

# Explore, Discover, Experience



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# Why Internal Audit Is Important

“The next great frontier for boards is unknown risk. We have to understand risks as well as we do strategy.” (1)

Audit Committee Chair

(1) Tapestry Networks -- *VantagePoints*, Issue 3, January 2015

# Seeing Around The Corner

## Falling oil prices: Who are the winners and losers?

By Tim Bowler **19 Jan 2015**

## Iran Deal Raises Prospect of Fresh Oil Glut

By Bill Spindle **14 Jul 2015**

## UK oil industry 'to face wave of company failures'

By Alan Tovey **26 Nov 2015**

## Oil Plunge Raises Fears of Societal Unrest

By Elizabeth MacDonald **30 Nov 2015**



## How Cheap Oil Raises Political Risks In Saudi Arabia

By Tom DiChristopher **7 Dec 2015**

## Wall St. Hemorrhages As Oil tumbles

By Noel Randewich **15 Jan 2016**

**We Need to Think in Terms of Ripple Effects for Our Organizations**



# Ripple Effects (an Example)

**“We didn’t realize until recently how much our economy and society relied on hydrologic stability.”**

Bob Sanford, Chair  
Canadian Partnership Initiative

World has not woken up to water crisis  
caused by climate change: IPCC head

By Nita Bhalla 3 Feb 2015



## Potential impacts:

- Agricultural Shortages
- Energy Issues
- Population Movements
- Human Conflict

# Global Risks 2016

Top 10 risks in terms of

## Likelihood

- 1 Large-scale involuntary migration
- 2 Extreme weather events
- 3 Failure of climate-change mitigation and adaptation
- 4 Interstate conflict
- 5 Natural catastrophes
- 6 Failure of national governance
- 7 Unemployment or underemployment
- 8 Data fraud or theft
- 9 Water crises
- 10 Illicit trade

Top 10 risks in terms of

## Impact

- 1 Failure of climate-change mitigation and adaptation
- 2 Weapons of mass destruction
- 3 Water crises
- 4 Large-scale involuntary migration
- 5 Energy price shock
- 6 Biodiversity loss and ecosystem collapse
- 7 Fiscal crises
- 8 Spread of infectious diseases
- 9 Asset bubble
- 10 Profound social instability

## Categories

-  Economic
-  Environmental
-  Geopolitical
-  Societal
-  Technological

Source: Global Risks Perception Survey 2015.

**The Velocity of Risks is Different as Well**

# Opportunities

- Digital future

- Technology is disrupting all areas of enterprise, driving opportunities and challenges

- Entrepreneurship rising

- Entrepreneurship is growing, driving the need for supportive ecosystems

- Global marketplace

- Economic power continues to shift east and south, driving new trade/investment

- Urban world

- Effective infrastructure investment/sound planning will make future cities competitive and resilient

- Resourceful planet

- Growing demand and shifting supply are driving innovation in the energy/resources space

- Health reimaged

- Technology/demographics converging to drive a once-in-a-lifetime transformation

Ernst & Young LLC -- *Megatrends 2015: Making sense of a world in motion*

# What This Means For Leaders

- Leaders must monitor long- and short-term global risks and assess impact on organizational strategies.
- Leaders must measure how fast to change by monitoring both internal and external factors.
  - What are current and future competitors doing?
  - How much team development needs to occur?
  - How much communication should be taking place?
- If leaders move too slowly, they lead their teams into failure, into non-competitiveness.
- Knowing how to drive and manage change is key to remaining competitive and relevant in a shifting environment.

**Internal Audit Can be a Valuable Ally to Leadership**

Extracted from -- *"Too Fast, Too Slow: The Challenge of Keeping Pace in Managing Change"* by Dr. Ricardo Azziz

# The Internal Audit Challenge

- Which risks (aside from financial reporting) pose the greatest challenge for your organization? <sup>(1)</sup>
- How satisfied are you that your organization's IA function delivers the value that it should? <sup>(1)</sup>

Uncertainty and volatility  
(economic, regulatory,  
political)



52%



(1) KPMG -- 2015 Global Audit Committee Survey

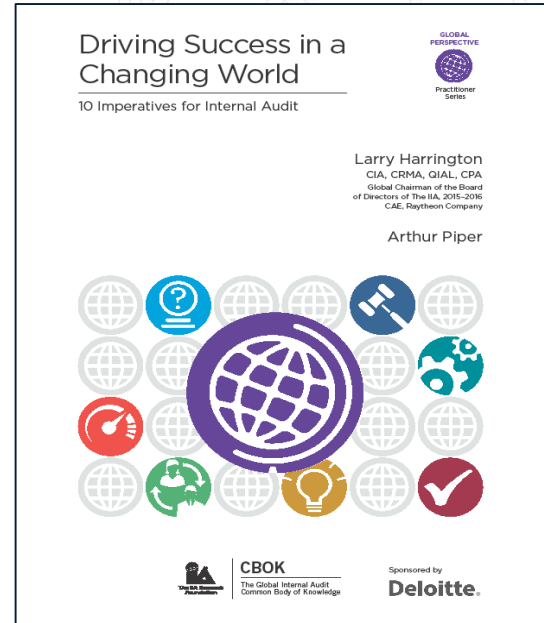
**Are you meeting  
your stakeholder's  
expectations?**



# 10 Imperatives For Internal Audit

Larry Harrington  
Arthur Piper

*“The 10 Imperatives will help practitioners discover areas where they can grow professionally and increase their value to their organizations.”*



**Available Free of Charge on the IIA Website**

# 10 Imperatives (cont'd)

## Play a Leading Role

1. Anticipate the needs of stakeholders
  - a. Constantly changing, internal audit must improve communication
2. Develop forward-looking risk management practices
  - a. Auditors must assess the likely impact of possible future events, and their second and third order consequences
  - b. It's crucial to harness the audit plan to the corporate strategy
3. Continually inform the board and audit committee
  - a. Communicate risks in the context of the business' goals and objectives
  - b. How is the business managing itself, is the control environment improving or getting worse
4. Be courageous
  - a. Internal audit must have the courage to present stakeholders with the unvarnished truth, whether they want to hear it or not

**Exhibit 8** Pressure Felt to Change an Audit Finding or Report



**“The business has to know the audit function has teeth”**

Robert Kella  
SVP Internal Audit, Emirates Group

# 10 Imperatives (cont'd)

## Beat the Expectations Gap

5. Support the business' objectives
  - a. Only ~55% of audit departments are fully or mostly aligned with their business' strategic objectives
  - b. Educate internal auditors about the business
6. Identify, monitor and deal with emerging technology risks
  - a. Be proactive and advise management and our boards
  - b. Start looking at IT risk from a high level – policies, project plans and business issues
7. Enhance audit findings by greater use of data analytics
  - a. Improve data analysis skills to enhance audit findings and use to developing forward-looking audit techniques
  - b. Team up with business to help internal audit move into a more independent, continuous monitoring role
8. Go beyond the IIA's standards
  - a. Agree with, measure and periodically report to the audit committee and executive management what they would consider a high value internal audit activity

# 10 Imperatives (cont'd)

## Invest in Excellence

### 9. Invest in yourself

- a. Most individual auditors only average between 21 and 40 hours on training per year
- b. Auditors must have a continuous learning mindset
- c. Training on: audit techniques, business acumen, soft skills

### 10. Recruit, motivate and retain great team members

- a. Training and development programs need to be aligned to the future needs of the business
- b. Recruit from a wider pool of candidates
- c. Build formal audit rotation programs

**We Must Help our Stakeholders Navigate an Environment of Increasing Change and Volatility**

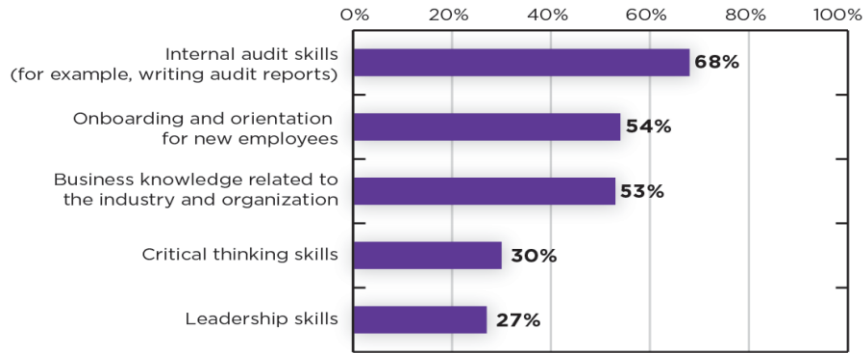
**Exhibit 16** Elements Included in Training Programs for Internal Audit



# Invest in Yourself

- There has never been a better time to be an internal auditor
- But internal audit departments often do not train staff well
- Most individual auditors only average between 21 and 40 hours on training per year

**Exhibit 16** Elements Included in Training Programs for Internal Audit



# Invest in Yourself (cont'd)



**Are You Ready  
to Seize Your  
Opportunity?**

- 36 percent of employers reported talent shortages in 2014, the highest in 7 years <sup>(1)</sup>
- Estimated shortfall of up to 18 million highly skilled workers in advanced economies by 2020 <sup>(2)</sup>
- 54 percent of respondents cited competition for a limited pool of skilled auditors <sup>(3)</sup>

*(1) Manpower Group, The Talent Shortage Continues: How the Ever Changing Role of HR Can Bridge the Gap, 2014*

*(2) Richard Dobbs, "Talent tensions ahead: A CEO briefing," McKinsey Quarterly, Nov 2015*

*(3) Pulse of Internal Audit, Mar 2015*

# Invest in Yourself (cont'd)

## Continuous Learning

- IIA:
  - Conferences
  - Seminars
  - eLearning
  - On-site training
  - Local chapters
- Other Professional Organizations
  - ISACA
  - ACFE
- Service Providers

## Business Acumen Training

- Soft skills are the hard skills
- Business experience
- Functional training
- Critical thinking
- On-line courses
- Books (or equivalent)

## Personal Coach

“Investing in yourself is the best investment you will ever make. It will not only improve your life, it will improve the lives of all those around you.”

— Robin S. Sharma, Author

# Be The Leader Our Profession Needs

**L**eaders are trustworthy, respectful, honest, down to earth

**E**laborate a vision with inspiration and passion

**A**lways willing to listen, flexible, approachable, and empathetic

**D**o not take credit for team success; takes responsibility for failures

**E**ncourages decisive actions, is courageous, and leads by example

**R**eadily challenges status quo; an innovator who drives the vision

**S**peaks with conviction, motivator and enjoys the success of others

**H**as the wisdom to admit mistakes and learn from them

**I**s a continuous learner, coach and developer of others

**P**uts people first; hires the right ones and replaces wrong ones



# Commit To Yourself Today

“The journey of a thousand miles begins with one step.”

— Lao Tzu



**Will you commit to that first step, to invest in yourself and become the leader our profession needs?**

# Please Share Your Success With Me

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