Internal Auditing Poised for the Future: Global Outlook

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Global Trends and Outlook: Overview

• The profession in 2017

• Five strategies for the future
  – Following the Voice of the Customer
  – Striving for agility
  – Transforming our talent
  – Revolutionizing our processes
  – Elevating Our Image

• Parting Thoughts
Emerging Gaps in Stakeholder Expectations:

- PwC: 44% say internal audit contributes significant value
- KPMG: More than half of audit committee (AC) members believe internal audit:
  - Needs to expand audit plan on key risks and controls (KPMG)
  - Needs to maintain flexibility in the audit plan (KPMG)
- KPMG: Almost half of AC members believe we need to expand coverage of risk management processes
- An epidemic of critical articles of internal audit
Enhanced stature and growth:

- Approaching half (45%) report administratively to the CEO*
- Nearly three-quarters (73%) report functionally to the board/audit committee*
- 35% expect budgets to increase (only 9% expect a decrease)
- 26% expect staffing to increase (only 6% expect a decrease)

*or equivalent
Where We Are Today:
2017 Emerging Trends

Increased time devoted to critical areas:

- Risk management assurance (43%)*
- Strategic business risks (42%)*
- Corporate governance (31%)*

*Percent of respondents who indicated they will increase efforts over the next twelve months
Where We Are Today: 2017 Emerging Trends

Quest to Be a Trusted Advisor Presents Extraordinary Challenges

In 2015

55% of respondents said they wanted Internal Audit to be a Trusted Advisor by 2020

In 2017

Just 9% consider Internal Audit a Trusted Advisor

CEOs and CFOs See Culture As Critical

- Over 90% believe culture is important
- 92% believe improving their culture would improve value of the company
- Over 50% believe culture influences:
  - Productivity
  - Creativity
  - Profitability
  - Firm value and growth rates
- Yet, only 15% believe their corporate culture is where it needs to be

Source: “Corporate Culture: Evidence from the Field,” Graham, Harvey, Popadak, and Rajgopal, Duke University, 2015
Where We Are Today: 2017 Emerging Trends

• 84 percent of public-sector audit leaders said they understand the risks associated with culture.
• But, 76 percent say they do not audit culture.
• While auditing culture is challenging for all, issues of public trust and political environment make it particularly challenging for public sector practitioners.

Voice of the Customer: Stakeholders’ Messages for Internal Audit

• The Internal Audit Foundation and Protiviti
• The CBOK Stakeholder Study:
  ▪ 1,124 survey participants
  ▪ 112 interview participants
  ▪ 23 countries
  ▪ 13 languages
• The Participants:
  ▪ 34% - Board members
  ▪ 15% - CEO’s
  ▪ 18% - CFO’s
  ▪ 34% - Others in the C-suite
Poised for the Future: Respond to the Voice of the Customer

• Know your organization’s mission, strategy, objectives and risks.
• Assurance work:
  ▪ comes first
  ▪ is highly valued
  ▪ is most valued when aligned with strategic risks
• Advisory work:
  ▪ is highly desired
  ▪ should align with areas related to risks
• Build relationships with management and board members
Poised for the Future: Respond to the Voice of the Customer

- Conformance with the IPPF is expected
- When it comes to communications:
  - communicate observations and opinions frequently
  - do not rely solely on written communications
- Coordinate with second line of defense and rely on objective and reliable assurance work
- Internal audit must be structured properly in the organization
Poised for the Future: Respond to the Voice of the Customer

• Key “action items” for internal auditors:
  ▪ Become masters in knowing the mission, strategy, objectives and risks of your organization.
  ▪ Explicitly consider both current and future risks when planning assurance work.
  ▪ Take advantage of internal audit’s unique role to bring increased understanding of risk and risk management to the entire organization.
Poised for the Future: Striving for Agility

• The winds of risk shift rapidly
• Emerging risks:
  ▪ Cybersecurity
  ▪ Business continuity
  ▪ Unhealthy culture
  ▪ Geopolitical instability
  ▪ 21st century technology risks
    • Cloud computing
    • Mobile technology
    • Internet of Things (IoT)
The good news:
- 91% assess risks
- 85% develop risk-based plans

Yet CBOK revealed we are not “auditing at the speed of risk”
- 63% update audit plans no more than twice a year
- 15% have “highly flexible plans”
- 31% don’t update risk assessments
- Only 21% deploy continuous risk assessment methodologies

Sources: The Pulse of Internal Audit survey: © 2015 The IIA Audit Executive Center conducted in collaboration with the 2015 Common Body of Knowledge Study, © 2015 The IIA and The IIA Research Foundation. All rights reserved. No part of this data may be copied, reproduced or otherwise disseminated without explicit permission from The IIA. Note: Q42: How frequently does internal audit conduct a risk assessment? Q48: What resources do you use to establish your audit plan?
Poised for the Future: Transforming Talent

• Emerging risks demand different skills
• Transformation necessitates an effective talent management strategy
• We must transform talent by:
  ▪ Development
  ▪ Acquisition
  ▪ Sourcing
Poised for the Future: Revolutionizing Our Processes

- Our processes limit our capacity, our efficiency, and ultimately our value.
- Streamline processes to multiply our capacity and impact:
  - Risk assessment
  - Audit planning
  - Audit fieldwork
  - Audit reporting
- Leveraging technology:
  - Data mining and analytics
  - Internal audit management systems
  - Mobile tools
Poised for the Future: Elevating Our Image

- Profession serves the public interest
- Advocacy is critical to elevating our image – but “it begins at home”
  - Well-crafted, strategic plans
  - Alignment with the business
  - Dynamic, risk-centric audit plans
  - Quality assurance and improvement
  - Continuous feedback and realignment
- The IIA advocates to:
  - Legislators
  - Regulators
  - Standard setters
  - News media and public
Parting Thoughts: The Journey Continues
Thank You!
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