2021 NORTH AMERICAN PULSE OF INTERNAL AUDIT

Many Sides of Crisis

The Institute of Internal Auditors

AUDIT EXECUTIVE CENTER

Pulse About the of Internal Audit

NUMBER OF RESPONSES

CAEs	497	85%
Directors/ Senior Managers	91	15%
Total	588	100%

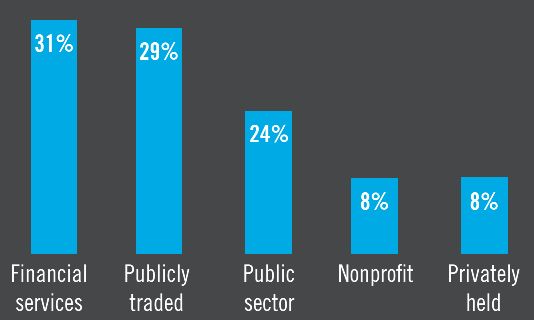
The IIA's Audit Executive Center® (AEC®) has gathered insight from leaders in the profession through the annual Pulse of Internal Audit survey (Pulse) since 2009. Each survey collects information and perceptions from internal audit leadership, including valuable benchmarking information such as audit plan allocations and staff level changes.

The online survey for the 2021 North American Pulse report was conducted October 26 to November 20, 2020. Respondents primarily come from organizations headquartered in the United States (82%) and Canada (12%), with the remainder coming from organizations headquartered in a variety of other countries.

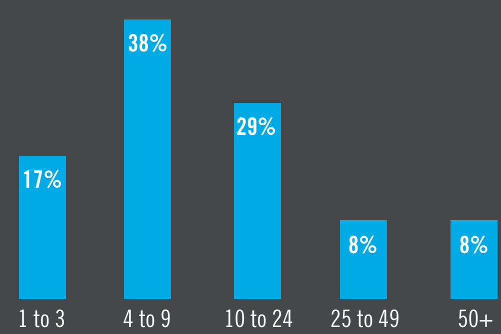
This report uses five organization types for analysis: publicly traded, privately held, public sector, nonprofit, and financial services (as shown in the graph below). Because financial services responses often differ significantly from other organization types, the financial services category was created by extracting financial services respondents from the other four organization types.

Many of the previously released Pulse of Internal Audit reports are available to the public through The IIA's Pulse of Internal Audit resource page (visit www.theiia.org/Pulse).

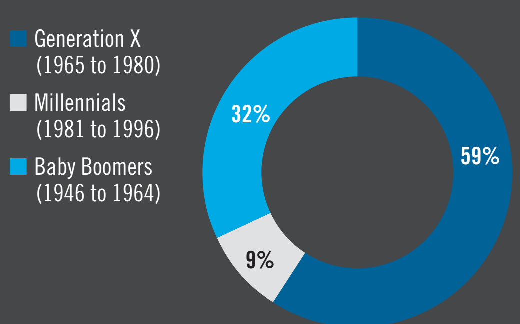
Organization Type With Financial Services Breakout



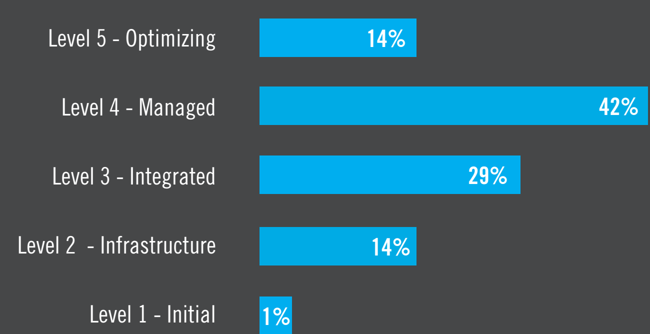
Internal Audit Function Size (Full-time-equivalent Employees)



Generation



Internal Audit Maturity



See the Appendix for maturity level definitions.

Contents

Executive Summary

COVID-19 continues to pose significant health and economic challenges in its second devastating year. Its impacts on organizations and internal audit have been diverse. The *2021 North American Pulse of Internal Audit: Many Sides of Crisis* reflects that disparity in the opportunities the pandemic produced as well as the costs it extracted.

The pandemic created an open audition for internal audit to showcase its value, particularly in response to the crisis management and business continuity risks at the onset of the pandemic. Indeed, responses from CAEs who reported staffing increases support that, for some, pandemic responses expanded the profession's scope of work. In aggregate, the pandemic's impacts were less than initially anticipated by internal audit leaders.

As noted, budget reductions for internal audit overall and staffing in particular were not as widespread as internal audit leaders initially expected (based on comparison of survey responses from June 2020 and November 2020). However, smaller functions suffered the deepest cuts in staffing levels. This is particularly troubling in that smaller functions struggle most to reach higher levels of maturity where value is most optimized.

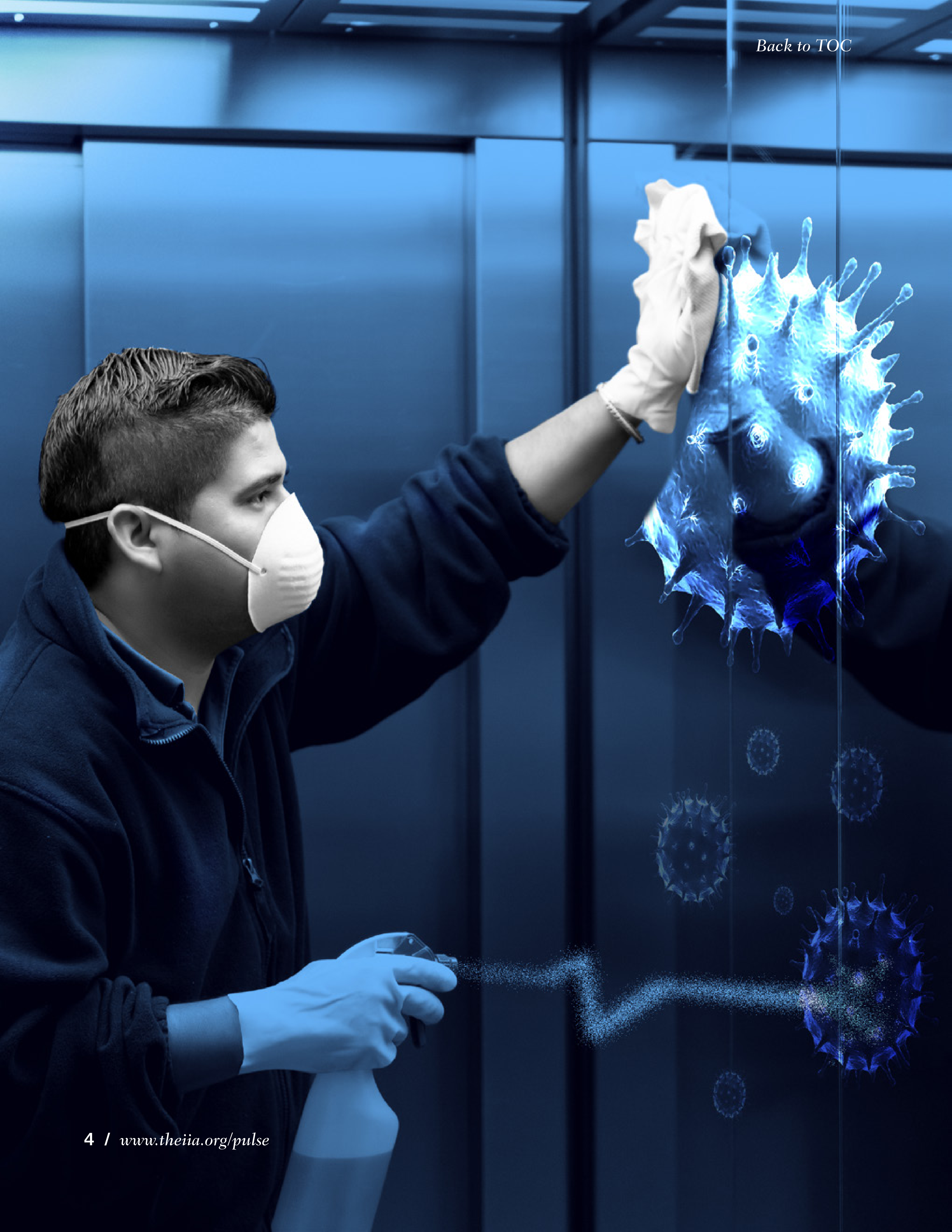
Many CAEs report that the pandemic had a smaller impact on the internal audit function than it did on the organization as a whole. While the negative effects, in the aggregate, were not as drastic as anticipated, survey responses affirm the pandemic's dramatic impact on certain organization types and industries.

As in the past, this year's Pulse provides analysis of trending data for audit plan allocation and risk assessment. The data reflect a pattern of growth in audit plan allocation for financial reporting. Allocation from 2020 to 2021 continued the pattern, reflecting a decrease in allocation for operational and an increase in financial reporting.

Taken together, these trends suggest stakeholders may place a priority on internal audit providing assurance on financial and compliance risks, which can be perceived as essential in times of crisis. The need for internal audit expertise in these areas may have provided a backstop against even more significant reductions of internal audit budget and staffing.

Data from the 2021 Pulse survey does not make clear stakeholder priorities for internal audit beyond financial and compliance risks. This raises important questions about how well the profession is positioned to serve stakeholders beyond these risks, particularly as COVID-19's continuing impacts influence risk, resources, and opportunity at all levels. What's more, risks relating to economic uncertainty, regulatory changes, and safely emerging from the pandemic should alert internal audit leaders to weighty challenges ahead.

However, the clear message from this year's Pulse data can be summed up in the maxim: We are all in the same storm, but not the same boat.



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Section 1: Introduction

COVID-19's impact on every facet of human interaction has elevated it to historic, world-changing status, and it will be the subject of scrutiny, analysis, and conjecture for years to come. With shocking speed, the deadly virus created plentiful and varied short-term crises related to keeping the pandemic in check and managing its fallout. Its long-term impacts on digital transformation and business models are already evident, as are fundamental changes to consumer interactions and the employment contract. Yet, despite its clearly harmful effects on business and society, COVID-19 also offered opportunities for many in 2020.

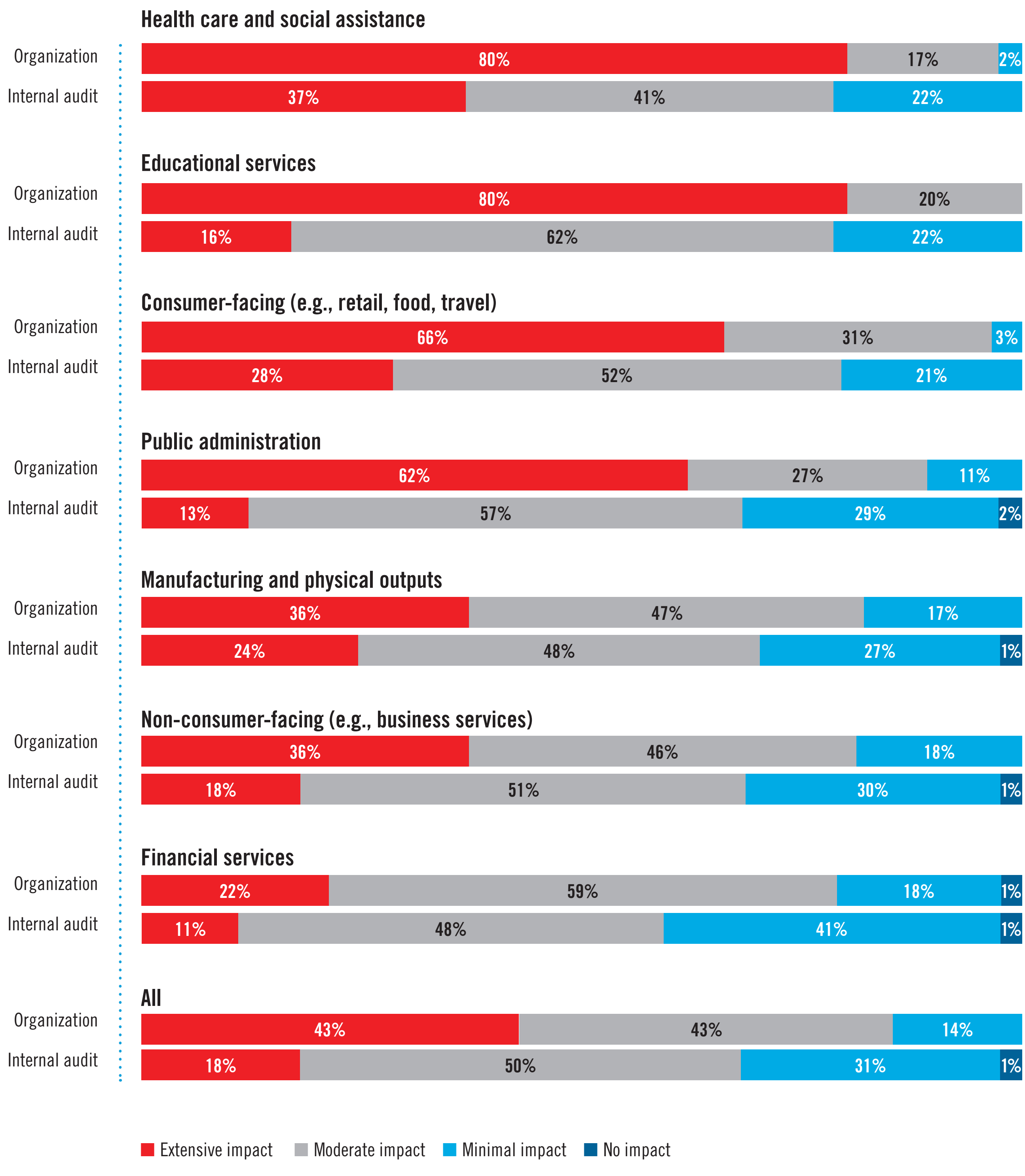
While widespread, the impact of COVID-19 was disproportionate in certain industries, with varied reports chronicling the pandemic's uneven effects. Consumer-facing businesses, such as restaurants, hospitality, fitness, and travel, were hit hardest. The effects were milder for financial services and non-consumer-facing industries (e.g. business services). Meanwhile, organizations that stepped up to fill in the gaps flourished, including food delivery, workplace solutions, and online retailing.

COVID-19's Impact on Internal Audit

While the pandemic's impacts varied based on industry, Pulse data consistently show that the impacts on internal audit were less severe than for the organization overall (Exhibit 1.1). Among the most dramatic was healthcare and social assistance, where 8 in 10 (80%) respondents from such organizations rated the pandemic's impact as "extensive" for the overall organization yet fewer than 4 in 10 (37%) rated it as such for the internal audit function. The difference also was noted among those who rated the pandemic's impact as minimal. Fewer than 2 in 10 respondents from financial and insurance organizations rated COVID-19's impact as minimal for the overall organization (18%), yet more than twice as many (41%) rated it as minimal for the internal audit function.

Because of the strong industry influence on responses, industry groups were created for analysis of Pulse survey data based on characteristics related to COVID-19's impact. For example, industries with a high level of consumer contact (retail, food, travel) were grouped together, while industries that are more focused on business services (which can be provided remotely) were placed in a different group. (Industry groups used for analysis can be found in Exhibit A.1 in the Appendix.)

Exhibit 1.1: COVID-19 Organizational Impact vs. Internal Audit Impact (With Industry Group Breakouts)



Note: Q22: How much of an impact did the COVID-19 global pandemic have on your organization as a whole? Q21: How much of an impact did the COVID-19 global pandemic have on your internal audit function? Totals may not equal 100% due to rounding. *n* = 587.

Overview

The pandemic's diverse effects drove the analysis of this year's Pulse data, specifically leading to the following questions:

- How were internal audit budget and staffing impacted by the global pandemic?
- How did practitioners adjust risk assessments and audit plans as a result of the pandemic's impacts?

The pandemic's varied effects on internal audit were noted across a broad spectrum of reliable Pulse survey metrics, including internal audit budgets, staffing, risk assessments, and audit plans.

Internal Audit Budget

Internal audit budget reductions were extensive in some industries (consumer-facing, manufacturing) while minimal in others (financial services). At the same time, some organizations continued to see increases in their internal audit budget (primarily financial services). In general, budgets for travel and professional development saw widespread and drastic reductions.

Internal Audit Staffing

Staffing reductions were not as extensive as budget reductions, meaning some internal audit functions cut expenses without reducing staff. Nevertheless, the percentage of internal audit functions reporting cuts in staff doubled from 9% to 18% year over year. These cuts were similar to what happened the year after the 2008 global financial crisis. What's more, increases reported by respondents were on average smaller than reported cuts. Overall, 64% of respondents said staffing remained unchanged.

Risk Assessment Trends

Five-year risk assessment trends were tracked in 13 broad audit areas with breakouts by organization type. For public sector and nonprofit organizations, risk levels increased in most audit areas. In contrast, for publicly traded, financial services, and privately held organizations, elevated risk levels were reported in fewer audit areas.

Audit Plan Allocation Trends

Audit plan allocation trends were also tracked in 13 broad audit areas over the past five years. Overall, increases were seen for cybersecurity and financial reporting (a category that includes internal controls over financial reporting and Sarbanes-Oxley compliance). Decreases were noted for operational and support for external audit.

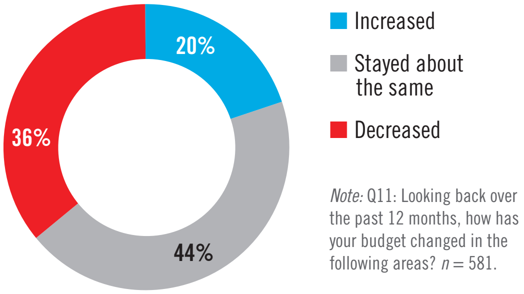
SECTION 2

Internal Audit Budget

For overall internal audit budgets in the past year, there were more functions with decreases than increases (36% vs. 20%) (Exhibit 2.1).

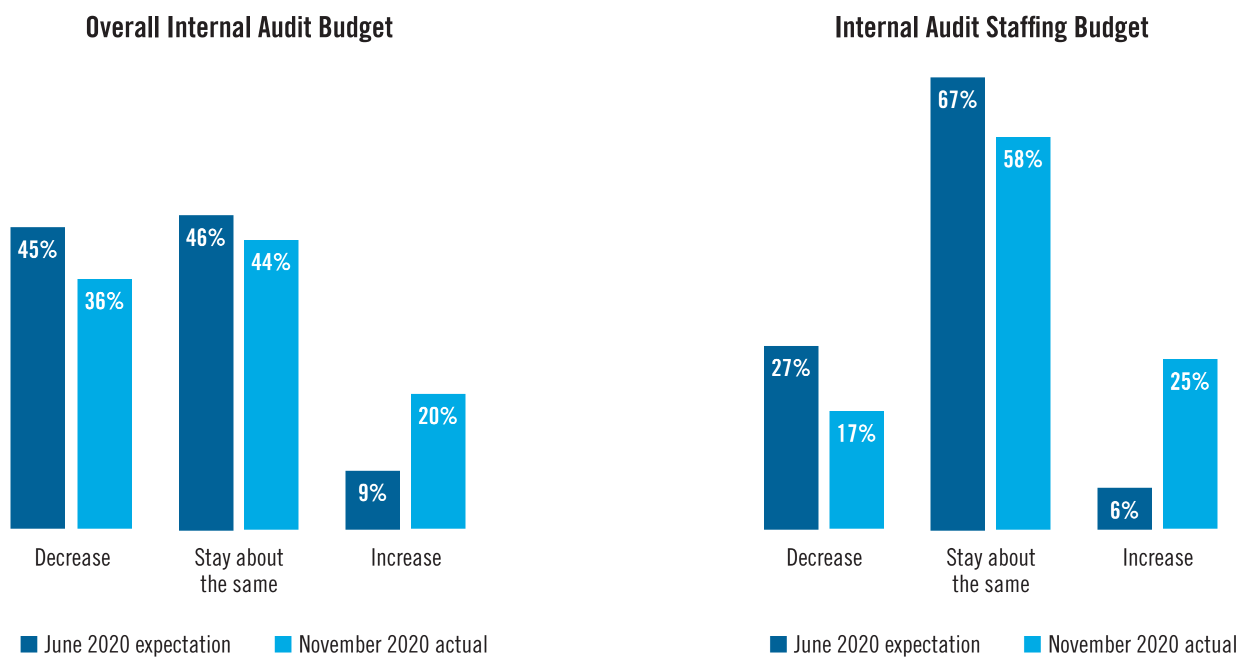
However, internal audit budget cuts were less than initially anticipated by CAEs. Although nearly half (45%) of those responding to a June IIA Audit Executive Center survey expected to see cuts in their overall budgets, by November 2020 only 36% reported cuts. Fewer than 1 in 10 (9%) anticipated overall budget increases in June, yet 2 in 10 (20%) reported such boosts in November. A similar pattern was seen for the internal audit staffing budget, where fewer functions than expected had decreases and more had increases (Exhibit 2.2). However, a deeper dive into the survey data again revealed striking variation.

Exhibit 2.1: Overall Internal Audit Budget Change



Note: Q11: Looking back over the past 12 months, how has your budget changed in the following areas? *n* = 581.

Exhibit 2.2: Budget Changes - Expected vs. Actual

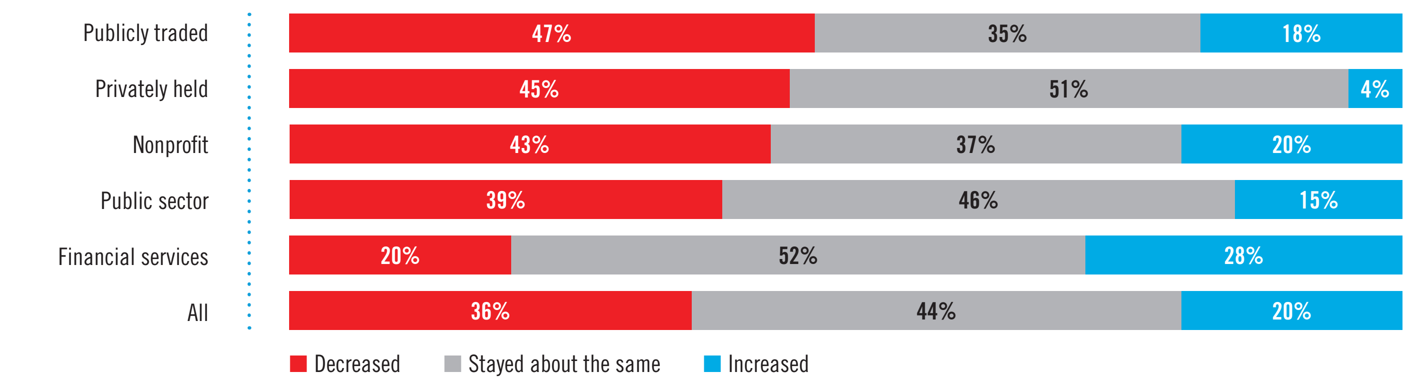


Note: Survey for Pulse 2021 conducted October 2020, Q11: Looking back over the past 12 months, how has your budget changed in the following areas? *n* = 581. IIA Quick Poll, June 2020: Q1: Looking forward to the next 12 months, how do you expect your budget to change as a result of COVID-19 in the following areas? *n* = 481.

Differences by Organization Type and Industry

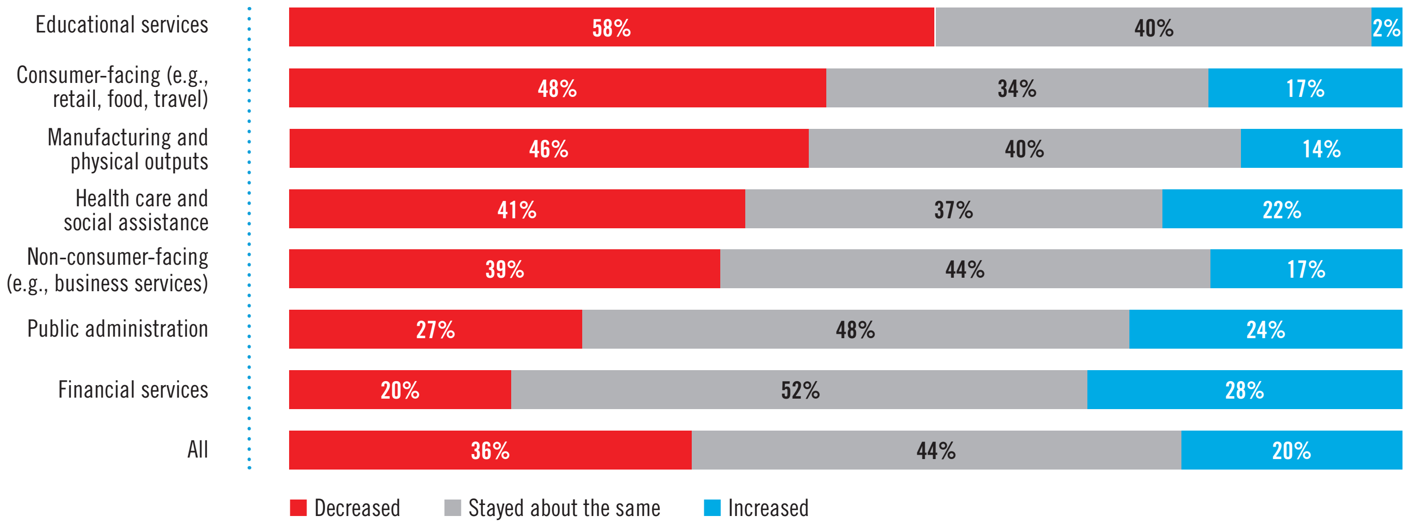
Budget changes in internal audit varied by organization type – at times significantly. Financial services fared the best, with the percentage of respondents reporting decreases (20%) in their overall budgets being more than offset by the percentage reporting budget increases (28%). However, among respondents from publicly traded companies, nearly half (47%) reported decreases while only 18% reported increases. Among privately held organizations, 45% reported budget cuts, with a scant 4% reporting increases (Exhibit 2.3). Comparison by industry groups finds public administration (which is a subset of public sector) joining financial services in reporting lower levels of impact on budget. Educational services reported the highest level of impact, with almost 6 in 10 respondents from that group (58%) saying their internal audit budgets decreased (Exhibit 2.4).

Exhibit 2.3: Overall Internal Audit Budget Change - Past 12 Months (Compared to Organization Type)



Note: Q11: Looking back over the past 12 months, how has your budget changed in the following areas? Totals may not equal 100% due to rounding. $n = 581$.

Exhibit 2.4: Overall Internal Audit Budget Change - Past 12 Months (Compared to Industry Group)

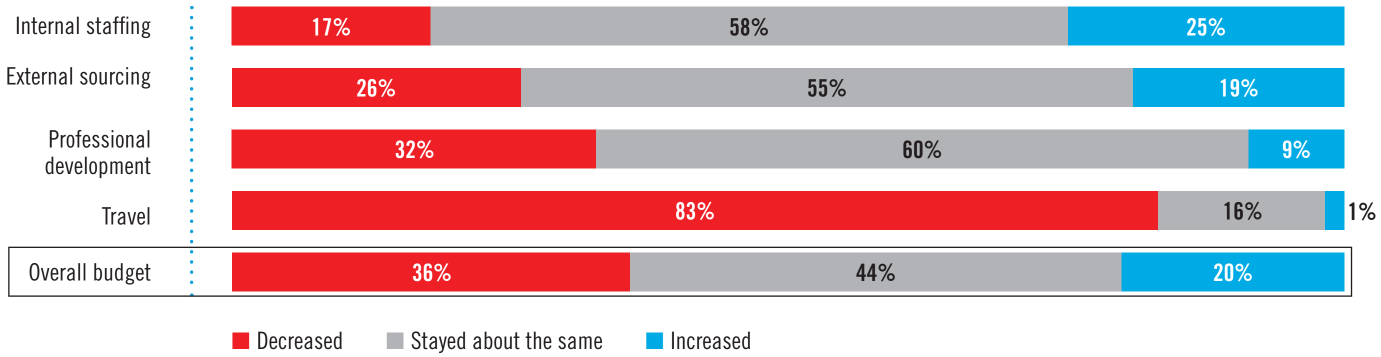


Note: Q11: Looking back over the past 12 months, how has your budget changed in the following areas? Totals may not equal 100% due to rounding. $n = 585$.

Staffing Budgets Largely Spared

How internal audit leaders chose to manage budget cuts also tells an important story. Overall budget decreases were experienced by 36% of respondents. Notably, only 17% said they decreased the internal audit staffing budget and only 26% decreased the external sourcing budget. Slightly more (about one-third) said the budget for professional development decreased. The most widespread budget cuts were for travel (83%), a predictable outcome given the pandemic dramatically limited the ability of practitioners to travel (Exhibit 2.5).

Exhibit 2.5: Changes in Internal Audit Budget - Comparing Budget Areas



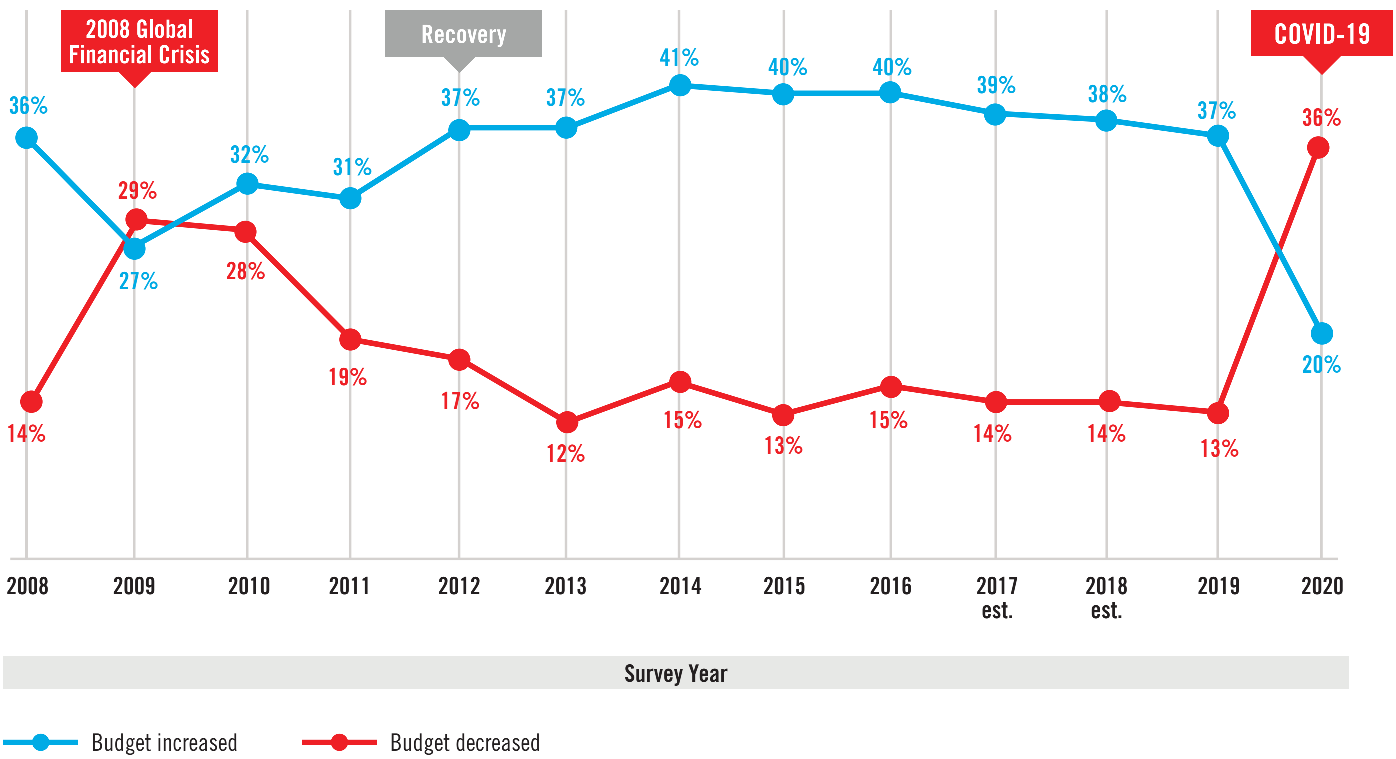
Note: Q11: Looking back over the past 12 months, how has your budget changed in the following areas? Totals may not equal 100% due to rounding. *n* = 586.

Lessons from the Global Financial Crisis – Budget

The data from this year's Pulse provides a unique opportunity to examine budget impacts during crisis by comparing changes that followed the 2008 global financial crisis against those resulting from the 2020 COVID-19 crisis. The budget implications of the global pandemic have clearly exceeded those of the 2008 global financial crisis (Exhibit 2.6).

Budget decreases reported after the onset of COVID-19 spiked to 36% of respondents, easily surpassing the 29% reported in 2009 after the global financial crisis. Similarly, fewer respondents reported budget increases in 2020 (20%) than in 2009 (27%).

Exhibit 2.6: Internal Audit Functions Reporting Budget Increases or Decreases in the Previous Year (2008 to 2020)



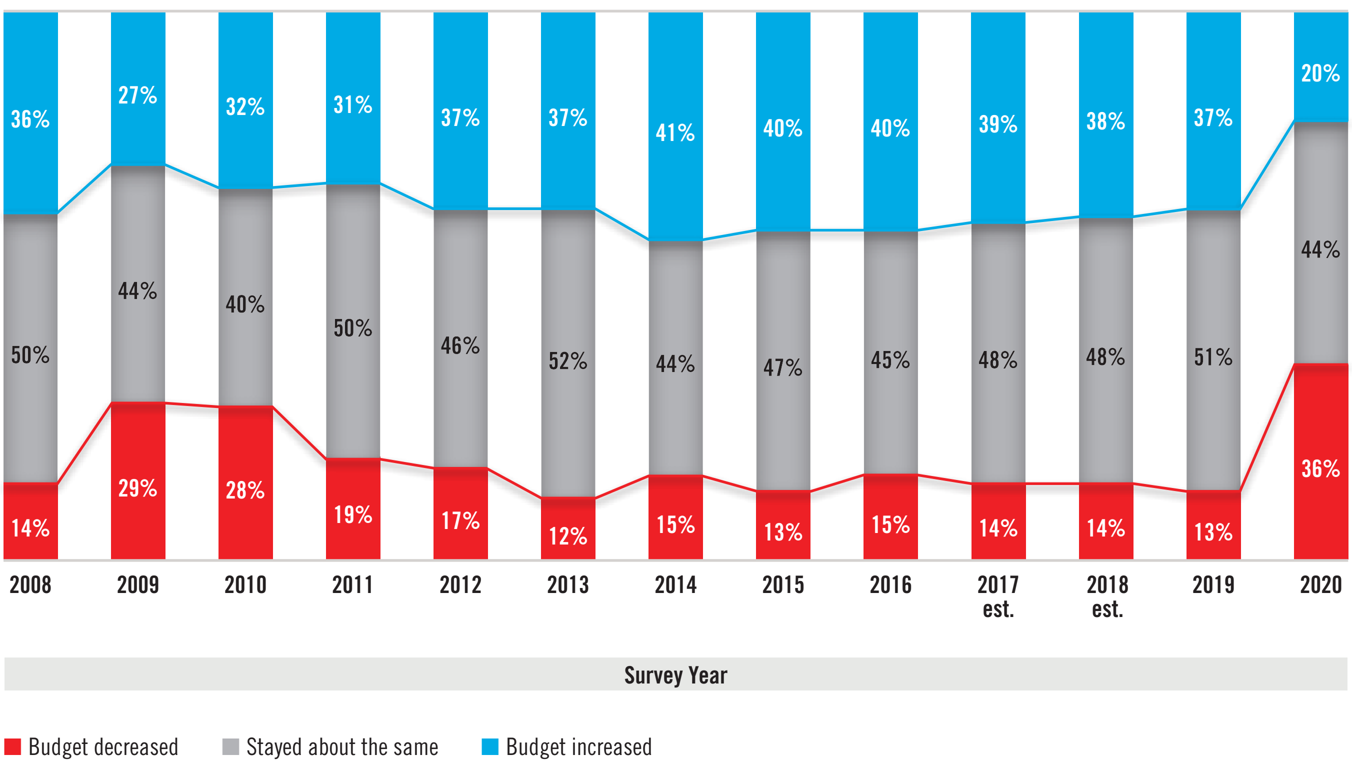
Note: Beginning in 2008, Pulse of Internal Audit surveys asked North American CAEs and directors whether internal audit budget increased, decreased, or stayed the same in the previous year/fiscal year/12 months. Response rates varied, but surveys consistently focused on IIA membership, providing continuity among respondents. The dates on this graph reflect the year the surveys were administered. Data is estimated for 2017 and 2018 based on prior and subsequent years because the budget question was not included in the Pulse surveys for those years.

Budget Stability

A review of the years prior to the pandemic reflects that almost half (47% on average) of internal audit functions reported relatively stable budgets year-over-year. This stability carried through to 2020, where 44% report that their budgets stayed about the same. Staffing levels showed even more stability over the years the Pulse survey has been administered, with an average of 64% of respondents reporting that staffing levels remained unchanged (as noted in "Staffing Level Stability," the discussion of Exhibit 3.8).

It also is encouraging that before the current crisis, on average fewer than 2 in 10 (17%) reported budget cuts between 2008 and 2019, while close to 4 in 10 (36%) reported budget increases.

Exhibit 2.7: Internal Audit Functions Reporting Budget Increases, Decreases, or Staying the Same in the Previous Year (2008 to 2020)



Note: Beginning in 2008, Pulse of Internal Audit surveys asked North American CAEs and directors whether internal audit budget increased, decreased, or stayed the same in the previous year/fiscal year/12 months. Response rates varied, but surveys consistently focused on IIA membership, providing continuity among respondents. The dates on this graph reflect the year the surveys were administered. Data is estimated for 2017 and 2018 based on prior and subsequent years because the budget question was not included in the Pulse surveys for those years. Totals may not equal 100% due to rounding.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BREAKING NEWS

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SECTION 3

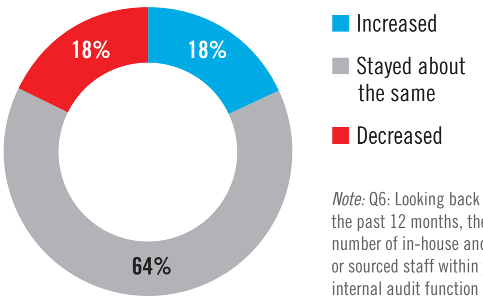
Internal Audit Staff

Pulse data reflect that CAEs appeared to have avoided staffing cuts as much as possible while managing budget cuts in 2020. This resulted in an equal percentage of respondents reporting staffing increases and staffing decreases. (Exhibit 3.1).

Staffing Change vs. Budget Change

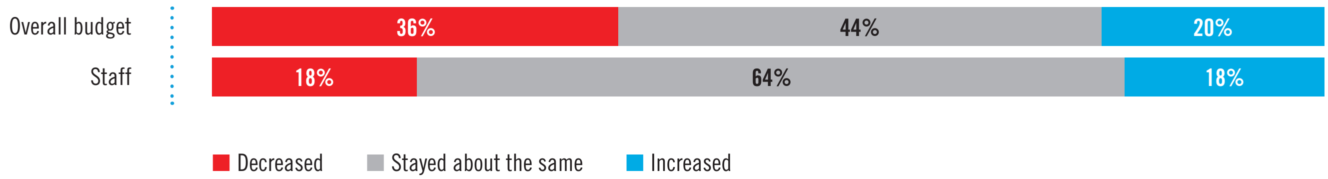
Indeed, while 36% of respondents reported budget cuts overall, just 18% said they reduced staffing levels. Interestingly, the percentage of those with an increase in overall budget is nearly the same as the percentage who increased staff, suggesting that staffing is the first priority for budget increases (Exhibit 3.2).

Exhibit 3.1: Internal Audit Staff Change - Past 12 Months



Note: Q6: Looking back over the past 12 months, the number of in-house and/or sourced staff within your internal audit function has increased, decreased, stayed about the same. *n* = 585.

Exhibit 3.2: Internal Audit Budget Change vs. Internal Audit Staff Change - Past 12 Months - All Respondents

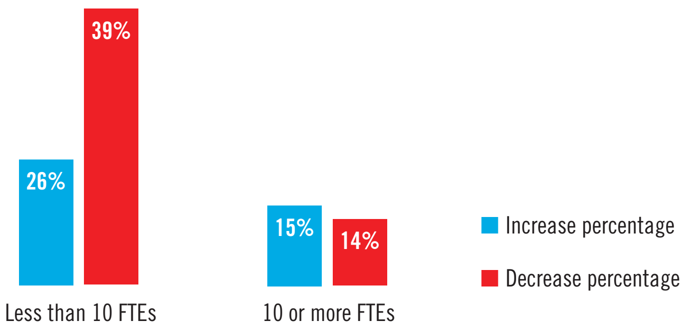


Note: Q11: Looking back over the past 12 months, how has your budget changed in the following areas? Topic: Overall internal audit budget. Q6: Looking back over the past 12 months, the number of in-house and/or sourced staff within your internal audit function has increased, decreased, stayed about the same. FTE = full-time equivalent employee. *n* = 585.

Magnitude of Change

Unfortunately for smaller internal audit functions — those with fewer than 10 full-time employees (FTEs) — any increases and decreases in staff represent a higher percentage of total staff, likely resulting in a greater impact on the function. In other words, when changes occurred, whether increases or decreases, they represented a higher percentage of the staff in smaller functions. For example, among functions with fewer than 10 FTEs, staffing reductions averaged 39%, compared to only 14% for those with 10 or more FTEs (Exhibit 3.3). Detailed analysis of this relationship found it was not limited to or driven by any industry or organization type.

Exhibit 3.3: Magnitude of Internal Audit Staff Change for Those With Staff Changes (Compared to Function Size)

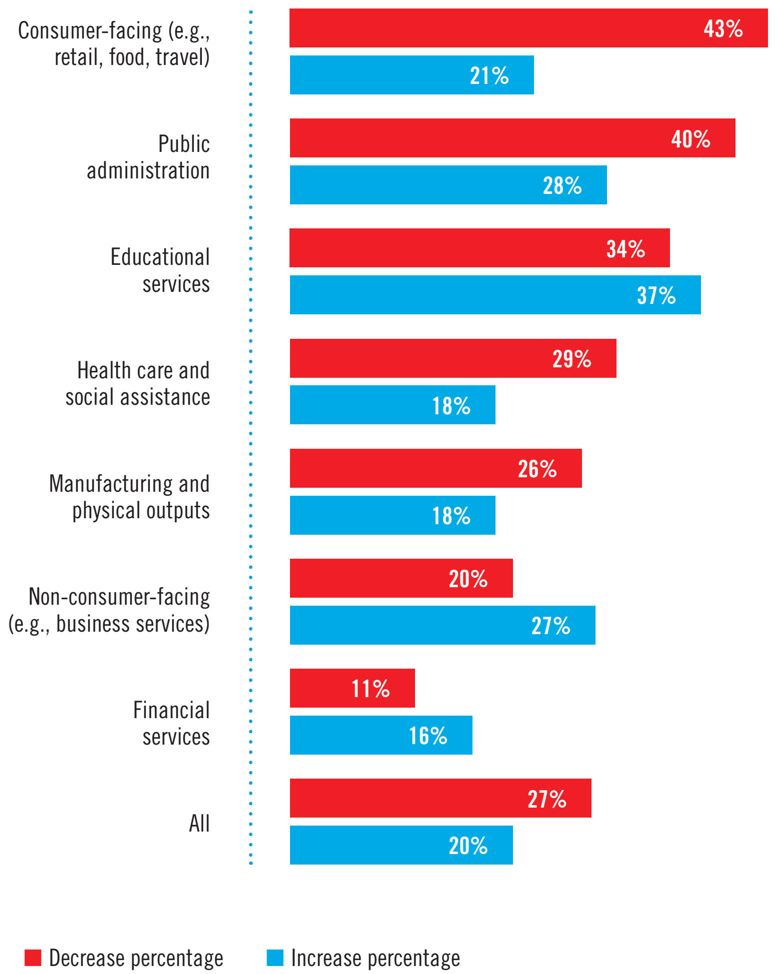


Note: Q7 and Q9: By how many FTEs did your staff increase/decrease? The responses were divided by the number of FTEs in the internal audit function to obtain a percentage of impact on staff (the "magnitude of change"). FTE = full-time equivalent employee. *n* = 101 for less than 10 FTEs. *n* = 110 for 10 or more FTEs.

Industry Group Differences

Another way to evaluate the pandemic's impact is to compare the magnitude of decrease to the magnitude of increase. Exhibit 3.4 provides this comparison with a breakout by industry groups. For consumer-facing and public administration, the magnitude of change is much greater for decreasing staff than increasing staff. In contrast, financial services and non-consumer-facing industries have a higher magnitude for their increases than for their decreases. Interestingly, 37% of educational services respondents reported staffing increases – the highest of any industry group – but 34% reported staffing decreases, which also was among the highest.

Exhibit 3.4: Internal Audit Staff - Magnitude of Change for Those With Staff Changes (Compared to Industry Group)



Note: Q7 and Q9: By how many FTEs did your staff increase/decrease? The responses were divided by the number of FTEs in the internal audit function to obtain a percentage of impact on staff (the "magnitude of change"). FTE = full-time equivalent employee. *n* = 108 for "increase percentage." *n* = 103 for "decrease percentage."

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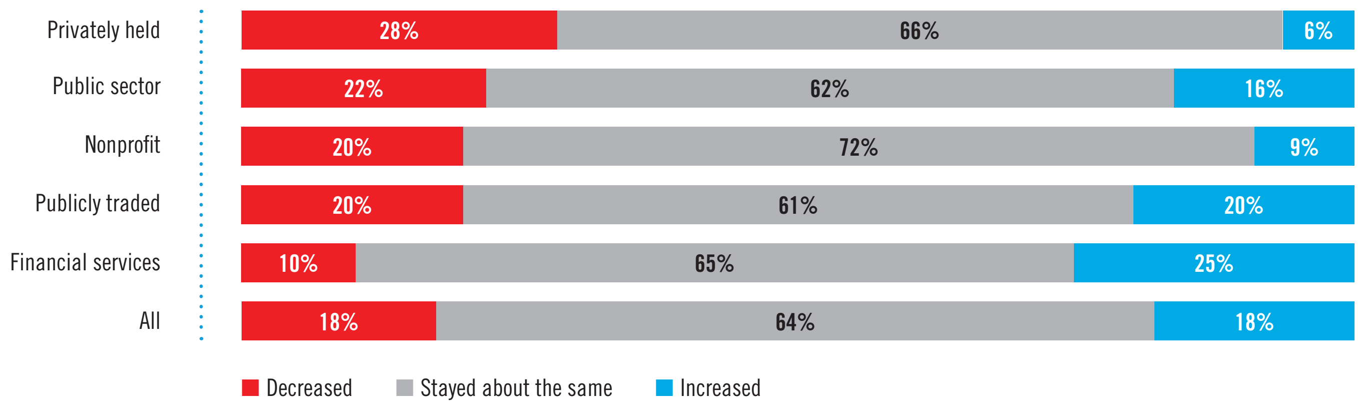
Differences by Organization Type and Industry

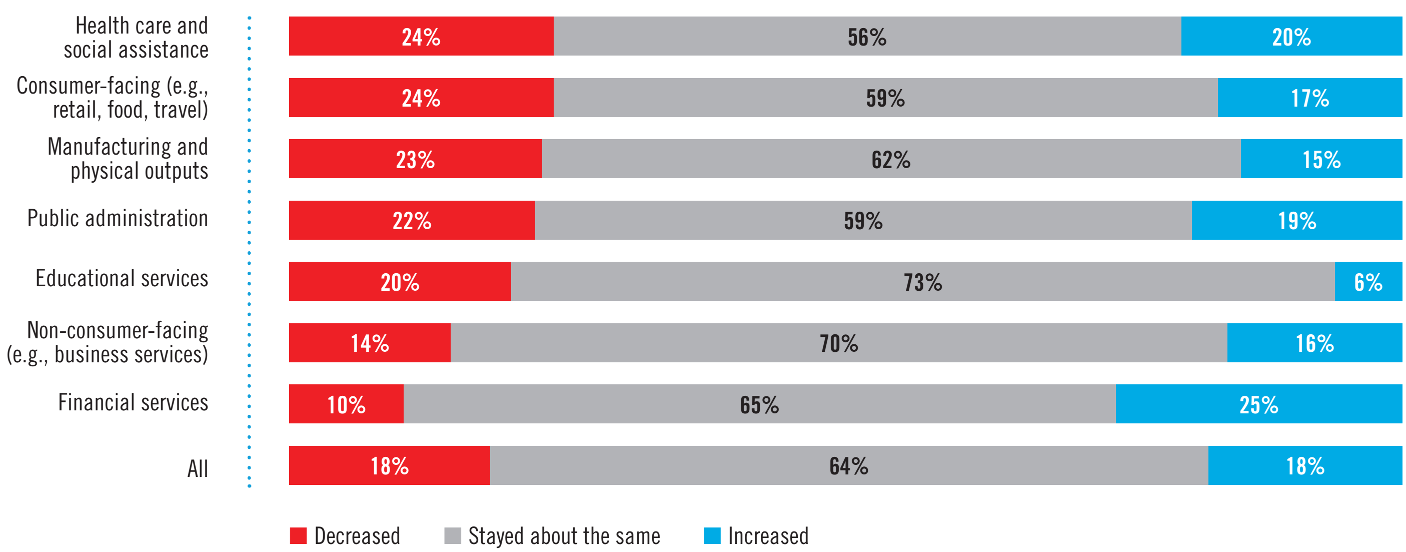
As with budget metrics, financial services experienced the least impact relating to staffing, reporting the fewest functions with a staffing loss and the most functions with a staffing gain. Privately held companies were most likely to have cuts and the least likely to have increases, while publicly traded companies had about the same percentage with increases as decreases (Exhibit 3.5). A breakdown of staffing changes by industry group reflects milder impact on non-consumer-facing industries as well as financial services (Exhibit 3.6).

Exhibit 3.5: Internal Audit Staff Change - Past 12 Months (Compared to Organization Type)



Note: Q6: Looking back over the past 12 months, the number of in-house and/or sourced staff within your internal audit function has increased, decreased, stayed about the same. Totals may not equal 100% due to rounding. *n* = 581.

Exhibit 3.6: Internal Audit Staff Change - Past 12 Months (Compared to Industry Group)



Note: Q6: Looking back over the past 12 months, the number of in-house and/or sourced staff within your internal audit function has increased, decreased, stayed about the same. Totals may not equal 100% due to rounding. *n* = 585.

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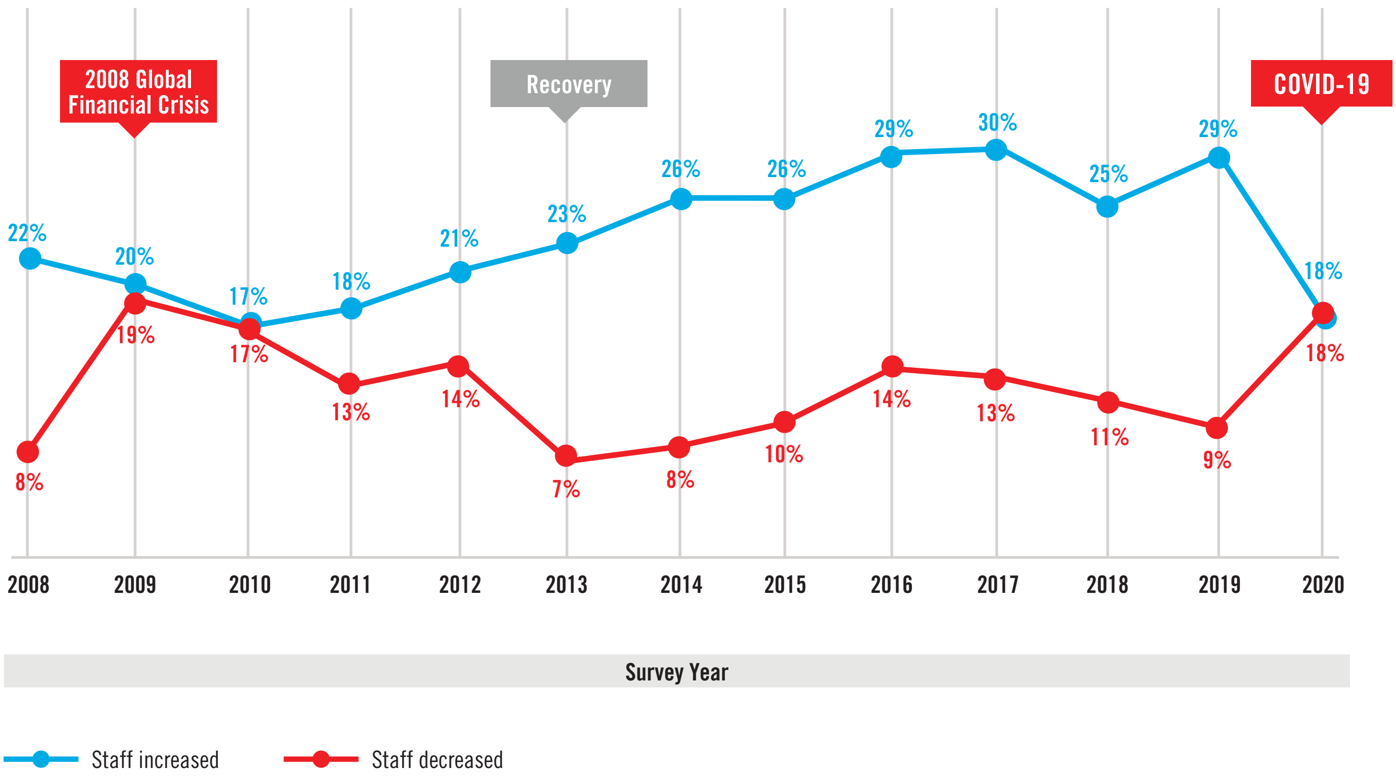
Lessons from the Global Financial Crisis – Staffing

The 18% of audit functions reporting staffing cuts in 2020 were on par with the 19% that reported cuts following the 2008 global financial crisis, and the percentage changes from the previous year (2019 and 2008) were comparable (9% and 11%, respectively). The changes reflected comparable increases over the prior year in both instances, 9 percentage points in 2020 and 11 percentage points in 2009. When comparing the percentage of functions that reported increases in staff, COVID-19's negative impact appears greater than that of the global financial crisis. The percentage of functions that added staff fell 11 percentage points in 2020, while the dip was only 2 points in 2009.

Finally, there was more volatility noted from year to year in staffing cuts versus budget cuts, particularly between 2011 and 2019. Staffing cuts ranged from 7% to 17%, while budget cuts for the same time period ranged from 13% to 19% (compare Exhibit 3.7 to Exhibit 2.6).

Exhibit 3.7: Internal Audit Functions Reporting Staff Increases or Decreases in the Previous Year (2008 to 2020)



Note: Beginning in 2008, Pulse of Internal Audit surveys asked North American CAEs and directors whether internal audit staff increased, decreased, or stayed the same in the previous year/fiscal year/12 months. Response rates varied, but surveys consistently focused on IIA membership, providing continuity among respondents. The dates on this graph reflect the year the surveys were administered.

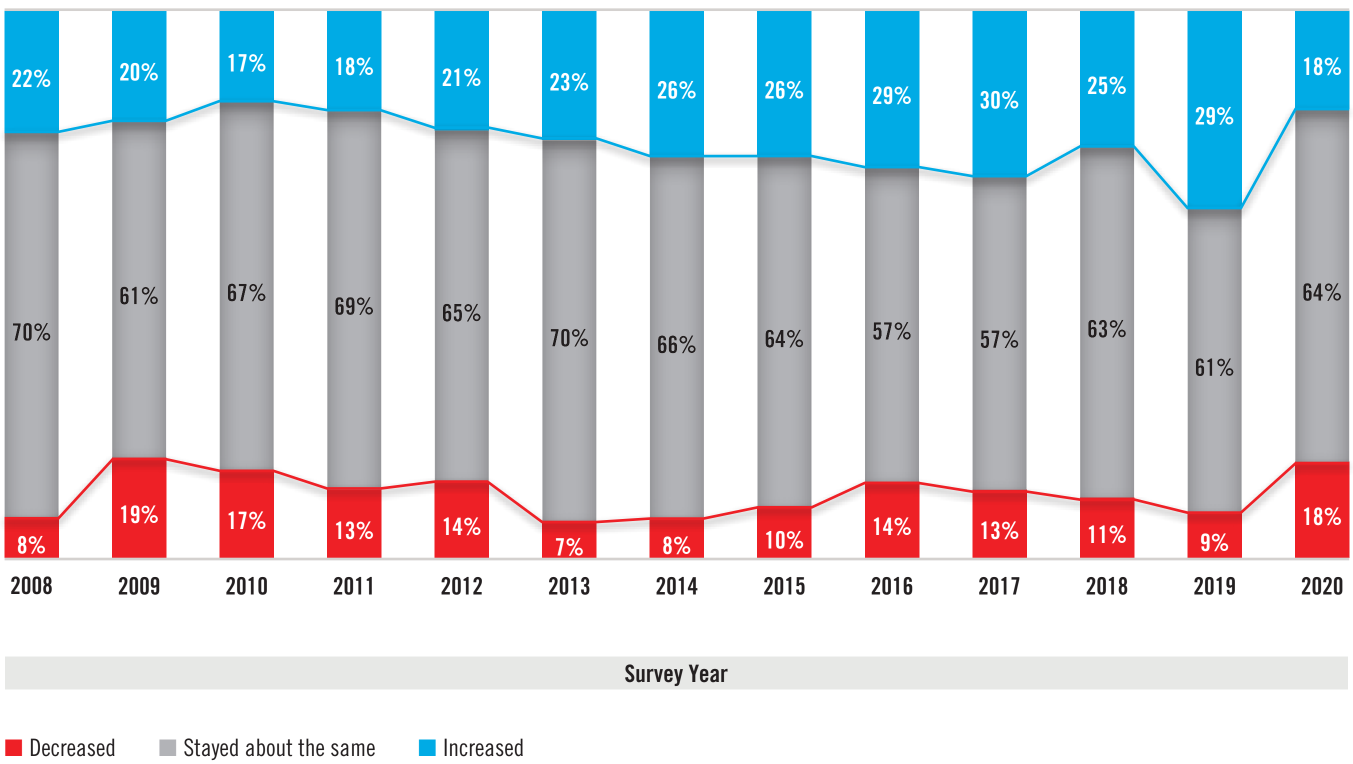
Staffing Level Stability

Internal audit staffing remained relatively stable for most functions, even through the 2008 recession and the 2020 pandemic (Exhibit 3.8). During the 12 years before the pandemic, an average of 64% of respondents said their internal audit staffing levels stayed about the same. Even in 2020, where again 64% reported that staffing levels stayed about the same.

As noted earlier (Exhibit 2.7), internal audit staffing levels are relatively more stable than internal audit budgets. During the 12 years prior to the pandemic, less than half (47%) said that their internal audit budgets stayed about the same, compared to 64% for staffing levels.

In addition, for noncrisis years (2011 to 2019), staffing increases were consistently greater than decreases, with an average of 25% of respondents reporting staffing increases compared to 11% reporting staffing decreases.

Exhibit 3.8: Internal Audit Functions Reporting Staff Increases, Decreases, or Staying the Same in the Previous Year (2008 to 2020)

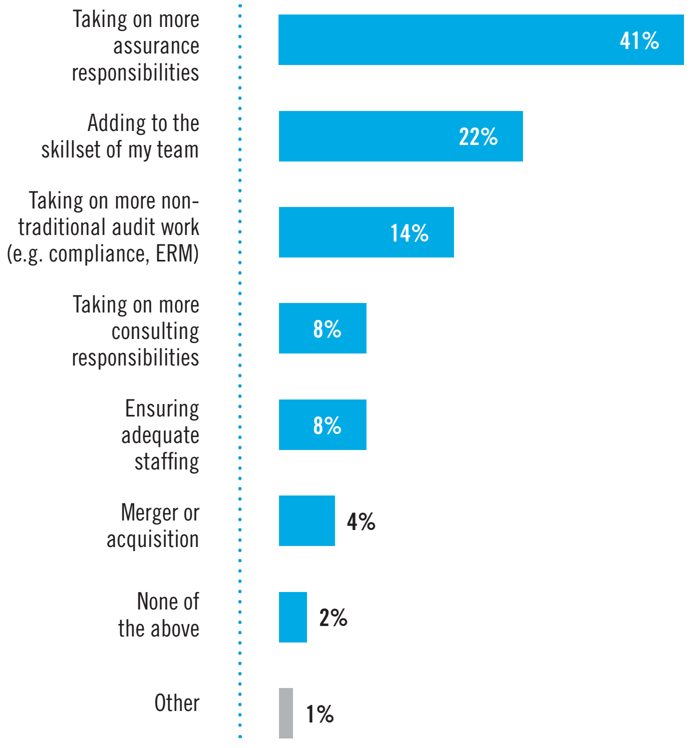


Note: Beginning in 2008, Pulse of Internal Audit surveys asked North American CAEs and directors whether internal audit staff increased, decreased, or stayed the same in the previous year/fiscal year/12 months. Response rates varied, but surveys consistently focused on IIA membership, providing continuity among respondents. The dates on this graph reflect the year the surveys were administered. Totals may not equal 100% due to rounding.

Reasons for Increase/Decrease of Staff

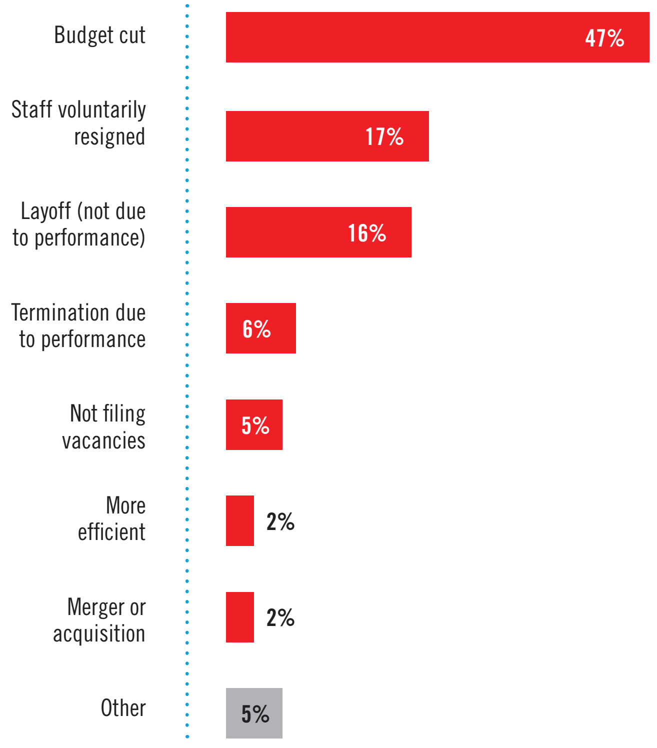
The reasons cited for staffing changes also tell an important story about how the pandemic response expanded the profession's scope of work for some. Respondents reporting staffing increases listed taking on additional assurance responsibilities, adding to team skillsets, and taking on more nontraditional internal audit work, such as ERM, as the three top reasons (Exhibit 3.9). In contrast, the top three reasons cited for staffing cuts – budget cuts, voluntary resignations, and layoffs – were more likely linked to the pandemic's financial impacts than to a reduction in internal audit scope (Exhibit 3.10).

Exhibit 3.9: Reasons for Increasing Internal Audit Staff



Note: Q8: What was the primary reason for the increase in staff size? *n* = 108.

Exhibit 3.10: Reasons for Decreasing Internal Audit Staff



Note: Q10: What was the primary reason for the decrease in staff size? *n* = 103.

SECTION 4

Risk and Audit Plan Trends

As noted throughout this report, data from the Pulse survey reflect differing realities of COVID-19's impacts depending on the organization type or industry group. With internal audit functions facing decreased budgets and staffing, increased responsibilities, or both, insights into how internal audit leaders managed changes to their risk assessments and audit plans can be valuable.

What follows are five-year trend graphics for risk assessments and audit plans presented in a novel and useful format (see Digging Deeper sidebar for details). The graphics provide internal audit leaders with valuable benchmarks in these unprecedented times.

Digging Deeper

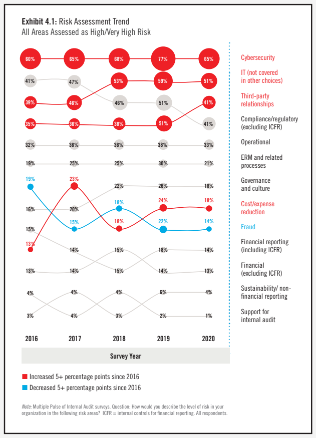
The Pulse of Internal Audit survey asks about 13 categories of risks as they relate to risk assessments and audit plan allocations. To ensure year-to-year comparability, the categories must stay consistent and therefore are broad (i.e., operational, compliance, etc.) rather than specific (i.e., responding to COVID-19, regulatory change, etc.)

The risk assessment trends are tracked as the percentage of respondents who described each area as "high" or "very high" risk. Audit plans are measured by the average percentage of the total plan allocated to a particular risk category.

In each graphic, the risk categories are ranked by score, from highest percentage (top) to lowest (bottom). In addition, the size of the circles are proportional to the percentages, showing change over time. Finally, colors indicate a notable change from 2016 to 2020, with red for increase and blue for decrease.

Because of the many differences between organization types, results are provided for respondents as a whole and then separately for each of the following groups: publicly traded, privately held, public sector, nonprofit, and financial services.

Finally, please note that in previous Pulse reports, the graphs referenced the year of the report release. However, this year, the graphs reference the year the survey was administered so that it is clear when responses were collected in relation to the rise of the COVID-19 global pandemic.



Risk – All Respondents

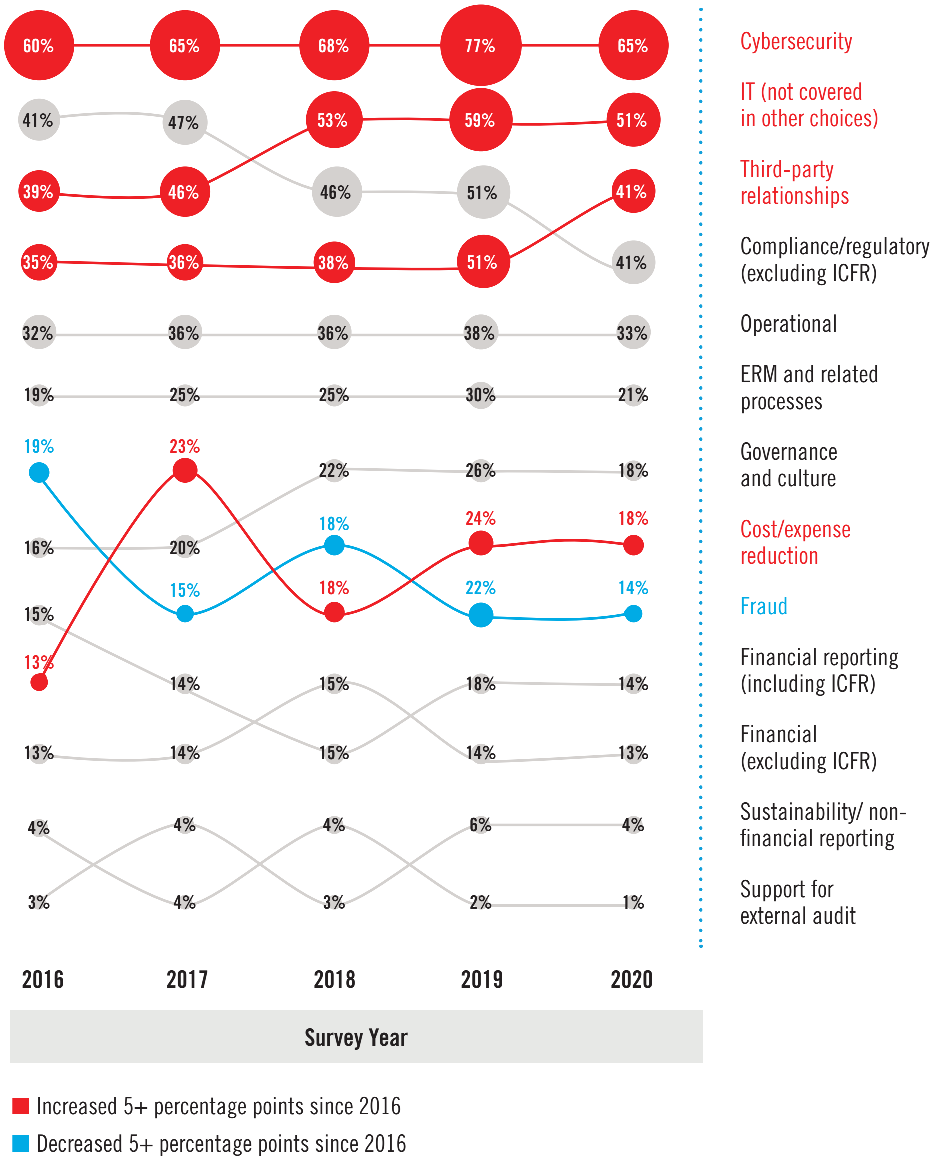
Cybersecurity and IT remain solidly in place as the highest ranked risk areas for respondents as a whole, with more than half of respondents rating these areas as "high" or "very high" risk in their organizations. The impact of COVID-19 on technology use is certainly a complicating factor in this area of risk that is already a top concern.

Third-party relationships, which is next in the ranking at 41%, may also be related to technology because many organizations use third parties for technology services.

As risk levels related to technology increase, the category of "compliance/regulatory (excluding ICFR)" has dropped in relative ranking, now equal with third-party relationships at 41%. Nevertheless, compliance is one of the top five risk areas for all organization types.

In terms of other rank changes since 2016, fraud is down and cost/expense reduction is up. However, overall trends do not necessarily apply to all organization types. For example, fraud increased sharply for nonprofits (Exhibit 4.11), and cost/expense reduction went down for privately held (Exhibit 4.9) and nonprofits (Exhibit 4.11).

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



Note: Multiple Pulse of Internal Audit surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. All respondents.

Audit Plan – All Respondents

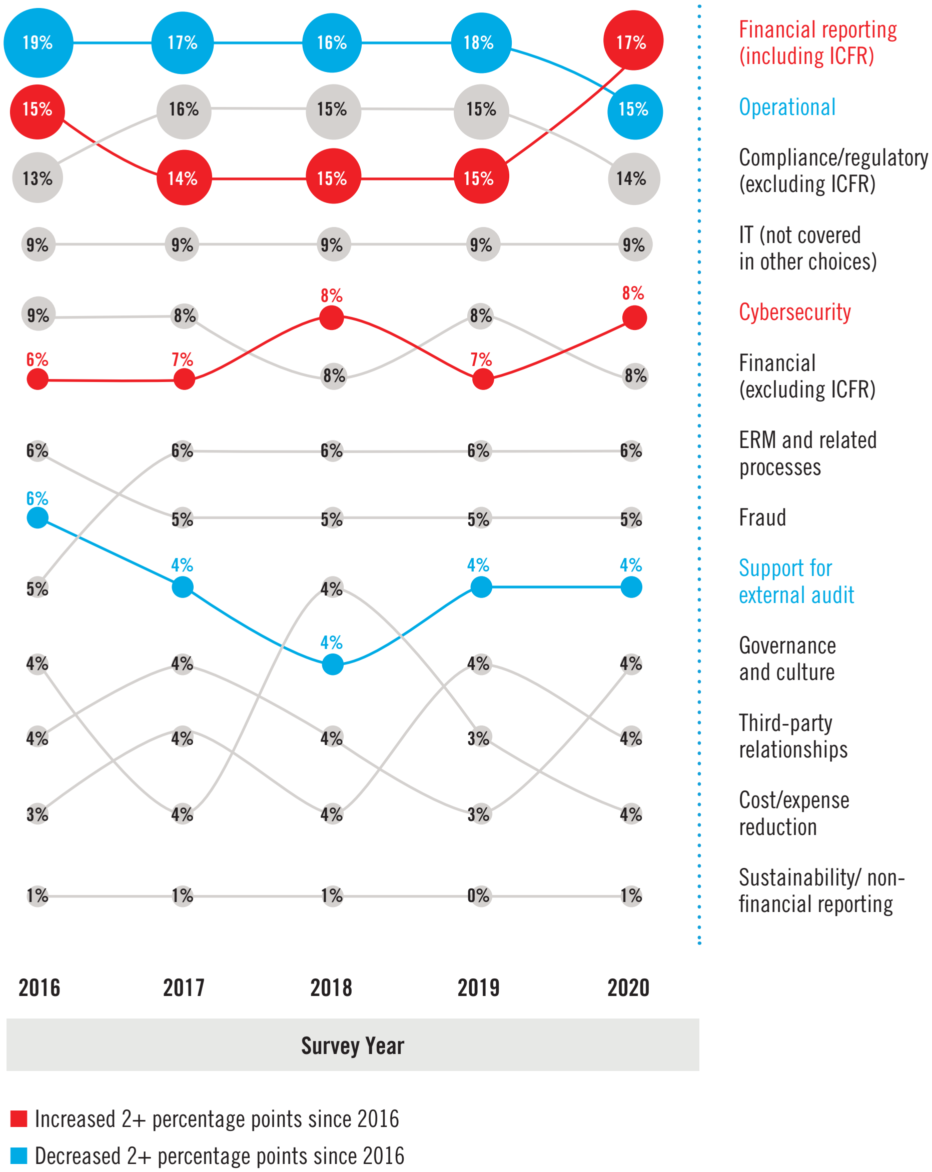
The category of "financial reporting (including ICFR)," which encompasses Sarbanes-Oxley implementation, represents the largest area of increase over the prior year for all respondents combined, climbing to an average of 17% of audit plan allocation. This is the first time in five years that financial reporting (including ICFR) has received the highest allocation of all risk areas.

This higher allocation may be a sign that organizations are asking internal audit to focus on compliance rather than other initiatives amid 2020's pandemic-related uncertainty. Note that while Sarbanes-Oxley compliance is mandated for publicly traded organizations, it is also implemented on a voluntary basis by other organization types (as the breakout exhibits show).

In fact, the IT and cybersecurity allocations combined for 2020 equal 17%, landing them at the top of the ranking alongside financial reporting (including ICFR). Such allocations to IT and cybersecurity are generally consistent across organization types, with the highest combined average within nonprofits (22%) and the lowest in publicly traded (14%) and privately held (13%).

Allocation to operational risk has been decreasing over the past five years across organization types, with the exception of nonprofit, which had a slight increase. Similarly, allocation for external audit has declined or stayed the same across organization types.

Exhibit 4.2: Audit Plan Trend
Average Allocation Per Risk Area



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. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%.

Risk – Publicly Traded

Although Sarbanes-Oxley compliance is a major driver for audit plans in publicly traded organizations, only 17% rated its related risk area as high/very high.

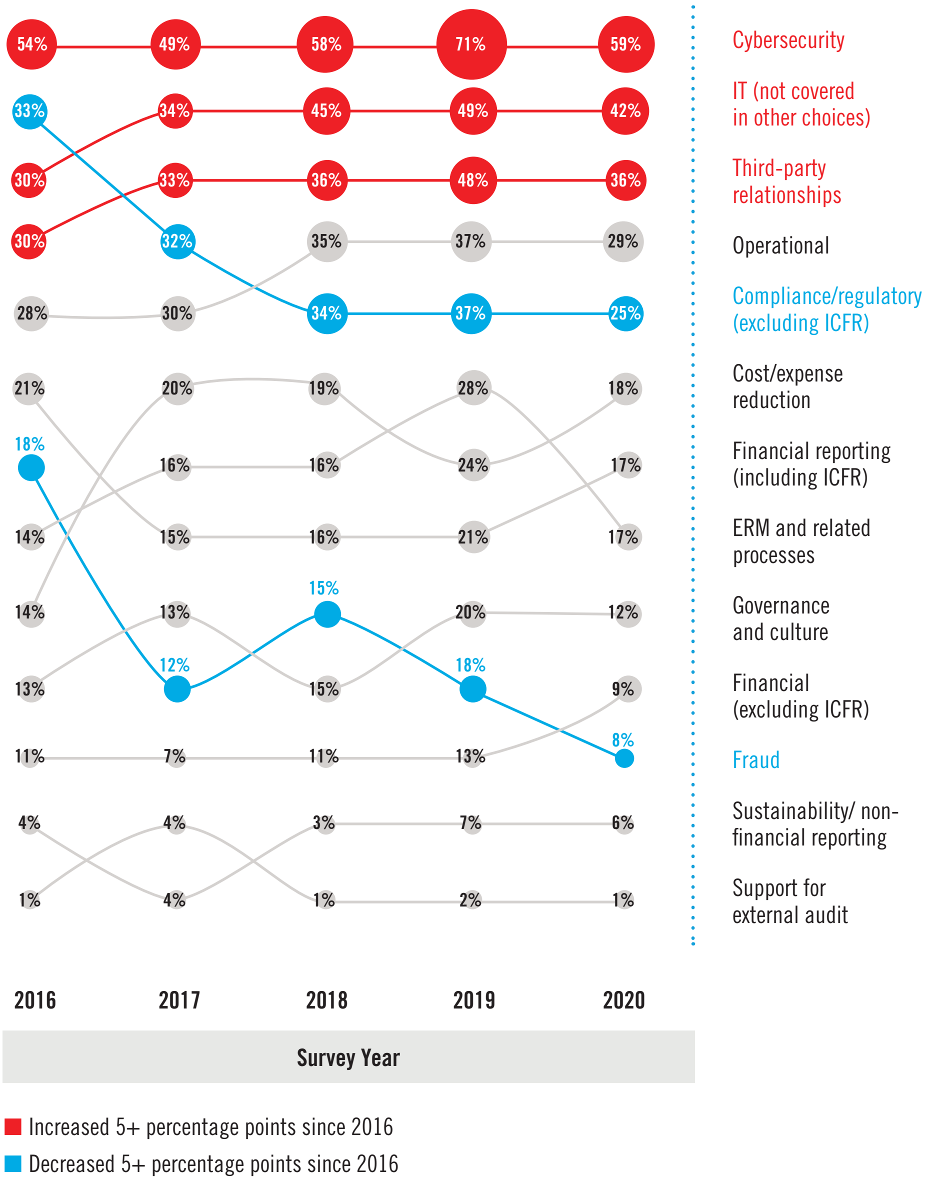
Cybersecurity still has the highest risk level compared to other areas, but the percentage who rate it as high/very high is settling back down to near 2016 levels. Risk levels for IT and third-party relationships (ranked second and third, respectively) are still elevated over 2016.

Risk rankings are dropping for compliance/regulatory (excluding ICFR) (from second to fifth), and fraud (from seventh to eleventh).

Primary Industries

- Manufacturing (42%)
- Utilities (8%)
- Retail trade (8%)
- Mining, quarrying, and oil/gas extraction (7%)

Exhibit 4.3: Risk Assessment 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. Only publicly traded respondents (excluding financial services).

Audit Plan – Publicly Traded

Financial reporting (including ICFR) continues to dominate the audit plans of many publicly traded organizations, accounting for an average of 36% of all audit activity for 2020. To put this in perspective, for the other organization types, the allocation to this area ranges from 3% (public sector) to 19% (privately held) (Exhibits 4.8 and 4.10).

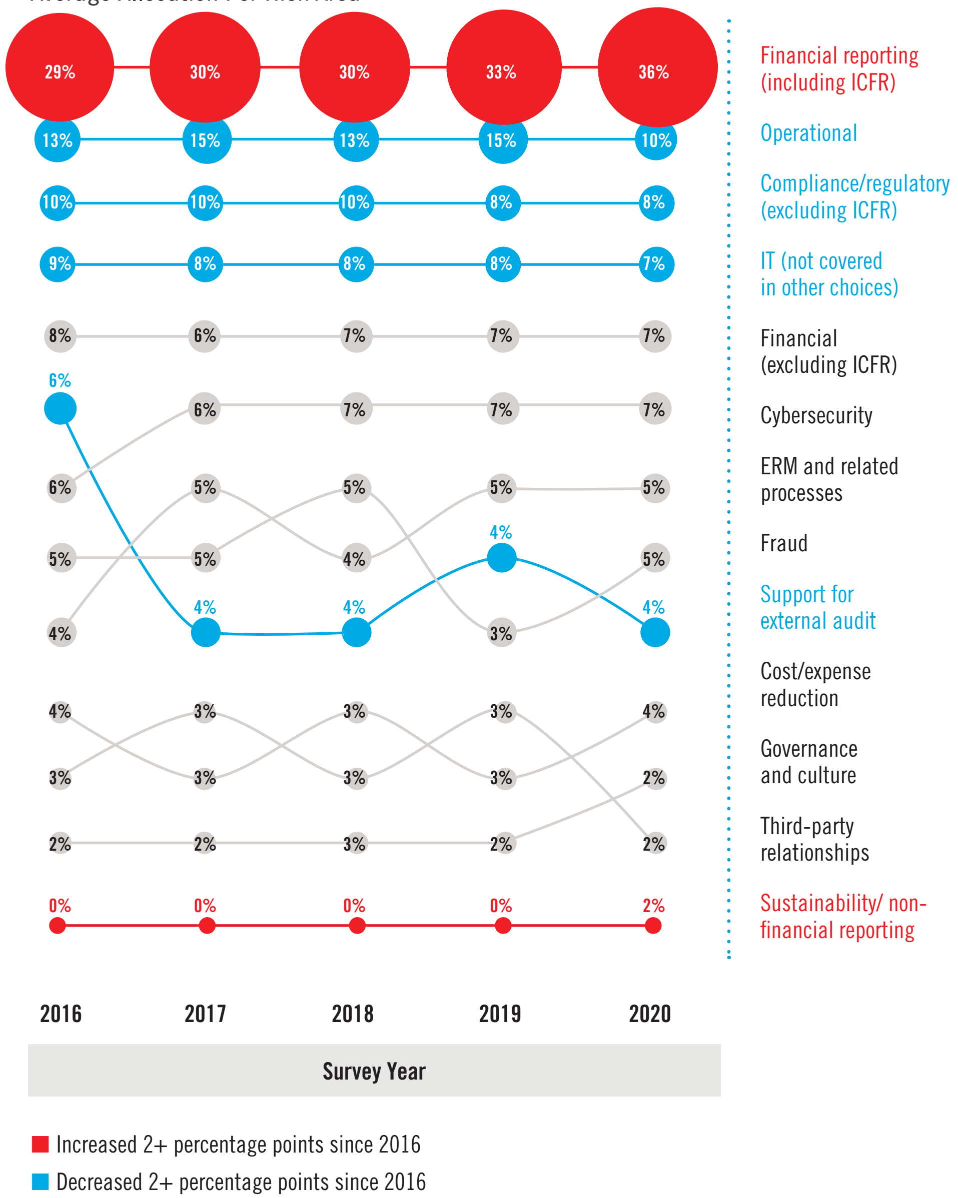
With a large portion of the audit plan focused on financial reporting, publicly traded organizations must reduce allocations in other areas. Their allocation to operational averages 10% whereas for other organization types, it is about 18%. In addition, their combined allocation for IT and cybersecurity is also among the lowest of the organization types at 14% for 2020.

Over the past five years, allocation toward financial reporting (including ICFR) has steadily increased, from 29% to 36%. These increases were offset by reductions in other areas, particularly operational, compliance/regulatory (excluding ICFR), IT, and support for external audit.

A few more publicly traded organizations are carving out space for sustainability/nonfinancial reporting on their audit plans, but this area still only represents and average of 2% of the overall audit plan.

Exhibit 4.4: Audit Plan Trend - Publicly Traded

Average Allocation Per Risk Area



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. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Only publicly traded (excluding financial services).

Risk – Financial Services

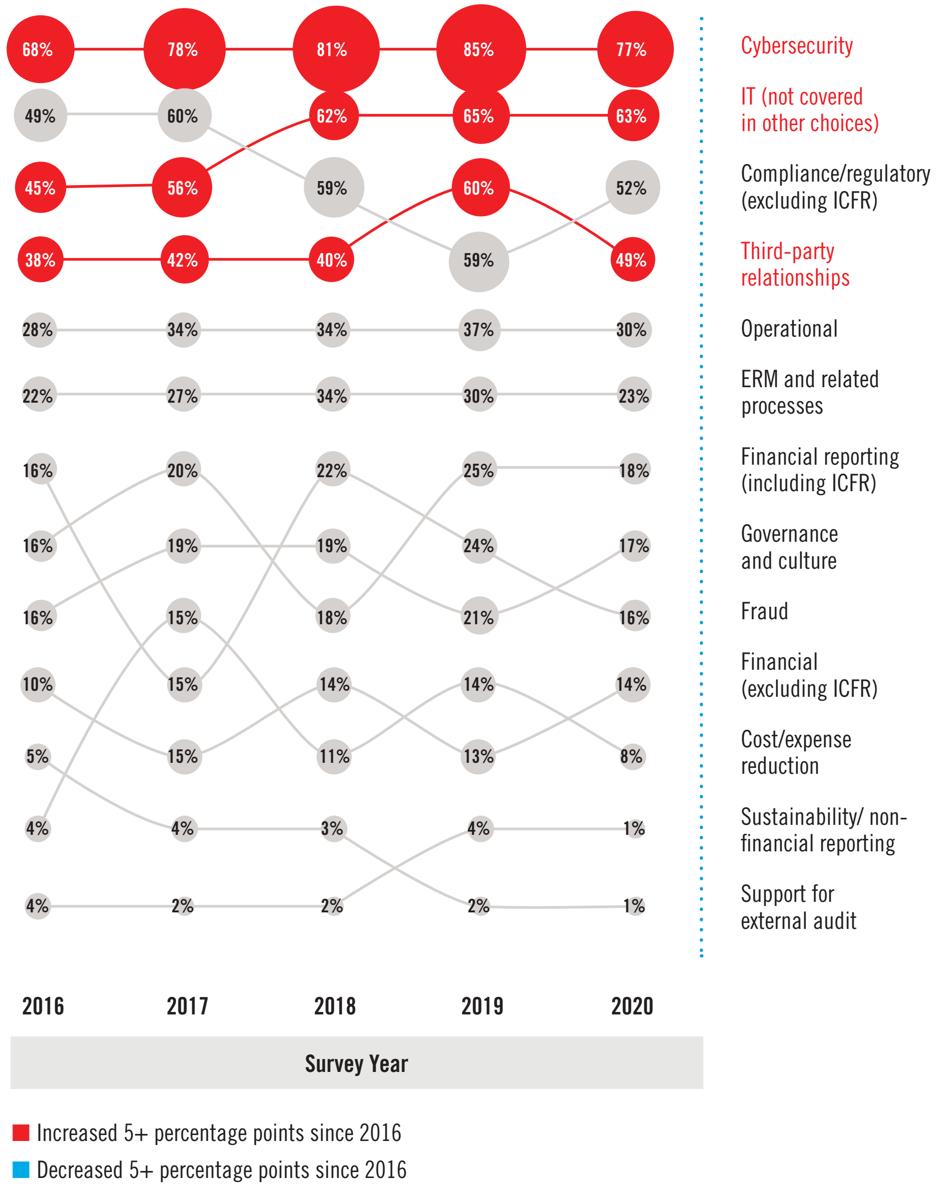
Financial services respondents from all sectors are analyzed separately from other organization types because of their unique business concerns and compliance environment.

Compared to the overall average, they indicate higher levels of risk for all of their top four risk areas: cybersecurity (77%), IT (63%), compliance/regulatory (excluding ICFR) (52%), and third-party relationships (49%).

Primary Sub-industries

- Banking (46%)
- Insurance (28%)
- Credit union (13%)
- Asset management (8%)
- Other investment (4%)

Exhibit 4.5: Risk Assessment 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. Only financial services respondents.

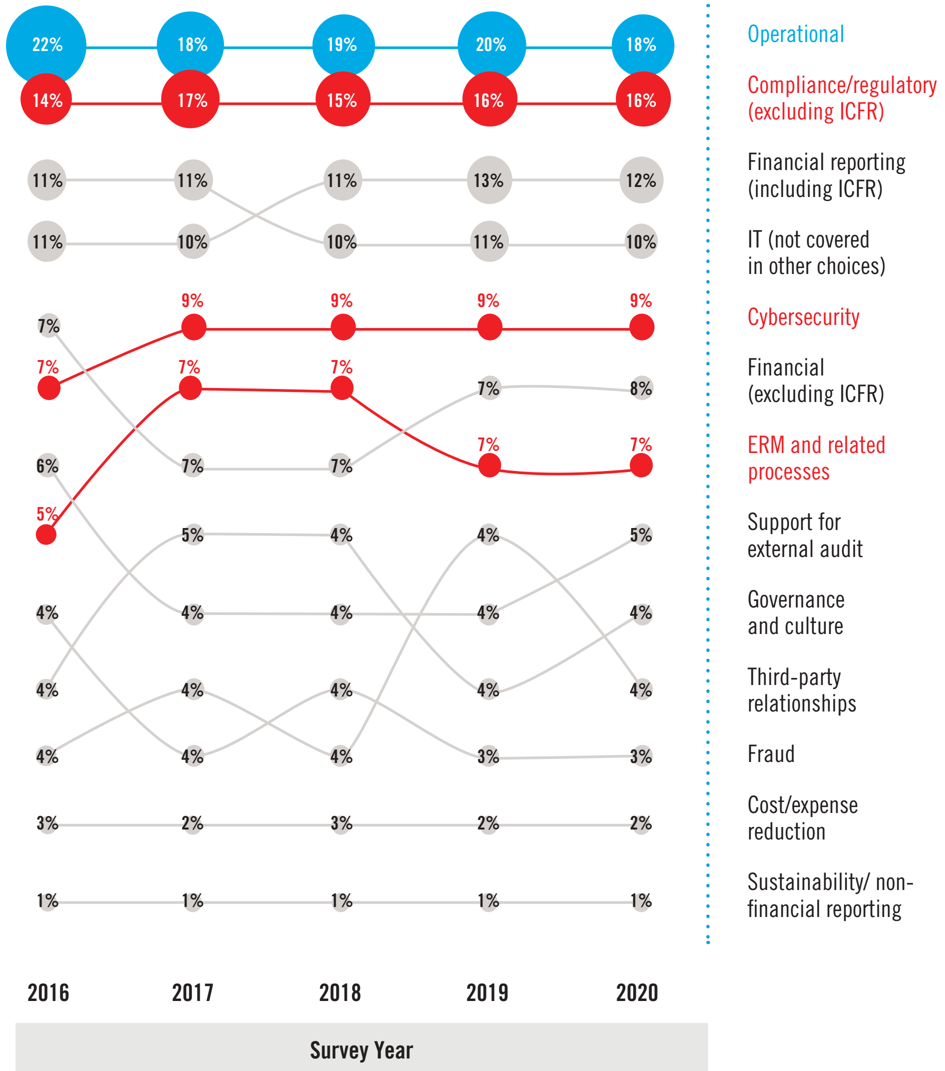
Audit Plan – Financial Services

The top of the audit plan for financial services is shared by operational (18%) and compliance/regulatory (excluding ICFR) (16%). Cybersecurity and ERM have gained space in the audit plans over the past five years, while operational has decreased.

Financial reporting (including ICFR) comprises 12% of the audit plan for financial services overall (rising slightly higher to 15% for publicly traded financial services.)[1] However, this is much lower than the 36%-average allocation among publicly traded organizations outside of financial services (Exhibit 4.4).

1. 2021 North American Pulse of Internal Audit Survey (distributed Q4 of 2020). Q16: 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. *n* = 33 for financial services, publicly traded. *n* = 38 for financial services, not publicly traded.

Exhibit 4.6: Audit Plan Trend - Financial Services
Average Allocation Per Risk Area



Increased 2+ percentage points since 2016

Decreased 2+ percentage points since 2016

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. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Only financial services respondents.

Risk – Public Sector

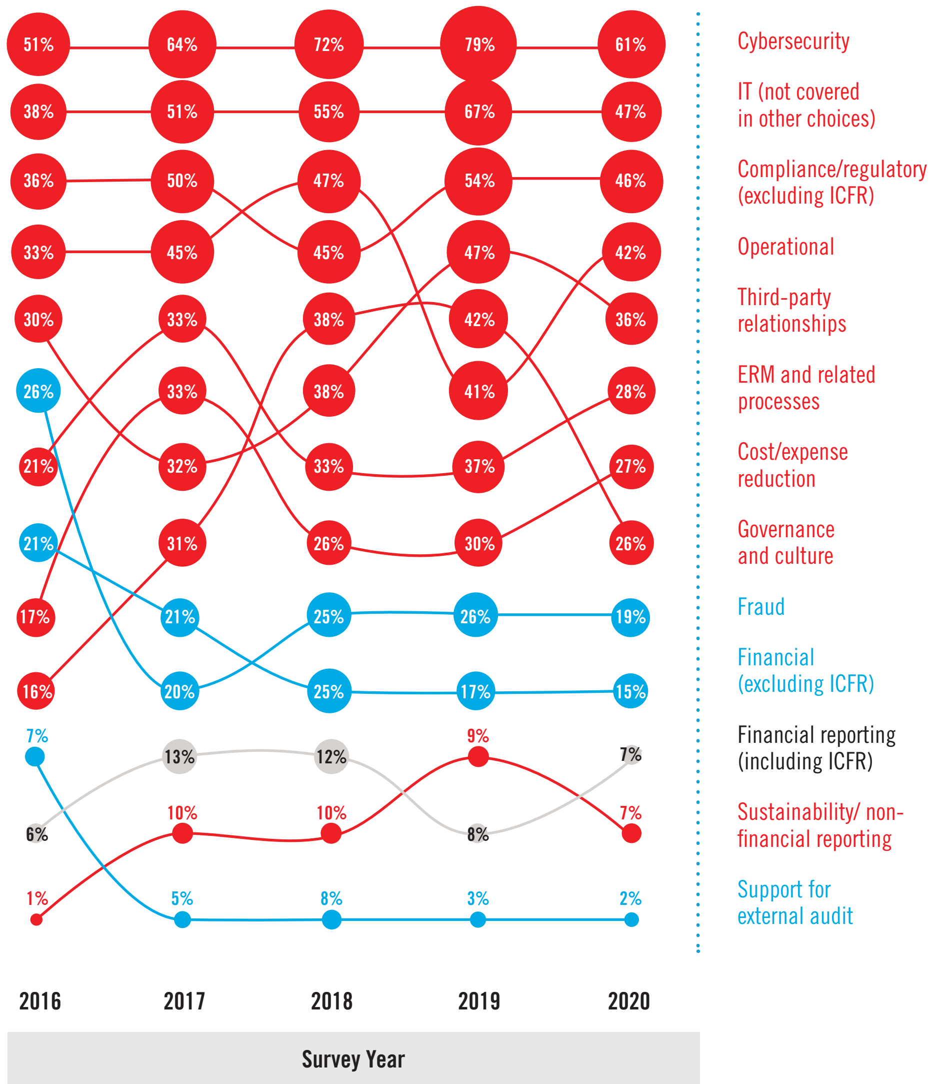
The public sector continues its trend of risk level elevation since 2016 with nine areas of elevated risk (more than double the overall average). The top four are cybersecurity (61%), IT (47%), compliance regulatory (excluding ICFR) (46%), and operational (42%).

Areas where risk levels dropped were fraud, financial (excluding ICFR), and support for external audit.

Primary Industries

- Public administration (44%)
- Educational services (27%)

Exhibit 4.7: Risk Assessment Trend - Public Sector
Areas Assessed as High/Very High Risk



Increased 5+ percentage points since 2016

Decreased 5+ percentage points since 2016

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. Only public sector respondents (excluding financial services).

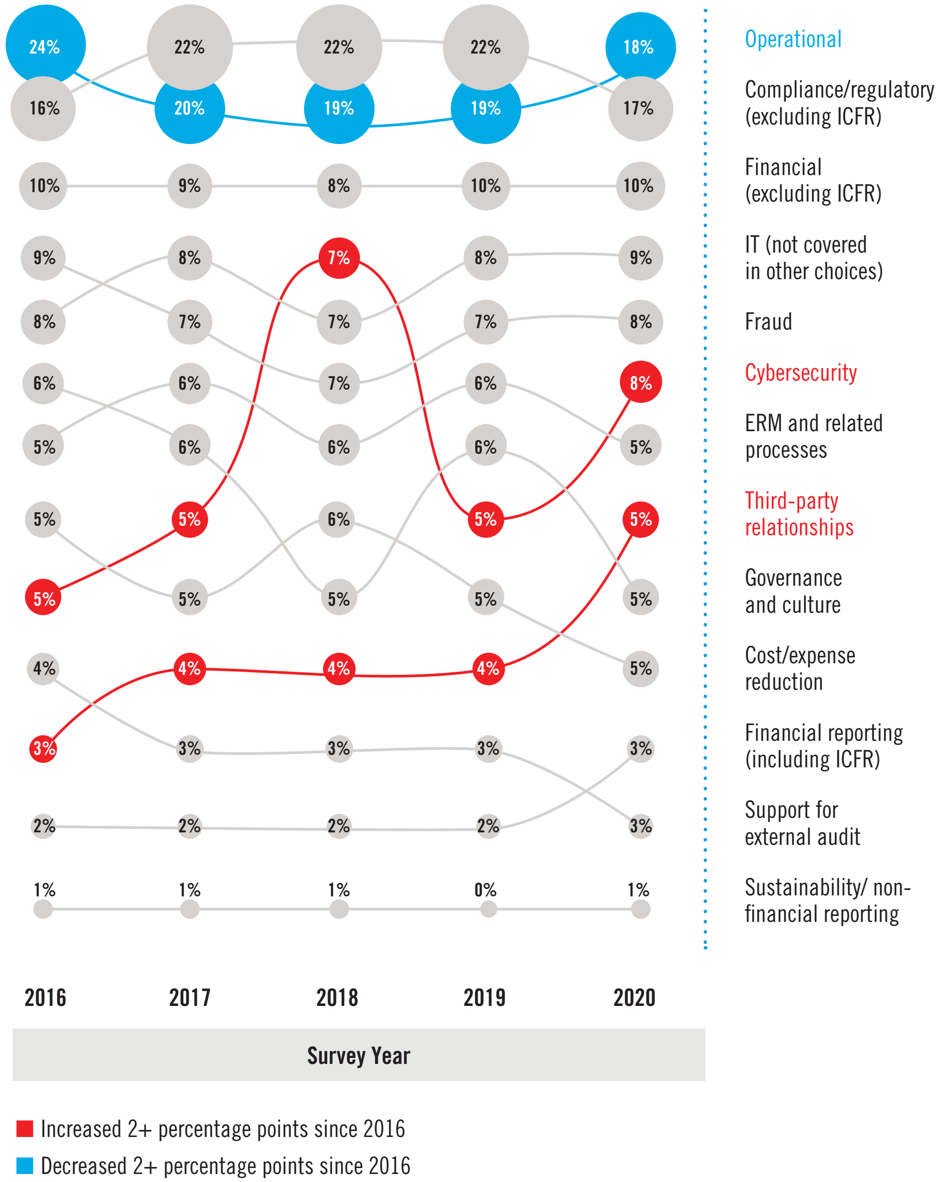
Audit Plan – Public Sector

The public sector has been shifting allocation toward cybersecurity and third-party relationships, while reducing operational (although operational remains the area with the highest allocation). Combined IT/cybersecurity allocation is now on par with the average for all respondents, 17%, and allocation to third-party relationships (5%) is slightly above the overall average (4%) (Exhibit 4.2).

The public sector is tied with nonprofits for having the highest allocation for fraud of any organization type, at 8% (compared to the overall average of 5%) (Exhibit 4.2).

Audit plan allocations within the public sector tend to be slightly higher because very little is allocated to financial reporting (including ICFR) (3%).

Exhibit 4.8: Audit Plan Trend - Public Sector
Average Allocation Per Risk Area



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. Allocation to "other" is not included in this graph; therefore the total will not equal 100%. Only public sector (excluding financial services).

Risk – Privately Held

Privately held organizations make up the smallest percentage of survey respondents (8%) and come from a wide variety of industries.

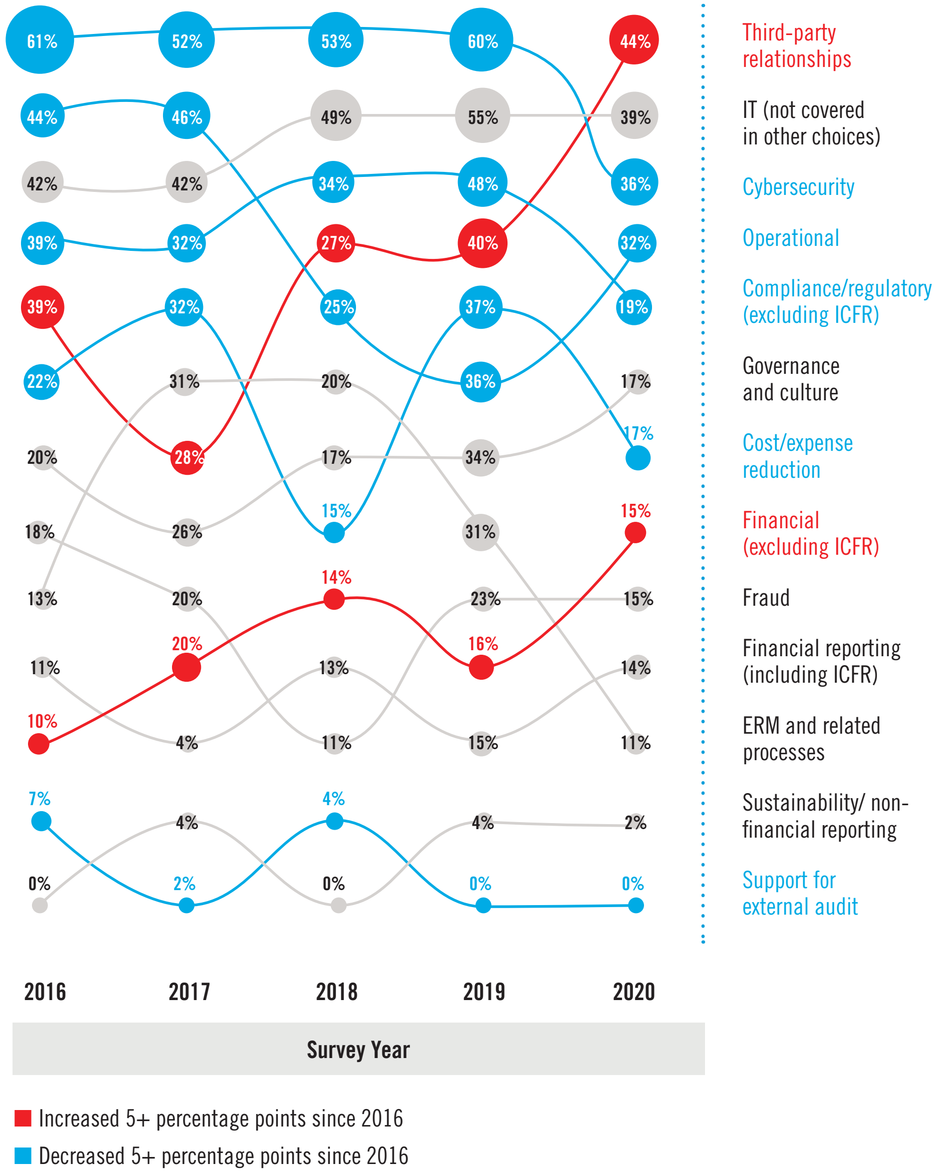
The most interesting change in ranking is for third-party relationships, which replaced cybersecurity as the top-ranking risk since last year. Privately held organizations are the only group where cybersecurity is not the top risk.

This group also stands out for having several risk levels trending lower since 2016, although these areas are still ranked in the top 5: cybersecurity, operational, and compliance/regulatory (excluding ICFR).

Primary Industries

- Manufacturing (28%)
- Professional, scientific, and technical (11%)
- Transportation and warehousing (9%)
- A wide variety of other industries

Exhibit 4.9: Risk Assessment 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. Only privately held (excluding financial services).

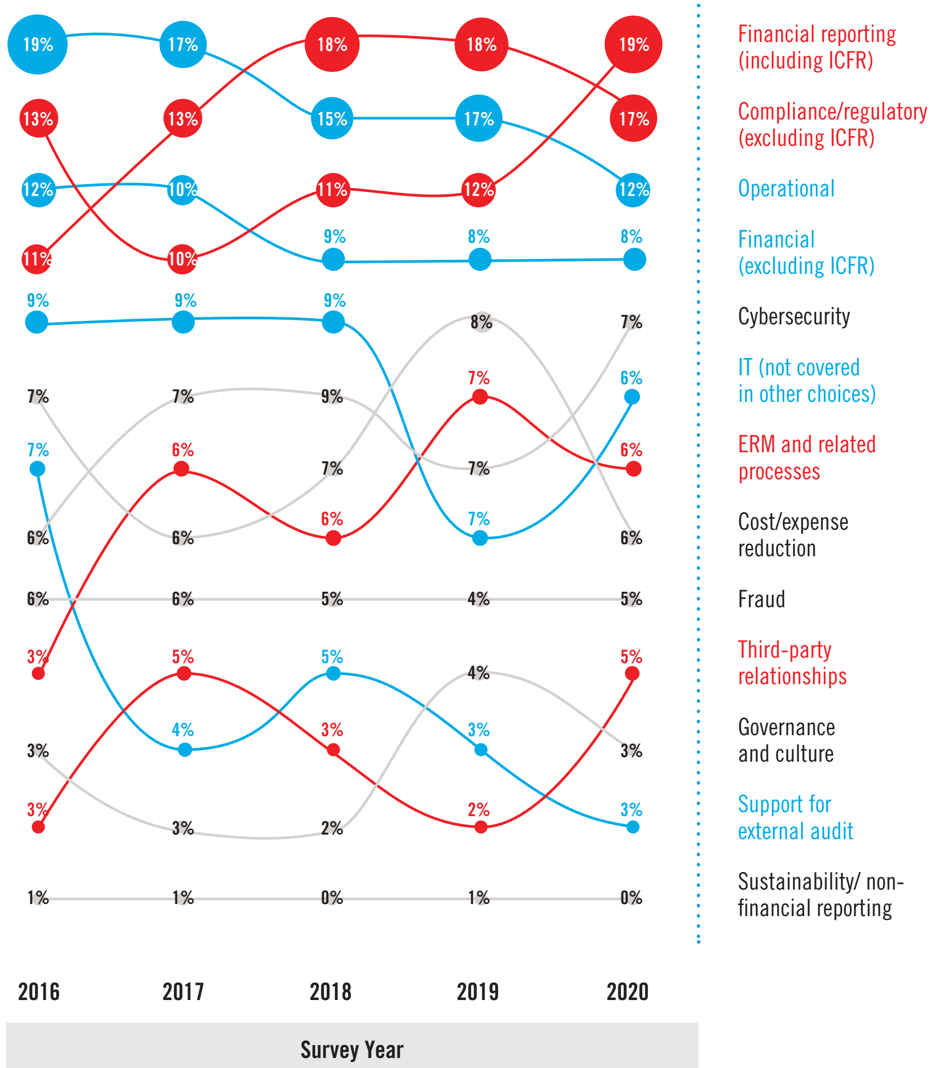
Audit Plan – Privately Held

The audit plan for privately held organizations this year emphasizes compliance. Financial reporting (including ICFR) is at the top with 19%, followed by compliance/ regulatory (excluding ICFR) at 17%.

Privately held is the only category where operational is ranked third instead of first or second. The allocation for operational among privately held was 12%, falling between the 15% average for all respondents (Exhibit 4.2) and the 10% average for publicly traded (Exhibit 4.4).

Operational allocation has dropped 7 percentage points since 2016. Combined cybersecurity/IT allocation is the lowest of all organization types, at 13%.

Exhibit 4.10: Audit Plan Trend - Privately Held
Average Allocation Per Risk Area



Increased 2+ percentage points since 2016

Decreased 2+ percentage points since 2016

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. Allocation to "other" is not included in this graph; therefore, the total will not equal 100%. Only privately held (excluding financial services).

Risk – Nonprofit

Nonprofit organizations (e.g., health care and educational services) have been heavily impacted by COVID-19. This is seen in above-average risk levels in general, with some trending up notably since last year.

Risk rankings are similar to those of financial services, with the top four being cybersecurity (82%), compliance/regulatory (excluding ICFR) (66%), IT (58%), and operational (47%).

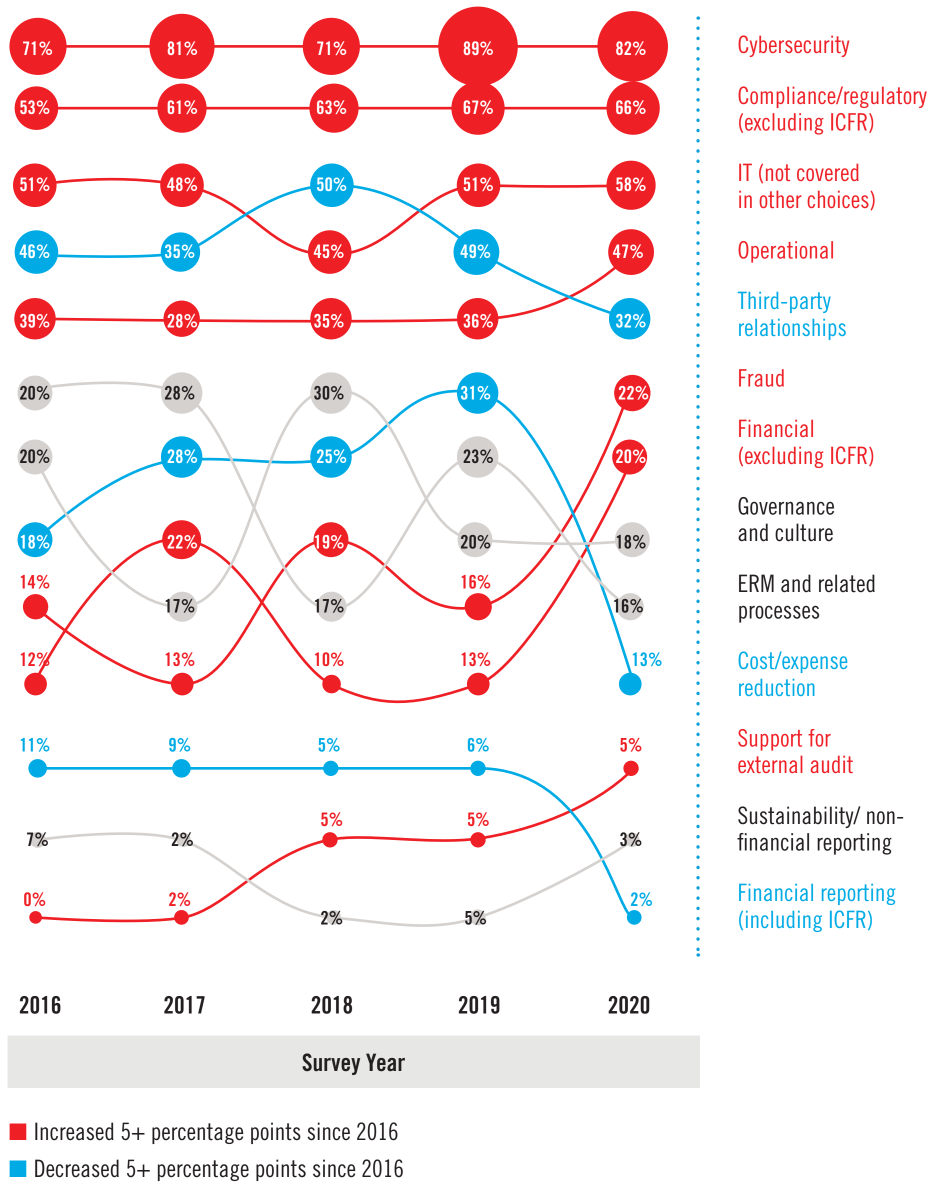
In addition, steep increases from 2019 to 2020 were seen for IT, operational, fraud, and financial (excluding ICFR).

The areas for which risk levels and ranking continued multiyear downward trends were third-party relationships, cost/expense reduction, and financial reporting (including ICFR).

Primary Industries

- Health care and social assistance (48%)
- Educational services (20%)
- Other services (except public administration) (17%)

Exhibit 4.11: Risk Assessment Trend - Nonprofit
Areas Assessed as High/Very High Risk



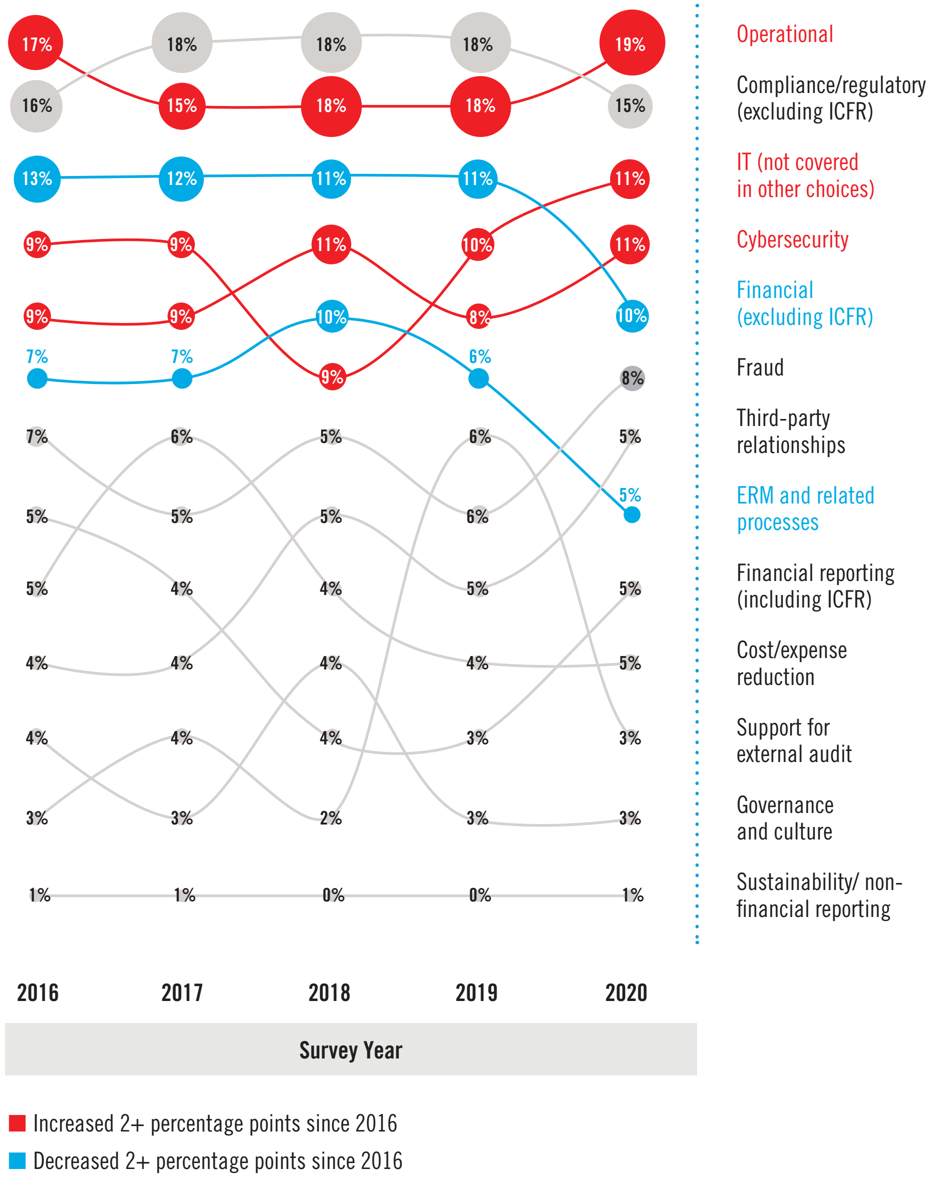
Note: Multiple Pulse surveys. Question: How would you describe the level of risk in your organization in the following risk areas? ICFR = internal controls for financial reporting. Only nonprofit (excluding financial services).

Audit Plan – Nonprofit

IT and cybersecurity allocation have increased, giving nonprofits the highest combined average of all organization types at 22%. These adjustments make sense in light of the significant increase in online activity for health care and educational services due to COVID-19.

In the short-term, allocation has been reduced for compliance/regulatory (excluding ICFR), dropping 3 percentage points since last year. Longer-term reductions have been made in financial (excluding ICFR) and ERM and related processes.

Exhibit 4.12: Audit Plan Trend - Nonprofit
Average Allocation Per Risk Area



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. Allocation to "other" is not included in this graph; therefore the total will not equal 100%. Only nonprofit (excluding financial services).

APPENDIX

Metrics for Internal Audit Leaders

Industry Groups

Industry groups were created based on characteristics related to COVID-19's impact. For example, industries with a high level of consumer contact (retail, food, travel) were grouped together, while industries that are more focused on business services (which can be provided remotely) were placed in a different group.

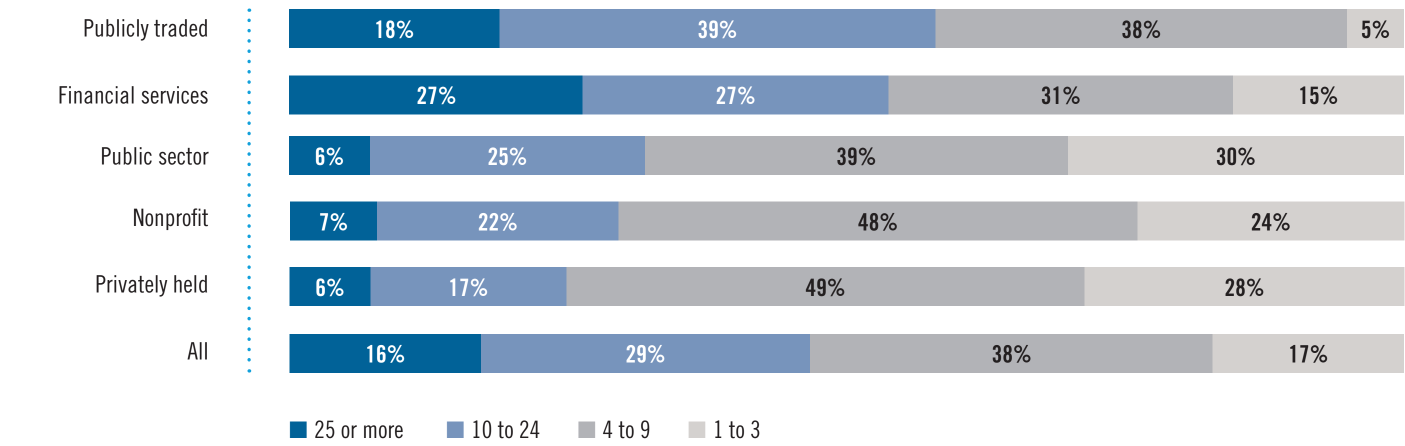
Exhibit A.1: Industry Groups for Analysis

Name of Industry Group	Percentage	Number of Respondents
Financial services	31%	180
Manufacturing and physical outputs (e.g., utilities; mining, quarrying, oil/gas extraction; transportation and warehousing; construction; agriculture, forestry, fishing, hunting)	26%	152
Non-consumer-facing (e.g., business services)	12%	73
Public administration	11%	63
Educational services	8%	50
Health care and social assistance	7%	41
Consumer-facing (e.g., retail, food, travel)	5%	29
Total	**100%**	**588**

Note: Q27: What is the primary industry classification of the organization for which you work (or your primary client if you are a service provider)? Industry categories are based on the NAICS (North American Industry Classification System) https://www.naics.com/search-naics-codes-by-industry/.

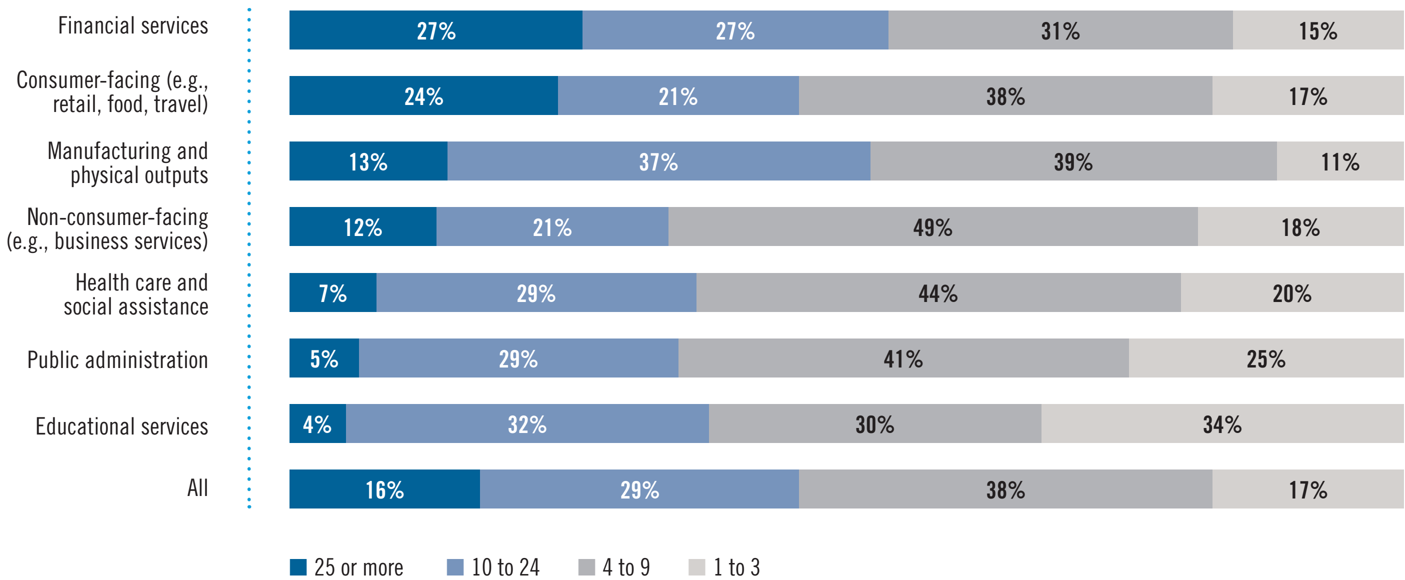
Internal Audit Function Size

Exhibit A.2: Internal Audit Function Size (Compared to Organization Type)



Note: Q5: How many FTEs are in your internal audit function? Type in the approximate number of in-house FTEs and sourced FTEs. Totals may not equal 100% due to rounding. *n* = 584.

Exhibit A.3: Internal Audit Function Size (Compared to Industry Group)

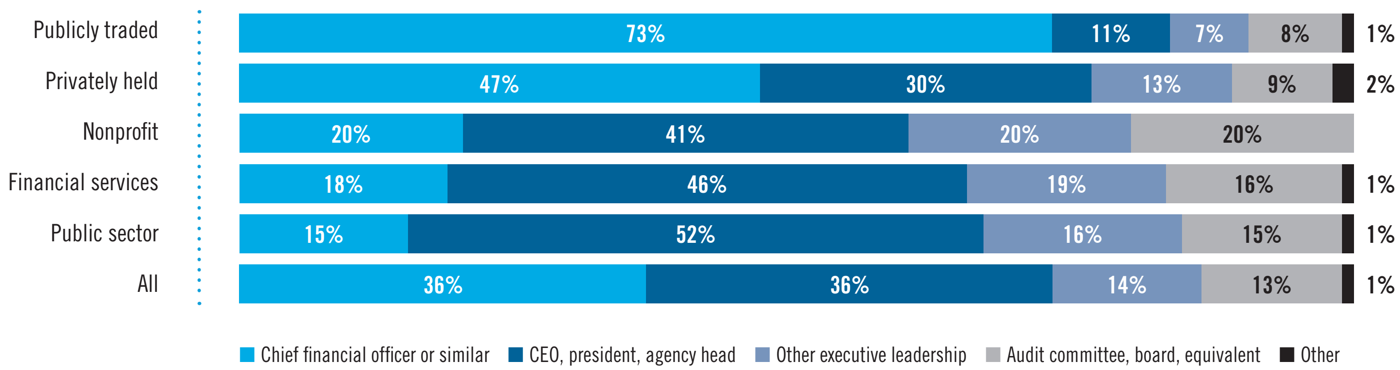


Note: Q5: How many FTEs are in your internal audit function? Type in the approximate number of in-house FTEs and sourced FTEs. Totals may not equal 100% due to rounding. *n* = 588.

Reporting Lines

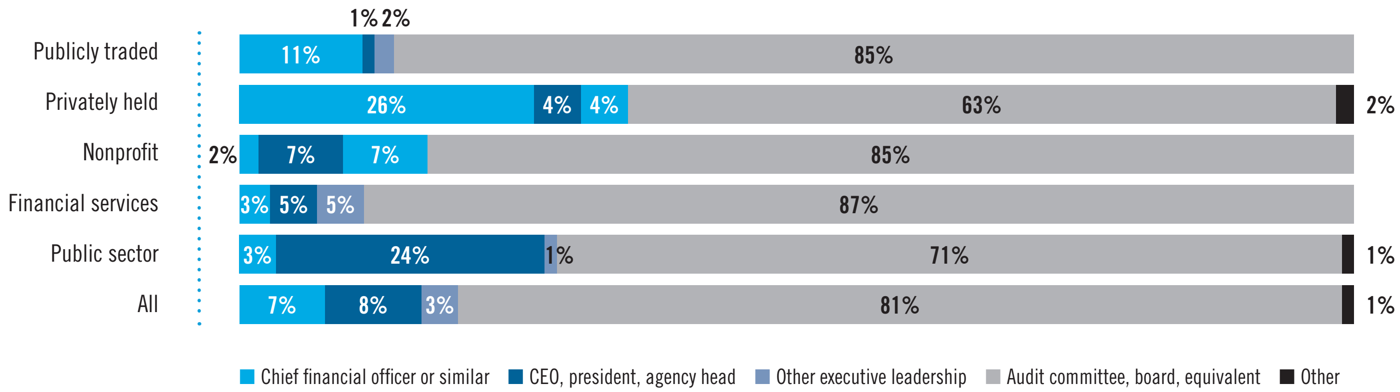
Administrative reporting line refers to oversight of day-to-day matters, expense approval, human resource administration, communication, internal policies, and procedures. **Functional reporting line** refers to oversight of the responsibilities of the internal audit function, including approval of the internal audit charter, the audit plan, evaluation of the CAE, and compensation for the CAE.

Exhibit A.4: Administrative Reporting Line



Note: Q19: What is the primary administrative reporting line for the chief audit executive (CAE) or head of internal audit in your organization? Totals may not equal 100% due to rounding. *n* = 584.

Exhibit A.5: Functional Reporting Line



Note: Q19: What is the primary administrative reporting line for the chief audit executive (CAE) or head of internal audit in your organization? Totals may not equal 100% due to rounding. *n* = 584.

Internal Audit Maturity

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

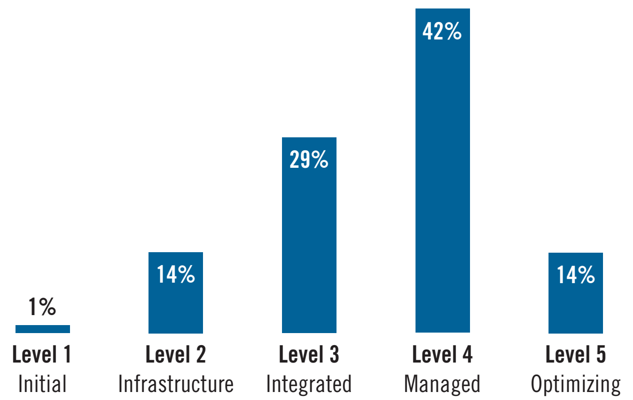
Well-managed, with a visible role in the organization and a long-term vision and plan.

Level 5 – Optimizing

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

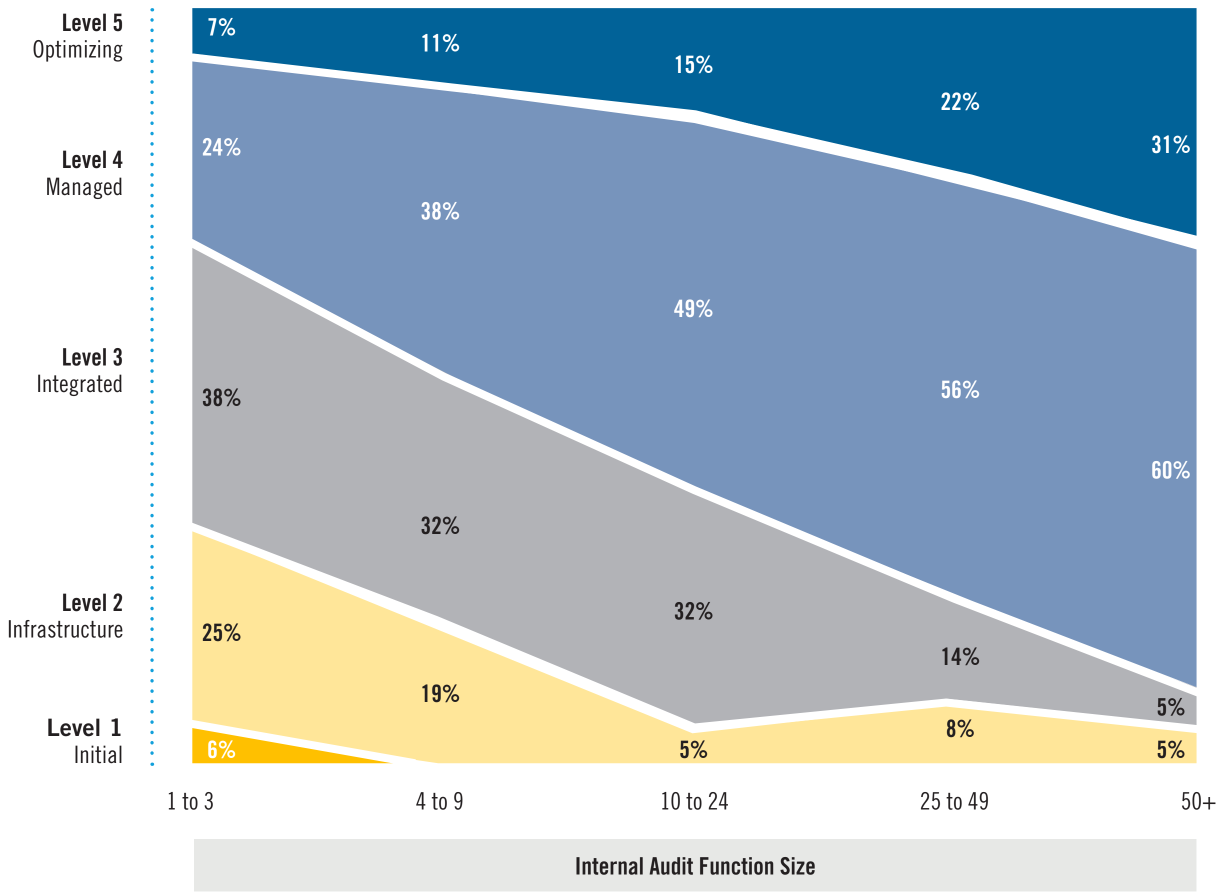
Source: The Internal Audit Ambition Model, developed by IIA–Netherlands and LKO/NBA. Available at https://www.iia.nl/kwaliteit/ambition-model#introduction.

Exhibit A.6: Internal Audit Maturity Level



Note: Q15: 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. $n = 586$.

Exhibit A.7: Internal Audit Maturity Level (Compared to Internal Audit Function Size)



Note: Q15: Which of the following best describes the maturity* of your organization's internal audit function? *These maturity levels are based on the Internal Audit Ambition Model produced by IIA–Netherlands. Totals may not equal 100% due to rounding. *n* = 102 for 1 to 3; *n* = 221 for 4 to 9; *n* = 171 for 10 to 24; *n* = 50 for 25 to 49; and *n* = 42 for 50+. Total *n* = 586.

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Industry

Exhibit A.8: Industry Composition for Organizational Types

Industry	Publicly Traded	Public Sector	Nonprofit	Privately Held	Financial Services	All	Number of Responses
Financial services					100%	31%	180
Manufacturing	42%			28%		14%	84
Public administration		44%				11%	62
Educational services	1%	27%	19%			8%	48
Health care and social assistance	4%	8%	48%			7%	41
Other services (except public administration)	5%	7%	17%	4%		5%	28
Utilities	8%	6%	9%	2%		5%	27
Transportation and warehousing	5%	3%		9%		3%	18
Retail trade	8%			7%		3%	16
Mining, quarrying, oil and gas	7%			7%		2%	14
Information	6%	1%		6%		2%	14
Real estate and rental and leasing	5%	1%		4%		2%	12
Professional, scientific, and technical	2%		7%	11%		2%	11
Arts, entertainment, and recreation	2%	1%		6%		1%	9
Agriculture, forestry, fishing/hunting		2%		6%		1%	6
Wholesale trade	1%			6%		1%	5
Accommodation and food services	2%					1%	4
Construction	1%			2%		0.6%	3
Administrative, support, waste management	1%					0.2%	1
Management of companies and enterprises				2%		0.2%	1
Total per organization type	100%	100%	100%	100%	100%	100%	584
Number of responses per organization type	**169**	**142**	**46**	**47**	**180**	**584**	

Note: Q27: What is the primary industry classification of the organization for which you work (or your primary client if you are a service provider)?: *n* = 584.

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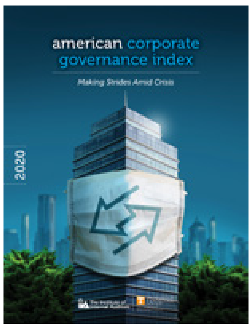

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March 2021

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