State of Internal Audit

Trends Report 2023

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Introduction

The last two years have brought significant changes to internal audit. COVID-19 forced internal audit teams to accelerate their technology plans to adapt to the rise of remote workplaces. Many auditors have successfully transformed their processes by shifting work to the cloud and other digital platforms.

Internal audit teams must also cope with new challenges, such as attracting and retaining skilled auditors, new regulatory changes and Environmental, Social and Governance (ESG) reporting. Shifting from manual processes to digital solutions has become increasingly important for internal auditors seeking to keep up with growing workloads and prove internal audit's value to senior management.

Helping internal auditors keep pace with change and thrive in their constantly transforming world is at the core of Caseware's philosophy. It's crucial that we understand exactly what is changing and what new challenges they face as we build the technologies that prepare them for the future. And sharing our knowledge about today's latest and most important trends is equally important.

To that end, it gives me great pleasure to present Caseware's fifth-annual *State of Internal Audit Trends Report*. It looks at the key issues internal auditors face today, including talent acquisition and retention, the growth of ESG auditing and the use of technologies like cloud, analytics and more. It offers extensive findings based on survey responses of more than 2,300 internal auditors.

I invite you to view the findings and also consider the many valuable insights provided throughout by your peers and some of the industry's top thought leaders. Our aim is to provide you with a solid understanding of where the industry is, where it is going, and how you can ensure your organization remains successful in this ever-changing industry. I hope you find it to be a source of valuable and useful information for the year ahead — a year that will not be short on either challenges or excitement.

Sincerely,

David Osborne
CEO, Caseware

Highlights at a glance

Adapting to new technologies and processes is a key focus

Survey respondents identified "moving from manual to digital processes" and "adopting new audit technology" as their top two challenges.

Talent is at a premium

Audit teams are struggling to attract and retain skilled employees in a tight labor market.

Pressure to prove value

The biggest internal pressure internal auditors face by far is proving their value to their organizations.

Analytics use still has room to grow

Just over half of internal auditors are using analytics software as part of their operations.

Advisory services are on the rise

More than 60 percent of survey respondents indicated the amount of advisory services their team offers to other departments has grown over the past year.
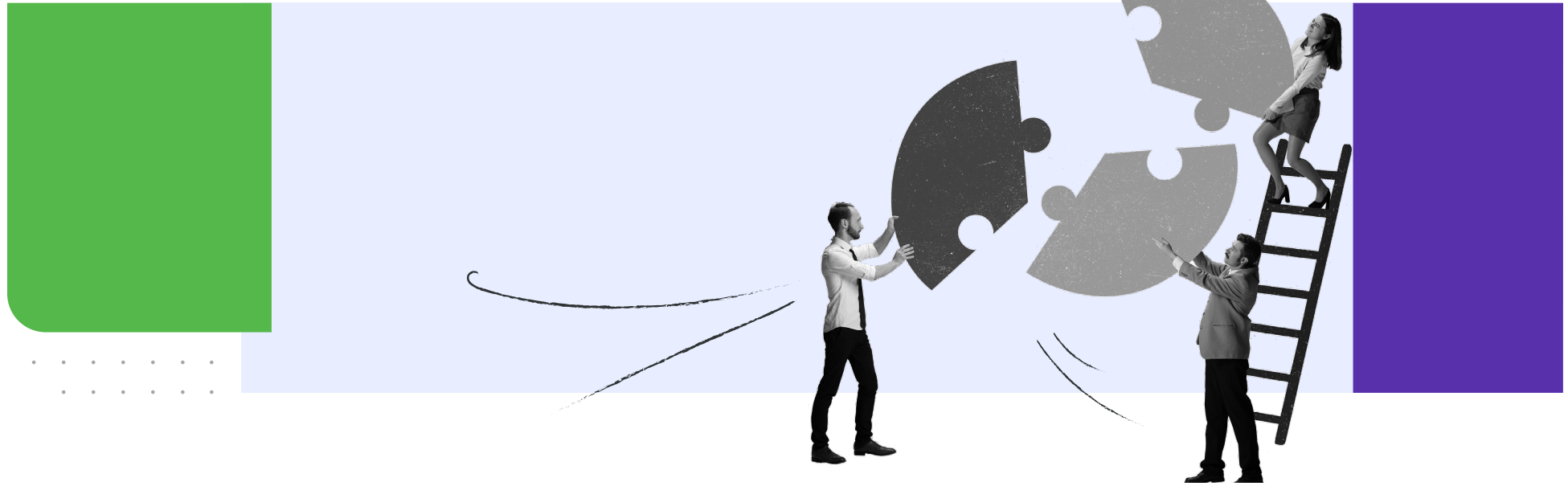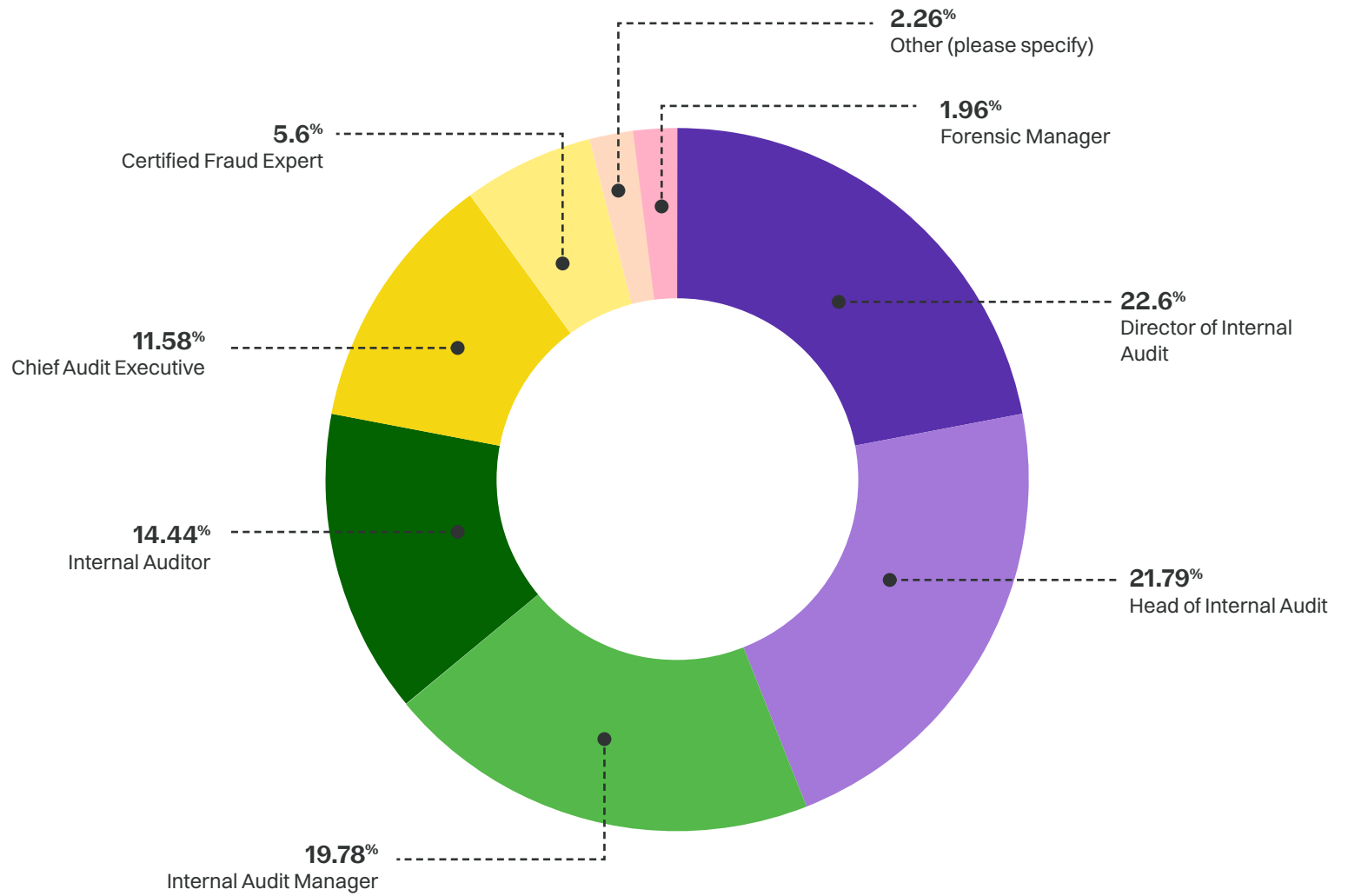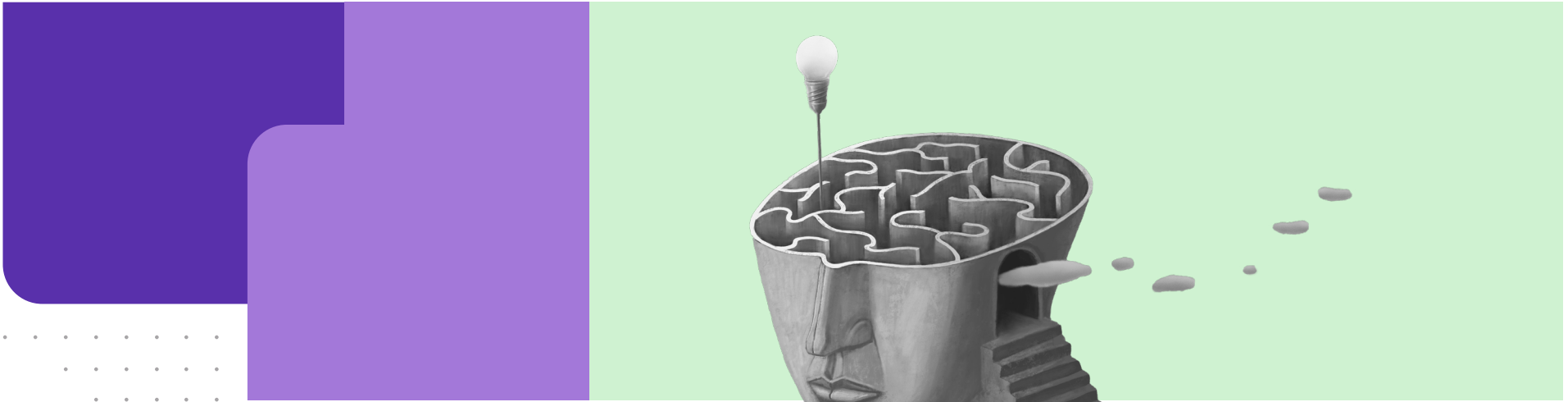
About the survey

Caseware conducted the 2023 State of Internal Audit Survey in October and November, 2022. It was distributed in three languages — English, French and Spanish — with 2,341 respondents completing the survey.

The most common job title for survey participants was "Director of Internal Audit" with 23 percent, followed by "Head of Internal Audit" at 22 percent and "Internal Audit Manager" at 20 percent.

Respondents had to provide at least one answer for each question to participate in the survey. They were also given the opportunity to write additional comments for each question to offer more detail. The last survey question allowed them to give any additional thoughts, opinions or comments about the survey or their profession. A selection of these comments appear throughout the report as "Peer Perspectives." For privacy reasons, names are not included.

Q: What is your position?

2.26% Other (please specify)

1.96% Forensic Manager

5.6% Certified Fraud Expert

11.58% Chief Audit Executive

14.44% Internal Auditor

19.78% Internal Audit Manager

22.6% Director of Internal Audit

21.79% Head of Internal Audit

Top challenges for internal audit

The two biggest challenges for internal auditors over the past two years are both technology-related. "Moving from manual to digital processes" was cited as a top challenge by 38 percent of survey respondents, while 36 percent identified "Adopting new audit technology" as their biggest issue.
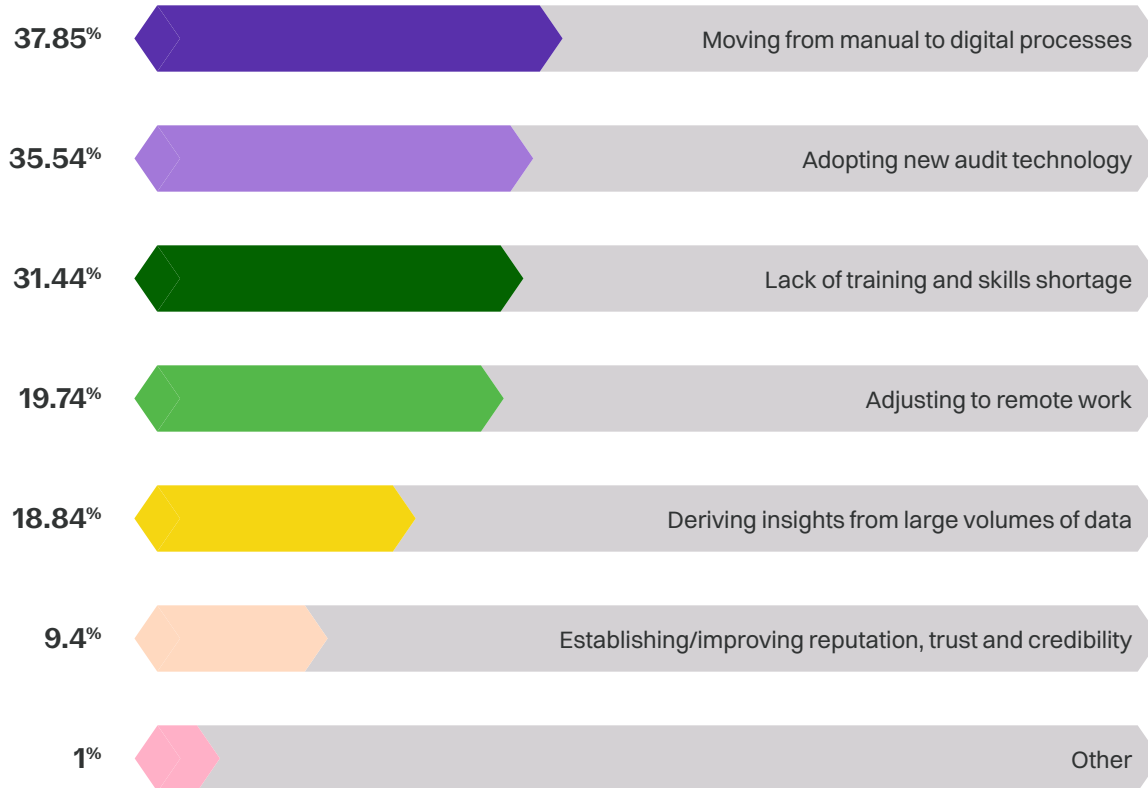
Technology adoption in internal audit is being driven by a variety of factors. More auditors are working remotely, which requires them to use digital tools to work with colleagues and clients. Audit teams are being asked to do more work with the same, or fewer, resources. And boards and senior executives are seeking to enhance audit quality. Technologies such as cloud-based platforms and analytics solutions are helping internal audit teams meet these challenges.

Peer Perspective

"A challenge for us has been adjusting new systems to the audit processes — auditing inputs and auditing through the systems."

Q: What has been your top overall challenge in the past two years? (respondents could choose multiple answers)

37.85%	Moving from manual to digital processes
35.54%	Adopting new audit technology
31.44%	Lack of training and skills shortage
19.74%	Adjusting to remote work
18.84%	Deriving insights from large volumes of data
9.4%	Establishing/improving reputation, trust and credibility
1%	Other

💡 Industry Insight

"You have to be able to audit the technologies not just for how you are using them in audit, but also for how the company is using them in their operations.... You need people who know artificial intelligence. You need people who know robotic process automation."

—Lenny Block, Internal Audit Industry Expert and Former Vice-President of Internal Audit for Nasdaq

Talent management trends

The talent crunch

Finding and retaining talented staff is a serious challenge for the majority of internal audit teams. More than 95 percent of survey respondents said it was challenging to find and hire the right talent, with 42 percent saying it was "Extremely challenging" and 55 percent saying it was "Somewhat challenging."Similarly, more than 90 percent of auditors surveyed said it was challenging to retain their existing talent. Thirty-eight percent said retaining staff was "Extremely challenging", while 55 percent believed it was "Somewhat challenging."

Considering so few respondents did not find hiring and retaining talent to be a challenge, it is clear this issue is widespread and serious among internal audit departments. Employing new strategies to attract skilled staff, such as flexible remote work policies or technologies that enable auditors to work more efficiently, should help alleviate a problem that is certain to persist throughout 2023.

💬 **Peer Perspective**

"In the public sector, you can't always offer a salary that's sufficient to attract the right candidates."

Q: How challenging is it to find and hire the right talent?

42.2%	55.36%	2.43%
Extremely challenging	Somewhat challenging	Not challenging at all
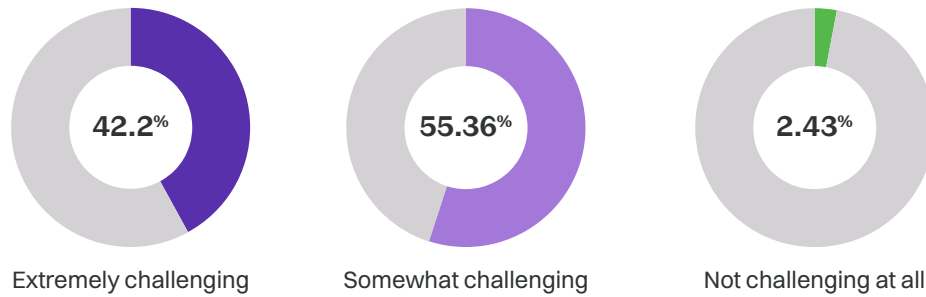
Q: How challenging is it to retain the talent you currently have?

37.76%	55.06%	7.18%
Extremely challenging	Somewhat challenging	Not challenging at all
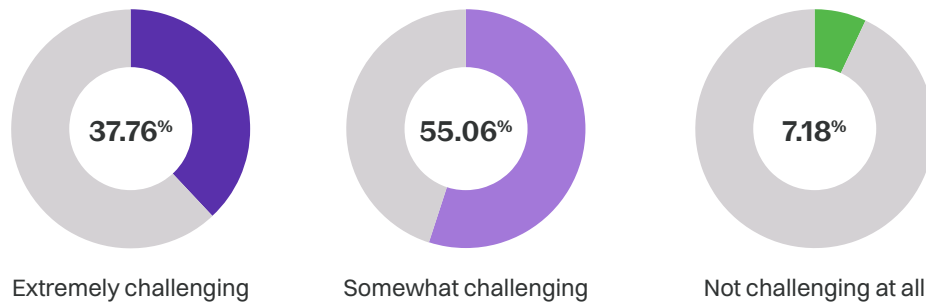
Industry Insight

"The profession needs to do a better job of showing young people that accountants are gatekeepers of the truth. The younger generation wants to find meaning in their jobs, to be working for a purpose and/or contributing to a cause.

We have to make the case that without auditors and accountants, companies wouldn't perform well, nor would they be able to operate efficiently, nor be able to find fraud, or maintain ESG or diversity standards. Businesses at all levels need accountants!"

—Dr. Deniz Appelbaum, Chair and Assistant Professor at Montclair State University

The rise of remote

The COVID-19 pandemic made remote work the norm, rather than the exception. And that trend doesn't appear to be changing. Many employees now expect to be able to work remotely at least some of the time and offering flexible work arrangements makes it easier for firms to attract new talent. When asked how much of their staff worked remotely at least part of the week, 38 percent said "More than half but not all," with another 31 percent choosing "About half." Only four percent of respondents said none of their staff worked remotely.
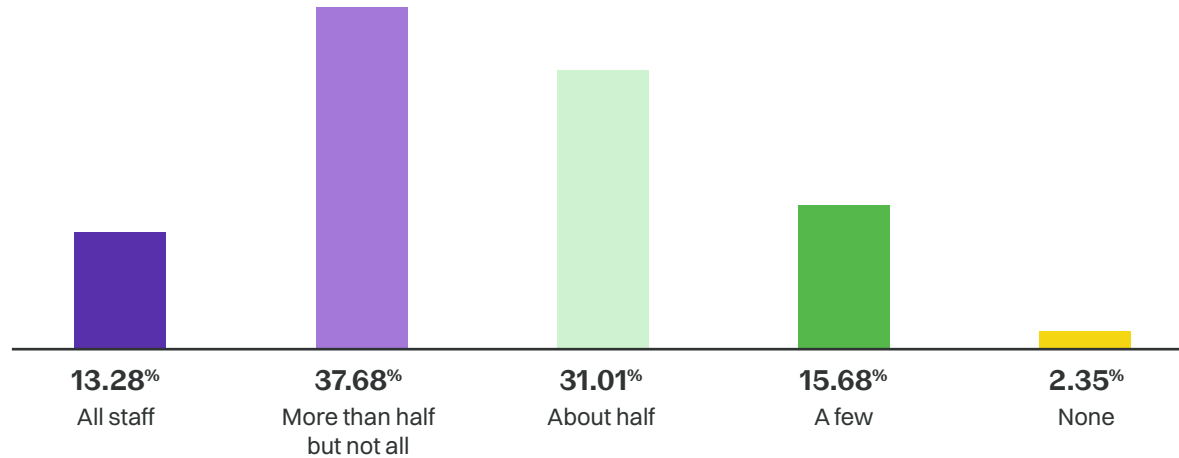
The growth of remote work has also resulted in many organizations using talent outside their immediate geographic area. More than 60 percent of respondents already rely on outside talent and another 25 percent say they may turn to remote workers in the future.
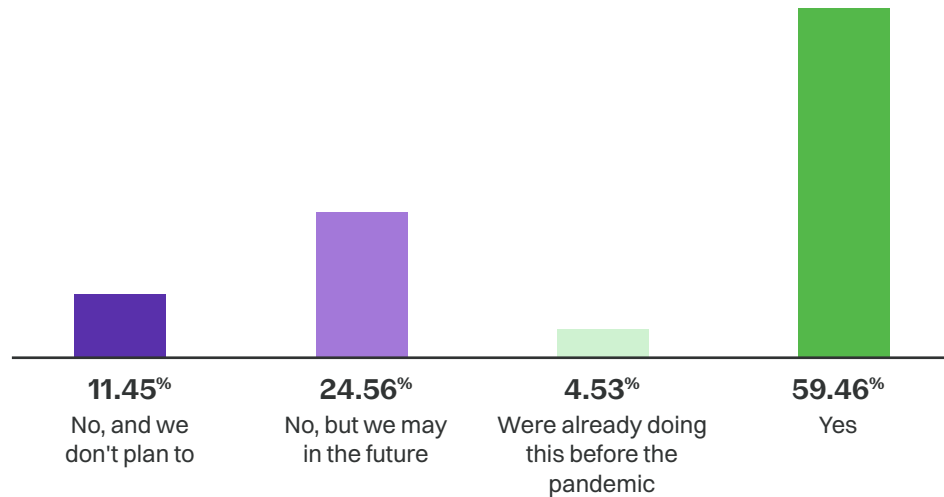
💬 Peer Perspectives

> "Working from home is now a fixed part of our lives and my team loves it. We are also more productive."

> "Post-COVID, we encourage all our staff to either work at our offices or at our clients' locations."

## Q: How much of your staff works remotely for at least part of the week?

13.28%	37.68%	31.01%	15.68%	2.35%
All staff	More than half but not all	About half	A few	None

Q: As remote work has grown, have you started to source talent from outside your region?

11.45%	24.56%	4.53%	59.46%
No, and we don't plan to	No, but we may in the future	Were already doing this before the pandemic	Yes

Industry Insight

"Some companies are dictating that employees come back to the office and many employees don't want to do that necessarily. They want to work from home at least some of the time. That's going to make it harder to keep people."

— Lenny Block, Internal Audit Industry Expert and Former Vice-President of Internal Audit for Nasdaq
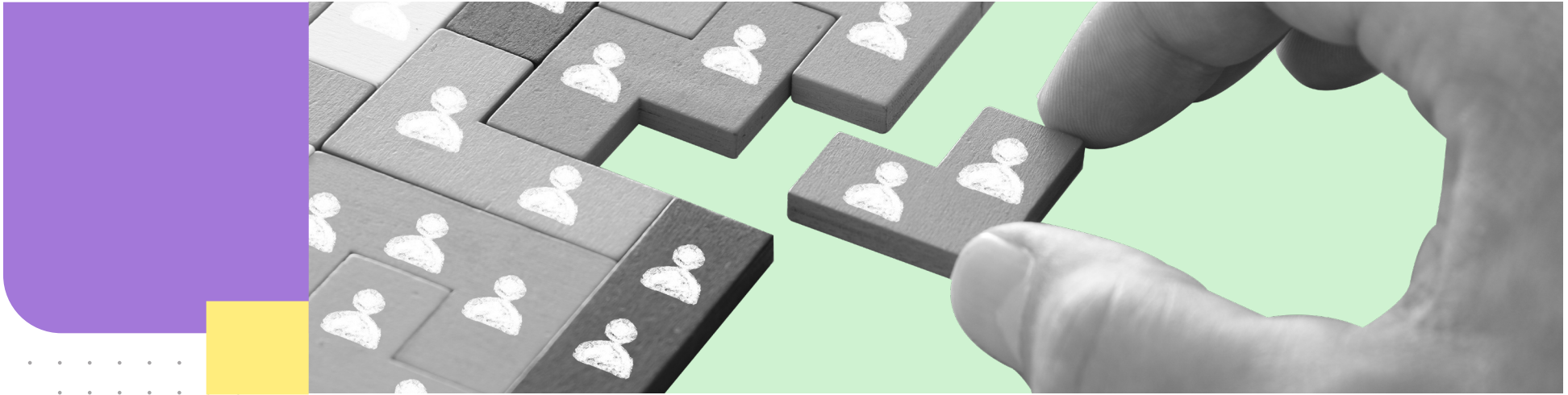
Hiring practices

Organizations seeking to round out their internal audit teams are looking for a range of different talents. Nearly 40 percent of respondents are seeking project management professionals and/or information technology professionals. Not far behind are data specialists and fraud examiners, followed by cybersecurity experts and artificial intelligence specialists.

While internal audit departments are hoping to hire for multiple roles over the next year, the past year saw mixed results when it came to team size. The number of survey respondents indicating their team had decreased in size was nearly the same as the number who said their head count had increased. And one quarter of respondents said their team size hadn't changed.
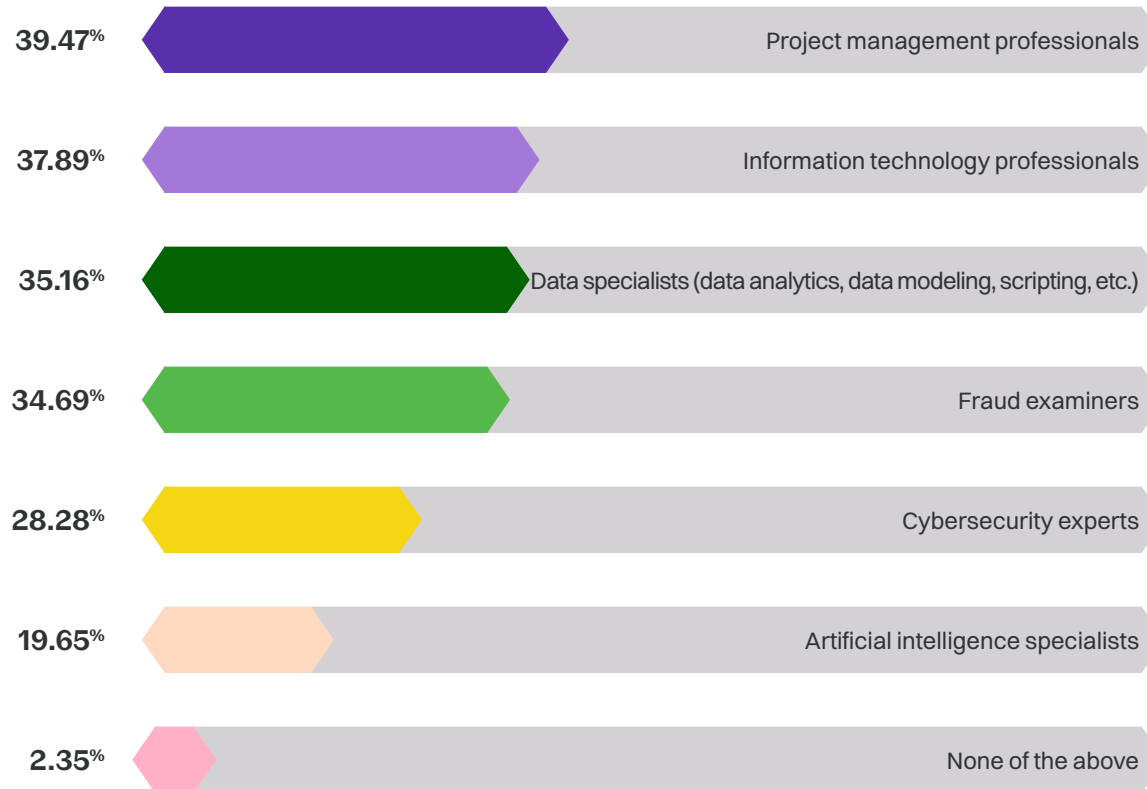
Most auditors believe their departments have a strong record when it comes to Diversity, Equity and Inclusion (DEI). Only four percent described their DEI record as poor or below average, while more than 70 percent said it was a bit above average or very good.

Peer Perspectives

"We were down two auditors for more than two years because we couldn't hire during the pandemic."

"Our staff has decreased due to natural attrition and people seeking greener pastures."

Q: What roles are your internal audit department looking to add more of in the next year? (respondents could choose more than one answer)
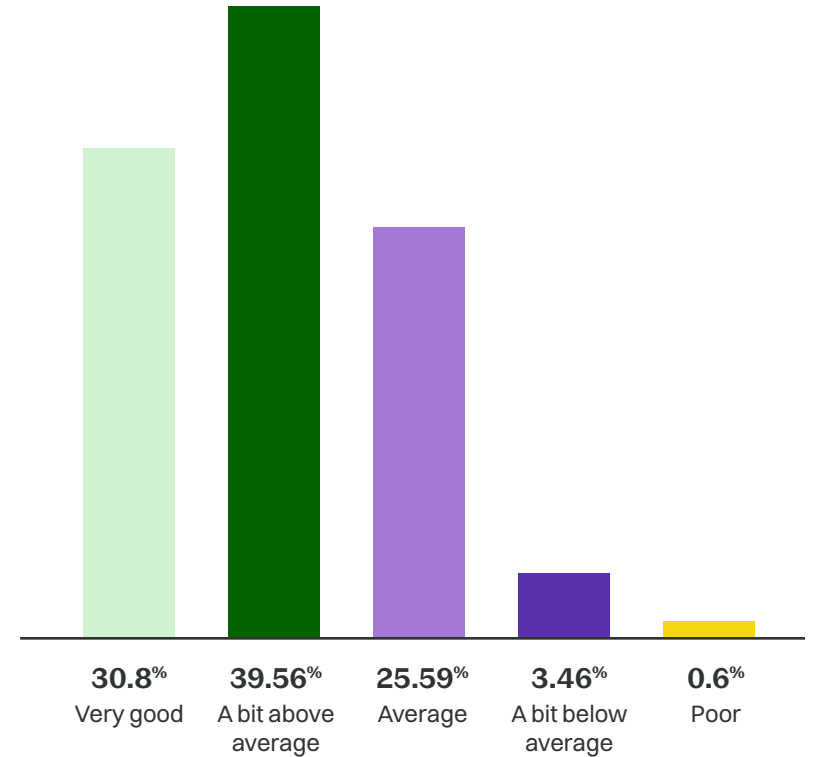
💬 **Peer Perspective**

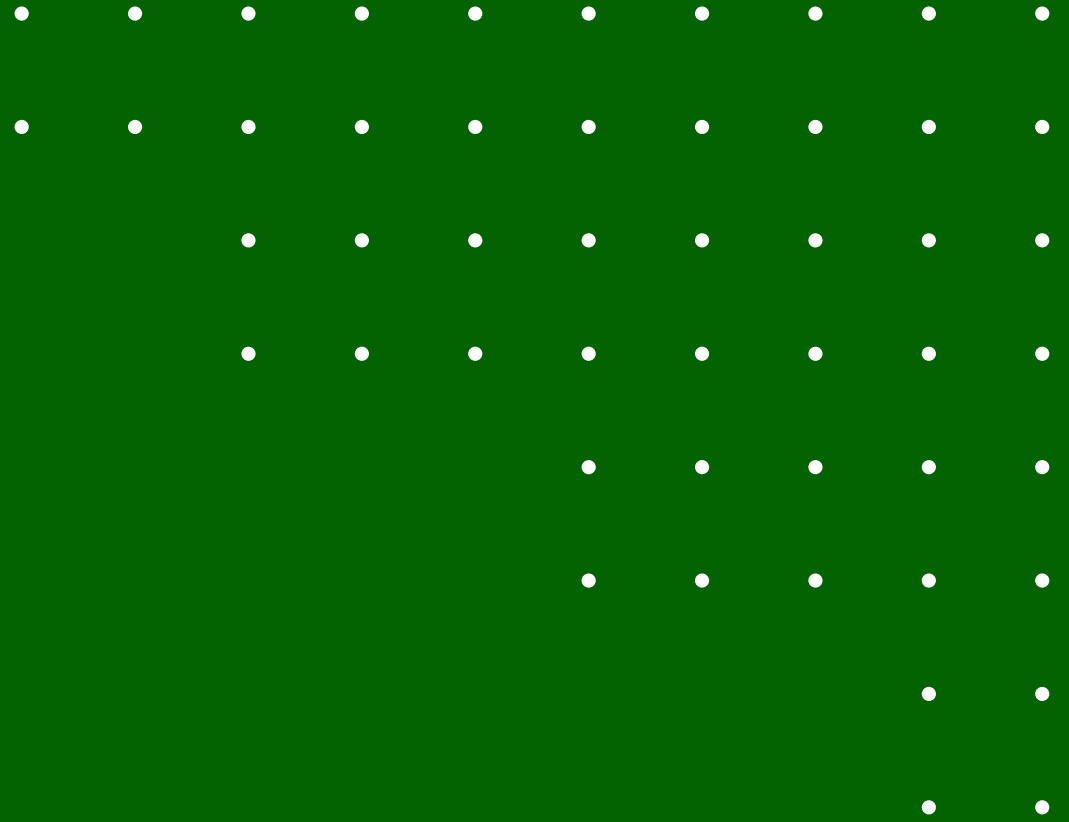|	
39.47%	Project management professionals
37.89%	Information technology professionals
35.16%	Data specialists (data analytics, data modeling, scripting, etc.)
34.69%	Fraud examiners
28.28%	Cybersecurity experts
19.65%	Artificial intelligence specialists
2.35%	None of the above

"We are currently not looking to hire, but an auditor who can also write code (e.g. Python) would be the Holy Grail in the future. They can usually earn more as a developer, though."

Q: Over the past year, the number of employees in your internal audit department has:
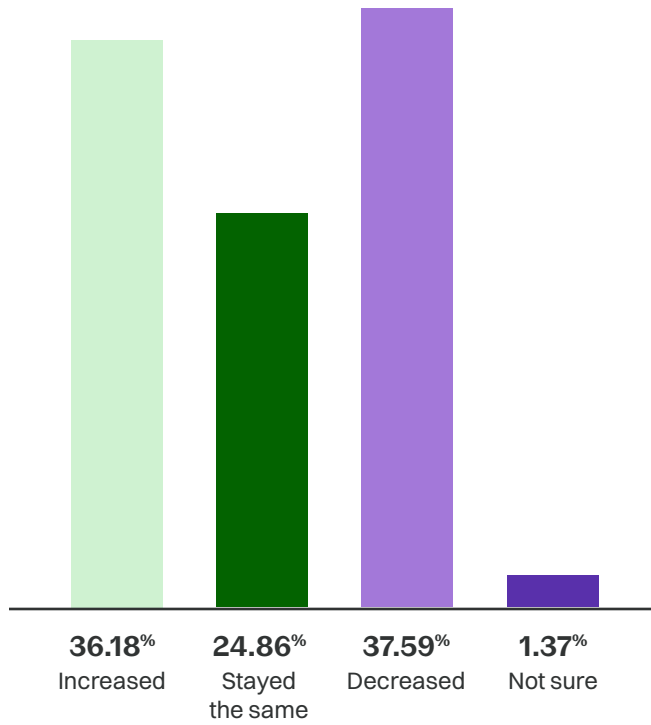
Q: How would you describe your internal audit department's record on Diversity, Equity and Inclusion (DEI)?

36.18% Increased
24.86% Stayed the same
37.59% Decreased
1.37% Not sure

30.8% Very good
39.56% A bit above average
25.59% Average
3.46% A bit below average
0.6% Poor

Organizational trends
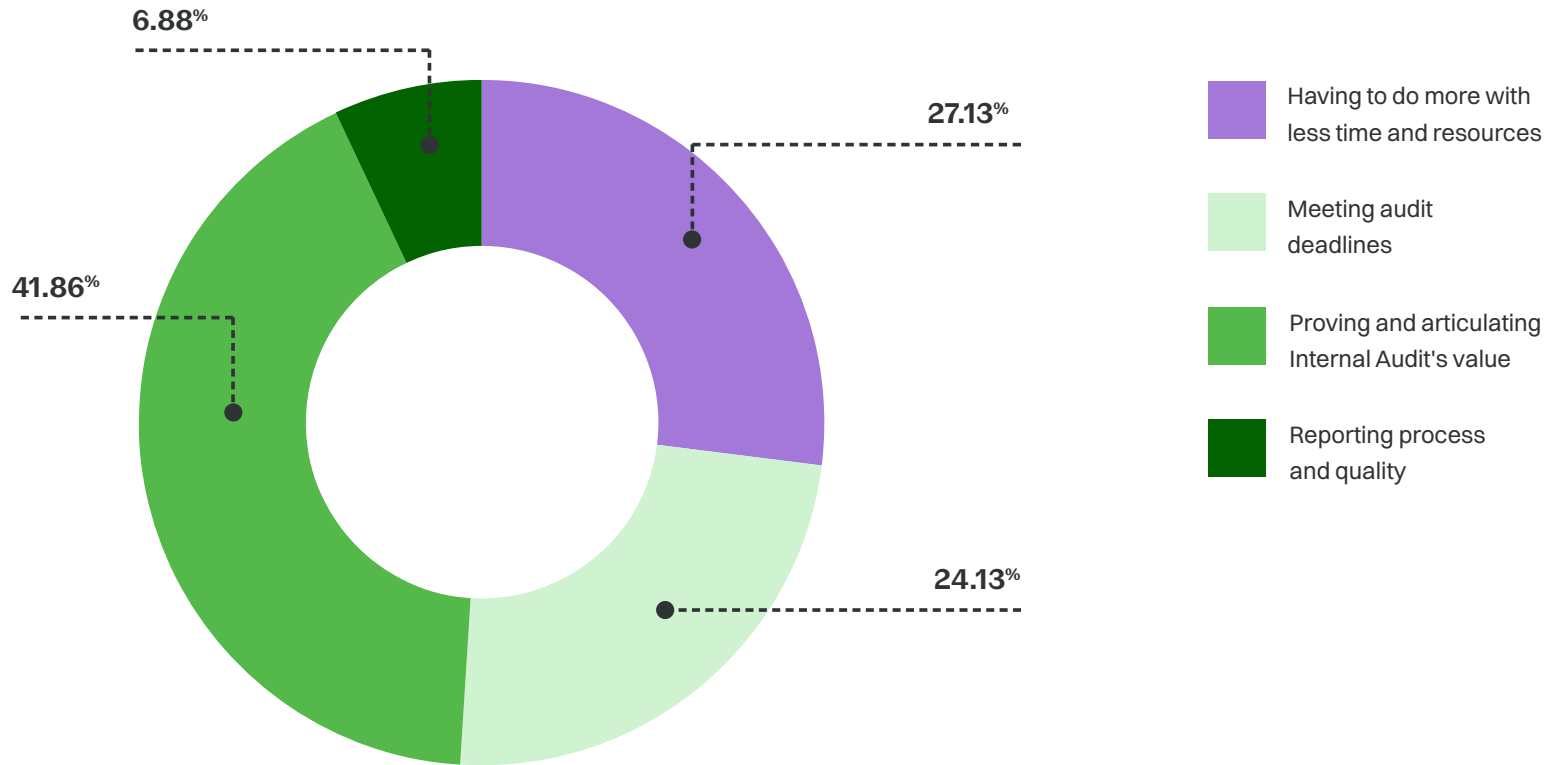
Proving internal audit's value

When it comes to internal pressure within their organizations, auditors overwhelmingly cite "Proving and articulating Internal Audit's value" as their biggest challenge, with 42 percent of respondents citing it as their top internal pressure. That's little changed from last year's survey, where 44 percent said it was their top issue.

"Having to do more with less time and resources" and "Meeting audit deadlines" were also identified as significant internal pressures. While auditors are feeling challenged as they switch to digital processes and adopt new technologies, digital solutions should ultimately allow them to accomplish more with fewer resources and help them overcome their internal pressures.

💬 **Peer Perspective**

"Audit budgets are under pressure, so getting more efficient and using the right tools and approaches is key."

Q: What is the biggest pressure you face internally?

6.88%

27.13%

41.86%

24.13%

Having to do more with less time and resources

Meeting audit deadlines

Proving and articulating Internal Audit's value

Reporting process and quality

💡 **Industry Insight**

"Any situation where an auditor can see ahead is valuable. Auditors will be expected to see around the corner, so to speak. Companies are trying to assess future risk, particularly of unknown unknowns, which is another key value that can be provided by the audit function."

— Dr. Deniz Appelbaum, Chair and Assistant Professor at Montclair State University
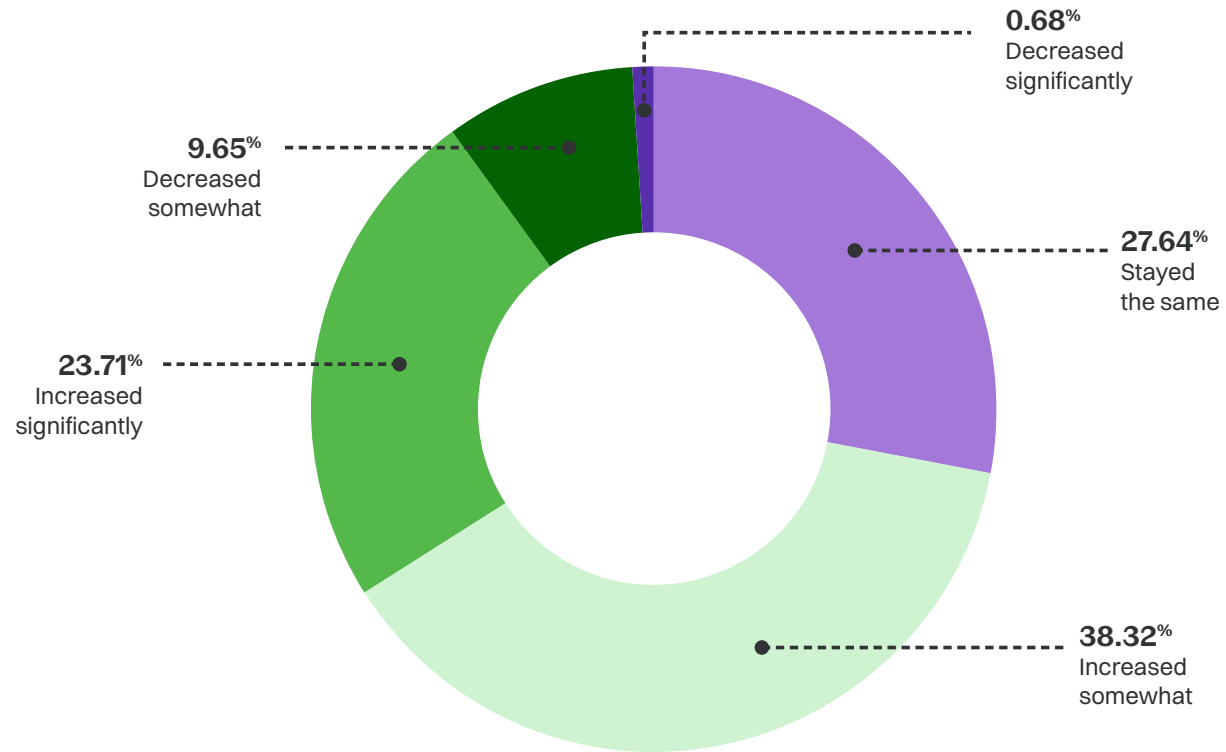
Advisory services continue to grow

Organizations increasingly expect internal auditors to do more than merely audit. They also want them to act as business advisors who help position their employers for future success. This is a positive development for internal audit departments because it shows senior management values the audit function and believes auditors can deliver new insights that grow the business.

More than 60 percent of survey respondents indicated the amount of advisory services their team offers to other departments had grown significantly or somewhat over the past year. Only 11 percent said the number of advisory services they provided had decreased.

Q: Over the past year, the amount of advisory services your internal audit team offers to other departments in the organization has:

0.68%
Decreased
significantly

9.65%
Decreased
somewhat

27.64%
Stayed
the same

23.71%
Increased
significantly

38.32%
Increased
somewhat

Fighting fraud

Combating fraud remains a primary focus for almost all internal auditors. The growth of remote and online work, combined with increasingly sophisticated cyberattacks and instances of online fraud, means organizational risks are growing.
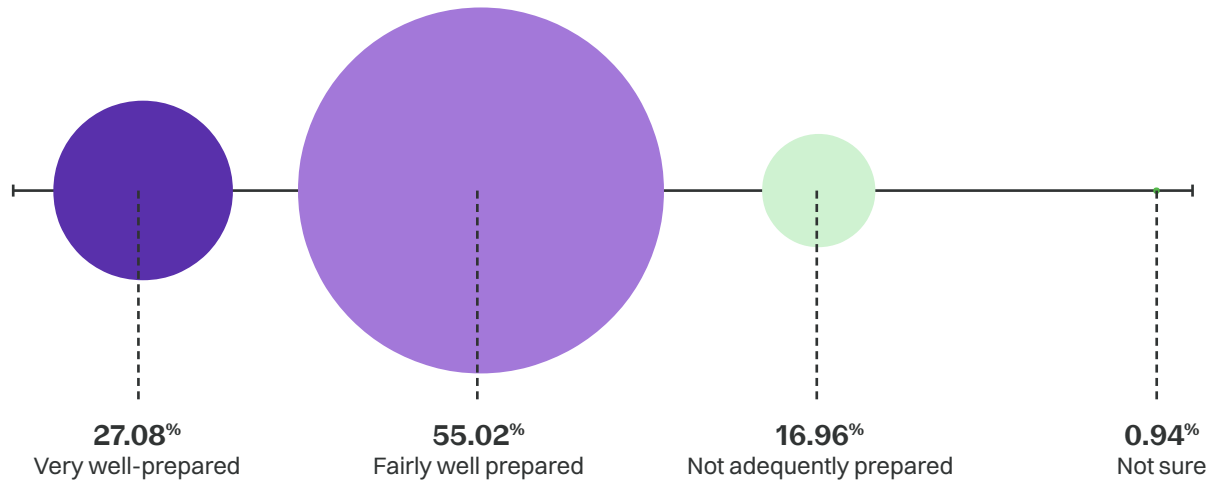
In the 2022 *State of Internal Audit Trends Report*, more than 70 percent of respondents said the pandemic had increased fraud threats within their organizations. Respondents to this year's survey believe their organizations are well-prepared to fight fraud, with more than 80 percent saying they are very well-, or fairly well- prepared to prevent instances of fraud.

In terms of what fraud types concern internal auditors the most, "Theft of assets" led the way at 27 percent, followed by "Credit card abuse" at 22 percent, "Collusion with a third party vendor or service provider" at 20 percent and "Falsified expense reports" at 19 percent.
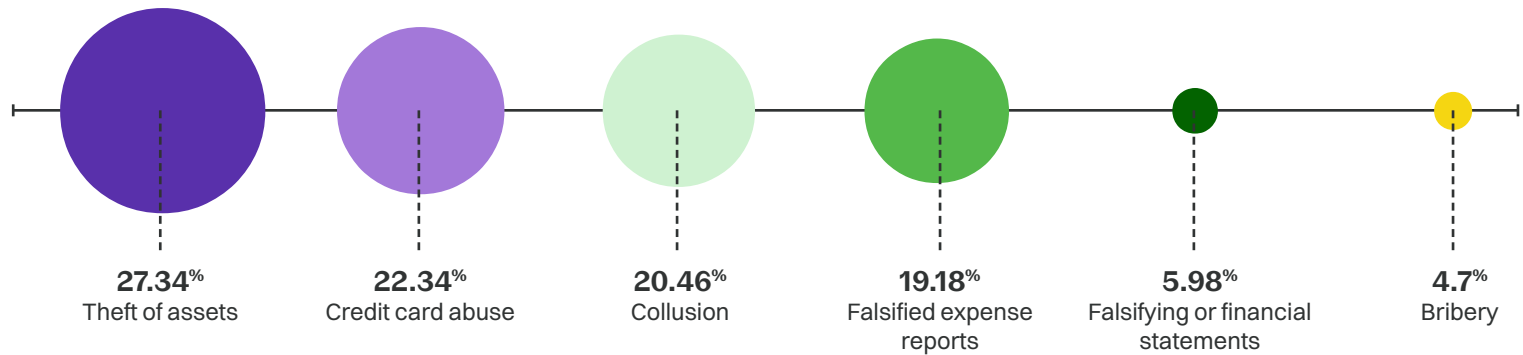
💬 **Peer Perspective**

"We have more outsourced activity, which exposes the firm to greater fraud risk."

Q: How well-prepared is your organization to prevent instances of fraud from occurring?

27.08%
Very well-prepared

55.02%
Fairly well prepared

16.96%
Not adequently prepared

0.94%
Not sure

Q: What type of fraud concerns you the most?

27.34%
Theft of assets

22.34%
Credit card abuse

20.46%
Collusion

19.18%
Falsified expense reports

5.98%
Falsifying or financial statements

4.7%
Bribery

ESG on the rise

Audit requirements for ESG are growing as regulators, investors and other stakeholders place more emphasis on sustainability. For instance, in 2022, the U.S. Securities and Exchange Commission (SEC) proposed rule changes that would require public companies to include more climate-related disclosures in their SEC filings and reports.

It's no surprise that close to two-thirds of survey respondents said their ESG work has increased over the past year, with 41 percent saying "It has grown a little bit" and 21 percent reporting "It has grown significantly."

💬 **Peer Perspective**

"Upskilling the team, keeping up with changing requirements and developing audit approaches to ESG is essential for most audit plans."

Q: Over the past year, how much growth has there been in the amount of Environment, Social and Governance (ESG)-related auditing work your department has carried out?

20.5%   It has grown significantly

40.71%   It has grown a little bit

26.61%   It has stayed the same

6.28%   It has decreased a bit

2.14%   It has decreased significantly

3.76%   We have never done any ESG-related auditing work

Industry Insight

"Reporting on ESG will require more than just skill with numbers. Auditors should feel comfortable with all types of sensor-created data and their analysis. Auditors should be familiar with technology, information systems, and perhaps some engineering."

—Dr. Deniz Appelbaum, Chair and Assistant Professor at Montclair State University
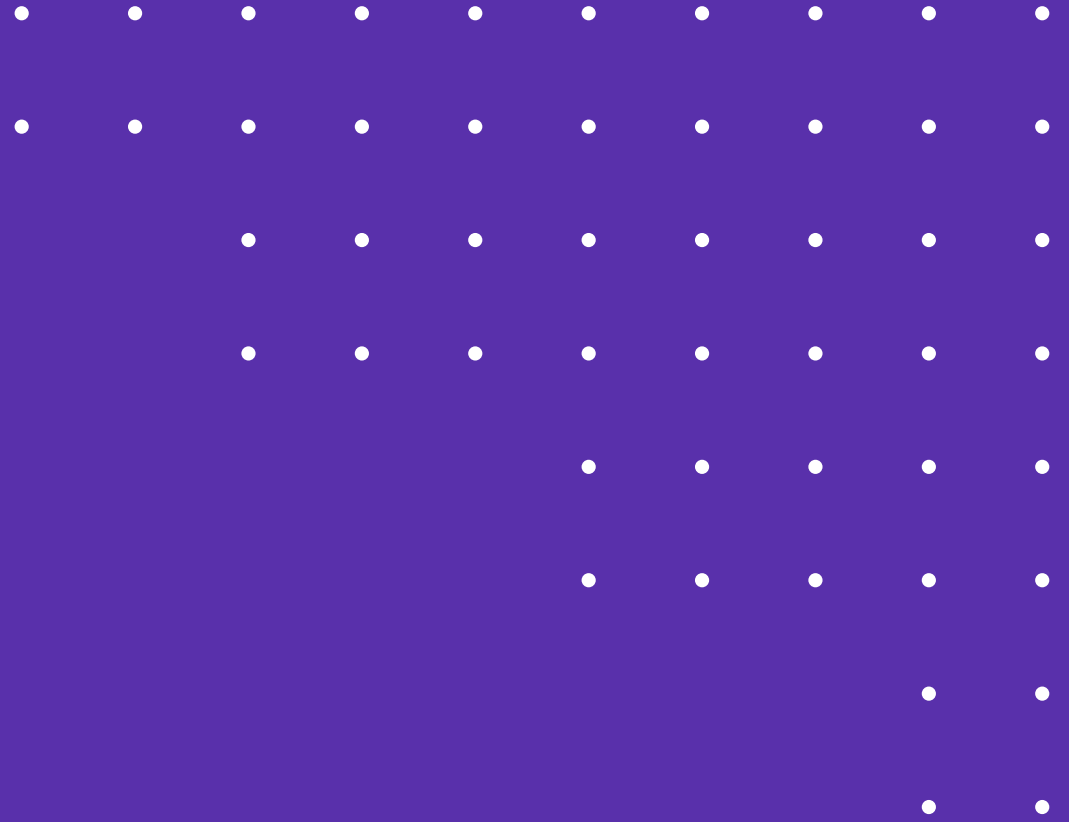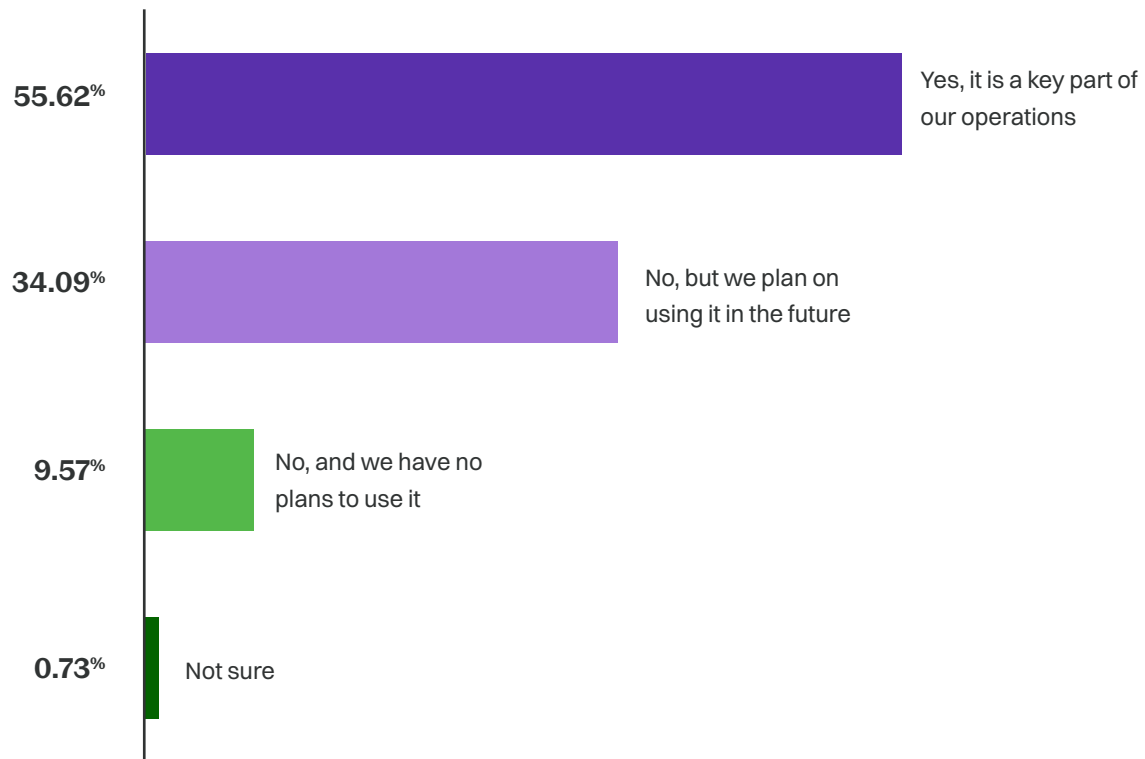
Technology trends
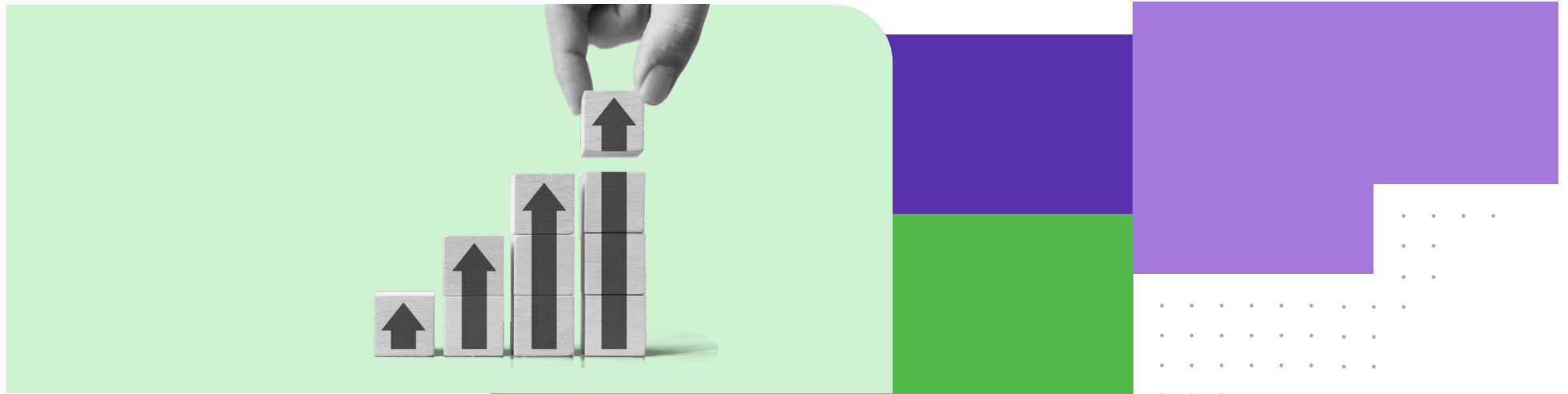
Analytics use still has room to grow

Just over half of respondents to the survey said they use analytics software as part of their regular auditing activities. That's a surprisingly low number, considering the potential benefits analytics software offers. Analytics solutions allow auditors to test complete data sets, perform more thorough audits and easily identify anomalies. They can also integrate data from multiple sources to generate new insights, create visualizations based on data that make it simpler to explain audit results to senior management or board members, while also generating clear audit trails.

When asked if they used analytics software as part of their regular auditing activities, just 56 percent of internal auditors said it was a key part of their operations. On a positive note, 34 percent said they do not, but plan to use it in the future, while just 10 percent said they had no plans to use analytics.

Q: Are you using analytics software as part of your regular auditing activities?

💬 **Peer Perspective**

55.62% ▐ Yes, it is a key part of our operations

34.09% ▐ No, but we plan on using it in the future

9.57% ▐ No, and we have no plans to use it

0.73% ▐ Not sure

"We are planning to use analytics software. This will be a push situation because the board and management might not be seeing the need to have such software."
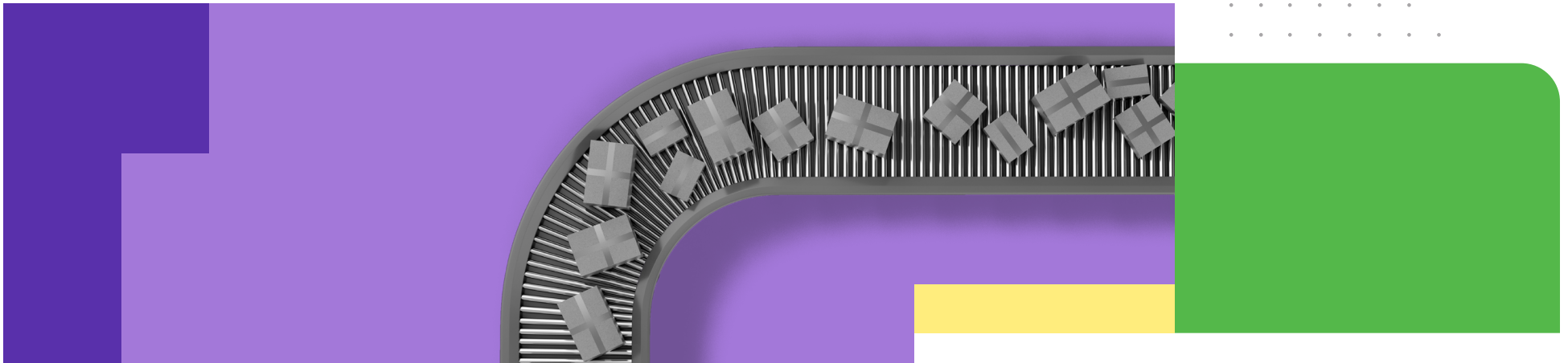
Continuous auditing takes hold

More than 80 percent of survey respondents are relying on continuous auditing to at least some extent. A continuous audit allows internal auditors to automatically pull data from accounts, transactions and processes, letting them examine all available data, rather than rely on samples.

Forty-two percent said they use it "Significantly — it is a big part of how we operate." Another 39 percent said they use it "Somewhat." Only 18 percent said they made minimal use of continuous auditing.

💬 **Peer Perspective**

> **"We are still at the studying stage, figuring out which processes are a good fit for continuous auditing."**

Q: To what extent does your department utilize continuous auditing?

- **0.81%** Not sure
- **18.33%** Minimal
- **42.12%** Significantly
- **38.74%** Somewhat
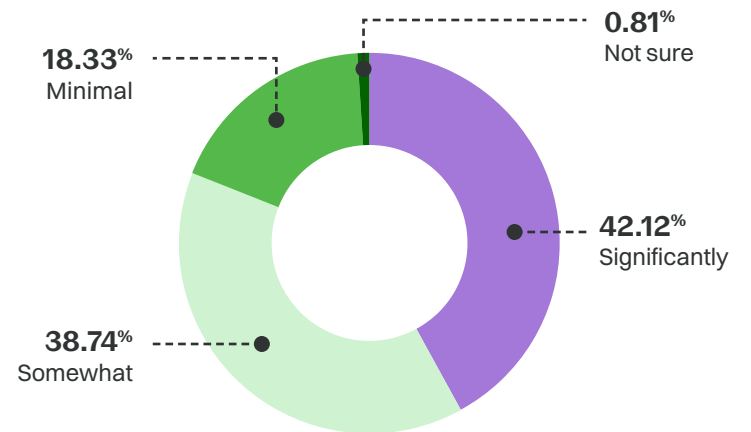
Additional perspectives

Here are some additional thoughts provided by survey respondents:

"ESG is so new and I think most people would benefit from actual training on the rules, regulations, what is required and what is optional — laying out a real foundation like HIPAA and HCCA does."

"Auditing needs more professional IT staff."

"Industry organizations need to have more training webinars on technology and cybersecurity to help members stay current."

"Recruiting good staff and educating clients on the value of internal audit are the two biggest issues we face."

"I am a sole operator in a medium-sized organization and as a result internal audit has a modest budget. Extension into automation/AI are targets, but require funding which is challenging to justify."

"I think continuous training, especially in IT auditing, is needed for every internal auditor to catch up with rapid technological changes."

Key takeaways

Internal audit teams are adopting new technologies to improve their operations. More than half of survey respondents have made analytics solutions an integral part of their operations and over 80 percent have adopted cloud services. It's clear that analytics and cloud solutions are becoming embedded in the internal audit function. These technologies can help auditors communicate with colleagues and clients and do more with less — an important consideration given the hiring challenges internal audit departments face.

Finding and retaining skilled talent is a major obstacle for internal audit departments. A trend that had already been developing has been exacerbated by a tight labor market. The vast majority of survey respondents said it's challenging to hire the right talent and retain existing staff. Employers who insist on staff being in the office all the time will have a more difficult time attracting new staff and keeping existing workers. Cloud solutions, which most internal audit departments have adopted, can help organizations launch more flexible work policies.

Internally, the biggest pressure auditors face is proving their value to senior management. The best way to achieve this is to help their organizations succeed. This requires going beyond manual processes. Internal auditors need to be able to look at all the data within their organization to form an accurate assessment of potential risks and identify any exceptions.

Most internal audit teams use analytics, but adoption could be higher. Analytics offers proven benefits to internal audit and can play a significant role in transforming auditors into trusted advisors — something senior management expects from their audit teams. Most internal auditors not yet using analytics plan to adopt it in the future, so this is an area that could see significant growth over the next few years.

Advisory services are growing. On the one hand, this means internal auditors, who already have a lot on their plate, are expected to do more. On the other hand, it gives auditors a golden opportunity to showcase the value of their department to senior management. The growing use of cloud services and analytics solutions can help internal auditors do more work with fewer resources and act as trusted advisors.
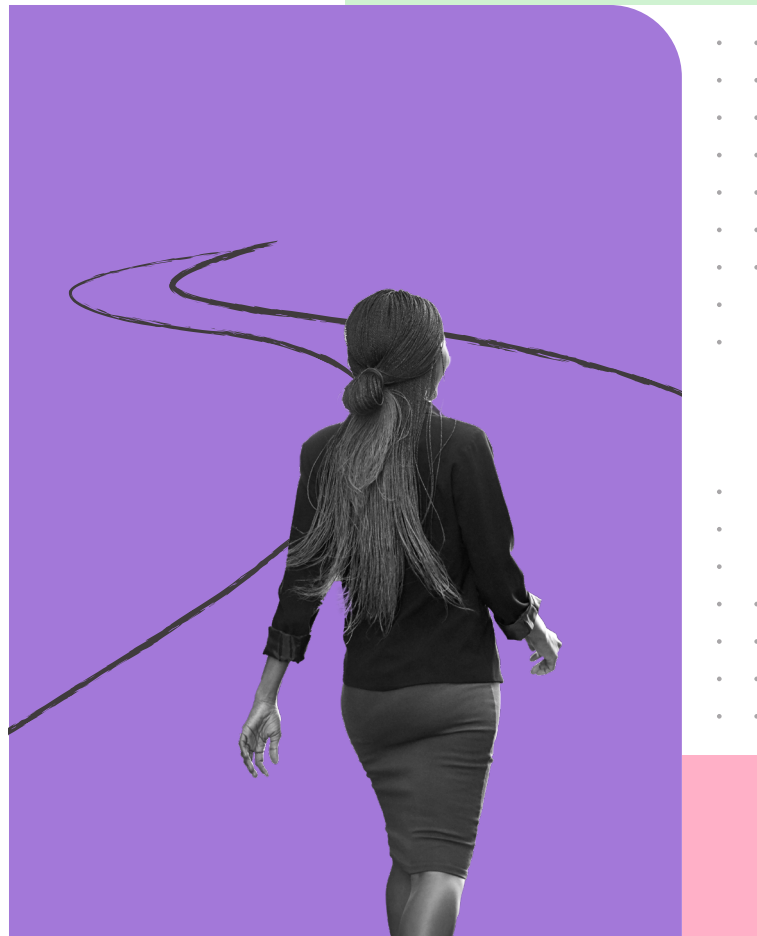
Power your audit transformation with intelligent, integrated technology

Caseware's advanced, intuitive solutions enable you to deliver deeper insights in a timely, effective manner, resulting in higher-quality audits that lead to more informed business decisions.

See how Caseware can help your organization work smarter and see further.

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