

2024 INTERNAL AUDIT PRIORITIES ANNUAL SURVEY



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ManpowerGroup

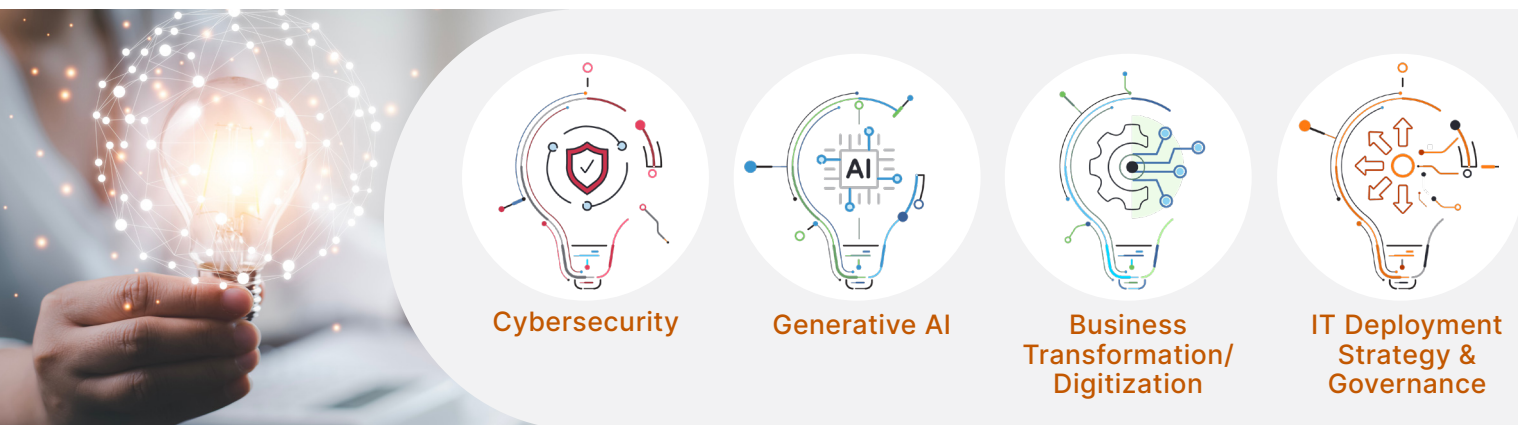
Embracing the Risks Inherent in Transformation



Without a doubt, TECHNOLOGY is in the spotlight this year. AI is significantly transforming our world. In this year's Internal Audit Priorities Survey, Internal Audit leaders reported an increased adoption of AI in their organizations while expressing concerns about the escalating risks related to AI. Business transformation and digitization have increased in priority, when compared to last year, indicating that companies are investing, boding well for economic growth while also expanding the risk universe. Not to be overlooked, cyber risk remains the TOP CONCERN for all companies.

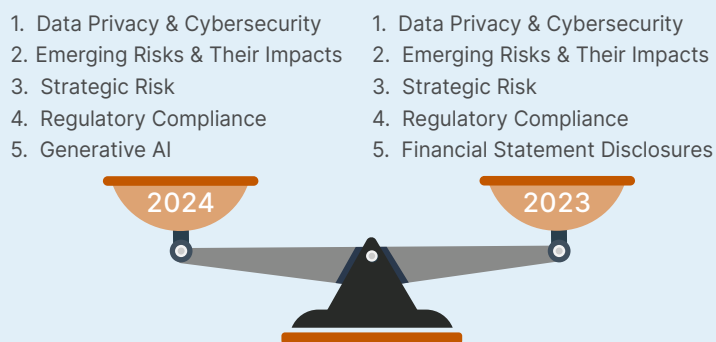
On the other hand, supply chain disruption/third-party risk and strategic risk have dropped out of the top four priorities. Talent and turnover concerns have also decreased as the competition for talent appears to be stabilizing. Notably, this year marks the first significant increase since 2020 in the percentage of Internal Audit leaders planning to expand their departments, with the majority attributing this to the expanding role of audits. Additionally, ESG has climbed four positions as decisions on financial reporting disclosure requirements loom in the U.S. and other countries proceed with implementation.

TOP EMERGING RISKS IMPACTING INTERNAL AUDIT LEADERS



While the Audit Committee's top four priorities have remained consistent year over year, generative AI has surged into the top five, indicating a growing interest in the risks and adoption of this technology. It is worth noting that private and smaller companies (< \$100M) have elevated AI to the third position, possibly due to ongoing evaluations of its impact on strategic risk. Conversely, financial statement disclosures, third-party risk, business resiliency and employee retention have all decreased in priority over the past year.

VIEW FROM THE AUDIT COMMITTEE

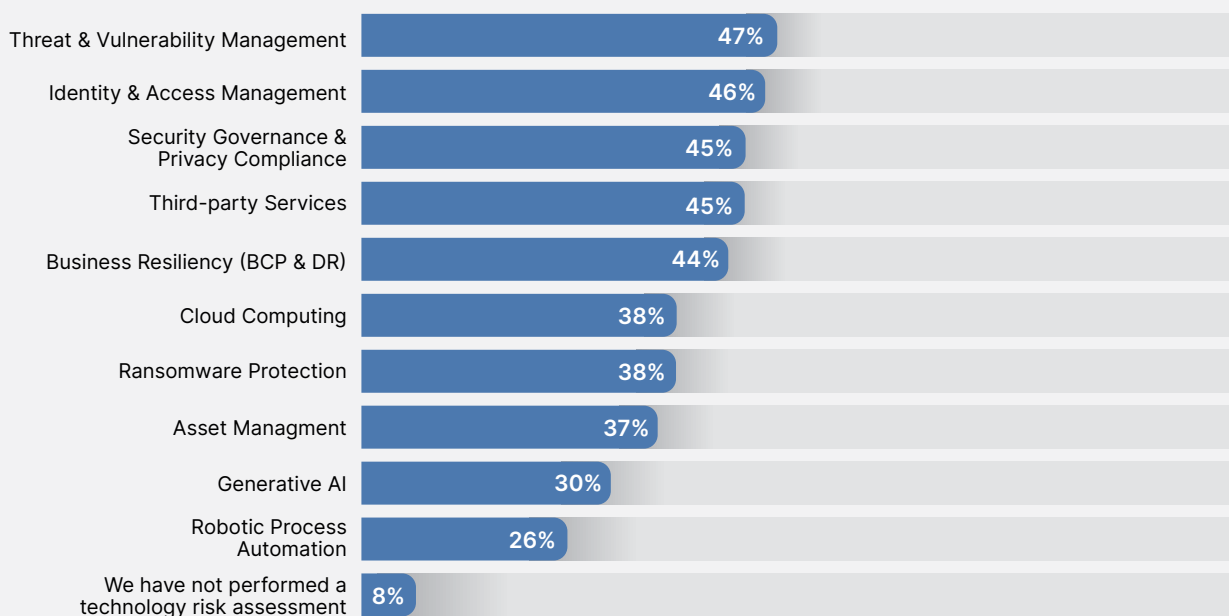


Technology Takes Center Stage



Although Internal Audit departments often perceive a return on investment (ROI) from analytics and audit-specific tools, surveyed Internal Audit leaders say that cybersecurity tools are less beneficial, yielding an ROI of only 20%. When examining audit team size, larger teams (25+) find greater value from cybersecurity tools (35%) compared to smaller audit teams (1-9), which experience only a 10% ROI. Regarding technology risk assessments, Internal Audit leaders most commonly focus on understanding threats, vulnerabilities, access and security. Surprisingly, only a little over one-third include ransomware protection in their risk assessments. The inclusion of third-party services, business resiliency and robotic process automation has increased this year. Interestingly, some percentages have decreased year over year, while the overall numbers are not rising to include all these risk areas. Is this due to a lack of bandwidth and skills or the deferral of responsibility to the CISO organization?

TECHNOLOGY RISK ASSESSMENT



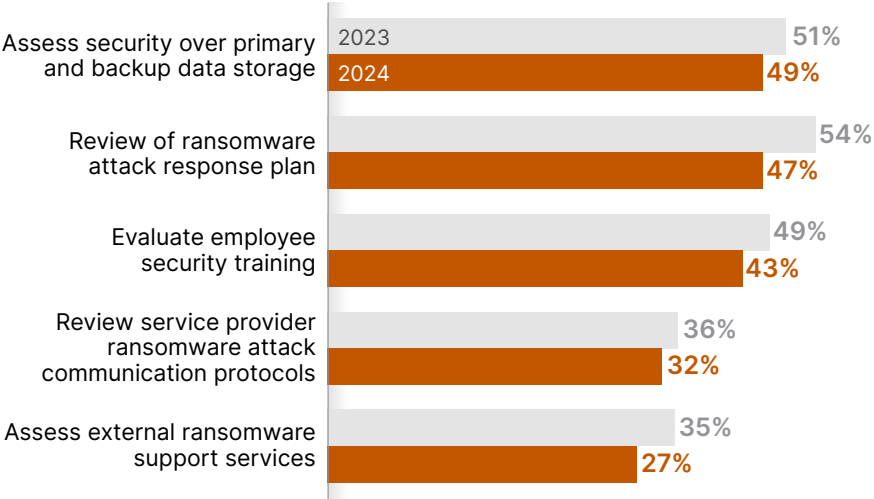
INTERNAL AUDIT'S INVOLVEMENT IN CYBERSECURITY

Overall, we observe increased uniformity in Internal Audit's participation across all aspects of information security, apart from malware detection, which experienced a 13% decline. The practice of Internal Audit teams independently assessing information security, either internally or with the help of a third party, has remained consistent year over year. Two-thirds of large organizations assess password policies, making this practice twice as common as in smaller companies. Internal Audit is also becoming more comfortable in managing the assessment of social engineering, with a 6% increase in this area since 2023.

Technology Takes Center Stage

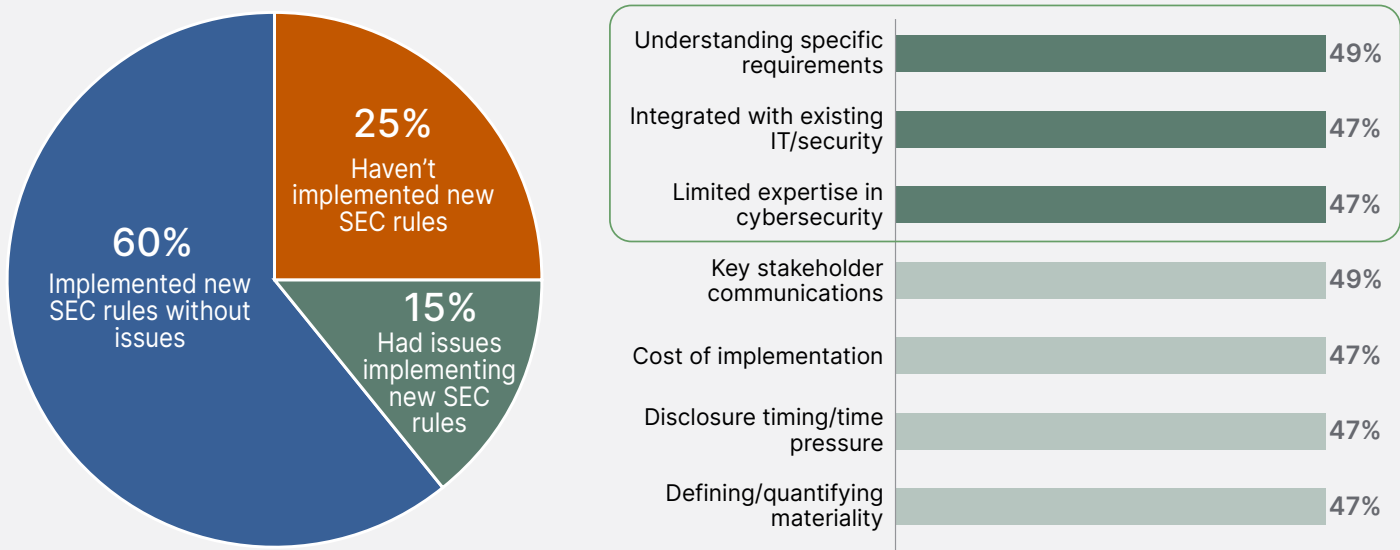


Reviewing ransomware attack plans has **dropped** except in large companies, where it increased by **64%**



CYBERSECURITY REPORTING

With the new SEC Cybersecurity disclosure rules implemented in 2024, we asked Internal Audit leaders about any issues they encountered during implementation. The majority (60%) reported successfully implementing these changes without issue. However, the remaining 40% struggled, citing challenges in understanding the specific requirements, integrating with existing IT/security systems and limited expertise in cybersecurity.

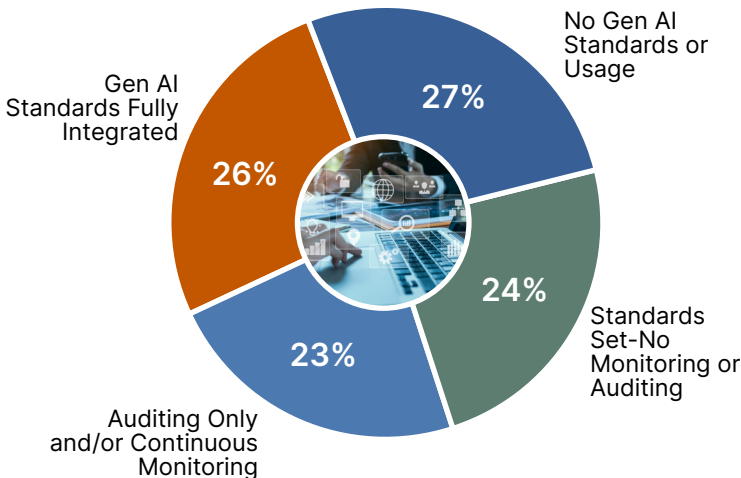


Technology Takes Center Stage



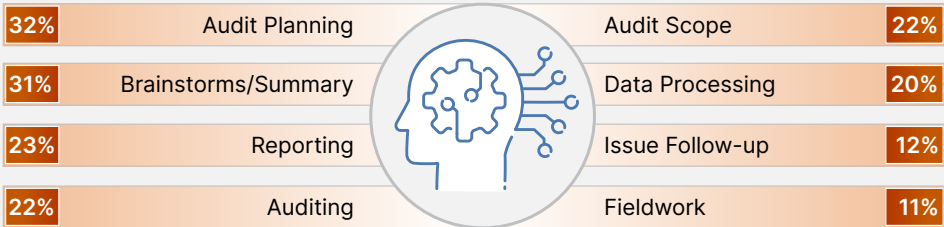
GENERATIVE AI STANDARDS

According to this year’s survey responses, integrating generative AI standards into an organization’s governance and compliance framework remains a work in progress. The rapid increase in generative AI tool usage has regulators hurrying to set standards that ensure its safety while preserving its benefits. Companies are also grappling with the pace at which they need to establish their own standards. Internal Audit leaders reported that 26% have fully integrated generative AI standards. As regulation expands, we anticipate much higher numbers in next year’s results.



In 2023, 63% of Internal Audit departments did not use generative AI. Today, that number has dropped only to 23%. Among the 77% of Internal Audit departments now using generative AI tools, audit planning has emerged as the primary area of application. We can only speculate how much this will continue to evolve as more Internal Audit departments — and companies in general — adopt these tools to improve efficiencies.

INTERNAL AUDIT USAGE OF GENERATIVE AI TOOLS



AUDIT TECHNOLOGY SUPPORT

The majority of support Internal Audit leaders require from external sources is for technology skills assistance. For smaller Internal Audit departments (one to nine employees), the greatest need for outside support is in IT audit. Overall, IT audit, security and cyber risk, generative AI and data analytics are the top areas where essential support is needed. The adoption of RPA within Internal Audit has remained stagnant year over year, with just over 20% of teams leveraging this technology to enhance overall internal audit efficiencies.

Talent and the Need for Enhanced Skills

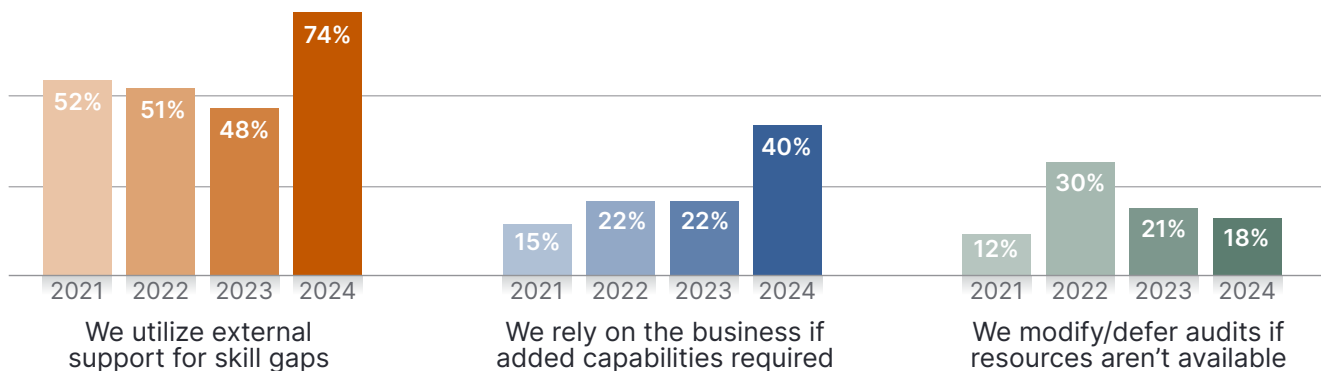
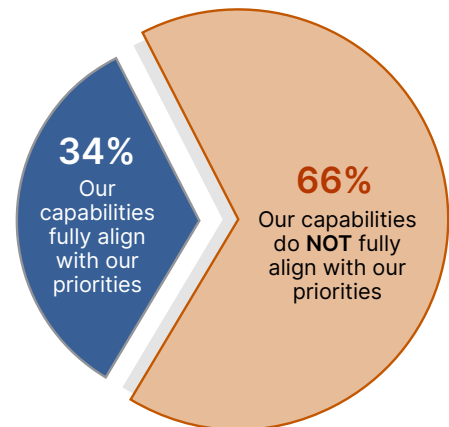


TECHNICAL CAPABILITIES & SKILLS ALIGNMENT

Between 2021 and 2024, Internal Audit departments have experienced a noticeable 15% increase in shortfalls in the necessary capabilities to meet their company's requirements, along with a misalignment of skills relative to their set priorities. In response to this escalation, leaders have increasingly leveraged internal business resources to meet audit priorities, showing an 18% rise, and have relied more on external resources for support, with a 26% annual increase.

Encouragingly, the number of Internal Audit departments postponing audits has declined, contributing to a reduction in overall risk associated with talent and skill shortages. As Internal Audit departments strive to evolve and grow, they continue to navigate through these changes.

As highlighted previously, the expertise in technology and cybersecurity that leaders find challenging to cultivate internally is precisely what they are increasingly seeking from third-party support.



COMPETITIVE LABOR MARKET: MOST DIFFICULT SKILLS TO TRAIN AND RETAIN



Cybersecurity



Data Analytics



IT Audit



Generative AI

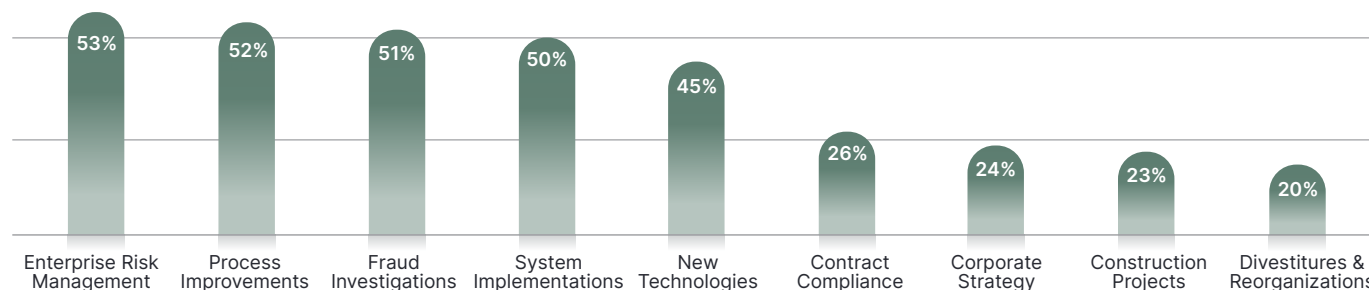
Currently, 37% are considering or contemplating increasing staff, likely due to the heightened demand for technology skills. Meanwhile, only 7% plan to decrease their headcount, and 56% intend to maintain their existing staff levels.

Scope of Internal Audit



Over time, Internal Audit has become a more integral business partner, not only in risk identification and control but also as a sounding board within the organization. More than half of audit leaders actively participate in key organizational initiatives. However, there is a noticeable absence in CapEx expenditures for large construction projects, divestitures and reorganizations. If you aren't involved in these initiatives within your organization, why not?

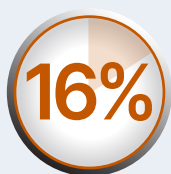
ORGANIZATION INITIATIVES



NEW IIA STANDARDS

With the new IIA standards implementation in 2025 approaching, it's not surprising that nearly half of organizations are incorporating gap assessments into their audit plans. Additionally, 36% are planning an EQA in 2024 before the standards change.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)



It's surprising that 16% of Internal Audit functions lack a role in their organization's commitment to ESG. Given the increasing reputational risk and the influence of ESG strategies on procurement decisions, one would expect a higher level of engagement. Overall, most Internal Audit organizations offer increased advice and recommendations on ESG compared to previous years, with nearly half incorporating ESG activities and reporting assessments into their audit plans. 51% of large companies (greater than \$1B in revenue) are validating the effectiveness of ESG related to controls and activities. The predominant ESG framework currently in use or planned for use is SASB.

THIRD-PARTY RISK

The top three areas where Internal Audit is involved in third-party risk have remained consistent year over year: performing audits, reviewing SOC reports and advising on risk management issues. New this year, 33% of large Internal Audit teams now use AI-enabled software to identify third-party risks.

SUMMARY

The coming years will bring continuous advancements in Internal Audit, increased complexity and technological challenges. Generative AI will necessitate new regulations to manage and mitigate risks for companies and their employees. Expect Internal Audit's role in independently monitoring cyber risk to improve, expand and mature. Anticipated political decisions will likely influence new regulations, such as climate risk disclosures. Internal Audit must continuously evaluate and re-evaluate their stances on these emerging issues.

The scope of Internal Audit will continue to grow as technology transformation continues to expand as it has in previous years, necessitating enhanced skills and a greater reliance on external service providers.

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REBECCA ALBARELLI, VP-SOLUTIONS

ABOUT THE RESEARCH

Reputation Leaders conducted a study across the U.S. of Internal Audit executives throughout all industry sectors. Respondents were from organizations of all sizes. Fieldwork took place in May and June 2024.

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