with more than 50 employees (Exhibit 1.5).

Exhibit 1.5: Third-party Relationships Included in Audit Plan (Compared to Internal Audit Function Size)



48% **for all respondents**

Note: Q14.10: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: third-party relationships. $n = 101$ for 1 to 3; $n = 229$ for 4 to 9; $n = 182$ for 10 to 24; $n = 50$ for 25 for 49; $n = 55$ for 50+. $n = 617$ for all.

9. The IIA, *2019 North American Pulse of Internal Audit: Defining Alignment in a Dynamic Risk Landscape* (Lake Mary, FL: The IIA, 2019), 13, https://www.theiia.org/centers/aec/Pages/2019-Pulse-of-Internal-Audit.aspx.

10. 2020 North American Pulse of Internal Audit survey, Q14.10: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: third-party relationships. $n = 189$ for finance and insurance. $n = 441$ for not financial services. $n = 75$ for manufacturing. Manufacturing is a subset of the "not financial services" category.

Governance and Culture

The role of governance and culture continues to attract attention from investors and regulators. However, less than half of respondents (45%) include governance and culture in their audit plans (Exhibit 1.1). Considering that several high-profile corporate scandals over the past decade were rooted in toxic cultures or poor governance, this statistic should be troubling.

Findings in the recently published *American Corporate Governance Index* (ACGI) echo this concern. CAEs of publicly traded North American companies rated their organizations with an overall grade of C+ on governance measures, indicating that the organizations are vulnerable to corporate governance weakness or failures. Indeed, when CAEs rated their organizations on each of the index's eight Guiding Principles of Corporate Governance, the lowest rating involved whether organizations assess and evaluate the full systems of corporate governance.[11]

Additional analysis of the data finds the best showing by industry is in financial services and insurance, where 57% of respondents said they devote some part of the audit plan to governance and culture. This may reflect the influence of regulators, who have recently urged greater focus on culture. It is important to note that higher coverage of this risk within finance and insurance functions improves the overall average results in this risk category.[12] Among the worst performers in this risk area was manufacturing, where a scant 27% address the issue.

Sustainability

Just 10% of survey respondents said they devote any part of their audit plan to sustainability (Exhibit 1.1), one of the fastest-growing areas of investor interest.[13] While sustainability has emerged only recently as a topic of greater interest to stakeholders, there are potentially significant risks relating to sustainability, such as sustainability reporting errors, resource depletion, and loss of long-term value.

One-third of respondents from mining/quarrying/oil & gas extraction companies report devoting some part of their audit plans to sustainability, by far the highest among industry types. Financial services was slightly higher than average with 14%.[14]

On a positive note, the percentage of organizations devoting part of their audit plans to sustainability will likely grow over time. Sustainability was among the risks expected to see the highest growth in terms of relevance to organizations over the next five years, according to the survey of CAEs conducted for the OnRisk 2020 report.[15]

11. The IIA and the University of Tennessee, *2019 American Corporate Governance Index: Failure to Make the Grade* (Lake Mary, FL: The IIA and the University of Tennessee, Knoxville, 2019), 21, https://na.theiia.org/about-us/Pages/American-Corporate-Governance-Index.aspx.

12. 2020 North American Pulse of Internal Audit survey, Q14.8: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: governance and culture. $n = 189$ for finance and insurance. $n = 441$ for not financial services. $n = 75$ for manufacturing. Manufacturing is a subset of the "not financial services" category.

13. Robert G. Eccles and Svetlana Klimenko, "The Investor Revolution," *Harvard Business Review*, May–June 2019, https://hbr.org/2019/05/the-investor-revolution.

14. 2020 North American Pulse of Internal Audit survey, Q14.13: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Topic: sustainability. $n = 18$ for mining, quarrying, oil/gas extraction. $n = 189$ for financial services.

15. *OnRisk 2020: A Guide to Understanding, Aligning, and Optimizing Risk* (Lake Mary, FL: The IIA, November 2019), 18, https://na.theiia.org/periodicals/OnRisk/Pages/default.aspx.


MPa
0
0,2
0,4
0,6
0,8
1,0
1,2
1,4
1,6

SECTION 2

Too Many Functions Performing at Lower Levels

The Pulse survey asked audit leaders to rate their function's maturity based on descriptions of audit functions in the Internal Audit Ambition Model. It is encouraging that 8 in 10 respondents rated their functions at levels that support strategic risk management, long-term planning, and continuous improvement. However, 2 in 10 rated their functions at levels that fall below integration into the organization and conforming to IIA *Standards* (Exhibit 2.1).

The International Professional Practices Framework (IPPF) encourages all functions to conform to its mandatory elements.

Internal Audit Ambition Model

The introduction to the ambition model eloquently describes the importance and value of a strong internal audit function:

> "In a globally connected world, there is a growing need for internal audit functions (IAFs) that deliver added value to their organizations. Stakeholders expect more from their IAFs. They want IAFs to provide assurance that controls are working properly, to give advice on changes and operational issues, and to anticipate and provide insights on risks to the organization."

With its roots firmly in the IPPF, the model sets out the internal audit function's purpose and embraces the idea that it should aspire to be more than an assurance function of limited scope.

The model includes a self-assessment tool that provides levels of ambition and best practices that can guide CAEs who want to do more than just meet professional standards. It helps CAEs formulate strategic objectives, evaluate the current function, and define a road map to achieve stated objectives. As such, it outlines how a function can progress from a level of internal auditing typical of a less established organization to one with strong, effective, internal audit capabilities generally associated with a more mature and complex organization. Importantly, it can help audit committees and boards determine how and when to broaden an internal audit function's ambition level and mandate.

Internal Audit Ambition Model

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

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

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

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

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

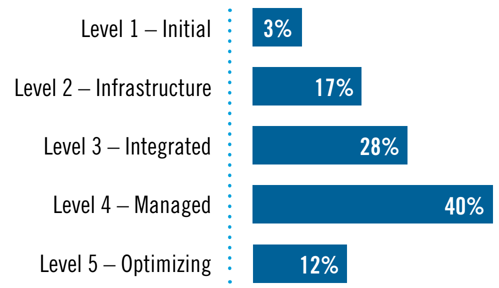
Source: The *Internal Audit Ambition Model*, developed by IIA–Netherlands and LKO/NBA. Available at https://www.iia.nl/kwaliteit/ambition-model#introduction

Self-assessment Results

A breakdown of levels shows an impressive 52% of respondents rated their functions at Level 4 – Managed or Level 5 – Optimizing. This reflects that a significant number of CAEs view their functions as well-managed, with a visible role in the organization and a long-term vision and plan (Exhibit 2.1).

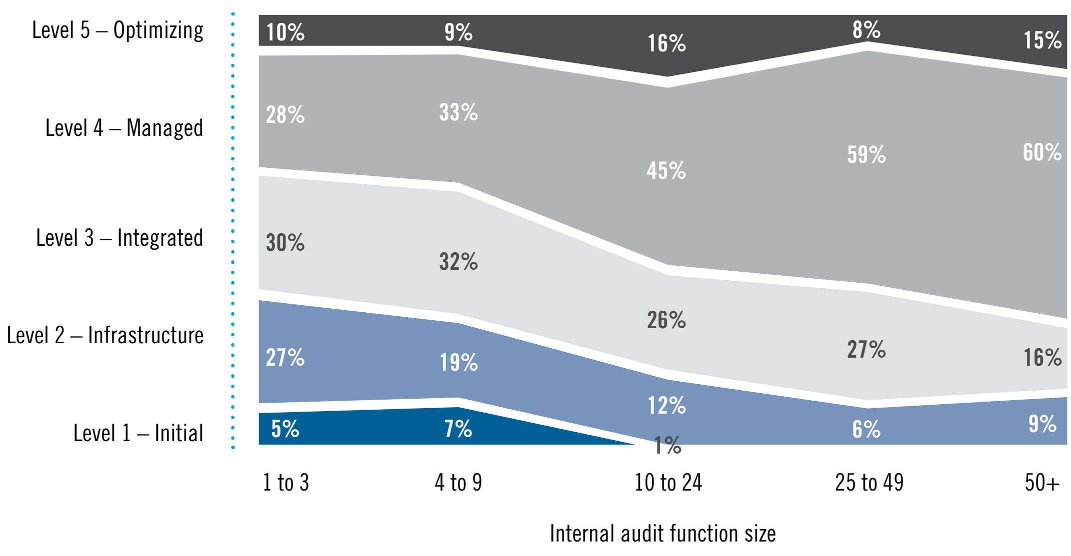
Function size contributes to the reported levels, as might be expected (Exhibit 2.2). Smaller functions face unique challenges, as evidenced by the lower percentage that rated themselves at Levels 4 and 5 – Managed and Optimizing. Only 38% of the functions with 1 to 3 employees and 42% of functions with 4 to 9 employees achieve Levels 4 and 5. Meanwhile, 75% of the largest functions (50+ employees) do. However, this does not mean these levels are out of reach. Indeed, more than one-third of CAEs from the smallest audit functions rated themselves at the top two levels. Similarly, size does not guarantee maturity or conformance. For example, CAEs who rated their functions at Level 2 – Infrastructure, appeared in each of the five size categories, including 9% of functions with more than 50 employees.

Exhibit 2.1: Internal Audit Maturity



Note: Q22: Which of the following best describes the maturity* of your organization's internal audit function? *These maturity levels are based on the *Internal Audit Ambition Model* produced by IIA–Netherlands. *n* = 610.

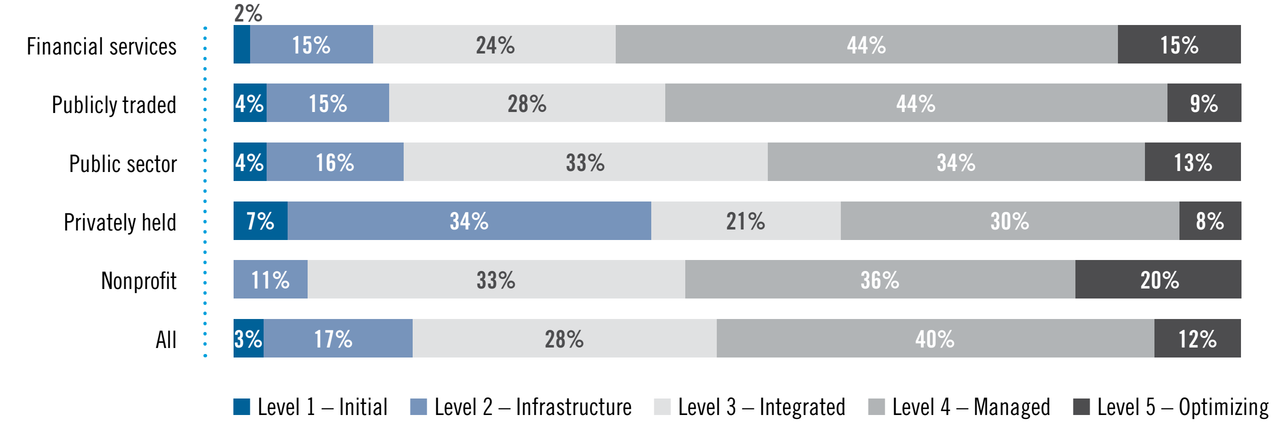
Exhibit 2.2: Internal Audit Maturity Level (Compared to Internal Audit Function Size)



Note: Q22: Which of the following best describes the maturity* of your organization's internal audit function?
*These maturity levels are based on the *Internal Audit Ambition Model* produced by IIA–Netherlands.
Response rates were 99 for 1 to 3, 227 for 4 to 9, 180 for 10 to 24, 49 for 25 to 49, and 55 for 50+. Total *n* = 610.

The differences in self-assessments among the various organization types are notable. For example, functions in privately held companies were more than twice as likely as their surveyed peers to be at Levels 1 and 2 – Initial and Infrastructure (Exhibit 2.3).

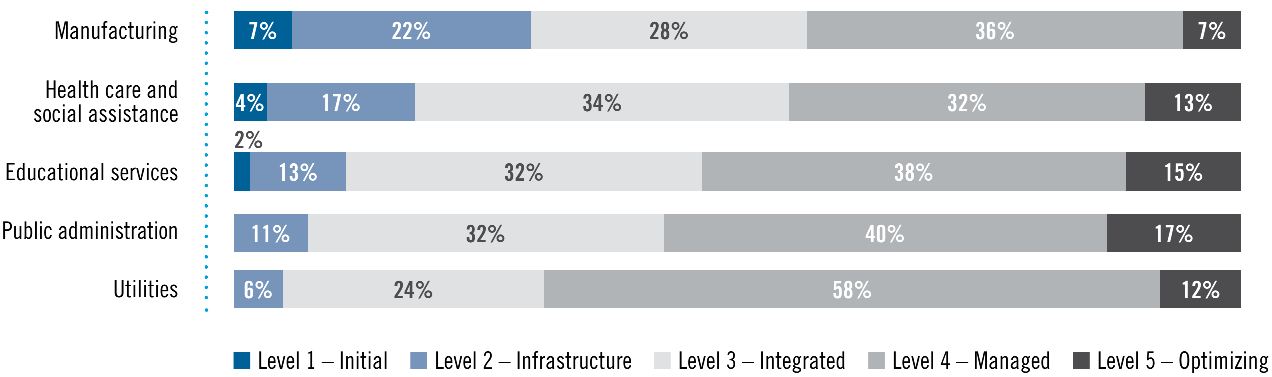
Exhibit 2.3: Internal Audit Maturity Level (Compared to Organization Type)



Note: Q22: Which of the following best describes the maturity* of your organization's internal audit function? *These maturity levels are based on the *Internal Audit Ambition Model* produced by IIA–Netherlands. Response rates were 186 for financial services, 185 for publicly traded, 133 for public sector, 61 for privately held, 45 for nonprofit.

Exhibit 2.4 looks more closely at selected industries. When sorted by industry, the two groups that had the highest percentages of respondents rating themselves at Levels 1 and 2 of the model were manufacturing with 29% and health care and social assistance with 21% reporting performance at these levels.

Exhibit 2.4: Internal Audit Maturity (Compared to Selected Industries)



Note: Q22: Which of the following best describes the maturity* of your organization's internal audit function? *These maturity levels are based on the *Internal Audit Ambition Model* produced by IIA–Netherlands. Response rates were 75 for manufacturing, 53 for public administration, 53 for educational services, 47 for health care and social assistance, and 33 for utilities. Total $n = 610$.

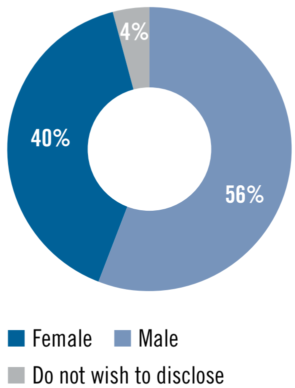

PRODUC
idea
Brainstorm

SECTION 3

Internal Audit Leadership Is Changing

The profile of internal audit leadership is changing. More women are joining the CAE ranks, and Baby Boomers are beginning to retire, with Generation X and Millennials filling those positions. What these demographic changes will mean to the profession remains to be seen, but studies identify positive impacts of gender diversity[16], and leaders who built their careers in the digital era may be more likely to adapt readily to technological change.

Exhibit 3.1: **CAE Gender**



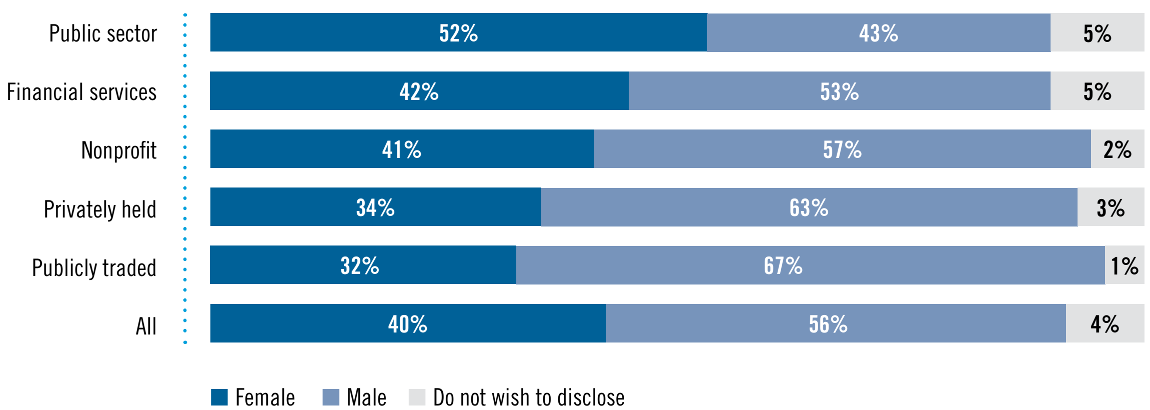
Note: Q13: What is your gender? *n* = 616.

Gender Balance

Across virtually all business types and industries, the percentage of women in internal audit leadership roles is growing. Overall, 40% of CAEs who responded to the Pulse survey are female (Exhibit 3.1).

Exhibit 3.2 shows CAE gender by organization type. The 2020 Pulse data show that public sector is the only category for which the percentage of female CAEs (52%) exceeds that of males (43%). Publicly traded (32%) and privately held (34%) organizations have the lowest representations of women. The findings indicate that the public sector leads the way in gender diversity, which is consistent with other research showing that affirmative action and equal opportunity policies in public organizations have effectively enhanced workplace diversity.[17]

Exhibit 3.2: **CAE Gender (Compared to Organization Type)**



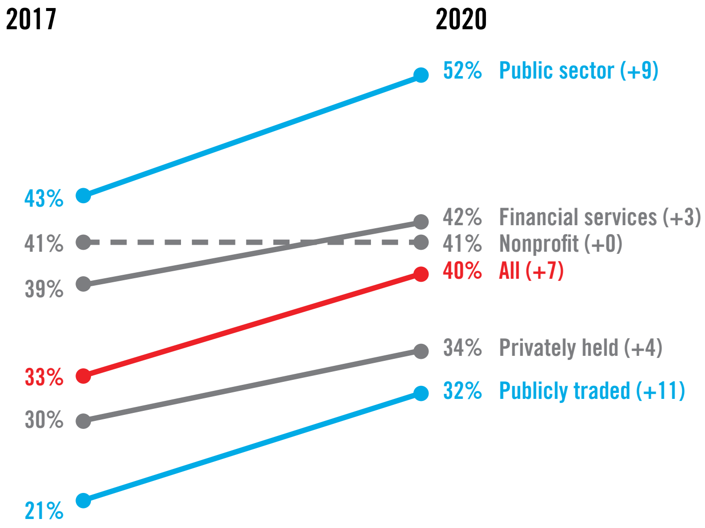
Note: Q13: What is your gender? *n* = 616.

16. Janet Brown, "Should Diversity Matter To Investors?" *Forbes*, August 26, 2019, https://www.forbes.com/sites/investor/2019/08/26/should-diversity-matter-to-investors/#246b785b7f05.

17. David Cooper, Mary Gable, and Algernon Austin, "The Public-Sector Job Crisis: Women and African-Americans Hit Hardest by Job Losses in State and Local Governments," *Economic Policy Institute*, May 2, 2012, 1–22, https://www.epi.org/publication/bp339-public-sector-jobs-crisis/.

Exhibit 3.3 identifies trends in gender representation. Looking at the change since 2017, the percentage of female executives responding to the survey increased seven percentage points overall (Exhibit 3.3). Publicly traded companies saw an 11-percentage-point increase in female CAEs, the greatest gain among the organizational types. Despite this sharp increase, the overall percentage of female representation in publicly traded companies remains the lowest among the organization types. The public sector continues to have the strongest representation of females (52%), with a 9% increase since 2017 (43%). In financial services and privately held organizations, the percentage of females increased slightly over the period reviewed. There was no change for nonprofit organizations.

Exhibit 3.3: Trend in Percentage of Female CAEs



Note: Q13: What is your gender? Graph shows those who chose female. *n* = 521 for 2017. *n* = 616 for 2020.

Some research has supported the notion that gender diversity in professional leadership roles benefits organizations. One of two studies featured in the *Harvard Business Review* showed gender diversity leads to higher productivity in areas where diversity is "normatively" accepted.[18] The other study found women do better in 84% of the leadership competencies it measured, including taking initiative, acting with resilience, practicing self-development, driving for results, and displaying high integrity and honesty.[19]

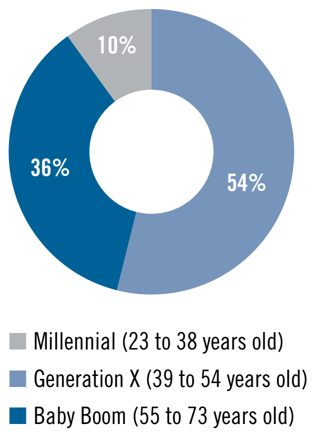
18. Stephen Turban, Dan Wu, and Letian (LT) Zhang, "When Gender Diversity Makes Firms More Productive," *Harvard Business Review*, February 11, 2019, https://hbr.org/2019/02/research-when-gender-diversity-makes-firms-more-productive.

19. Jack Zenger and Joseph Folkman, "Women Score Higher Than Men in Most Leadership Skills," *Harvard Business Review*, June 25, 2019, https://hbr.org/2019/06/research-women-score-higher-than-men-in-most-leadership-skills.

Generational Shift

Based on their reported year of birth, more than half (54%) of CAEs responding to the 2020 Pulse survey could be classified as Generation X, with Millennials accounting for another 10% (Exhibit 3.4). This generational shift is likely related to the natural cycling of these generations into leadership positions as some members of the Baby Boom generation reach retirement age.

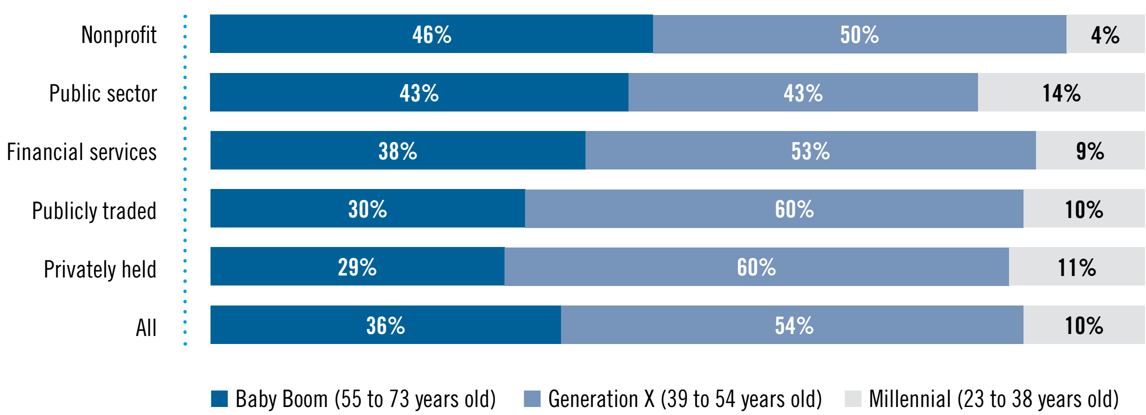
Exhibit 3.4: CAE Generation



Note: Q12: What is your year of birth (optional)? Those who did not provide a response to the year of birth question were excluded from the analysis. *n* = 395.

Publicly traded and privately held companies showed the greatest shift, with 7 out of 10 internal audit leaders belonging to the Generation X or Millennial categories (Exhibit 3.5). Nonprofits had the smallest percentage of Millennial CAEs, at just 4%, with the balance split between the Generation X (50%) and the Baby Boom (46%) generations.

Exhibit 3.5: CAE Generation (Compared to Organization Type)



Note: Q12: What is your year of birth (optional)? Response rates were 119 for publicly traded, 35 for privately held, 80 for public sector, 28 for nonprofit, 125 for financial services. *n* = 387 for all. Those who did not provide a response to the year of birth question were excluded from the analysis.

SECTION 4

Metrics for Internal Audit Leaders

Metrics for internal audit leaders are designed to help CAEs, senior management, and boards compare their functions' activities to those of similar organizations. This report uses past and present Pulse data to explore four-year trends in risk assessments and audit plan allocations.[20] Additional data from the 2020 survey show how staffing levels, hiring practices, and reporting lines vary by category type.

This report recognizes five organization types: publicly traded, privately held, public sector, nonprofit, and financial services. The financial services category was created by extracting financial services respondents from the other four organization types because financial services' responses often differ significantly from those of other organization types.

The industries most commonly represented within each organization type are shown below (totals will not equal 100%).

Publicly Traded (185 respondents)

- Manufacturing (31%)
- Utilities (11%)
- Mining, quarrying, oil/gas extraction (9%)
- Retail trade (7%)
- Information (publishing, broadcasting, data processing) (6%)

Financial Services (189 respondents)

Organization types within financial services are:

- Publicly traded (41%)
- Privately held (39%)
- Nonprofit (13%)
- Public sector (7%)

Sub-industries within financial services are:

- Financial institutions (56%)
- Insurance (31%)
- Multiple categories (6%)
- Asset management (5%)
- Broker-dealer (2%)

Public Sector (136 respondents)

- Public administration (40%)
- Educational services (26%)
- Utilities (7%)
- Health care and social assistance (6%)
- Other services (except public administration) (5%)

Privately Held (62 respondents)

- Manufacturing (27%)
- Health care and social assistance (11%)
- Professional, scientific, and technical services (11%)
- Retail trade (10%)
- Arts, entertainment, and recreation (6%)

Nonprofit (45 respondents)

- Health care and social assistance (46%)
- Educational services (20%)
- Utilities (7%)
- Other services (except public administration) (7%)

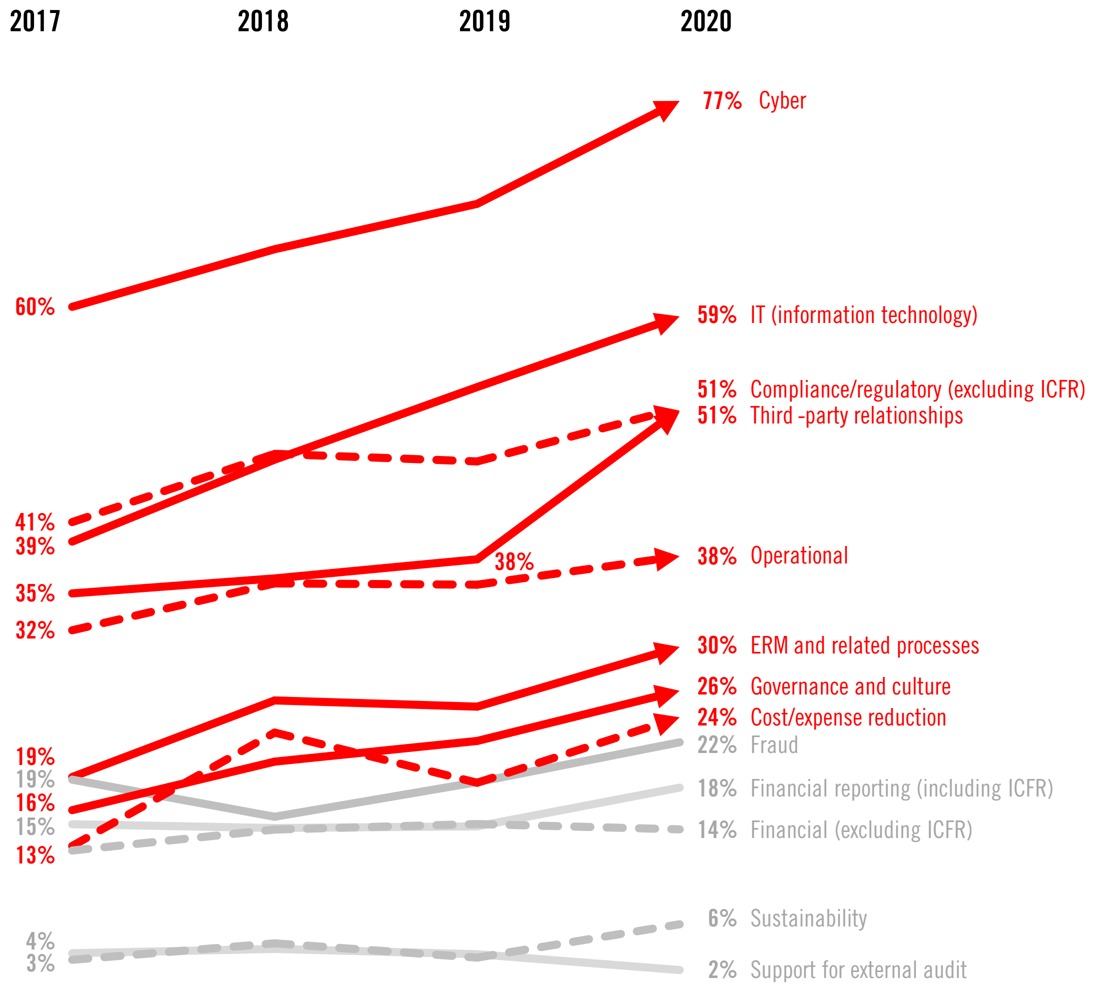
20. The surveys used to develop the Pulse reports are administered the year before the report is released. For example, the survey for the Pulse 2020 report was conducted June 3-27, 2019. In exhibits, the years are a reference to when the Pulse report was released (not the year the survey was administered).

Risk and Audit Plan Trends

Risk – All Respondents

Exhibit 4.1 shows the trend from 2017 to 2020 in perceived levels of risk when all respondents (all organization types) are combined. The combined average indicates that perceived levels of almost all risks trended strongly upwards. The trends in cybersecurity, IT, and third-party relationships are significant. Additionally, as upcoming exhibits illustrate, perceived levels of risk vary significantly by organization type.

Exhibit 4.1: Risk Trend – All Respondents
Areas Assessed as High/Very High Risk



Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. Response rates were 529 for 2017, 630 for 2018, 507 for 2019, 626 for 2020.

- Trending up (5 percentage points up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 5 percentage point change)
- Trending down (5 percentage points down or more)

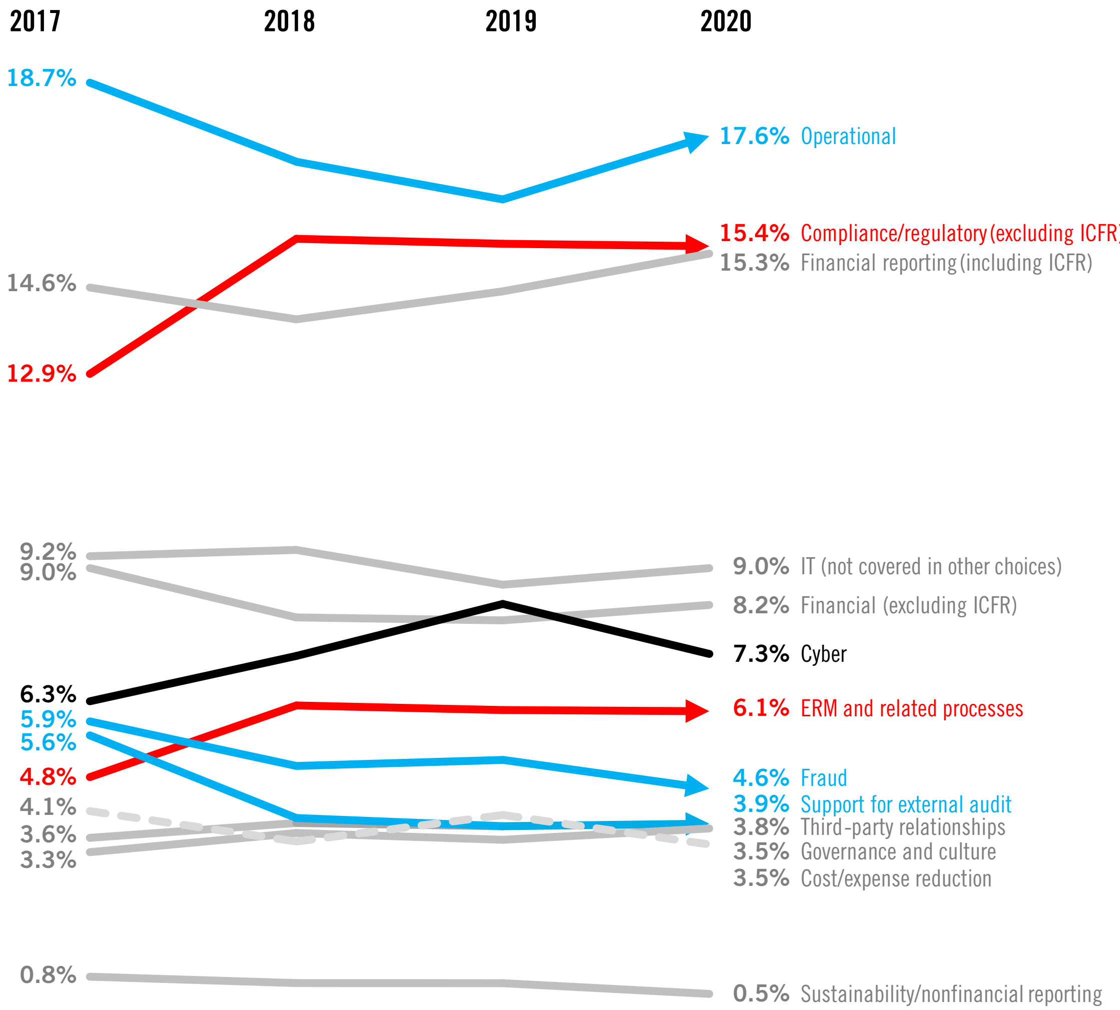
Dashes are used when lines overlap.

Audit Plan – All Respondents

Exhibit 4.2 shows the four-year trend in percentage of audit plan allocations to key risk areas based on all respondent data. The results suggest that audit plan allocations do not change dramatically from year to year. Publicly traded and financial services comprise more than 60% of the respondents and therefore drive the results of the overall average. The nuances in the trends make more sense when viewed separately by organization types in the pages that follow.

Exhibit 4.2: **Audit Plan Trend – All Respondents**

Percentage of Audit Plan Allocation



Note: Multiple Pulse surveys. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls for financial reporting. The percentage allocated to "other" is not included in this graph; therefore, the total will not equal 100%. All respondents. Response rates were 509 for 2017, 636 for 2018, 512 for 2019, 630 for 2020.

- Trending up (1 percentage point up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 1 percentage point change)
- Trending down (1 percentage point down or more)

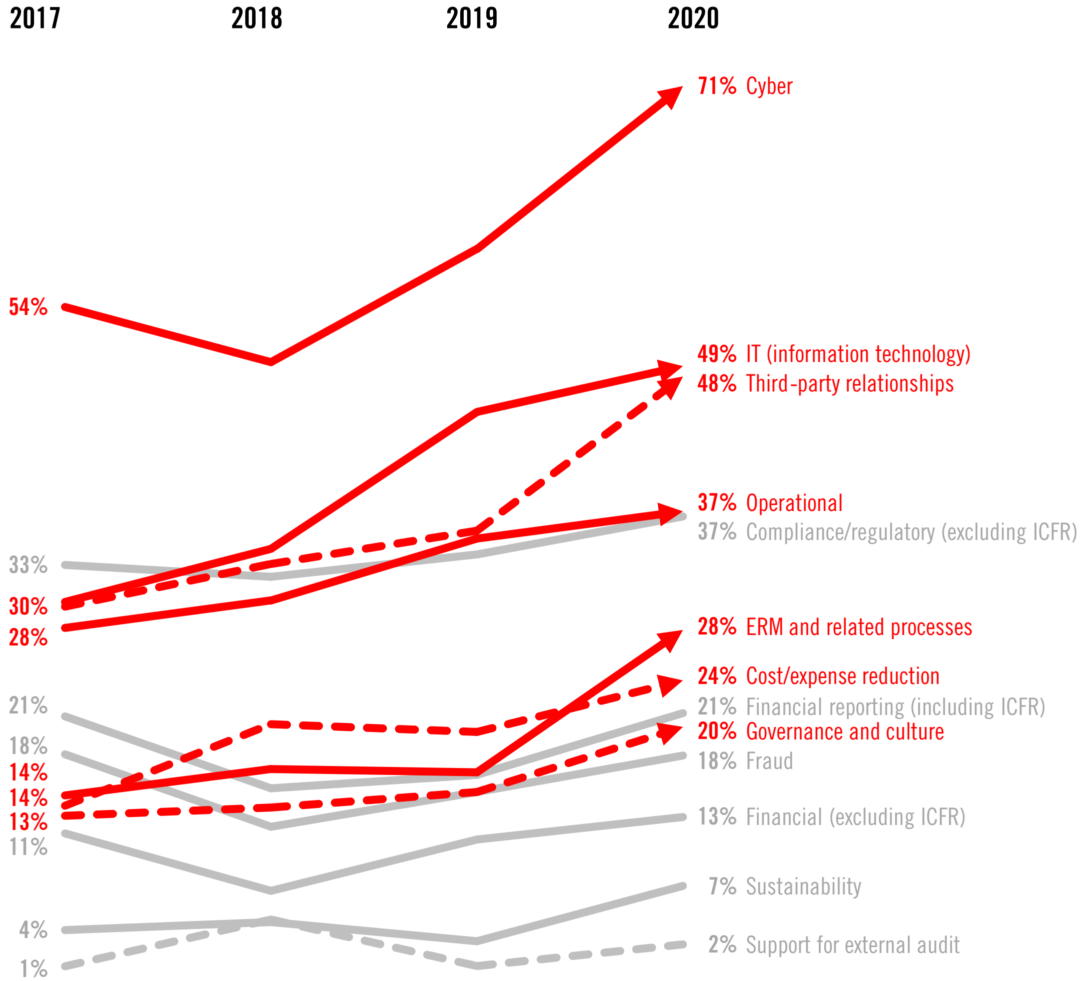
Dashes are used when lines overlap.

Risk – Publicly Traded

The percentage of respondents from publicly traded organizations that view IT-related risk as high or very high has risen 19 points between 2017 and 2020. Similarly, sharp increases occurred in the percentage of CAEs who rated risks related to third-party relationships as high or very high (18 points). Other risks trending upward over the four-year period include those related to cyber and ERM (17 points and 14 points, respectively). Even though the audit plans virtually exclude sustainability, 7% of respondents considered sustainability to be a high or very high risk in 2020. This corroborates the finding from OnRisk 2020 that suggests attention to this emerging risk is growing.

Exhibit 4.3: Risk Trend – Publicly Traded

Areas Assessed as High/Very High Risk



Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. The percentage allocated to "other" is not included in this graph. Only publicly traded respondents. Response rates were 164 for 2017, 194 for 2018, 157 for 2019, 182 for 2020.

- Trending up (5 percentage points up or more)
- Neutral (less than 5 percentage point change)
- Elevated (trending up overall but not consistently)
- Trending down (5 percentage points down or more)

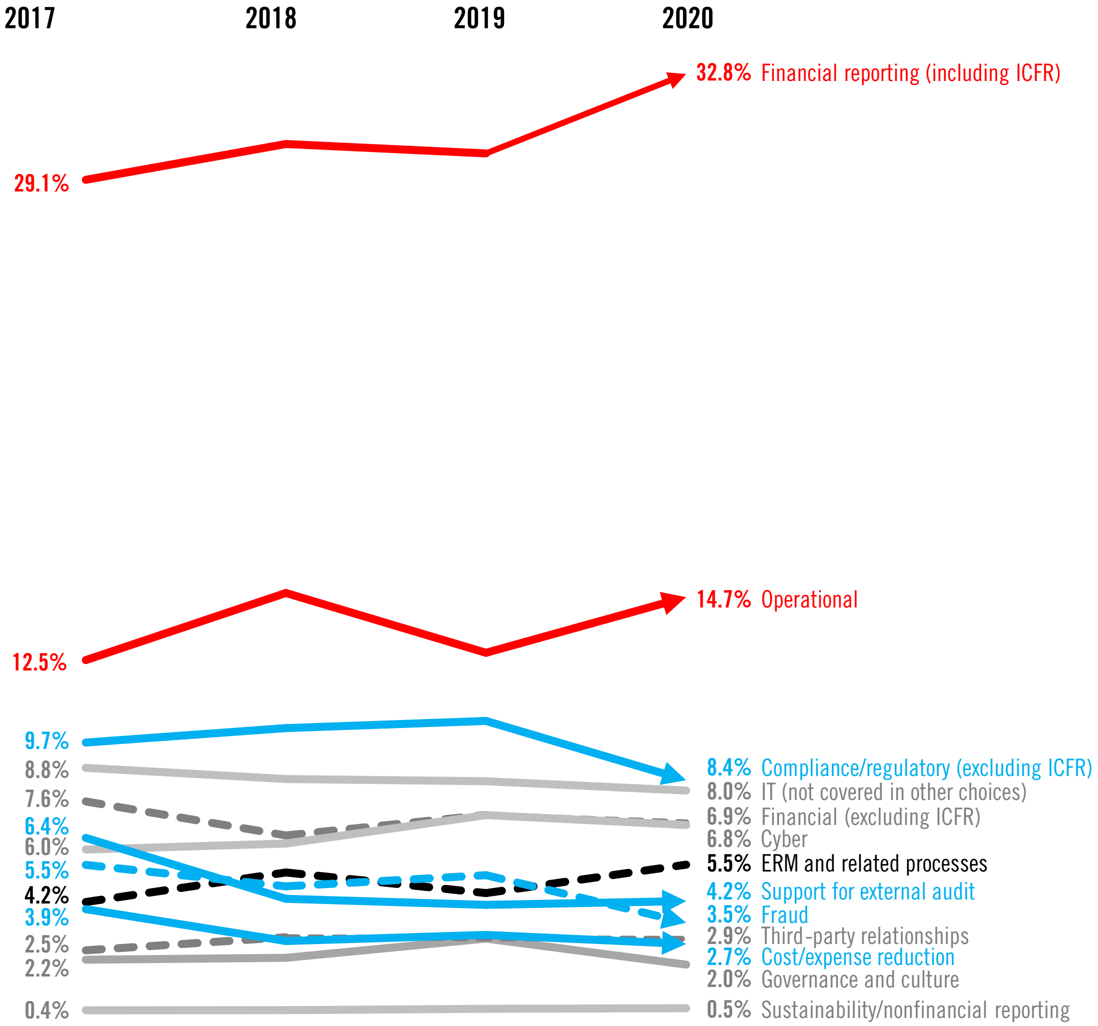
Dashes are used when lines overlap.

Audit Plan – Publicly Traded

In publicly traded companies (excluding the financial services industry), CAEs continue to dedicate about 40% of their internal audit plans to financial reporting and compliance/regulatory risks. Financial reporting including ICFR (presumably related to Sarbanes-Oxley Section 404 compliance) consistently occupies nearly one-third of their audit plans. Meanwhile, the four risks topping the high or very high ratings list – cybersecurity, ERM, IT, and third-party relationships – combined comprise only 23.2% of audit plans in 2020.

Exhibit 4.4: Audit Plan Trend – Publicly Traded

Percentage of Audit Plan Allocation



Note: Multiple Pulse surveys. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls for financial reporting. The percentage allocated to "other" is not included in this graph; therefore, the total will not equal 100%. Only publicly traded respondents (excluding financial services). Response rates were 166 for 2017, 197 for 2018, 157 for 2019, 185 for 2020.

- Trending up (1 percentage point up or more)
- Neutral (less than 1 percentage point change)
- Elevated (trending up overall but not consistently)
- Trending down (1 percentage point down or more)

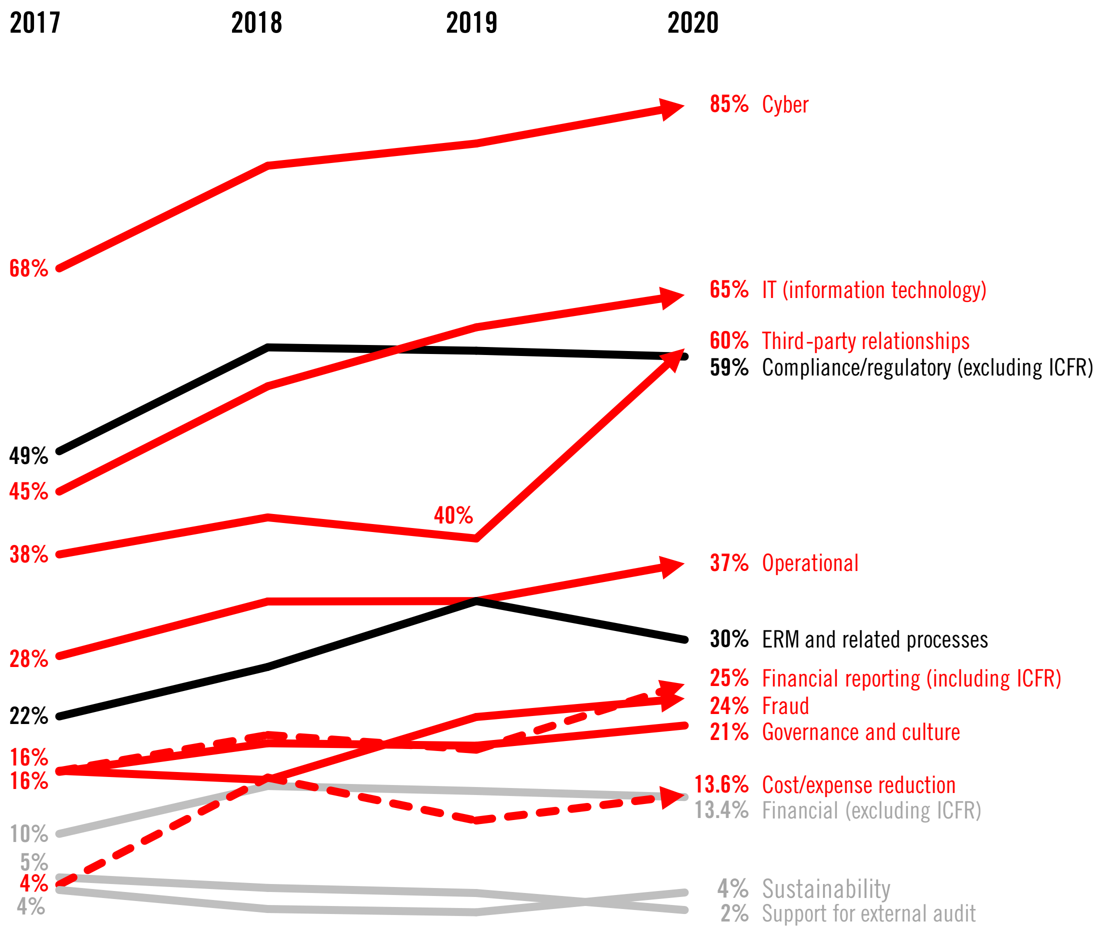
Dashes are used when lines overlap.

Risk – Financial Services

Financial industry respondents continue to top their list of high/very high risk concerns with those related to cybersecurity (85%), IT (65%), and regulatory compliance (excluding ICFR, 59%). While the percentage of CAEs rating cyber and IT risks as high/very high grew steadily over four years (17 points and 20 points, respectively), the percentage of financial services organizations considering third-party relationships risk as high or very high increased sharply from 2019 to 2020, gaining 20 points in just one year. The percentage of CAEs concerned with compliance risk trended downward slightly between 2018 and 2020, but still grew by 10 points over the four years.

Exhibit 4.5: Risk Trend – Financial Services

Areas Assessed as High/Very High Risk



Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. Financial services only. Response rates were 147 for 2017, 186 for 2018, 150 for 2019, 189 for 2020.

- Trending up (5 percentage points up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 5 percentage point change)
- Trending down (5 percentage points down or more)

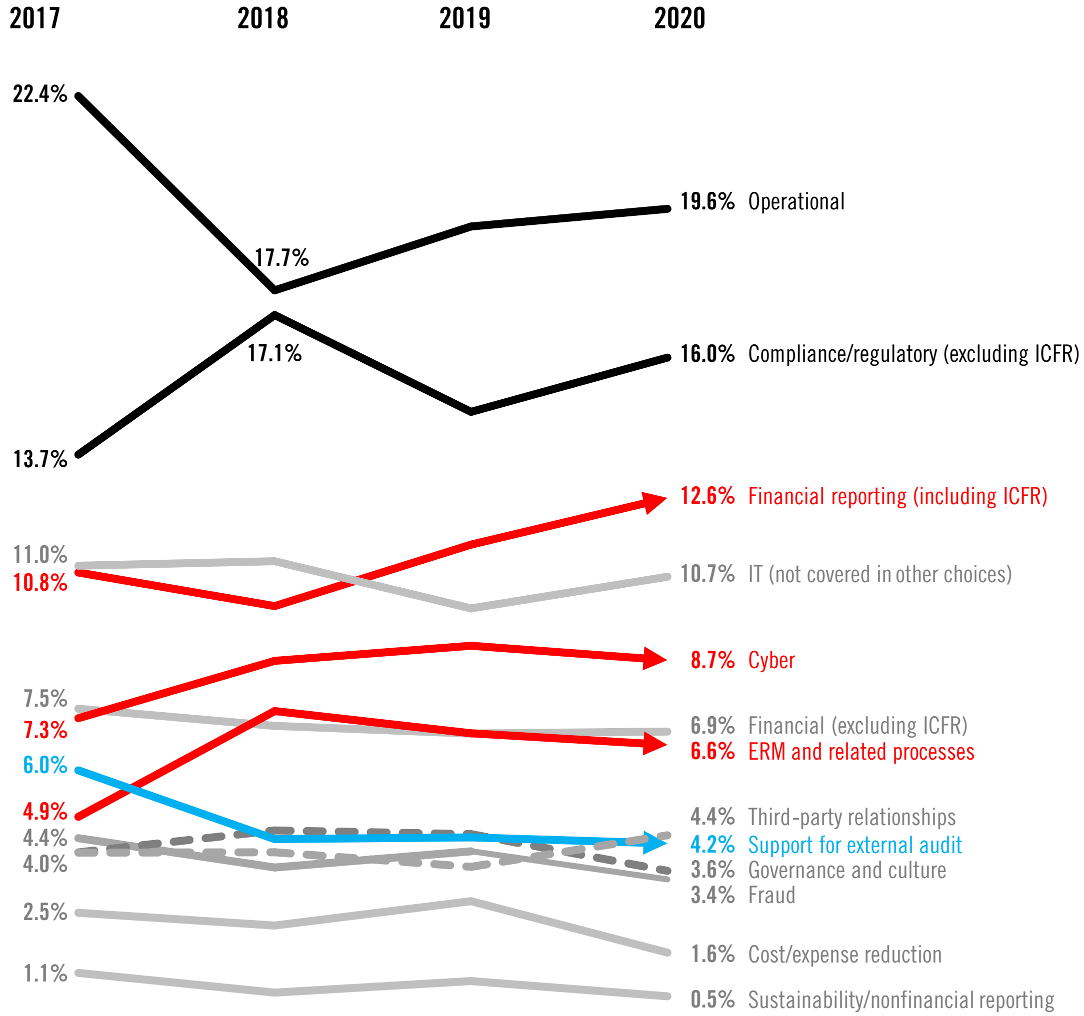
Dashes are used when lines overlap.

Audit Plan – Financial Services

While the financial services industry is highly regulated, the percentage of audit plan effort devoted to both compliance/regulatory and financial reporting (including ICFR) increased only slightly over the four-year period. It is the only organization type where operational effort in audit plans exceeds compliance effort. This may be attributable to strong second line of defense programs around compliance in the financial services industry. Despite the sharp increase in the percentage of respondents judging third-party risk as high or very high, the allocation of audit plan effort to this risk increased only minimally and remains under 5% for the financial services industry.

Exhibit 4.6: Audit Plan Trend – Financial Services

Percentage of Audit Plan Allocation



Note: Multiple Pulse surveys. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls for financial reporting. The percentage allocated to "other" is not included in this graph; therefore, the total will not equal 100%. Only financial services respondents. Response rates were 139 for 2017, 186 for 2018, 151 for 2019, 189 for 2020.

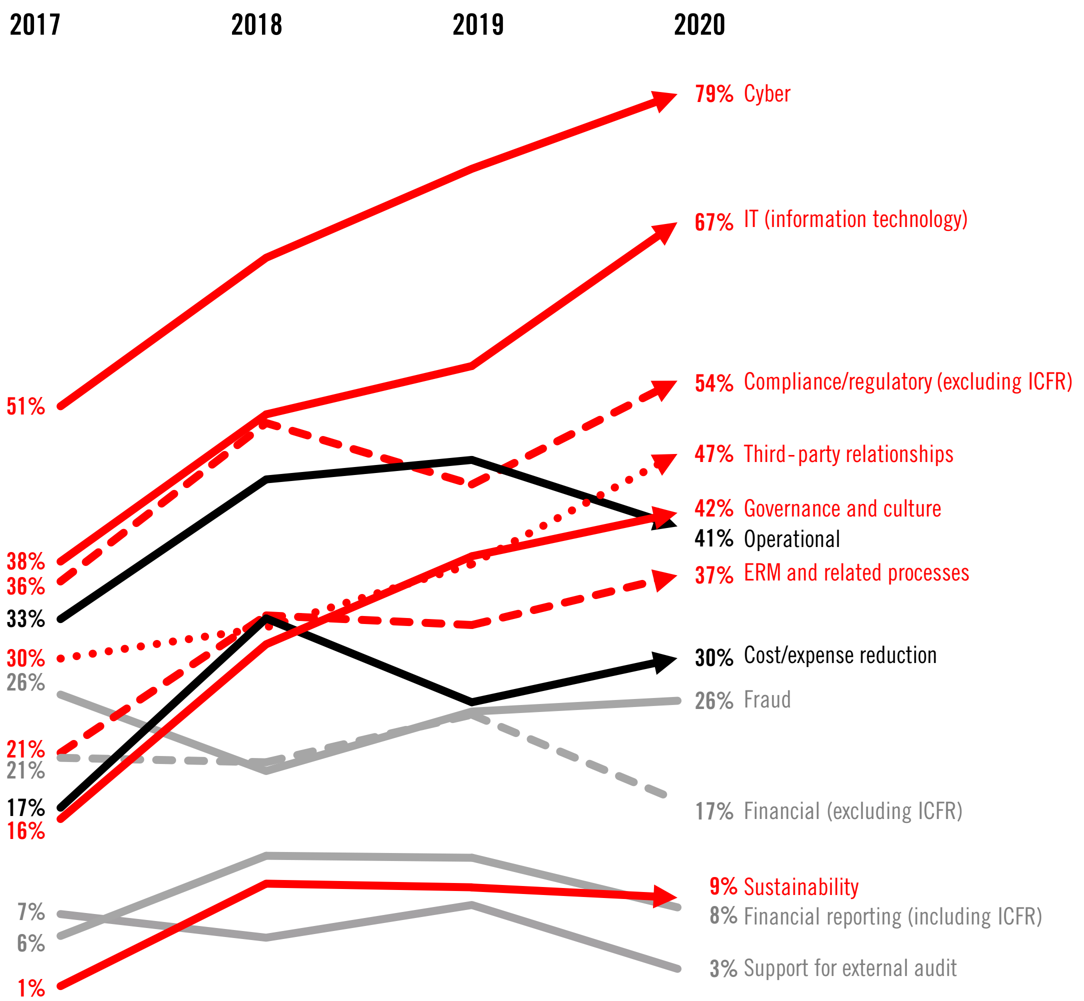
- Trending up (1 percentage point up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 1 percentage point change)
- Trending down (1 percentage point down or more)

Dashes are used when lines overlap.

Risk – Public Sector

Public sector respondents continue to rate risks related to cybersecurity and IT as high or very high (79% and 67%, respectively). The percentage of respondents rating compliance, third-party relationships, and governance/culture as high/very high increased, while the percentage of respondents rating operational risk and financial risk (excluding ICFR) as high/very high decreased from prior years.

Exhibit 4.7: **Risk Trend – Public Sector**
Areas Assessed as High/Very High Risk



Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. Public sector only. Response rates were 103 for 2017, 133 for 2018, 94 for 2019, 135 for 2020.

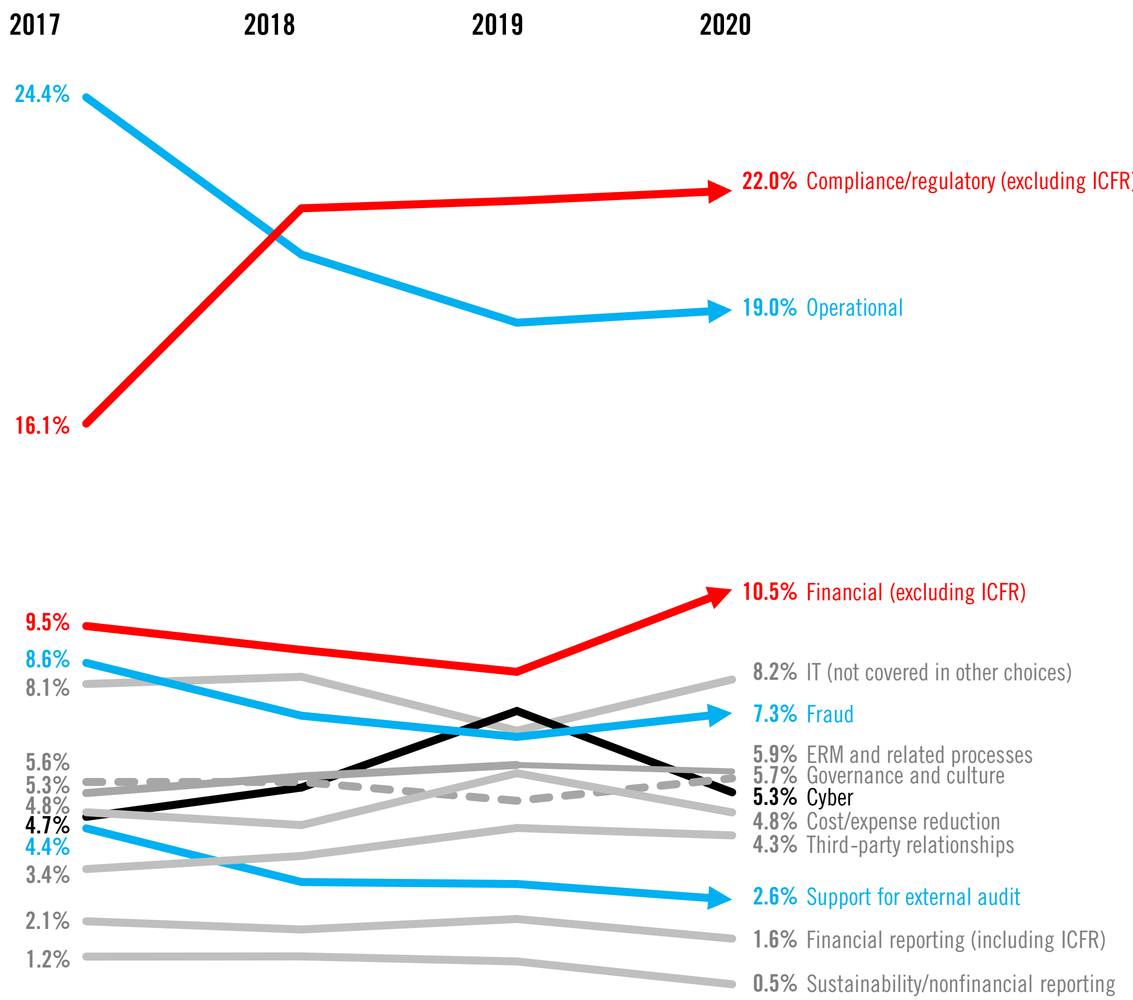
- Trending up (5 percentage points up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 5 percentage point change)
- Trending down (5 percentage points down or more)

Dashes are used when lines overlap.

Audit Plan – Public Sector

Since 2017, the percentage of CAEs who dedicate a large portion of their audit plan to regulatory compliance has increased slightly to become the largest audit plan category for the public sector. This trend is not surprising, given the mandated compliance audits often required in the public sector. After multiple years of decreases in the audit plan effort devoted to operational audits in the public sector, that area too has leveled off from the prior year. Despite cybersecurity's ranking at the top of the high/very high risk list, the percentage of audit plans devoted to this risk dropped to about 5%, which is the lowest among all organization types.

Exhibit 4.8: Audit Plan Trend – Public Sector
Percentage of Audit Plan Allocation



Note: Multiple Pulse surveys. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls for financial reporting. The percentage allocated to "other" is not included in this graph; therefore, the total will not equal 100%. Only public sector respondents (excluding financial services). Response rates were 103 for 2017, 134 for 2018, 96 for 2019, 136 for 2020.

- Trending up (1 percentage point up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 1 percentage point change)
- Trending down (1 percentage point down or more)

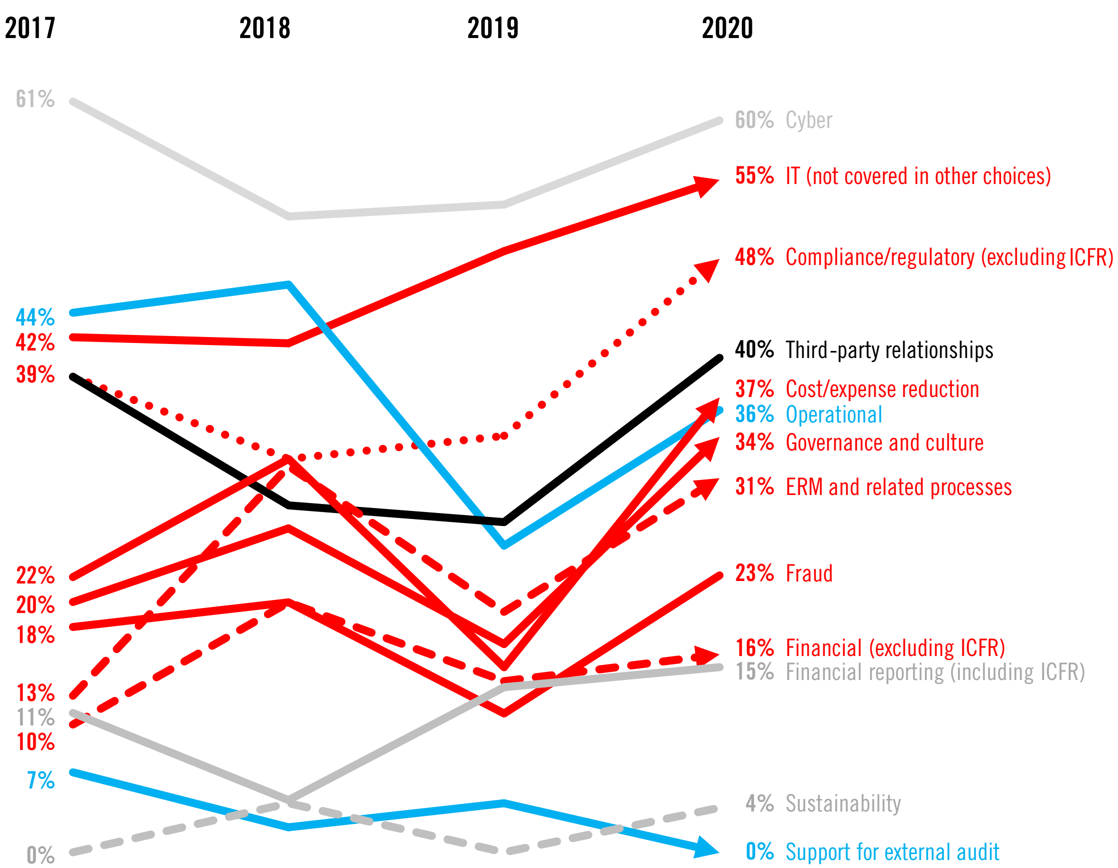
Dashes are used when lines overlap.

Risk – Privately Held

With the exception of support for external audit, a large number of respondents in this category viewed all risks as high or very high, compared to the previous year. While cybersecurity tops the list of risks rated as high or very high, the percentage of respondents rating it as such is just 60%, much lower than the overall average of 77%.

Exhibit 4.9: **Risk Trend – Privately Held**

Areas Assessed as High/Very High Risk



Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. Privately held only. Response rates were 50 for 2017, 54 for 2018, 53 for 2019, 62 for 2020.

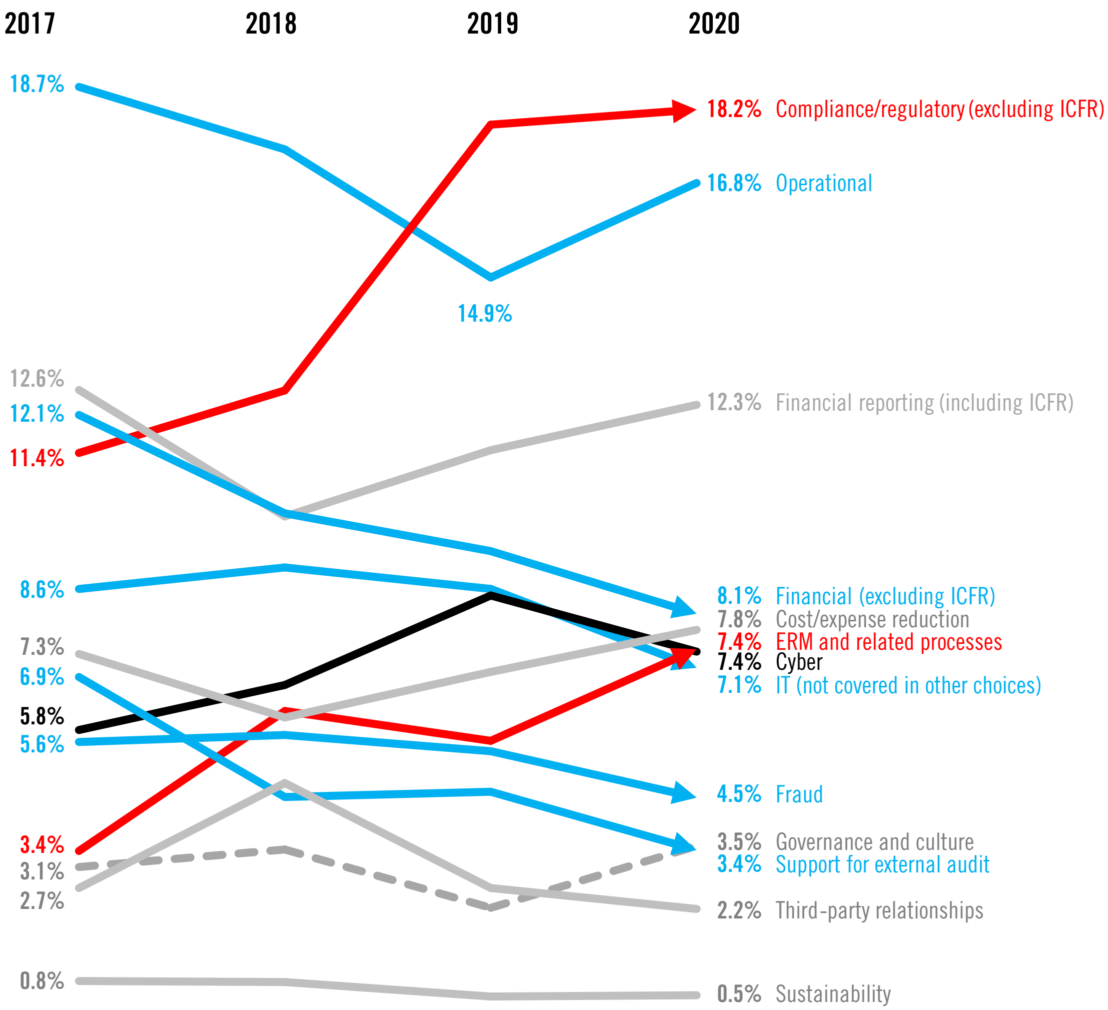
- Trending up (5 percentage points up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 5 percentage point change)
- Trending down (5 percentage points down or more)

Dashes are used when lines overlap.

Audit Plan – Privately Held

The privately held organization type is dominated by manufacturing, health care, and scientific services, which is reflected in the greater focus on nonfinancial compliance and regulatory efforts. Although only a 2% change, the increase in the allocation of audit effort to operational audits ends a multi-year downward trend in operational auditing.

Exhibit 4.10: Audit Plan Trend – Privately Held
Percentage of Audit Plan Allocation



Note: Multiple Pulse surveys. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = internal controls for financial reporting. The percentage allocated to "other" is not included in this graph; therefore, the total will not equal 100%. Only privately held respondents (excluding financial services). Response rates were: 51 for 2017, 54 for 2018, 53 for 2019, 62 for 2020.

- Trending up (1 percentage point up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 1 percentage point change)
- Trending down (1 percentage point down or more)

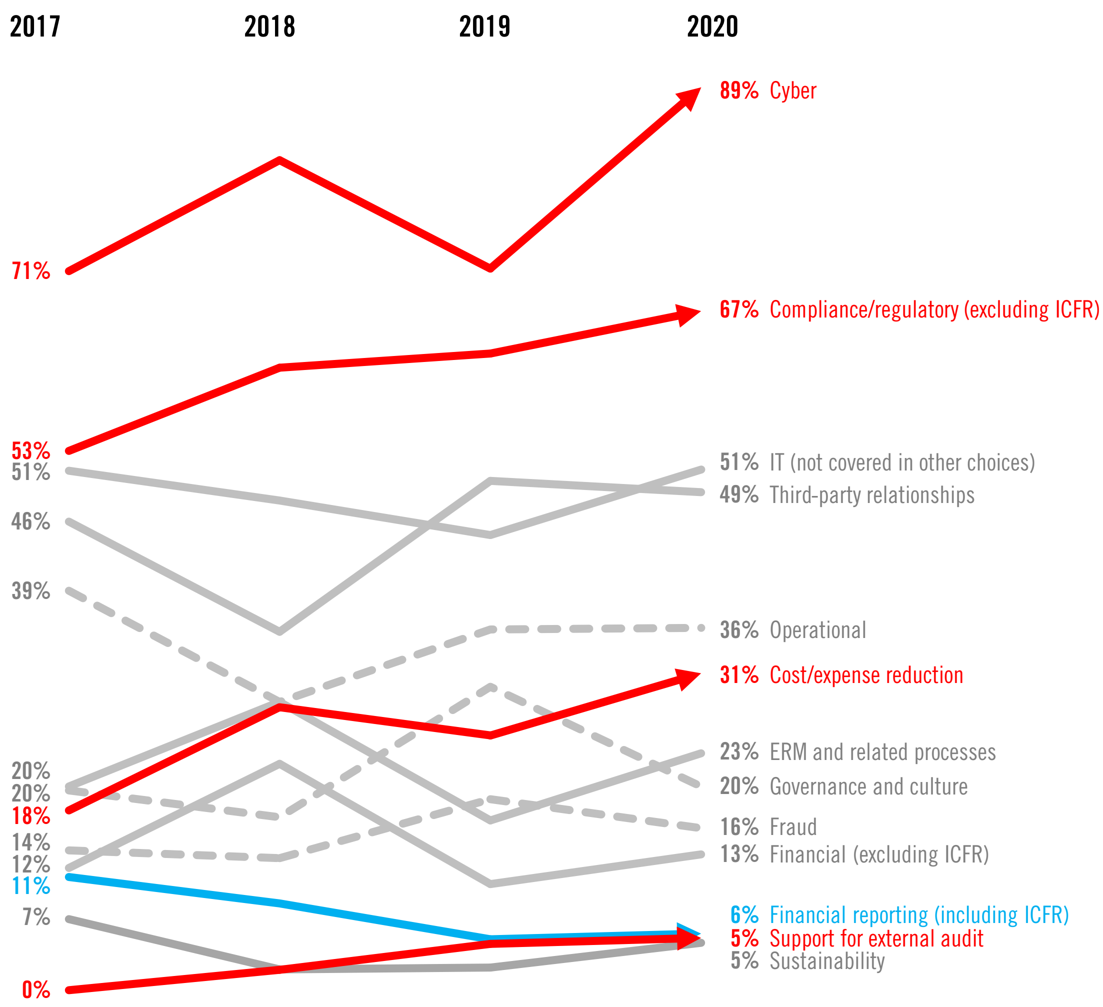
Dashes are used when lines overlap.

Risk – Nonprofit

Nine in 10 CAEs from nonprofit organizations rated cybersecurity as a high or very high risk, the most among any organization type. Similarly, nonfinancial compliance/regulatory risk was rated high or very high by 67%, which is greater than that expressed by any other organization type. These ratings make sense given the types of organizations comprising this category, largely health care and social assistance organizations, which accumulate and use particularly sensitive information (46% of respondents in this category).

Exhibit 4.11: Risk Trend – Nonprofit

Areas Assessed as High/Very High Risk



Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. Nonprofit only. Response rates were 51 for 2017, 54 for 2018, 48 for 2019, 45 for 2020.

- Trending up (5 percentage points up or more)
- Elevated (trending up overall but not consistently)
- Neutral (less than 5 percentage point change)
- Trending down (5 percentage points down or more)

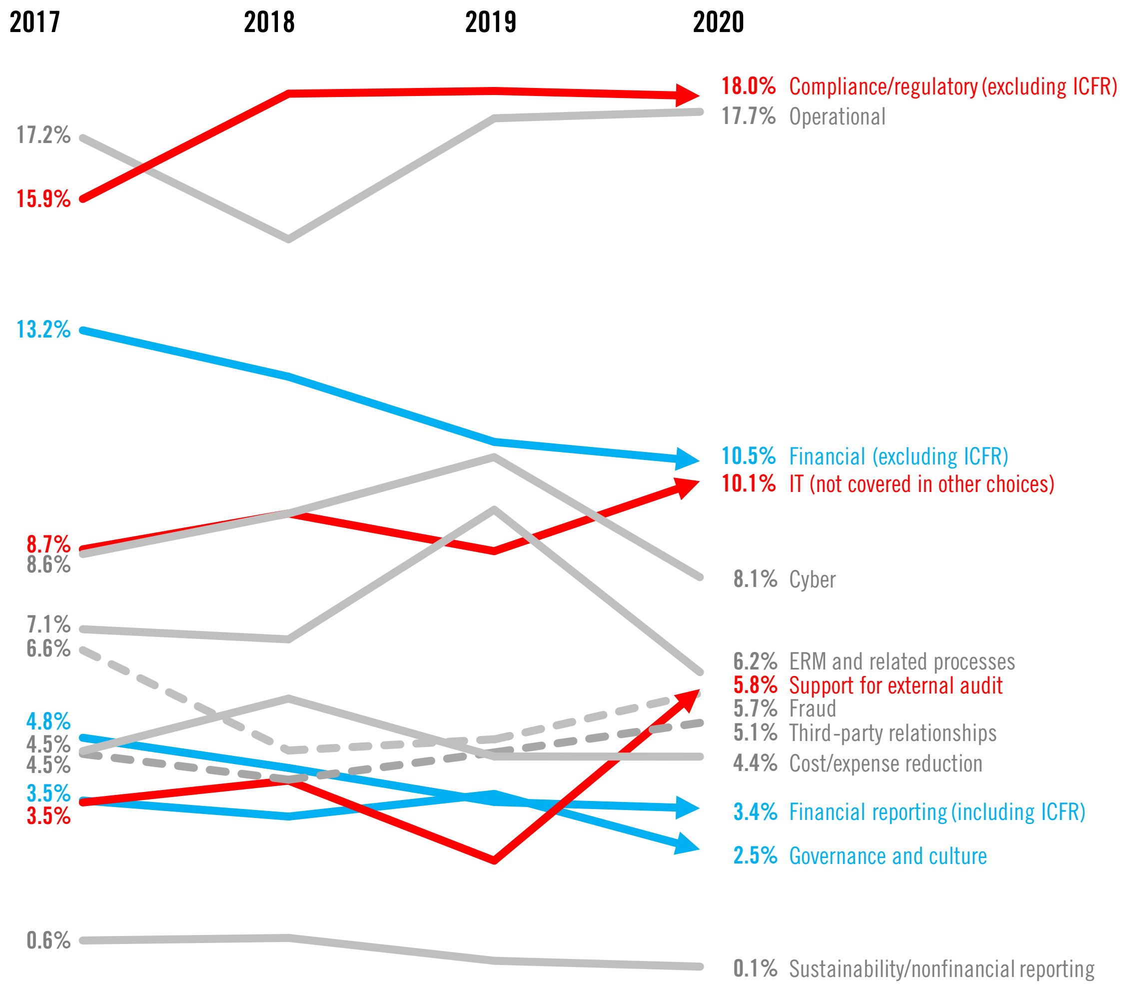
Dashes are used when lines overlap.

Audit Plan – Nonprofit

Consistent with the perception that their exposure to nonfinancial compliance/regulatory risk is high/very high, nonprofits allocate a substantial percentage of their audit plans to this area (18%). Indeed, when coupled with operational audits (17.7%), the two areas comprise more than one-third (36%) of audit plans. No more than 11% is dedicated to any other single area.

Exhibit 4.12: Audit Plan Trend – Nonprofit

Percentage of Audit Plan Allocation



Note: Multiple Pulse surveys. Question: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. ICFR = Internal controls for financial reporting. The percentage allocated to "other" is not included in this graph; therefore, the total will not equal 100%. Only nonprofit respondents (excluding financial services). Response rates were 51 for 2017, 54 for 2018, 48 for 2019, 46 for 2020.

- Trending up (1 percentage point up or more)
- Neutral (less than 1 percentage point change)
- Elevated (trending up overall but not consistently)
- Trending down (1 percentage point down or more)

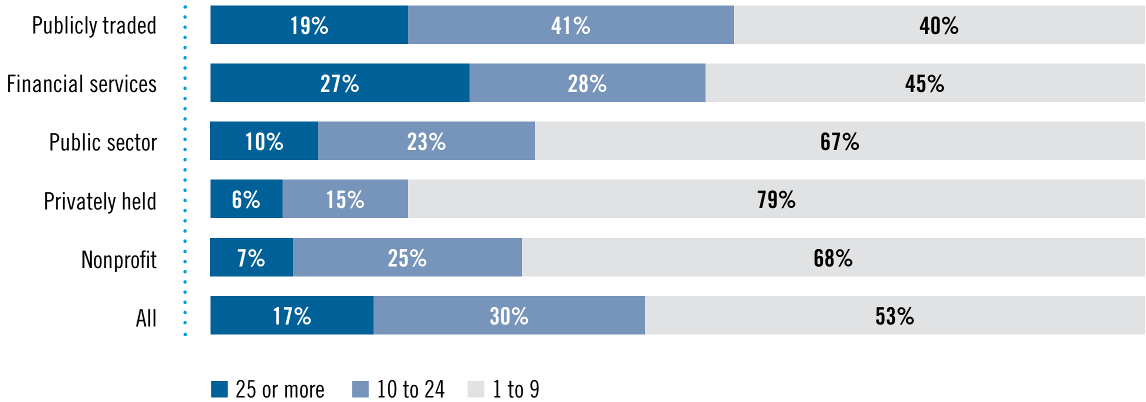
Dashes are used when lines overlap.

Staff Levels

Generally, several factors influence internal audit staffing levels: size and complexity of the organization, the extent to which the organization is centralized or decentralized, the compliance and regulatory environment, and the organization's general commitment to ensuring an adequately staffed internal audit function.

Pulse data show staffing levels varied greatly across respondents' organizations. Of the organizational types, publicly traded companies and financial services organizations appeared to have the greatest variation in function size. As might be logically expected, higher percentages of privately held, nonprofit, and public sector organizations reported small internal audit functions, with two-thirds or more saying they have fewer than 10 FTEs on staff.

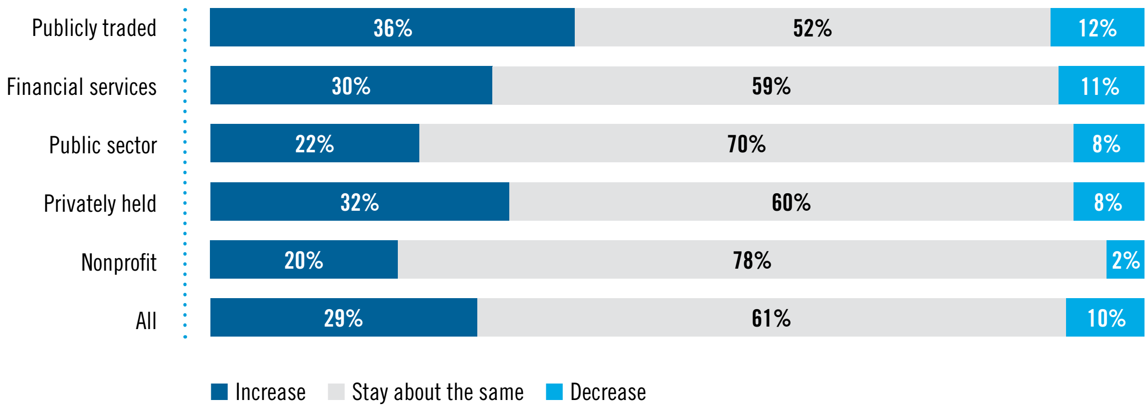
Exhibit 4.13: Internal Audit Function Size (Compared to Organization Type)



Note: Q6: How many FTEs are in your internal audit function? Type in the approximate number of in-house FTEs. Type in the approximate number of sourced FTEs. *n* = 606.

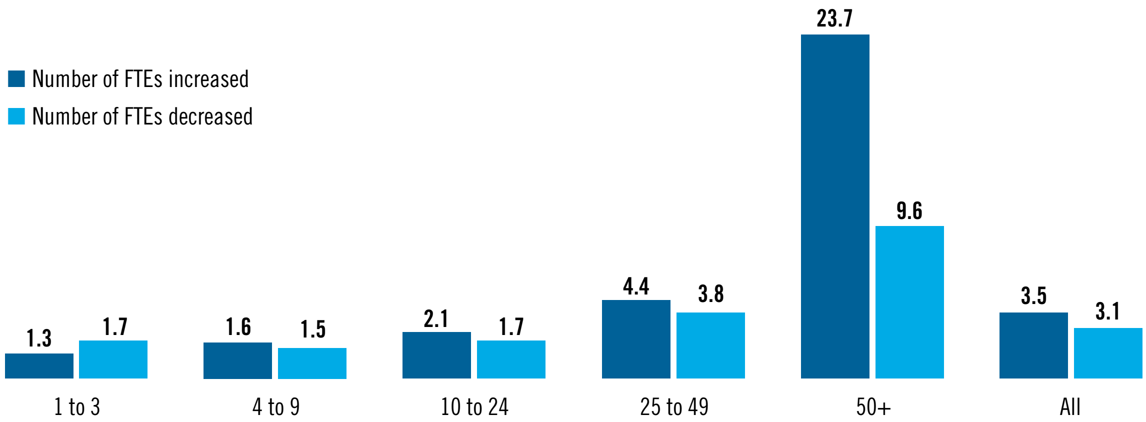
When all organization types are combined, the majority of respondents (61%) had no change in the size of their internal audit functions over the 12 months preceding their response to the survey, while nearly one-third (29%) saw staffing increases. Across all organization types, more than double as many internal audit functions increased in size compared to those that decreased in size. When coupled with the fact that functions that grew averaged slightly greater increases than the decreases in those that shrank, it suggests the overall number of practitioners is growing in North America.

Exhibit 4.14: Internal Audit Functions Reporting Increase/Decrease in Previous Year



Note: Q15: Looking back over the past 12 months, did the number of in-house and/or sourced staff within your internal audit function: increase, stay about the same, decrease? *n* = 610.

Exhibit 4.15: Average FTE Increase/Decrease in Previous Year



Note: Q16: By how many FTEs did your staff increase? *n* = 176. Q17: By how many FTEs did your staff decrease? FTE = full-time equivalent employee. *n* = 58.

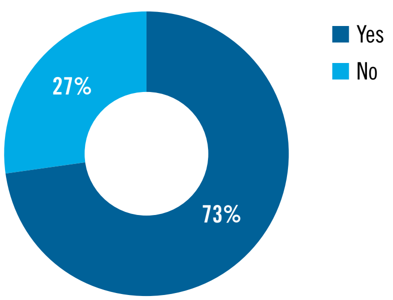
Hiring Practices

Nearly three-quarters of respondents noted that they had hired internal audit staff within the 12 months preceding the survey date, and this was unrelated to size of the internal audit function, except for the smallest internal audit functions (three team members or less).

Almost two-thirds of respondents noted that they hired individuals employed as internal auditors at another organization. In addition, nearly 3 in 10 respondents hired employees from external audit firms, a traditional source for bringing new professionals into internal auditing.

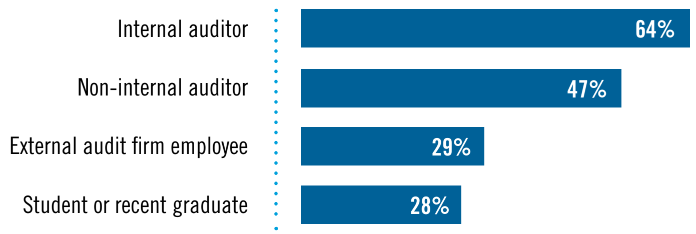
Survey results indicate that opportunities to enter into the internal audit profession are abundant, as well. Of the respondents who filled positions in the 12 months preceding the survey date, 47% reported they hired professionals who had not been internal auditors previously. A notable 28% of respondents had hired students or recent graduates, as well.

Exhibit 4.16: Hired Internal Audit Staff in the Past 12 Months



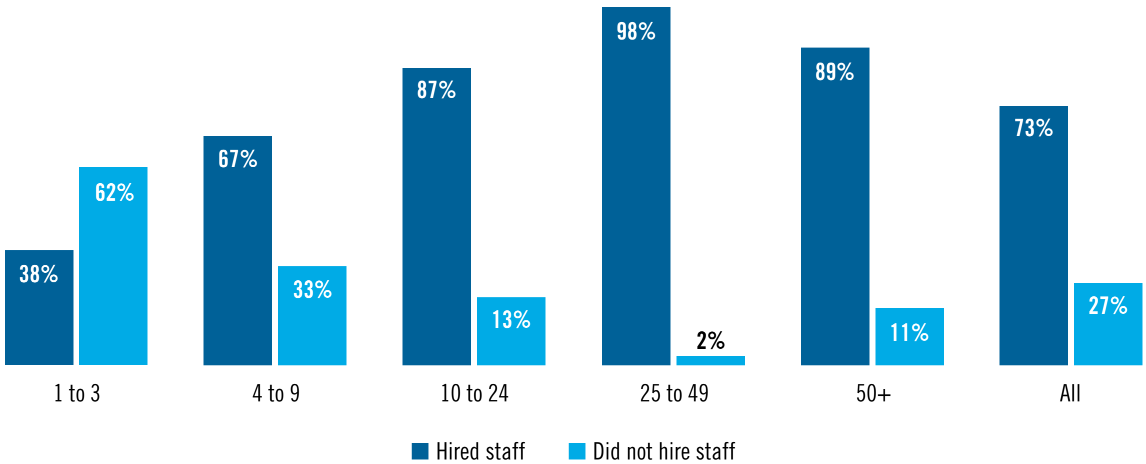
Note: Q18: In the last 12 months, from which of the following categories did you hire someone for your internal audit function? Grouped into those who had hired vs. those who had not. *n* = 630.

Exhibit 4.17: Sources of New Personnel



Note: Q18: In the last 12 months, from which of the following categories did you hire someone for your internal audit function? The response options in the survey included the following additional details: internal auditor (employed at another organization), non-internal auditor (employed within my organization or at another organization) *n* = 630.

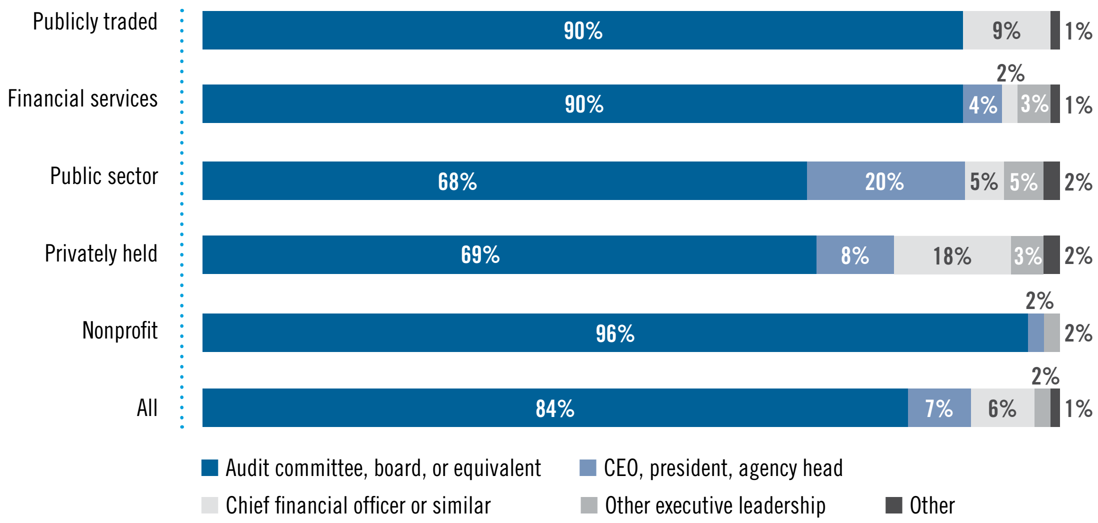
Exhibit 4.18: Internal Audit Hiring in the Past 12 Months (Compared to Internal Audit Function Size)



Note: Q18: In the last 12 months, from which of the following categories did you hire someone for your internal audit function? Grouped into those who had hired vs. those who had not. *n* = 630.

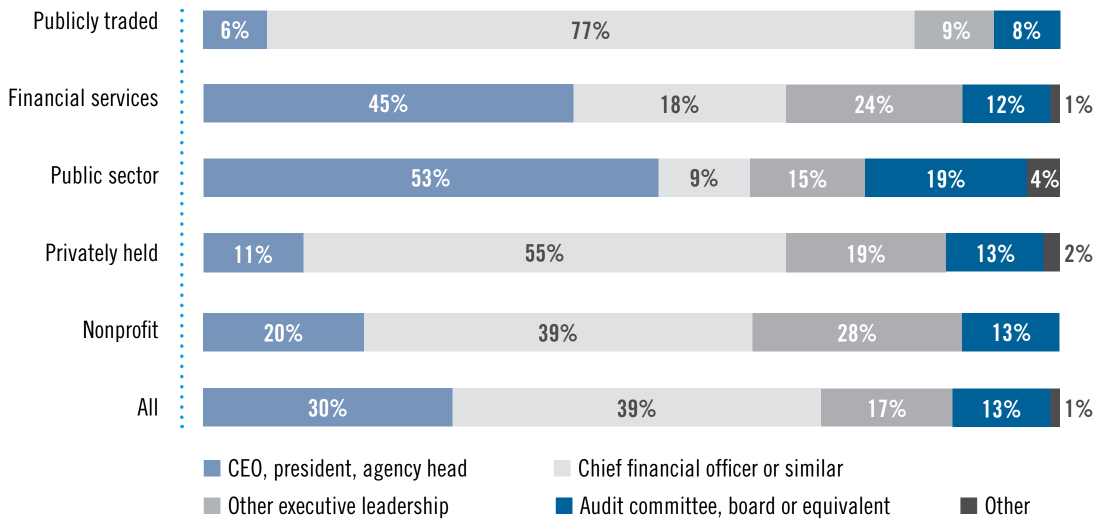
Reporting Lines

Exhibit 4.19: **Functional* Reporting Lines**



Note: Q25: What is the primary functional* reporting line for the chief audit executive (CAE) or head of internal audit in your organization? *Functional reporting refers to oversight of the responsibilities of the internal audit function, including approval of the internal audit charter, approval of the audit plan, evaluation of the CAE, compensation for the CAE. $n = 616$.

Exhibit 4.20: **Administrative* Reporting Lines**

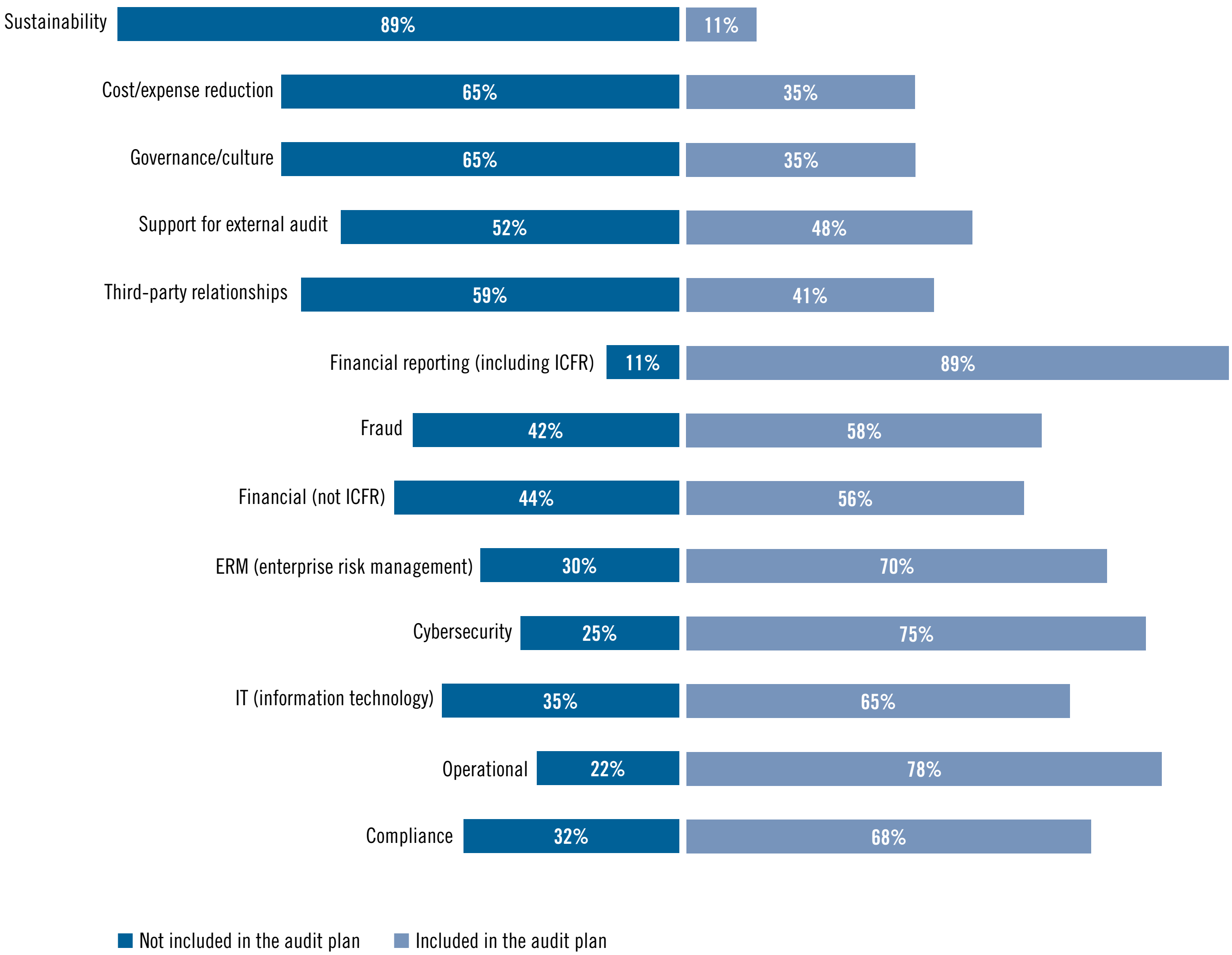


Note: Q24: What is the primary administrative* reporting line for the chief audit executive (CAE) or head of internal audit in your organization? *Administrative reporting refers to oversight of day-to-day matters, expense approval, human resource administration, communication, internal policies and procedures. $n = 617$.

APPENDIX A

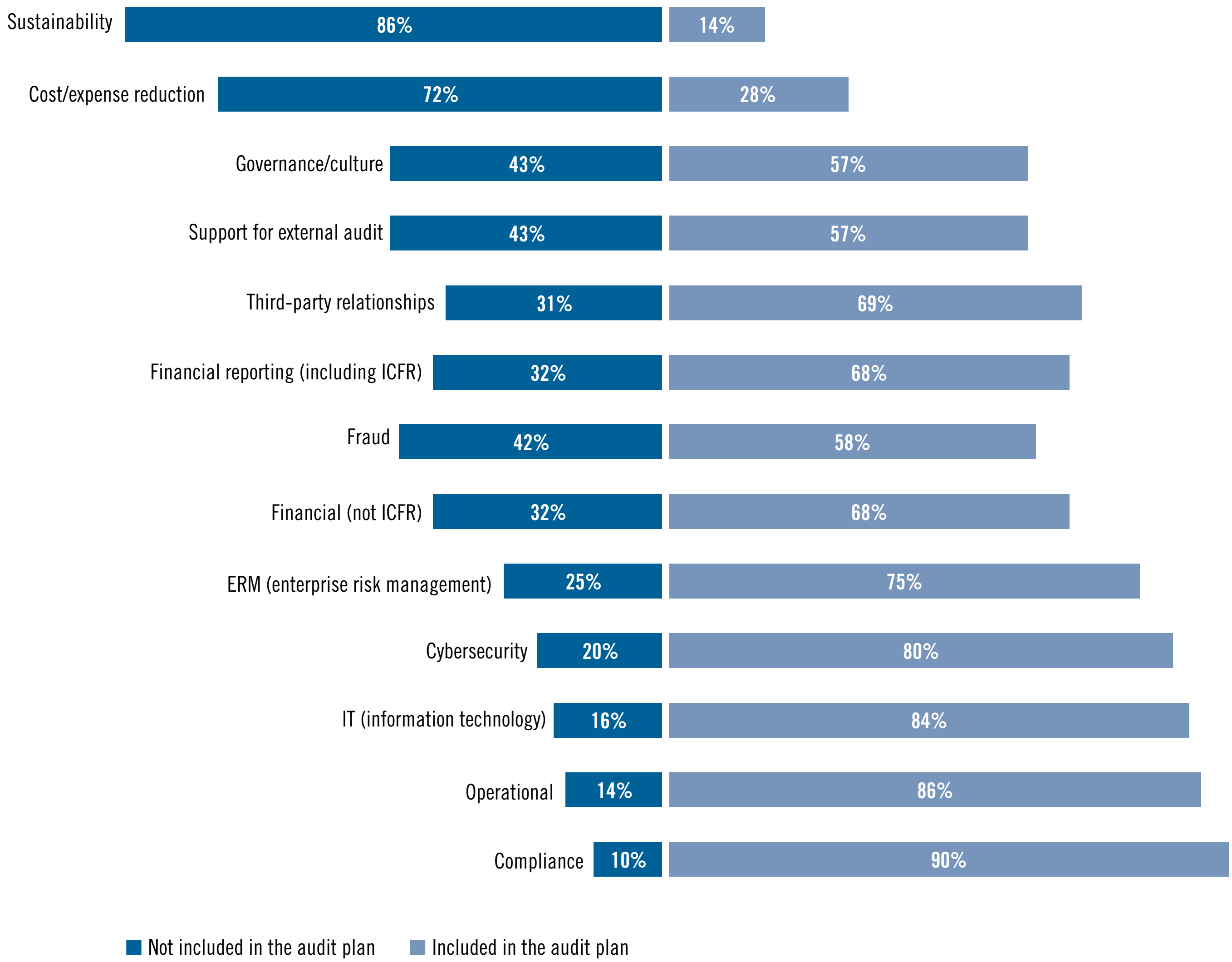
Risk Coverage in Audit Plans

Exhibit A.1: Risk Coverage in Audit Plans – Publicly Traded



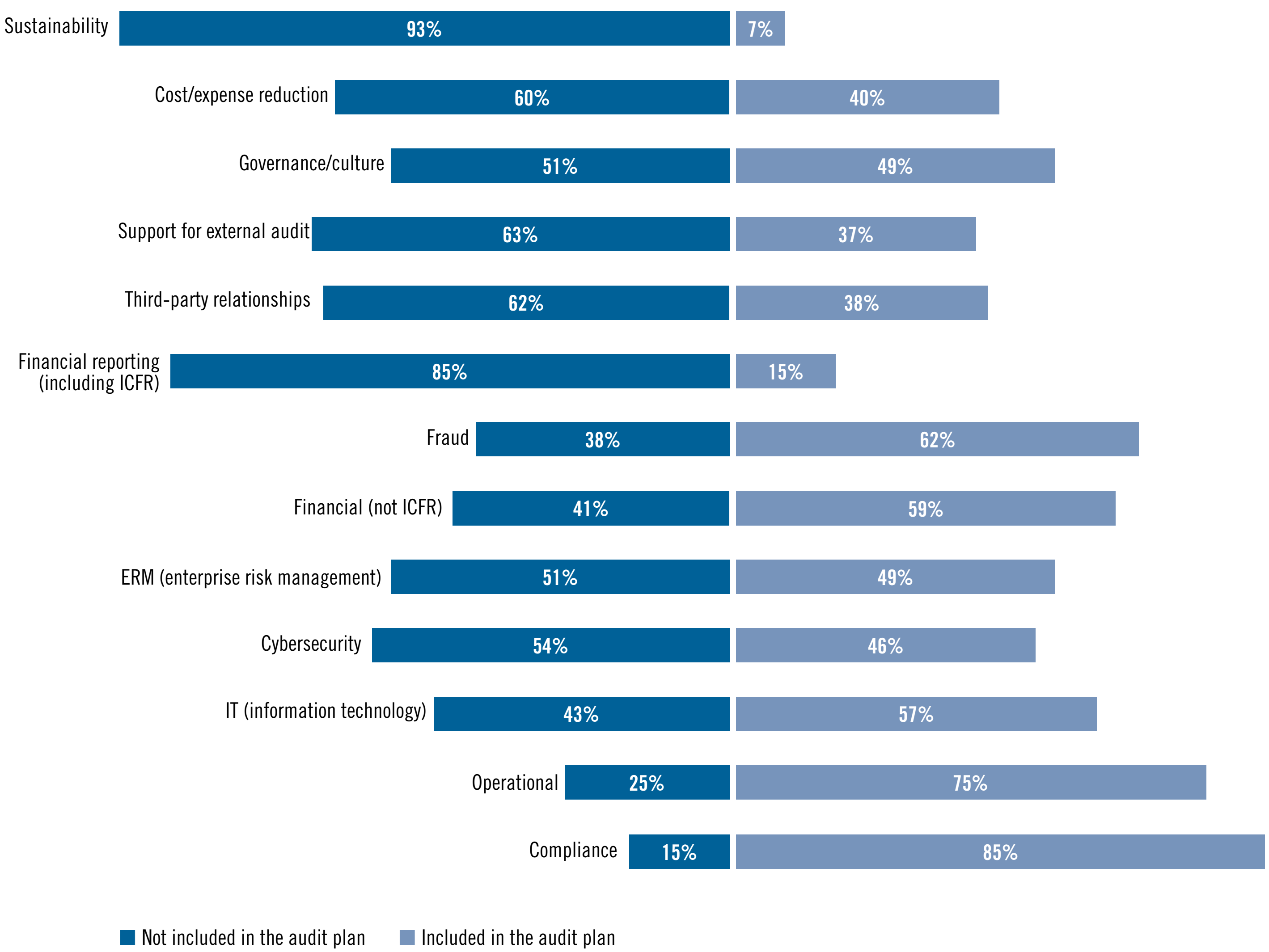
Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. Only publicly traded (excluding financial services). *n* = 185.

Exhibit A.2: Risk Coverage in Audit Plans – Financial Services



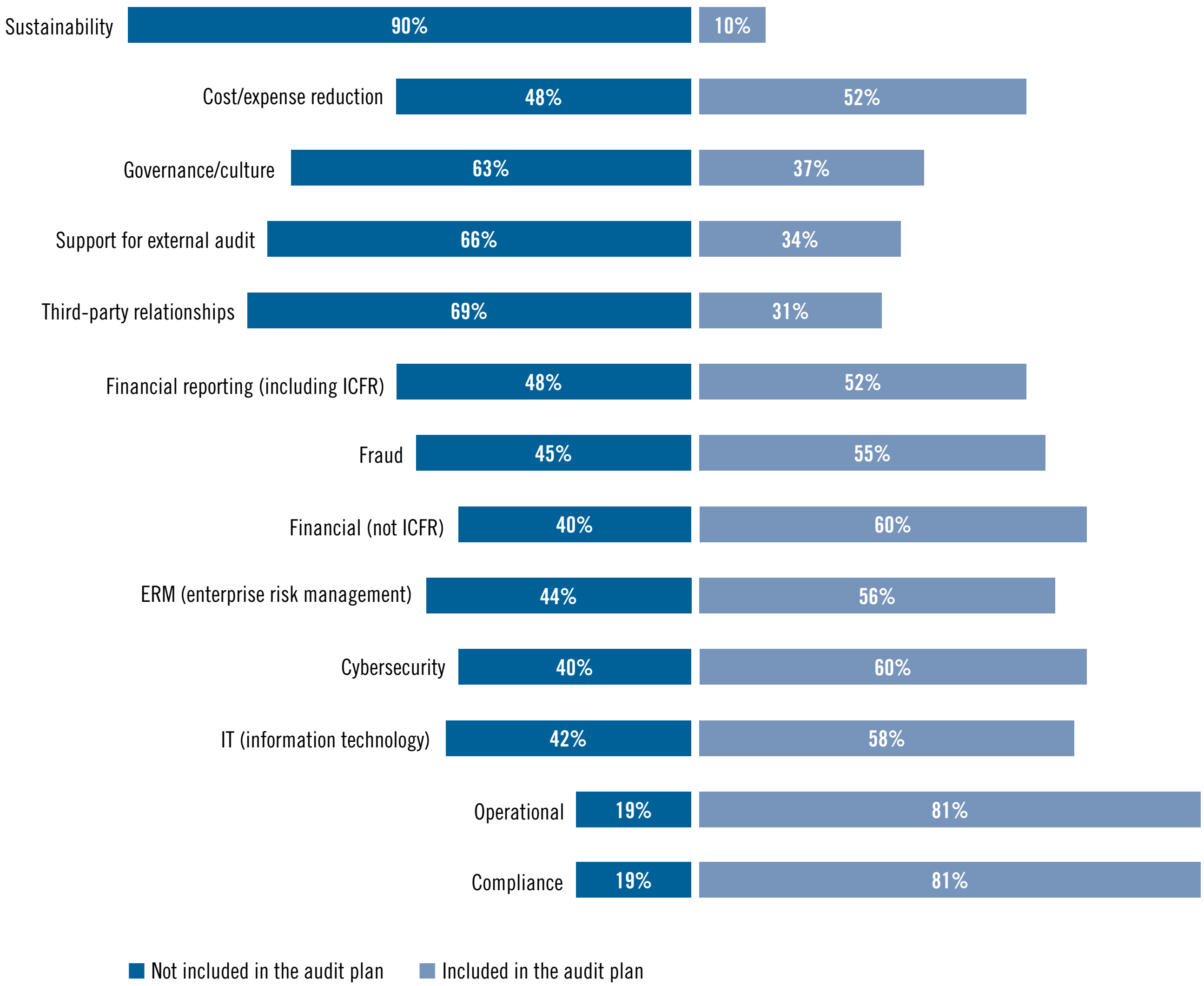
Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. Only financial services. *n* = 189.

Exhibit A.3: Risk Coverage in Audit Plans – Public Sector



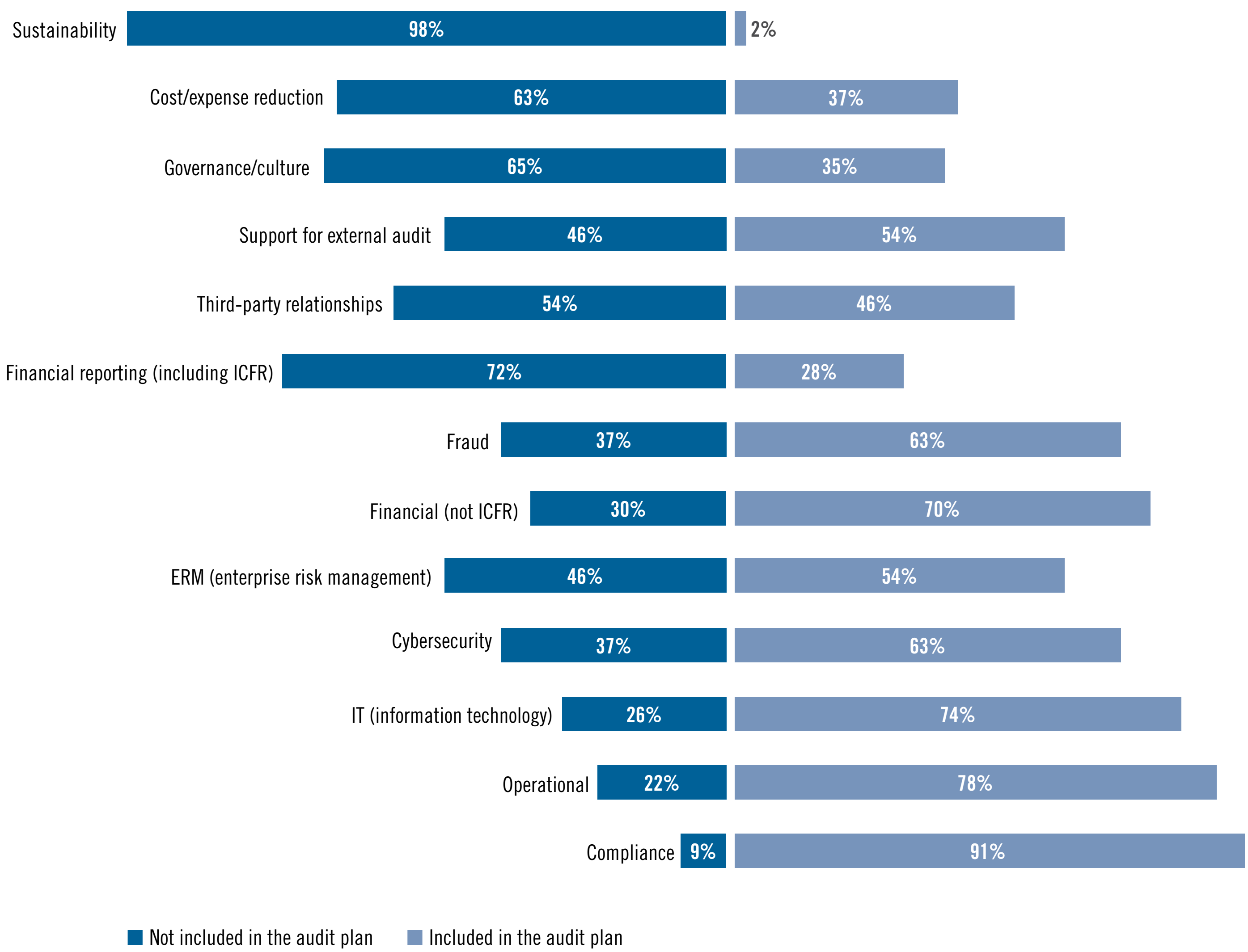
Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. Only public sector (excluding financial services). *n* = 136.

Exhibit A.4: Risk Coverage in Audit Plans – Privately Held



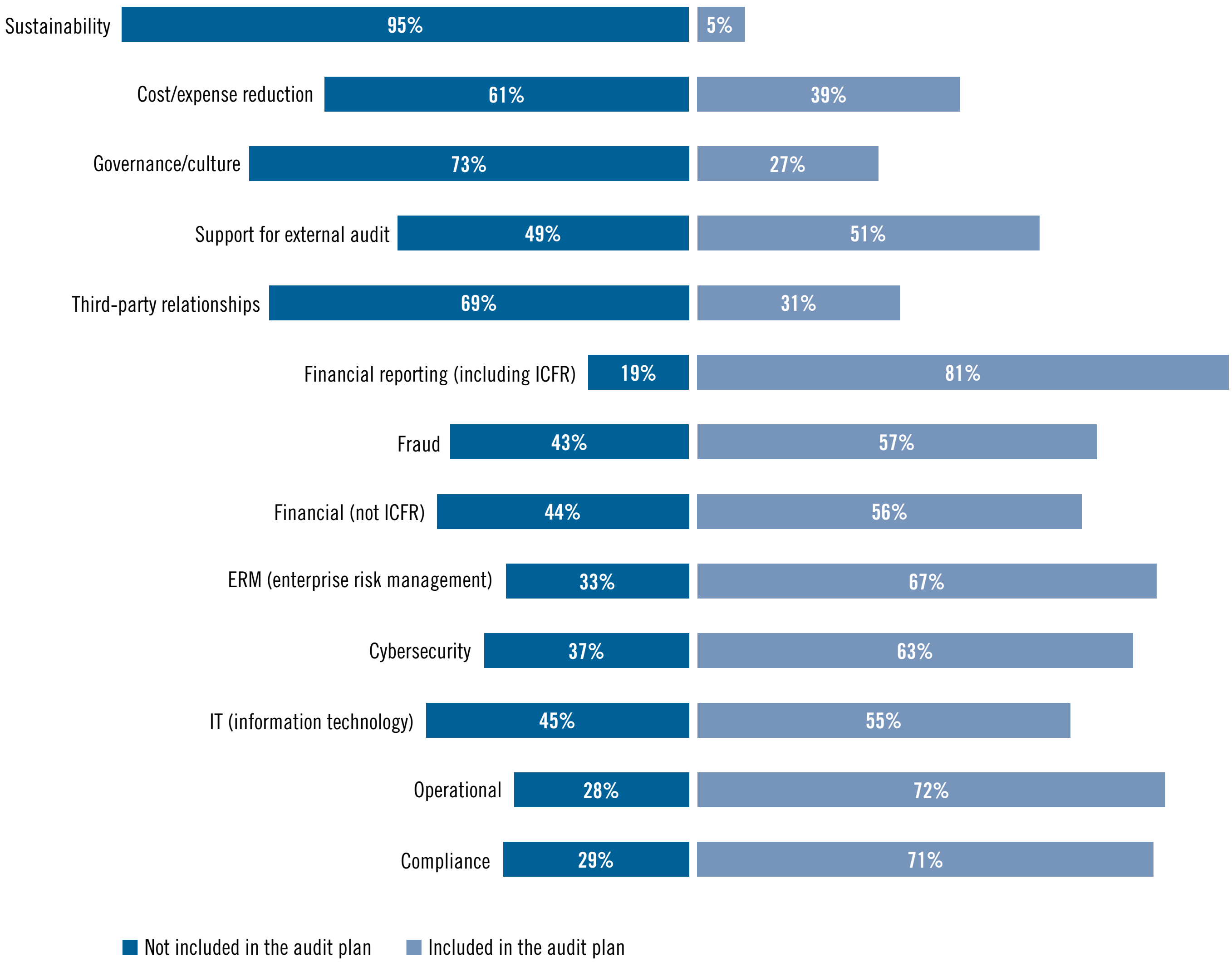
Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. Only privately held (excluding financial services). *n* = 62.

Exhibit A.5: Risk Coverage in Audit Plans – Nonprofit

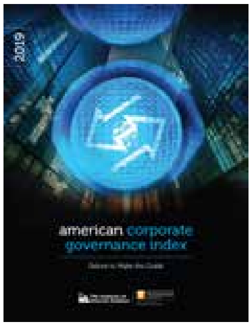


Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. Only nonprofit (excluding financial services). *n* = 46.

Exhibit A.6: Risk Coverage in Audit Plans – Manufacturing



Note: Q14: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Responses were grouped into "some audit plan allocation" and "no audit plan allocation." ICFR = internal controls over financial reporting. Only manufacturing. *n* = 75.



U.S. Corporate Governance Fails to Make the Grade

Results of first *American Corporate Governance Index* reveal deficiencies in U.S. publicly held companies, with many failing to meet basic governance principles.

Download now: www.theiia.org/ACGI

Change the Way You View and Understand Risk

OnRisk 2020: A Guide to Understanding, Aligning, and Optimizing Risk offers a clear-eyed, holistic view of risk like no other. This new IIA report is the first to bring together perspectives from the boardroom, C-suite, and internal audit.

Download now: www.theiia.org/OnRisk

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 AEC®. For more information on the Center, visit www.theiia.org/AEC.

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 and The IIA publish this document 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 and The IIA recommend seeking independent expert advice relating directly to any specific situation. The AEC and The IIA accept no responsibility for anyone placing sole reliance on this material.

COPYRIGHT

March 2020

The Institute of Internal Auditors

AUDIT EXECUTIVE CENTER

GLOBAL HEADQUARTERS / 1035 Greenwood Blvd., Suite 149 / Lake Mary, FL 32746 / www.theiia.org/AEC

2020-0118