State of Internal Audit

Trends Report 2024

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Table of contents

Introduction

Internal auditors face an increasingly complex business environment thanks to recruitment and retention issues, new regulations and rapid technological change. To help you understand the challenges and opportunities internal auditors face, I'm pleased to introduce Caseware's sixth-annual *State of Internal Audit Trends Report*. It examines key issues such as the adoption of new audit technologies, the use of data analytics and the biggest internal pressures facing audit departments. This year's survey includes input from more than 1,000 internal auditors around the globe.

Over the past year, many organizations have shifted away from purely remote environments back to more in-office hours, but the adoption of new audit technologies and shifting from manual to digital processes continue to be significant challenges for internal audit teams. Hiring and retaining skilled auditors also continues to be a major obstacle for departments.

Another big issue for auditors is the growth of artificial intelligence (AI). The rapid rise of AI presents opportunities for audit teams to automate many repetitive tasks so they can focus more on identifying and assessing risks. For organizations using AI in their operations, internal auditors will also need to audit the technology closely to ensure it's secure, accurate and unbiased.

At the same time, ESG and DEI reporting requirements are growing. And while internal audit teams may not be shrinking, they're also not getting larger. So auditors, as is so often the case, are being asked to do more work with the same, or fewer, resources.

At Caseware, we're dedicated to helping internal audit teams perform to their full potential. We recognize their work is invaluable to their organizations, providing independent analysis and advice that ensures financial health, compliance and long-term success. Our technologies free audit teams up from routine tasks, allowing them to focus on identifying risks and advising organizational decision-makers on the best course of action. We help them understand not only what the data reveals, but why. Why the numbers add up, why they lead to a new conclusion, or why a business strategy needs to evolve.

I hope as you dive into this year's report, you'll gain fresh insight into how technology, regulatory and talent acquisition trends are transforming the internal audit industry. Our goal is to help you plan more effectively for the future by showing you what's happening in the industry today. I wish you all the best in the year ahead as internal audit teams continue to evolve to meet new challenges and opportunities.

Sincerely,

David Osborne
CEO, Caseware

Highlights at a glance

Talent and key skills are scarce

Finding skilled auditors isn't quite as difficult as it was last year – but it's still a serious challenge.

Data analytics and technology skill sets are in demand

There's high demand for internal auditors with data analytics skills as well as those who can audit information technology and cybersecurity.

Doing more with less is the norm

The biggest internal pressure internal auditors face is doing more work with less time and fewer resources.

ESG audit work is growing

With global ESG regulations continuing to expand, internal audit departments are performing more ESG-related audits.

Fraud prevention is a key concern

Most internal auditors don't believe their organizations are well-prepared to fight fraud.

About the survey

Caseware conducted the 2024 State of Internal Audit Survey from the second week of September to the second week of November, 2023. It was distributed in five languages – English, French, German, Dutch and Spanish – with 1,068 respondents completing the survey.
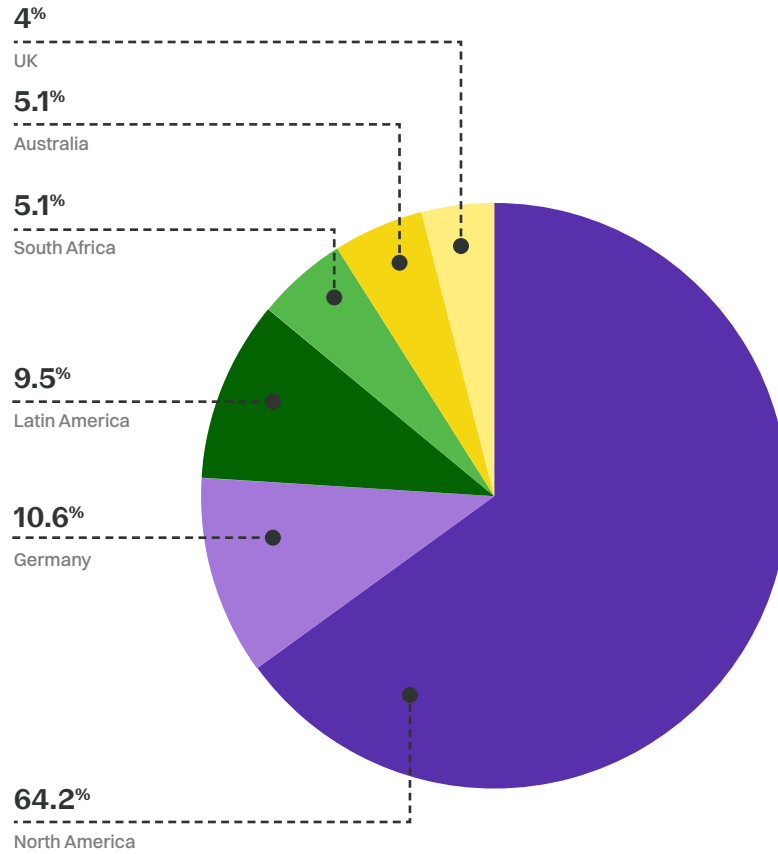
The most common job title for survey participants was "Internal Auditor" at 21 percent, followed by "Internal Audit Manager" at 16 percent and "Head of Internal Audit" at 14 percent.

Respondents had to provide at least one answer for each question to participate in the survey, and were offered the opportunity to give written comments for most questions. The final survey question allowed
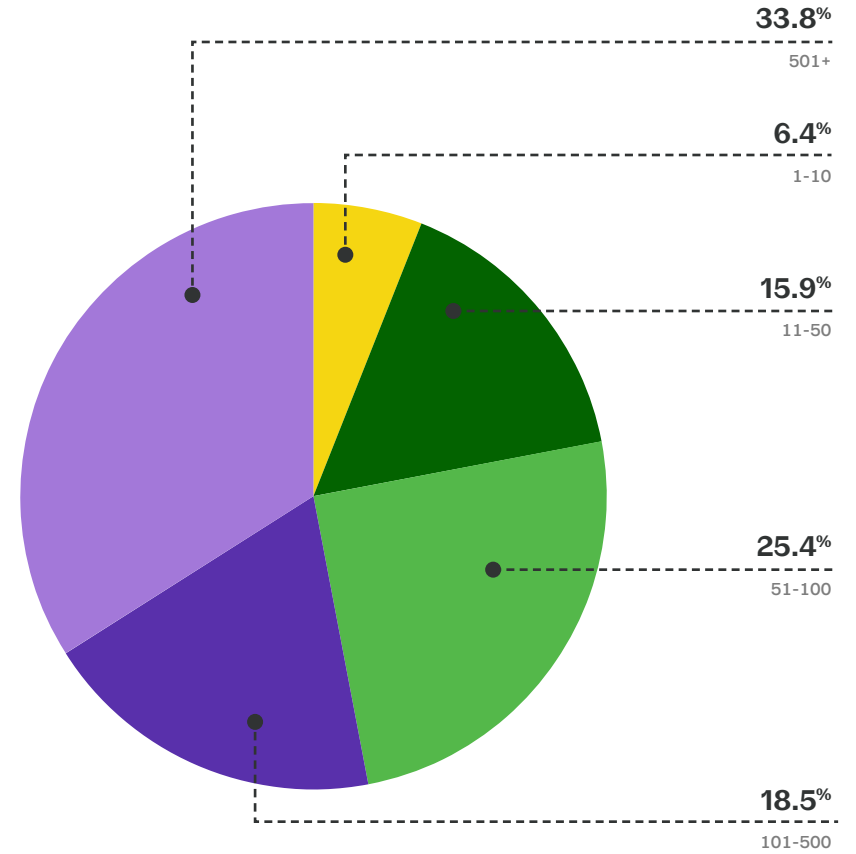
respondents to offer any general comments about the survey, their profession, or anything else about the state of internal audit. A selection of these comments appear throughout as "Peer Perspectives." For privacy reasons, names are not included.

We also asked noted industry experts for their takes on the survey findings, and their comments can be seen throughout the report in the"Industry Insight" boxes.

Q: The country/region in which your firm is located

Q: How many employees does your organization have?

4%
UK

5.1%
Australia

5.1%
South Africa

9.5%
Latin America

10.6%
Germany

64.2%
North America

33.8%
501+

6.4%
1-10

15.9%
11-50

25.4%
51-100

18.5%
101-500

Q: What is your position?

21.4%	Internal Auditor
15.6%	Internal Auditor Manager
13.7%	Other (please specify)
13.5%	Head of Internal Audit
13.2%	Director of Internal Audit
11.3%	Chief Audit Executive
7.6%	Forensic Manager
3.4%	Certified Fraud Expert
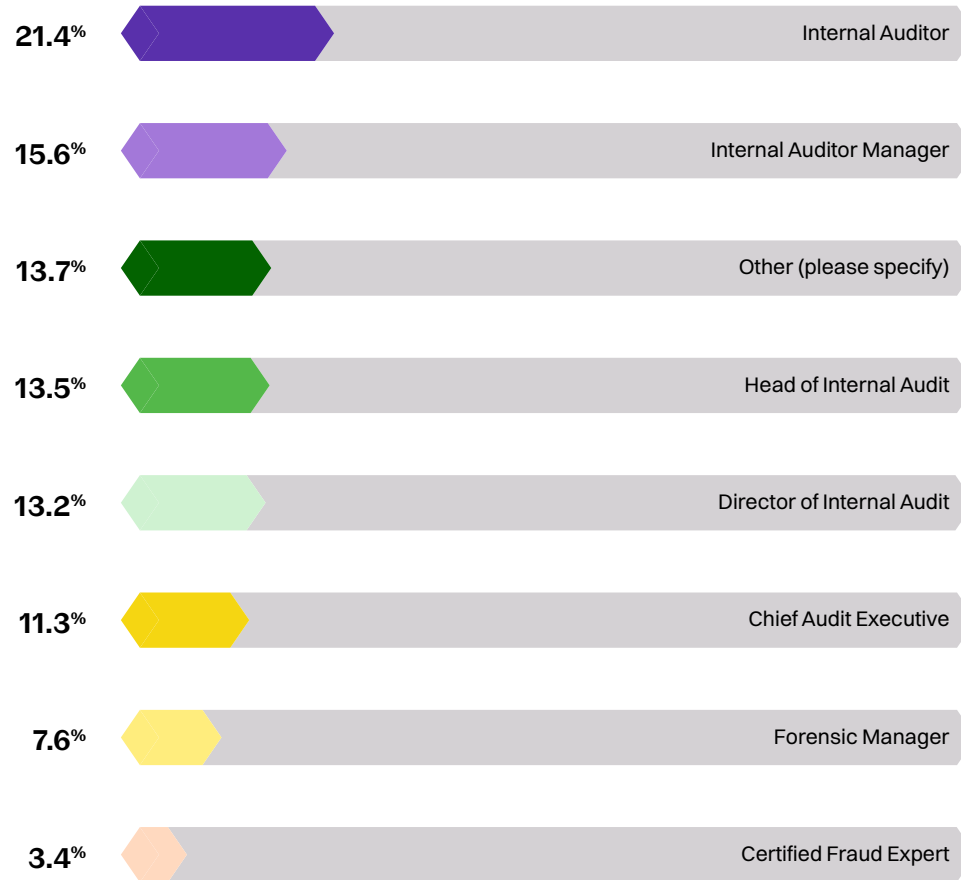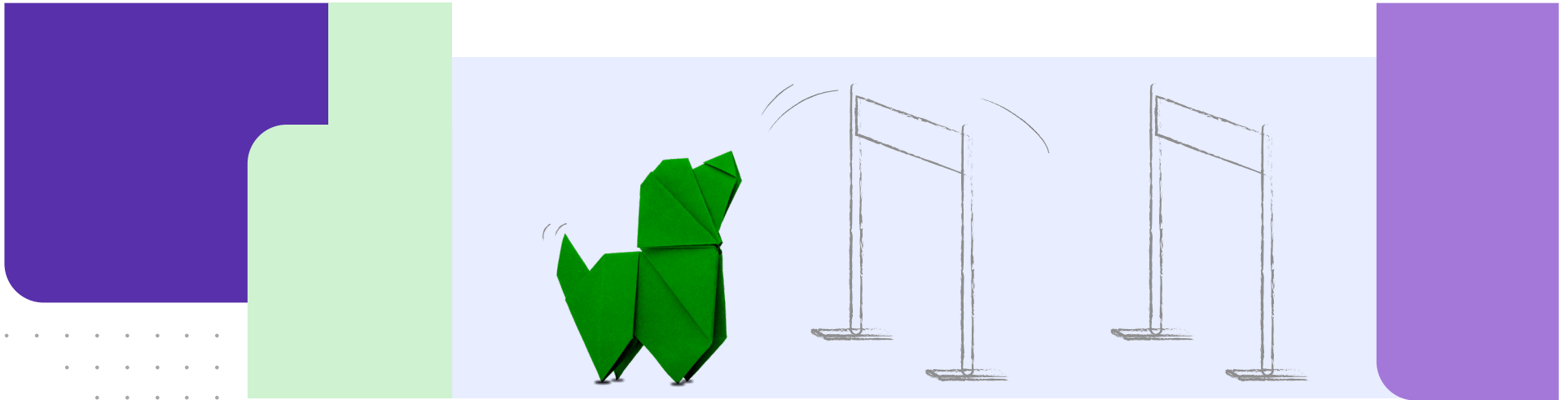
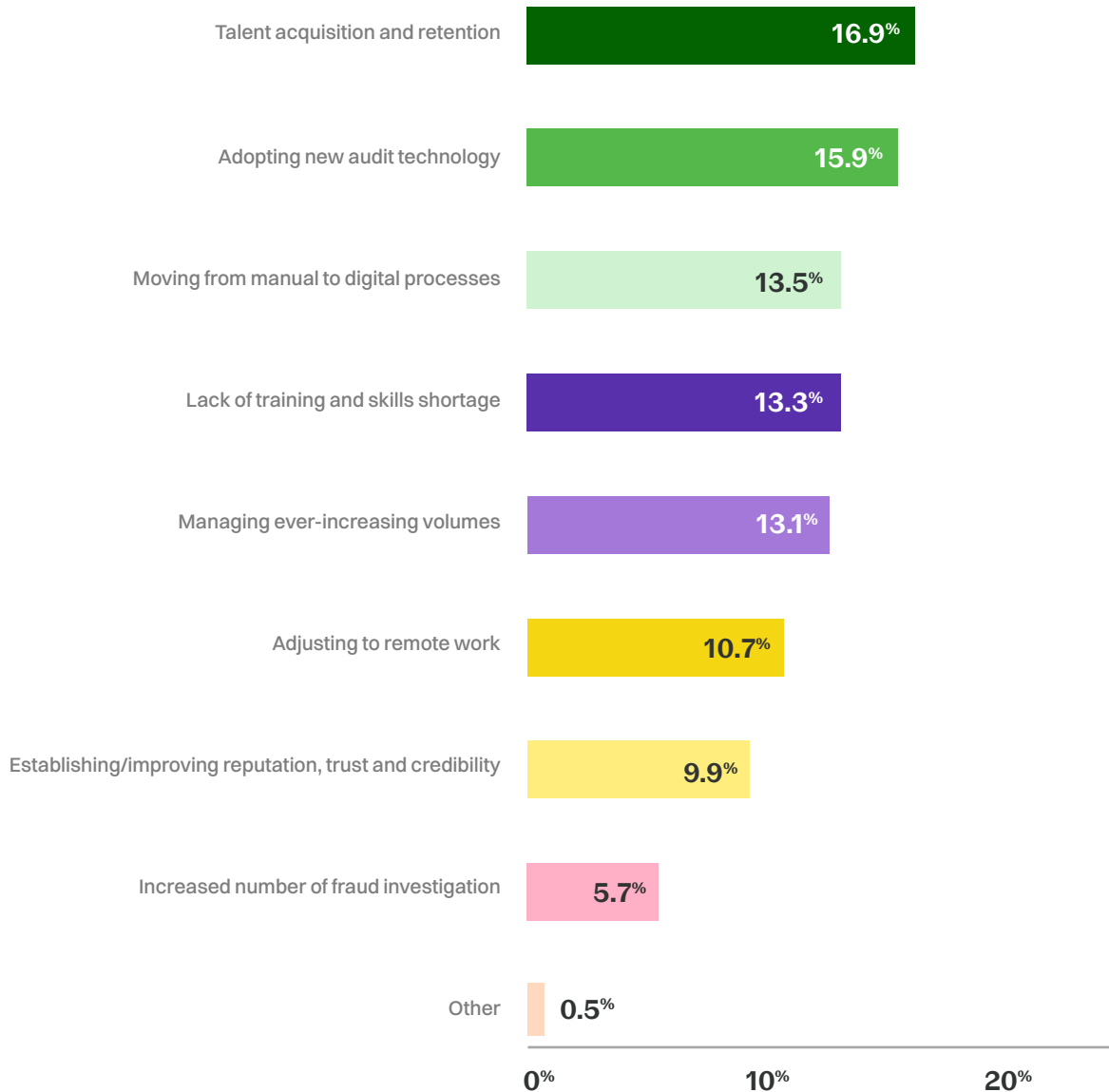# Top challenges for internal audit

Not surprisingly, the biggest challenge for internal audit teams over the past two years is acquiring and retaining talent. "Talent acquisition and retention" was the top selection, with 17 percent of total responses. "Lack of training and skills shortage" also garnered 13 percent of the total responses, showing the talent issue goes beyond just acquiring and retaining auditors.

"Acquiring new audit technology" at 16 percent and "Moving from manual to digital processes" at 14 percent were the second- and third-most cited top challenges, illustrating the issues audit teams face as they transform the way they work.

The rise in organizational adoption of digital technologies is requiring internal audit departments to deal with larger volumes of data and more real-time information than they have in the past. At the same time, new auditors expect to be able to work with modern technology, making technology – in particular digital tools that enable remote working – a talent acquisition and retention facilitator. While adopting new audit technology can present a challenge, once implemented it leads to higher-quality audits based on better data and makes auditors more efficient, effective and satisfied in their jobs.

Q: What have been your top overall challenges in the past two years? (Select three at most)

Challenge	Percentage
Talent acquisition and retention	16.9%
Adopting new audit technology	15.9%
Moving from manual to digital processes	13.5%
Lack of training and skills shortage	13.3%
Managing ever-increasing volumes	13.1%
Adjusting to remote work	10.7%
Establishing/improving reputation, trust and credibility	9.9%
Increased number of fraud investigation	5.7%
Other	0.5%

0%   10%   20%

Industry Insight

"I would expect to see technology at the top. There's a big push to get everyone digital. I interact with a lot of different companies and I'm always surprised how many of them are still manual in how they do their work papers and how many have still not fully embraced data analytics. Aside from organizations that had a big problem in the past and had to have a spotlight on audit, most audit departments are under-staffed and under-budgeted, so they're always running pretty lean."

—Mary Breslin, Internal Audit Transformation Specialist

The audit landscape

In terms of the types of audits conducted by internal audit departments, the top four – Compliance, Financial, Operational and Information Technology – all came in at greater than 60 percent of respondents. Compliance led the way at 64 percent, with Financial and Operational both at 62 percent and Information Technology at 58 percent.

Environment, Social and Governance (ESG) audits and Diversity, Equity and Inclusion (DEI) audits finished lower down the list, but still accounted for a significant share of the audits conducted, with ESG at 33 percent and DEI at 24 percent.

Peer Perspective

"We do a lot of advisory work, primarily advising on process and control design/gap assessments in order to inform future risk management efforts."

Q: What types of audit does your department engage in? (Select all that apply)

Compliance **63.7**%

Financial **62.5**%

Operational **62.2**%

Information Technology **57.9**%

Environment, Social and Governance **33.1**%

Diversity, Equity and Inclusion **23.6**%

Culture **16.3**%

Other **3.8**%
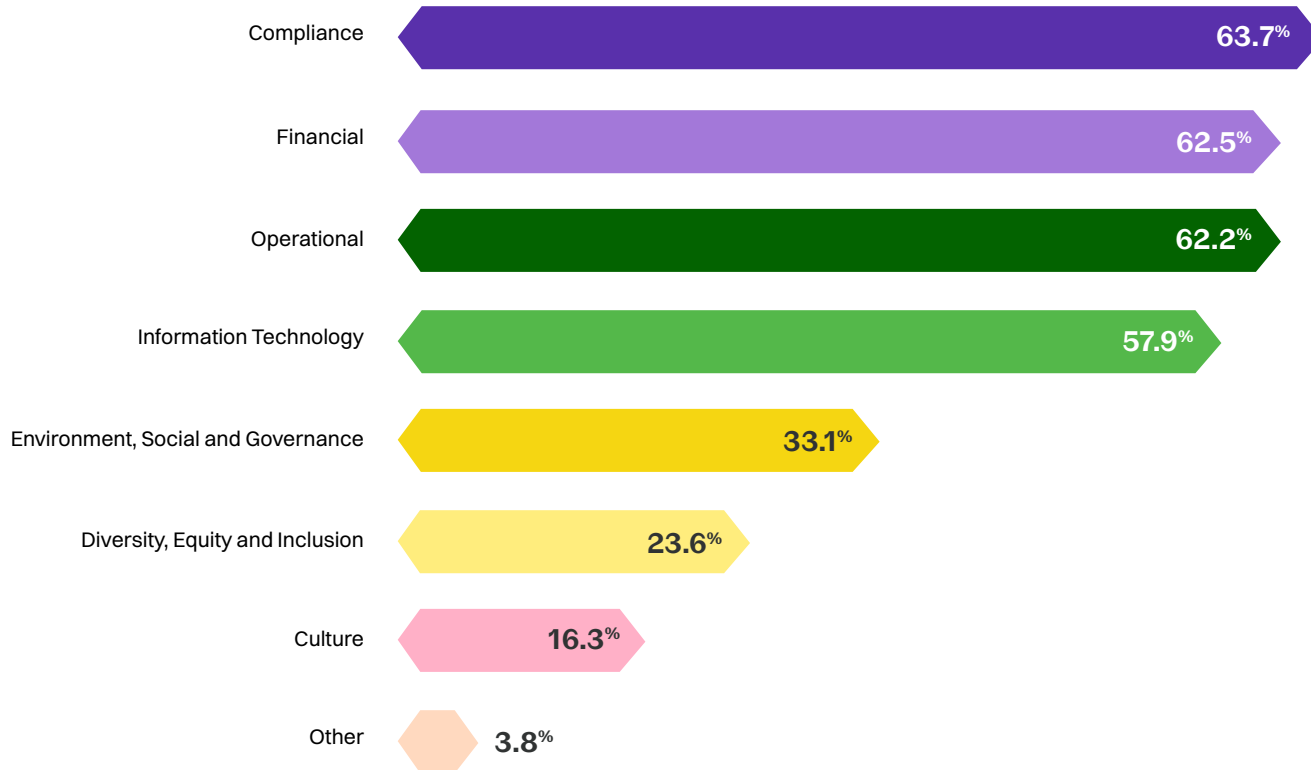
💡 Industry Insight

"I think if you're publicly traded you're going to need to do ESG and DEI. Governments as well may be asked to do it. But if you're privately held, it's more up to you whether you want to report it."
—Jeff Sorensen, Industry Strategist, Caseware

Staffing and skills

The talent crunch

Finding skilled auditors remains a major issue for organizations. When asked how challenging it was to hire and retain the right talent for their firms, 30 percent of survey respondents said it was "Extremely challenging," with another 59 percent saying it was "Somewhat challenging." Just 10 percent considered it "Not challenging at all."

While those numbers may seem alarming, the talent situation is slightly better than it was in last year's *State of Internal Audit Report*. In 2023's findings, 40 percent said finding and retaining talent was "Extremely challenging," 55 said it was "Somewhat challenging" and only five percent said it was "Not challenging at all."

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💬 Peer Perspective

"We have to hire an expatriate workforce since nationals are not available. Recruiting, retention and readiness all take a lot of time. The combination of cultural adaptation for the region, country-specific requirements and mixed nationalities means we need quick learners and willing staff."

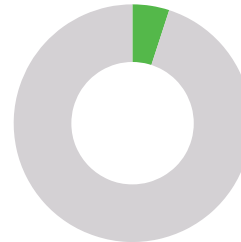**Q: How challenging is it to hire and retain the right talent for your firm?**

2023
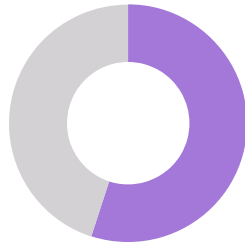
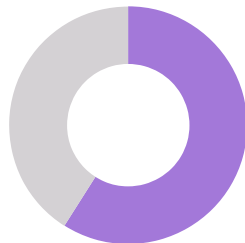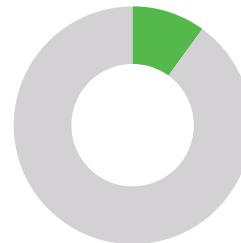| **55.2%** | **40%** | **4.8%** |
| Somewhat challenging | Extremely challenging | Not challenging at all |

2024

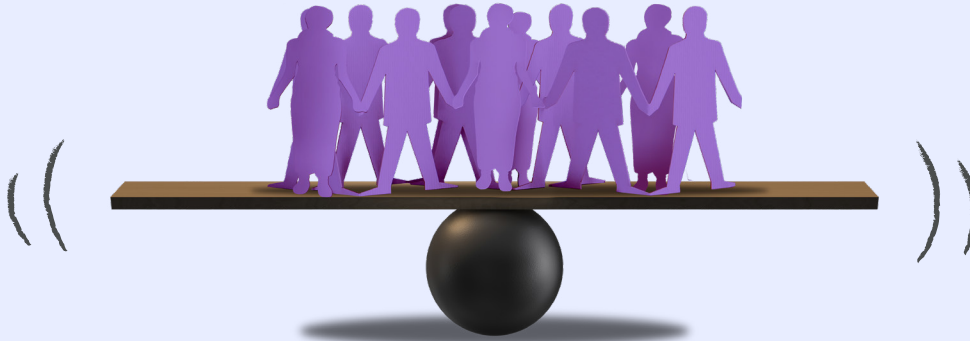| **59.3%** | **30.4%** | **10.3%** |
| Somewhat challenging | Extremely challenging | Not challenging at all |
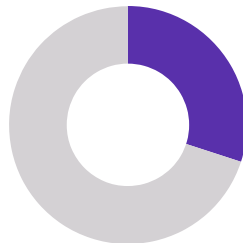
Industry Insight

"**Talent is definitely still an issue. Especially when it comes to acquiring talent with specialized skills like data analytics.**"
—Mark Nigrini, Associate Professor of Accounting at West Virginia University

Department staffing levels are stabilizing

Compared to last year, the size of internal audit departments has remained relatively stable. Thirty-eight percent of respondents said the size of their department had increased in the past year – just one percent more than the 37 percent who reported a rise in last year's State of Internal Audit Survey. Just 24 percent of respondents reported a decrease, a significant drop from last year's 38 percent. And 38 percent said their department had remained the same size, compared to 25 percent last year.

💬 **Peer Perspective**

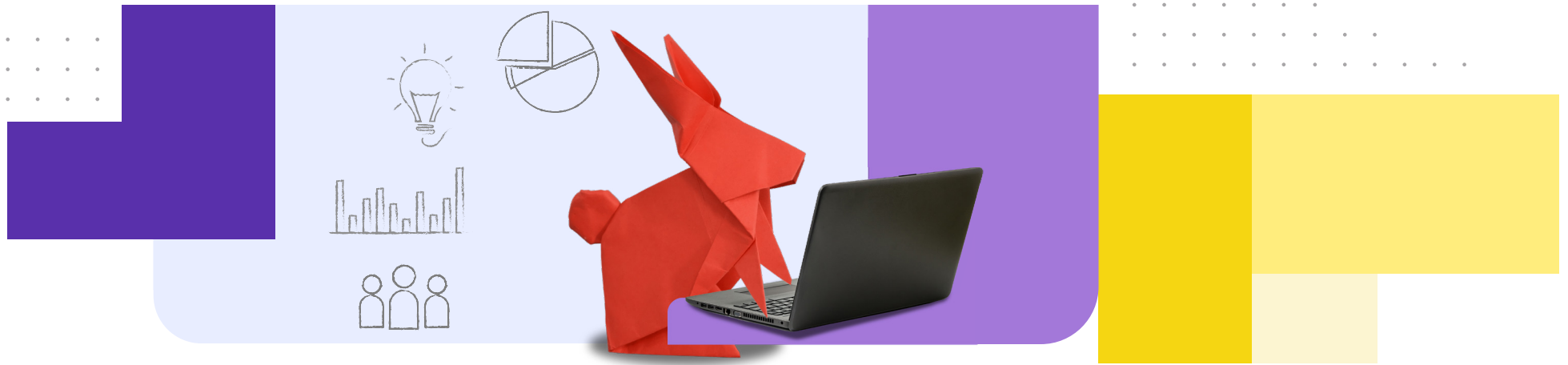**"We had two resignations over the past year and those vacancies have not yet been filled."**

Over the past year, the number of employees in your internal audit department has:
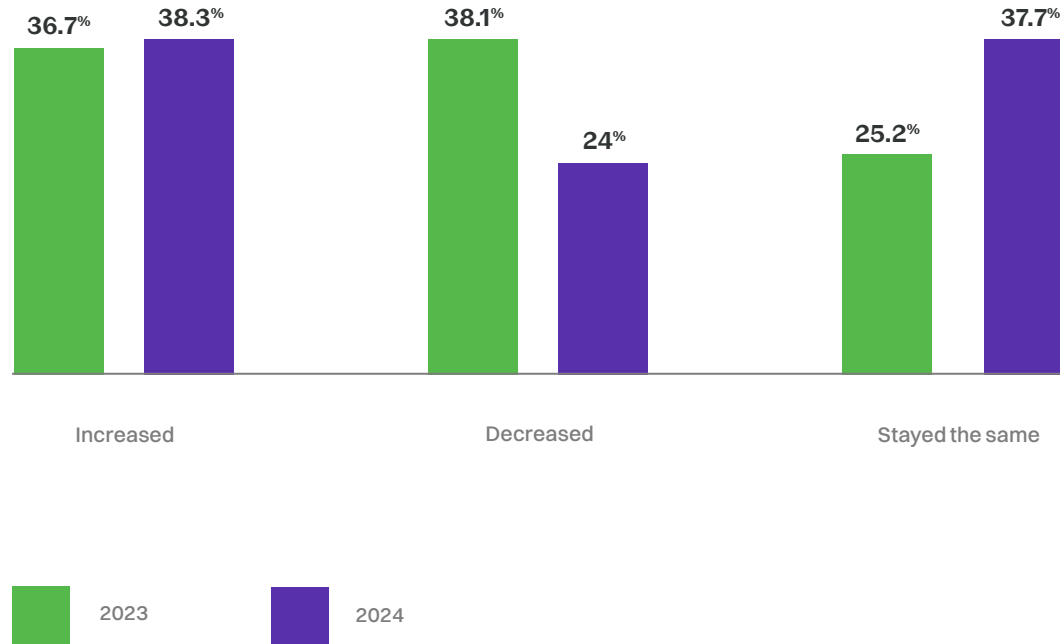
Increased   Decreased   Stayed the same

2023   2024

In-demand skills

Technology expertise is in high demand for internal audit departments. When asked what skill sets their departments were seeking, "Data science" (18 percent of responses), "Information Technology" (15 percent) and "Cybersecurity" (12 percent) topped the list, with "Artificial intelligence" not far behind at nine percent. "Fraud examination" (10 percent) was the most-sought non-technical skill, with "ESG" just behind at eight percent.

💬 **Peer Perspective**

> **"We need specialists who are multi-skilled, since we cannot source multiple people specializing in specific areas. People who are hands-on with both theoretical knowledge and practical application are needed to bring that additional value to us."**

Q: What skill sets are your internal audit department looking to add more of in the next year? (Select all that apply)

18.4%
Data Science

15.1%
Information Teachnology

12.1%
Cybersecurity

9.6%
Fraud examination

8.9%
Artificial intelligence

8.1%
ESG

8.1%
Project management professionals

6.9%
Soft skills/emotional intelligence

5.7%
Forensic accounting

5.4%
DEI
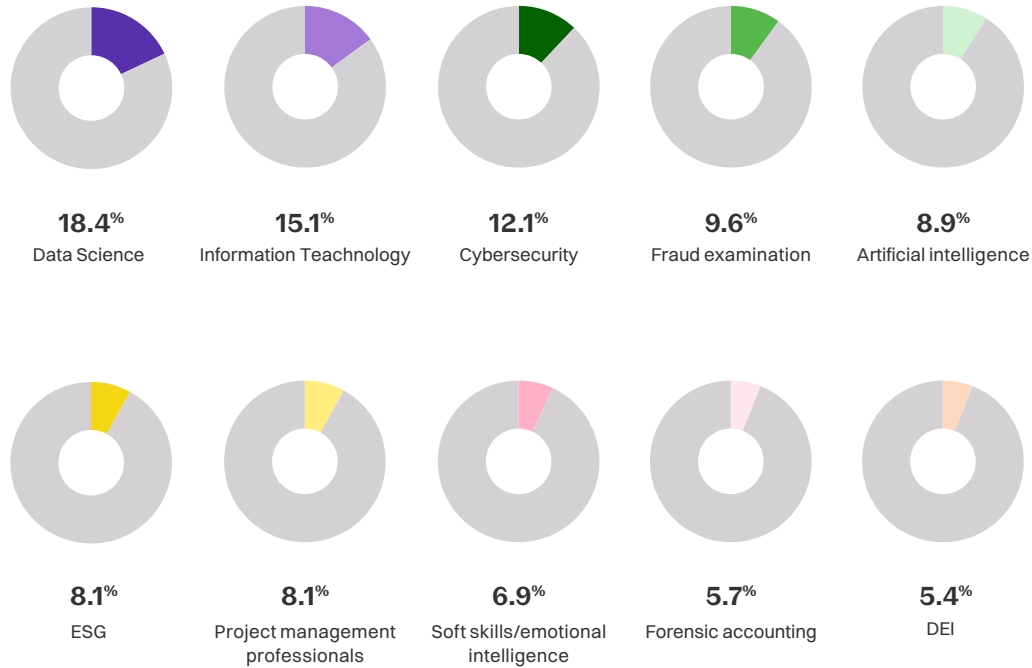
Industry Insight

"One of the hills I'm going to die on is the technology piece. I think every auditor should go out and get their Certified Information Systems Auditor (CISA) designation. We rely so heavily on systems and reports that come out of systems. And the average auditor doesn't necessarily have a technology understanding.

(This need was illustrated to me) in one of my previous chief auditor roles, where we put in data analytics for the first time. As part of the Sarbanes-Oxley Act, the organization had done the duplicate invoice test for 10 years in a row and it had passed with flying colors every year. The first time we ran the duplicates through the data analytics, we found $3.5 million in duplicates in the first four months of the year, because it was a general auditor doing the test and they hadn't gone into the system."
— Mary Breslin, Internal Audit Transformation Specialist
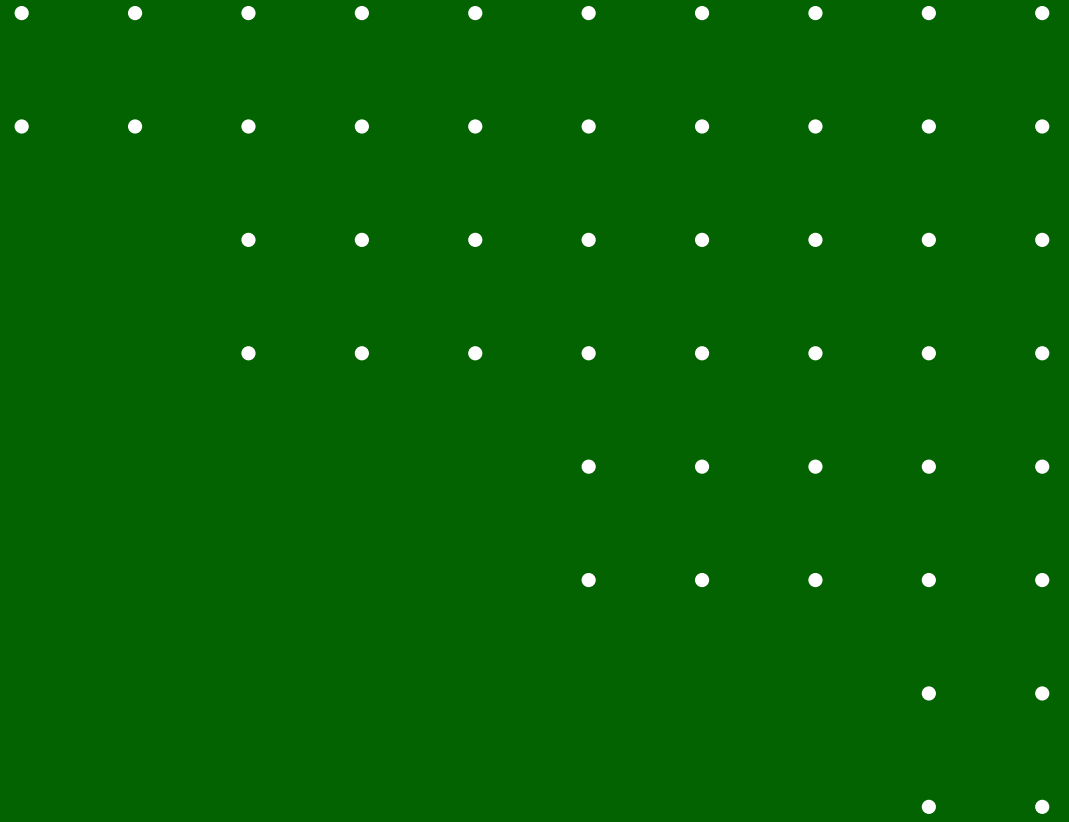
New areas of focus

ESG on the rise

ESG scrutiny and standards continue to grow. In January 2023, the European Union adopted the Corporate Sustainability Reporting Directive (CSRD), which requires EU businesses, as well as some subsidiaries of non-EU organizations, to report on the ESG impact of their activities, as well as on their ESG initiatives.

While there has been some pushback against ESG in the U.S. over the past year, many other countries are continuing to pursue stricter ESG reporting requirements. In the long term, it's clear that organizations will have to perform more ESG reporting and disclosure.
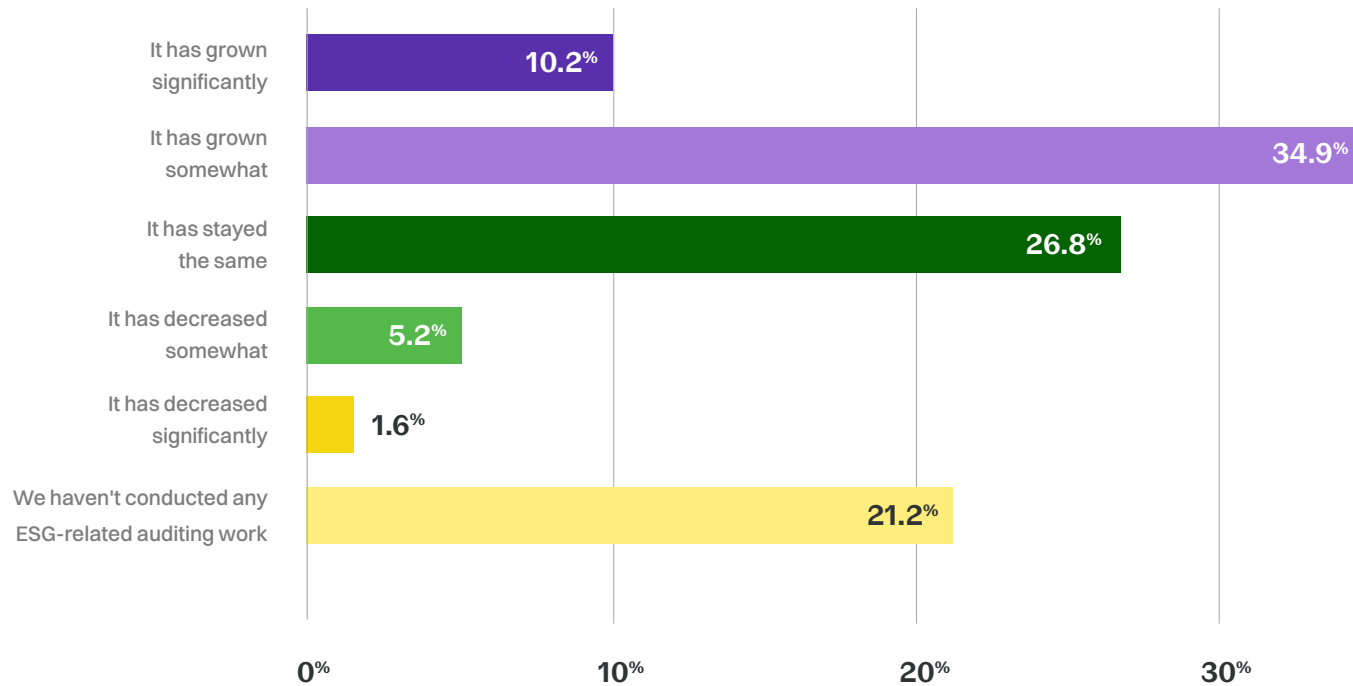
That's reflected in the responses to this year's question on the growth of ESG-related auditing work. More than 45 percent of respondents said their ESG work had grown "Significantly" or "Somewhat" over the past year. Just seven percent said it had declined "Significantly" or "Somewhat," while twenty-seven percent said their amount of ESG work had remained the same.

Twenty-one percent of respondents said they hadn't conducted any ESG-related audits over the past year, but with ESG reporting requirements growing, that number is likely to come down in the future.

💬 **Peer Perspective**

"We recently hired an ESG subject-matter expert to join the group and anticipate that activity will pick up significantly in 2024."

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?

Category	Percentage
It has grown significantly	10.2%
It has grown somewhat	34.9%
It has stayed the same	26.8%
It has decreased somewhat	5.2%
It has decreased significantly	1.6%
We haven't conducted any ESG-related auditing work	21.2%

Industry Insight

"ESG is very relevant for internal auditors today. You want to make sure your organization isn't greenwashing. There can be a price to pay if you're caught doing that, so it's something to avoid. For boards it's also a critical issue. Being seen to be playing your part in protecting the environment is high on corporate agendas."

— Ian Kirton, Internal Audit Industry Expert

The growth of DEI

For most departments, the demand for DEI-related auditing has increased or remained consistent. But a significant number of internal audit teams still don't conduct DEI audits.

When asked how much growth there had been in their DEI-related audit work over the past year, 28 percent said "It had grown somewhat," 12 percent said "It had grown significantly" and 26 percent said "It had stayed the same."

Twenty-seven percent responded "We haven't conducted any DEI-related auditing work," while just five percent said "It has decreased somewhat" and two percent said "It has decreased significantly."

Peer Perspective

"DEI was de-prioritized for us as a result of a focus on profitability."

Q: Over the past year, how much growth has there been in the amount of Diversity, Equity and Inclusion (DEI)-related auditing work your department has carried out?

Response	Percentage
It has grown significantly	12.2%
It has grown somewhat	27.9%
It has stayed the same	26.4%
It has decreased somewhat	4.7%
It has decreased significantly	2.1%
We haven't conducted any DEI related auditing work	26.6%
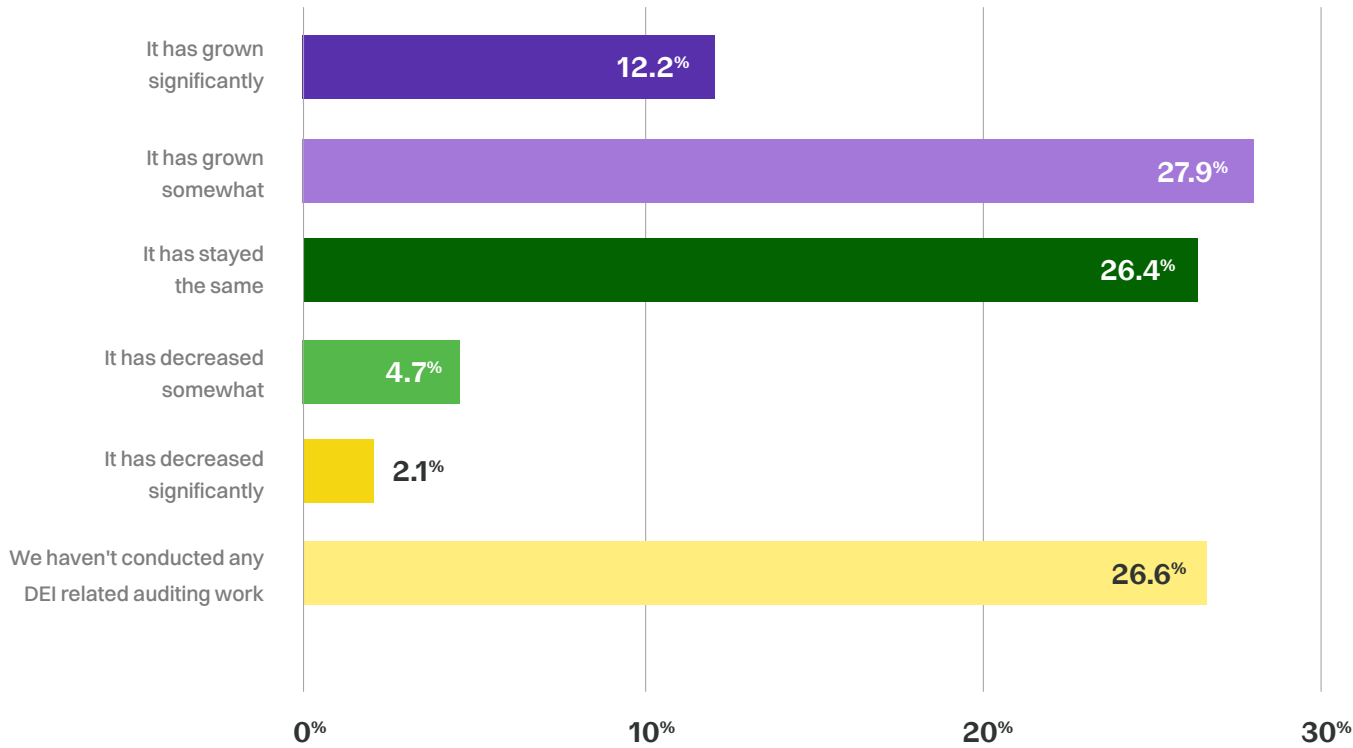
Industry Insight

"I think some organizations believe DEI is too subjective and they don't know how to measure it objectively, so they don't. But there are plenty of metrics within every organization they can use to support an opinion around DEI."

— Mary Breslin, Internal Audit Transformation Specialist
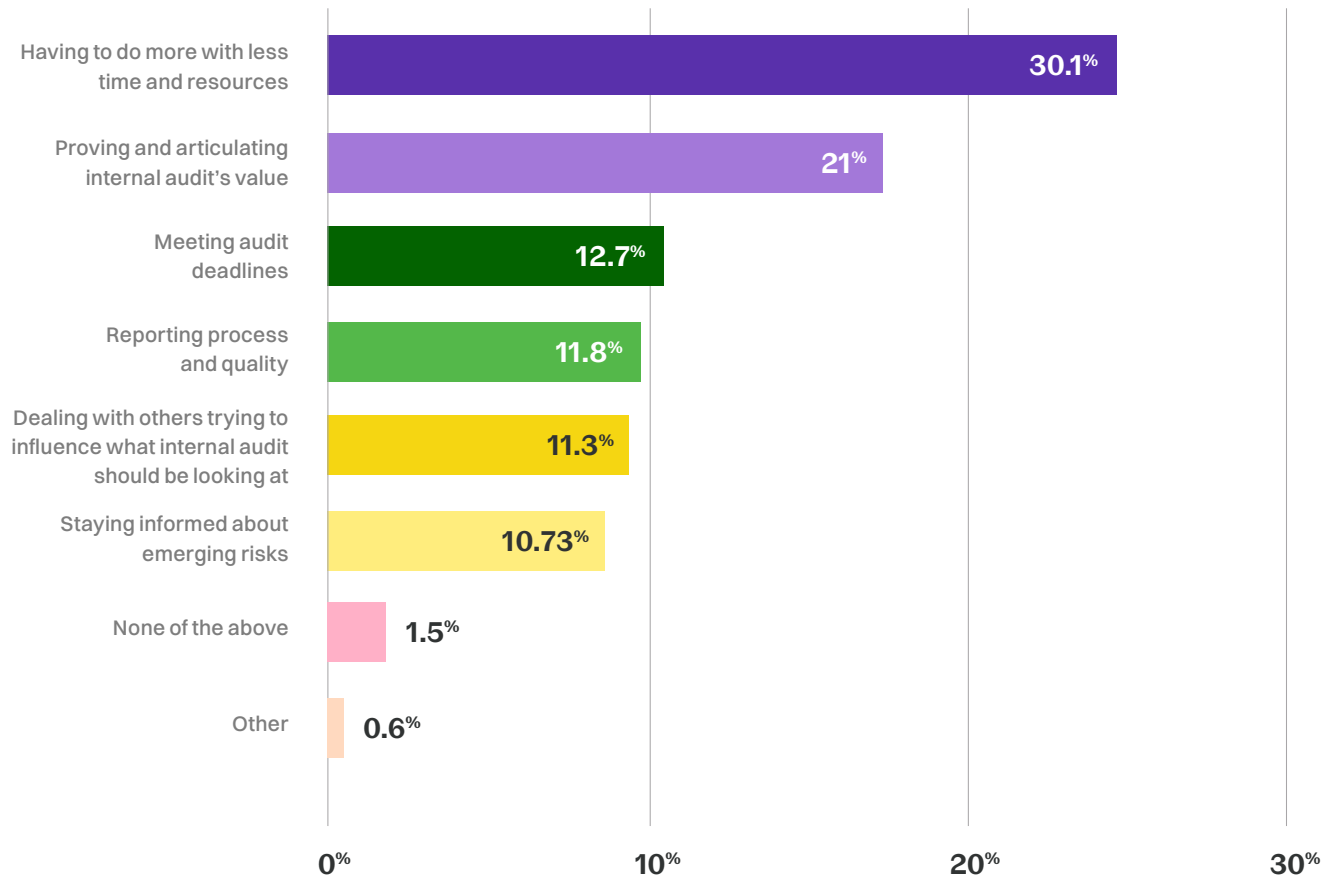
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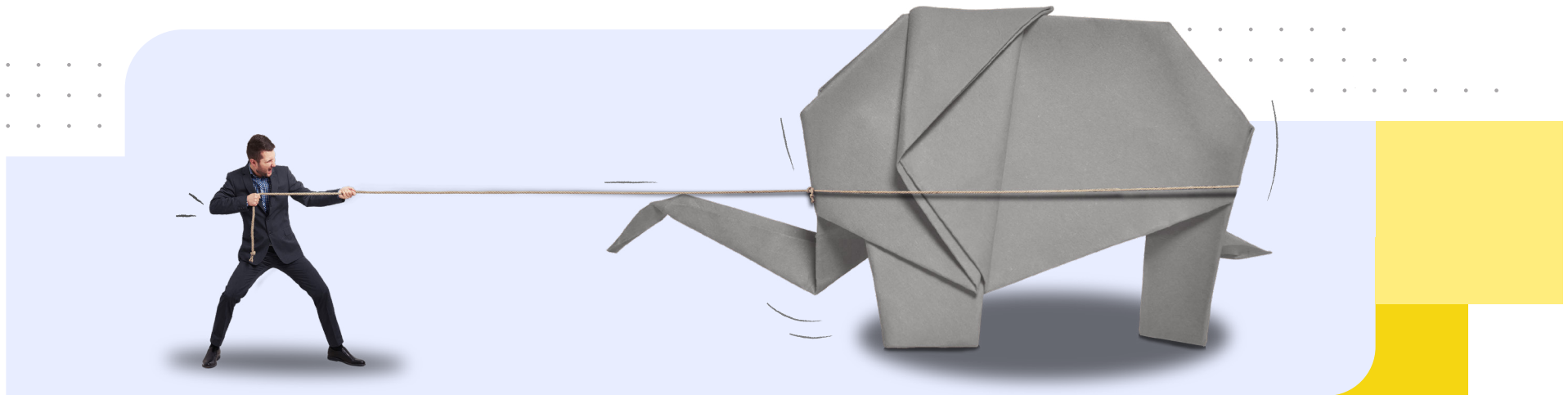
More demands, fewer resources

The biggest internal pressure for audit teams is "Having to do more with less time and resources," with 30 percent of respondents identifying it as their top selection. This isn't a surprise, given auditors face increased reporting requirements, such as ESG, DEI and culture, often without a corresponding increase in budget. This means teams need to be as efficient as possible when completing their audits.

"Proving and articulating internal audit's value" at 21 percent and "Meeting audit deadlines" at 13 percent rounded out the top three internal challenges. Those were also the top three challenges in last year's survey.

💬 **Peer Perspective**

"Our biggest challenge is trying to cover more and newer risks with limited resources and capacity and provide a truly professional product."

Q: What is the biggest pressure you face internally?

Having to do more with less time and resources — 30.1%

Proving and articulating internal audit's value — 21%

Meeting audit deadlines — 12.7%

Reporting process and quality — 11.8%

Dealing with others trying to influence what internal audit should be looking at — 11.3%

Staying informed about emerging risks — 10.73%

None of the above — 1.5%
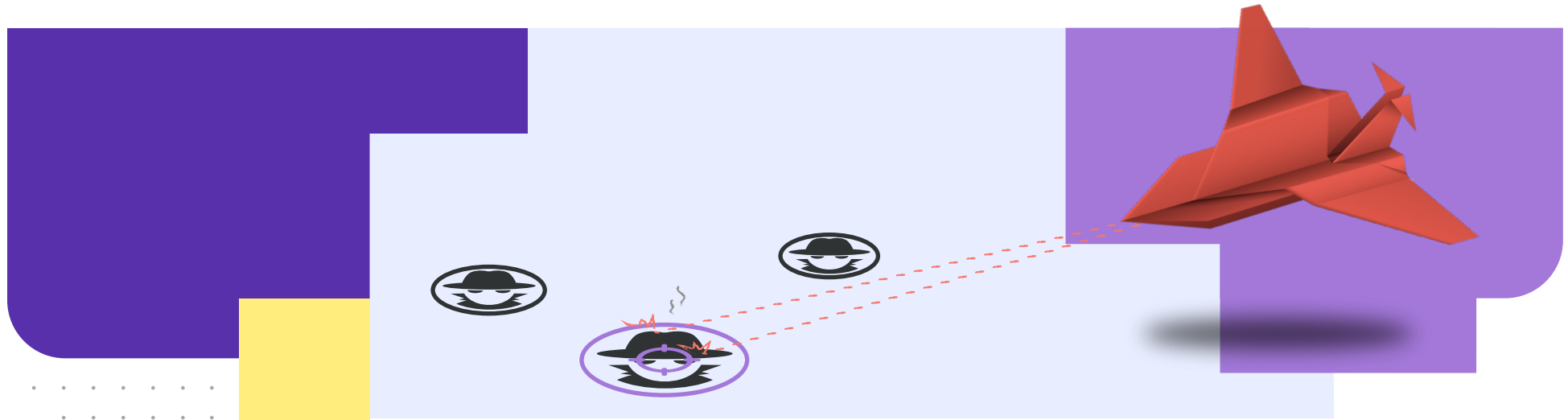
Other — 0.6%

(X-axis: 0%, 10%, 20%, 30%)

Industry Insight

"Value is always an issue for internal audit. It's a support service. All the resources tend to go to the front line the people who make the sales and produce money. If there are cuts they typically go to the support services."

– Claire Chong, Product Owner, Caseware
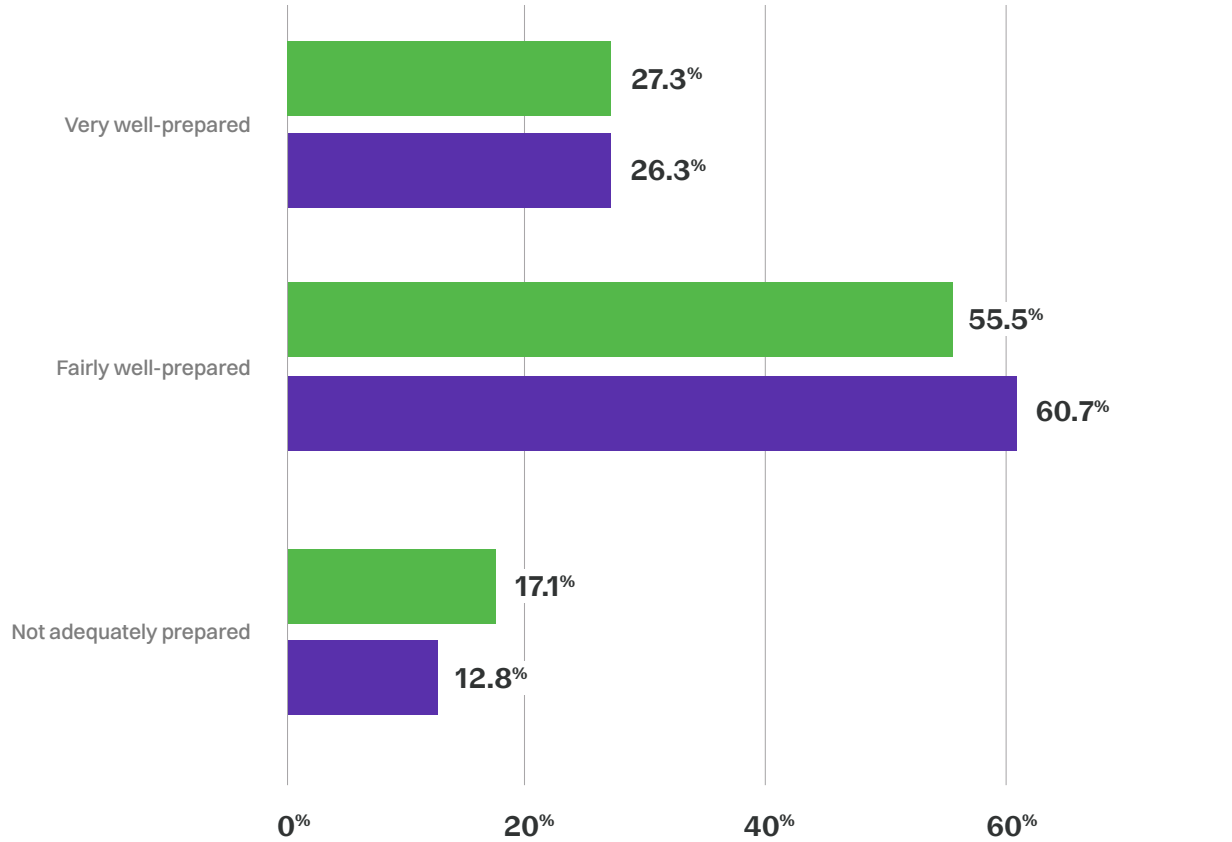
Uncovering irregularities

Fighting fraud

Eighty-seven percent of survey respondents believe their organization is "well-prepared" to fight fraud, with just 13 percent believing their organization is "not adequately prepared" to do so.

Overall, the numbers for this year's survey are similar to those from the *2023 State of Internal Audit Report*. Last year, approximately 83 percent of internal auditors said they were either well-prepared or fairly well-prepared, with 17 percent believing they weren't prepared.

Peer Perspective

"Our company has been taking more proactive actions such as implementing systems/services to help identify and stop potential fraudulent activity, rather than reacting when occurrences come up. Additionally, training has really been enhanced throughout the company in the area of cybersecurity, which has helped."

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

Very well-prepared
- 27.3%
- 26.3%

Fairly well-prepared
- 55.5%
- 60.7%

Not adequately prepared
- 17.1%
- 12.8%

0%   20%   40%   60%

█ 2023
█ 2024

Industry Insight

"Some sectors, such as digital banking, are very susceptible to fraud, so fraud preparedness could differ significantly from one industry to another. The risk of cyberattack is very much a hot topic. There have been a number of public attacks on organizations recently."

– Ian Kirton, Internal Audit Industry Expert
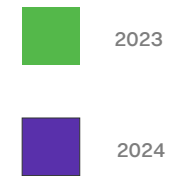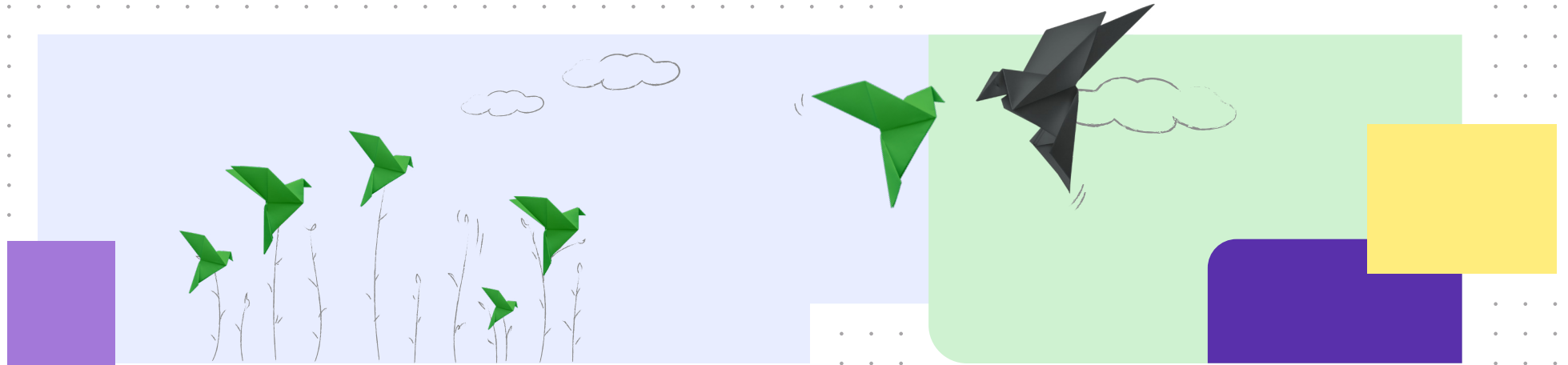
Collusion concerns

"Collusion with a third party vendor or service provider" tops the list of fraud types that are top-of-mind for internal auditors, with 26 percent citing it as their biggest concern. That number is almost unchanged from last year's survey. "Theft of assets" (19 percent) and "Falsified invoices/expense reports" (15 percent) also finished high on the list. All three were also among the top concerns in the *2023 State of Internal Audit Report.*

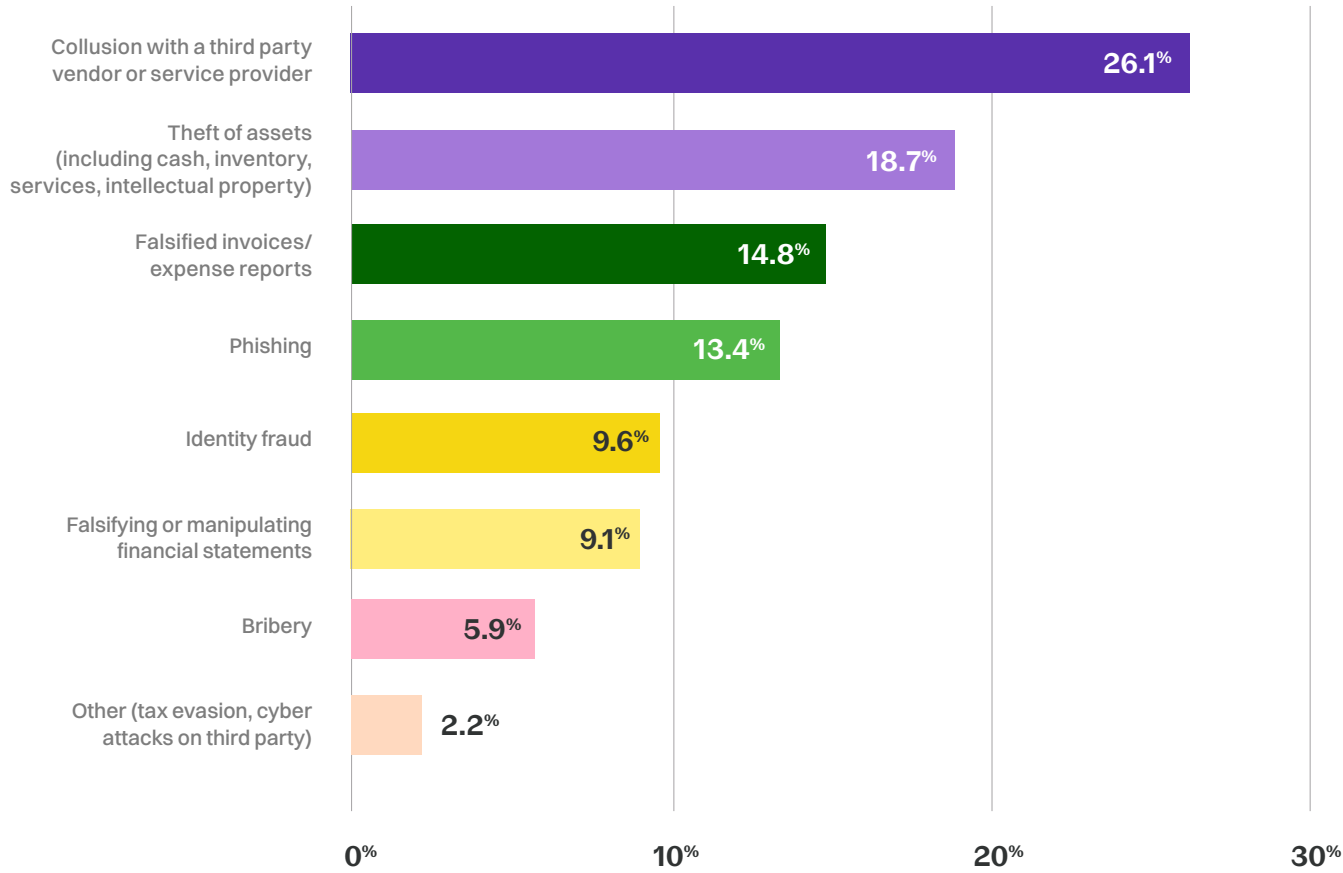Phishing – a fraud type added to this year's survey – was the fourth-biggest concern at 13 percent, showing that cybersecurity and its associated risks is a focus for internal audit departments.

Peer Perspective

"Our biggest concern is forms of timesheet/time-reporting fraud. Some of our projects are paid based on time estimates and we're worried those numbers are inflated and not monitored."

Q: What type of fraud concerns you the most?

| Category	%
Collusion with a third party vendor or service provider	26.1%
Theft of assets (including cash, inventory, services, intellectual property)	18.7%
Falsified invoices/ expense reports	14.8%
Phishing	13.4%
Identity fraud	9.6%
Falsifying or manipulating financial statements	9.1%
Bribery	5.9%
Other (tax evasion, cyber attacks on third party)	2.2%

Industry Insight

"Phishing was dying before the pandemic and then it came roaring back. Now with ChatGPT, phishing isn't going anywhere. All those diction nuances we could recognize as false are gone now that people are using AI."

– Mary Breslin, Internal Audit Transformation Specialist

Technology adoption
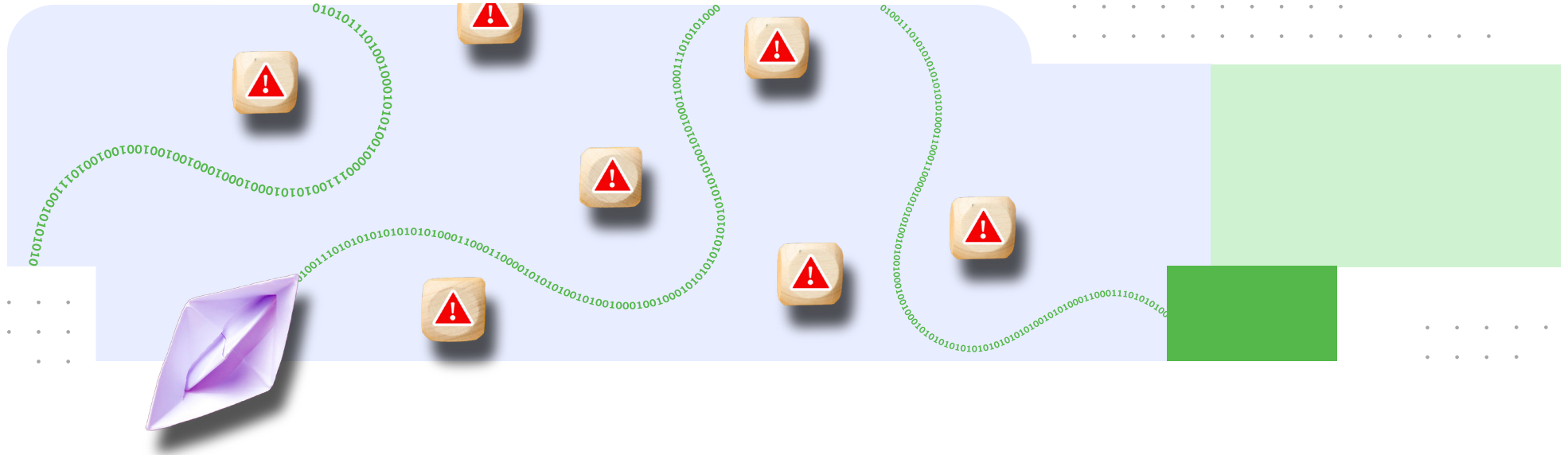
Data analytics dominant

When asked whether they are using data analytics in their auditing activities, the vast majority of survey respondents replied in the affirmative. Twenty-one percent said "Yes, for all audits" and 57 percent said "Yes, for some audits." That's an encouraging sign because data analytics improves accuracy and efficiency, makes it simpler to see anomalies. It also helps identify high-risk areas or control deficiencies.

Eighteen percent of respondents chose "No, but we are considering it," while just four percent said "No, and we are not considering it." That's a big improvement from last year, when 44 percent of respondents said they were not using data analytics.

💬 Peer Perspective

"Using data analytics for some of our audits is the best use of our time and resources, because of the volume of data we're reviewing."

Q: Are you using data analytics in your auditing activities?

Yes, for all audits — 21.4%

Yes, for some audits — 56.6%

No, but we are considering it — 18.4%

No, and we are not considering it — 3.5%

0%   20%   40%
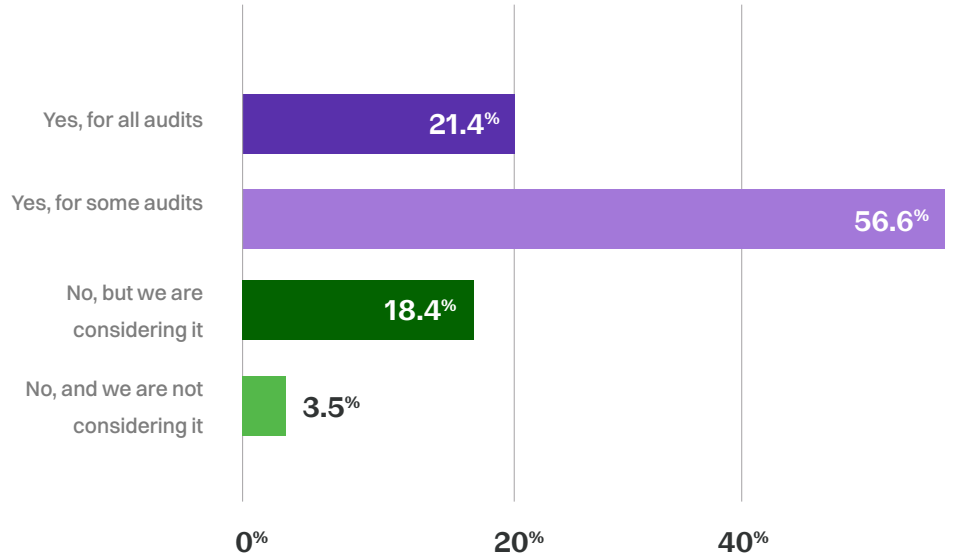
Industry Insight

"It's not a surprise the use of data analytics is increasing. It's how auditors are meeting the challenge of doing more with less. Analytics helps them spot risk, re-evaluate controls and perform continuous auditing."

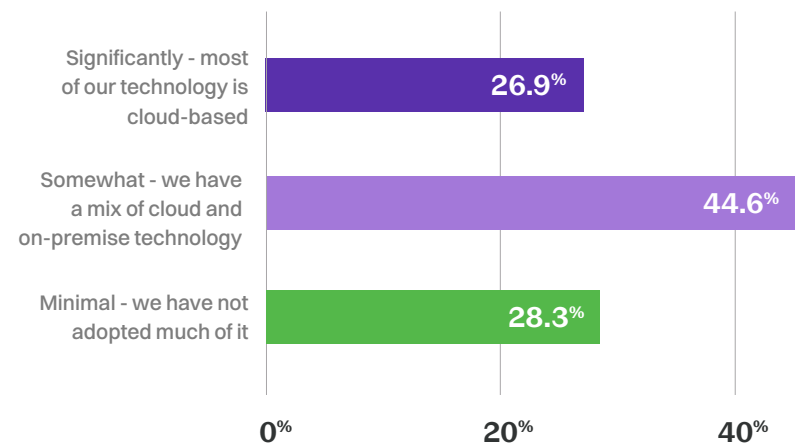– Ian Kirton, Internal Audit Industry Expert
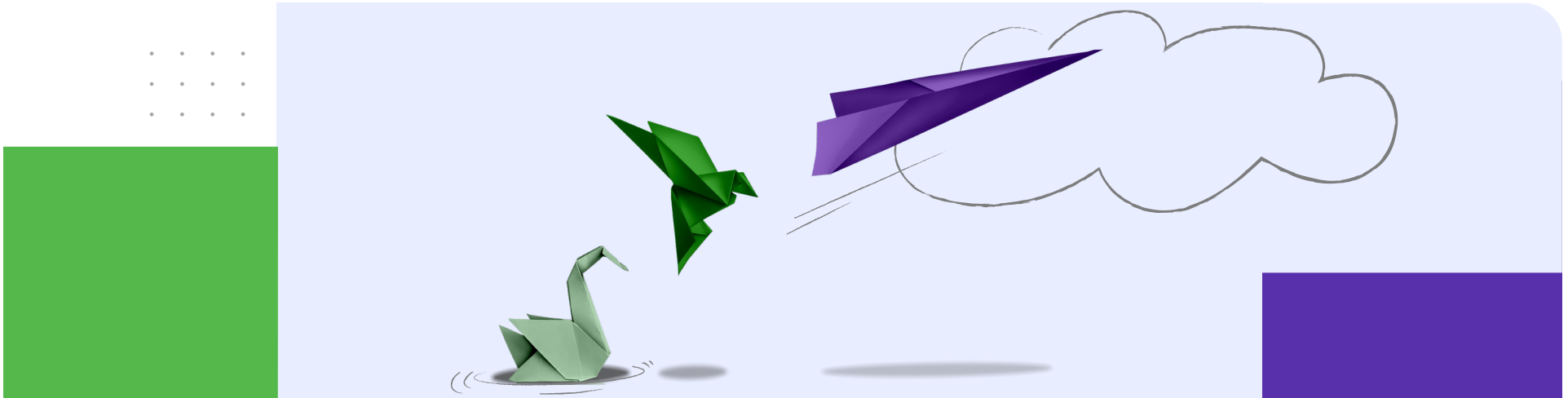
The shift to the cloud

Over 72 percent of survey respondents are using cloud-based audit technology. Cloud solutions can improve collaboration by allowing multiple auditors to work together on the same files, offer access to real-time financial and operational data from any of an organization's locations, and streamline audit processes, helping teams work more efficiently. They can also offer advanced security features, such as encryption, ensuring important data remains private and protected.

💬 **Peer Perspective**

> "We haven't had a need to use more cloud-based audit technology based on our current IT infrastructure."

Q: To what extent do you use cloud-based technology?

Significantly - most of our technology is cloud-based	26.9%
Somewhat - we have a mix of cloud and on-premise technology	44.6%
Minimal - we have not adopted much of it	28.3%

Additional perspectives

Following are several additional insights provided by survey respondents:

"Our biggest challenge has been obtaining more budget for audit travel. The company has learned that remote audits can be effective and efficient and tries to move more and more in that direction. However, new acquisitions and high-risk areas of business require on-site visits."

"We have regular fraud training taking place. We have a well-established speak-up culture that helps prevent and detect events. The weakest link is always the employee who forgets about the training and procedures under pressure."

"Hiring has been challenging for us due to several factors. Our industry (energy), the size of the organization (smaller revenue base) and a requirement to work in the office three days a week."

"We are in the process of including DEI in our 2024 audit plan."

"The awarding of contracts to outside suppliers concerns us the most. Especially single-source contracts and contract extensions."

Key takeaways

Data analytics has become a key tool for internal audit teams. Data science tops the list of skills internal audit departments are seeking. This is a positive development because data analytics solutions help auditors uncover anomalies, address more risks and ultimately perform higher-quality audits without having to hire additional staff. While implementing data analytics tools does take time and money, the payoff is worth the investment.

Skilled internal auditors are still a scarce commodity. Finding and retaining skilled auditors is slightly easier than it was last year, but remains difficult. Given this challenging talent environment, it's more important than ever for organizations to provide their internal auditors with the technology tools they need to work more efficiently and effectively.

Audit teams face more work without bigger budgets. Growing business complexity and increased regulatory compliance are creating additional work for internal auditors. Unfortunately, this growing workload isn't being matched by larger budgets. The only way internal audit teams can keep up with the demands on their time is to become more efficient and invest in digital tools that are able to automate and complete more menial tasks, giving the audit team more time to assess the data and identify risks.

Demand for ESG-related audits is growing. Regulators, investors and other stakeholders are increasingly demanding more transparency around corporate sustainability and governance. This places increasing stress on internal audit teams, who need to make sure their employers are meeting their stated ESG commitments. Many organizations, including well-known brands, have been accused of greenwashing in recent years. Greenwashing is a process where organizations make environmental claims about their products or services that are not backed up by facts. Greenwashing charges can impact an organization's reputation and sales. As an example, in 2022 the CEO of Germany-based asset manager DWS resigned after investigators raided the company's offices over alleged greenwashing. To ensure their organizations are meeting ESG goals, internal audit teams need to invest in ESG expertise, as well as solutions that can streamline ESG audit processes.

Fraud preparedness could be better. Considering the critical role internal audit plays in fraud detection and prevention, it's concerning that only one in four respondents said they are "very well-prepared" to fight fraud. Internal audit teams can improve their fraud preparation by deepening their understanding of their organization's internal processes and controls, as well as by combining traditional auditing techniques with advanced data analytics tools to discover irregularities more effectively.

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