

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



Internal Audit: The Profession in 2017



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Where We Are Today: 2017 Emerging Trends



Emerging Gaps in Stakeholder Expectations:

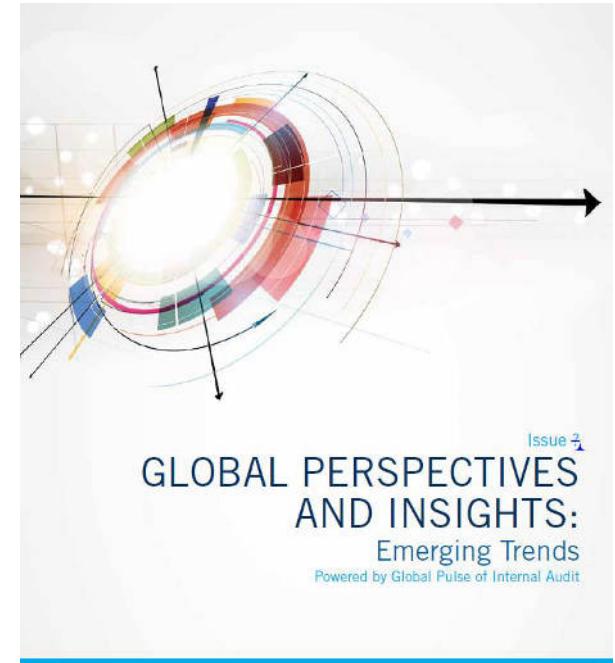
- PwC: 44% say internal audit contributes significant value
- KPMG: More than half of audit committee (AC) members believe internal audit:
 - Needs to expand audit plan on key risks and controls (KPMG)
 - Needs to maintain flexibility in the audit plan (KPMG)
- KPMG: Almost half of AC members believe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

Where We Are Today: 2017 Emerging Trends



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)



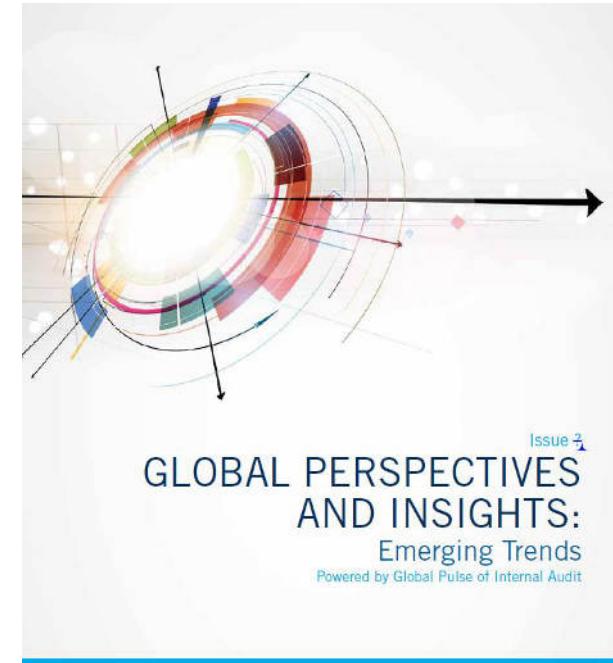
*or equivalent

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



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

Just **9%** consider Internal Audit a Trusted Advisor

2017 State of the Internal Audit Profession Study

March 2017

Staying the course toward True North:
Navigating disruption

pwc

A rectangular box containing a report cover for the "2017 State of the Internal Audit Profession Study". The cover features a photograph of sailors in yellow rain gear on a boat, navigating through dark, choppy waves. The title "Staying the course toward True North: Navigating disruption" is prominently displayed, along with the date "March 2017" and the PwC logo.

Source: "2017 State of the Internal Audit Profession Study," © 2017 PwC, LLC

Where We Are Today: 2017 Emerging Trends



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**



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.



The Outlook for Internal Audit: Five Strategies for the Future

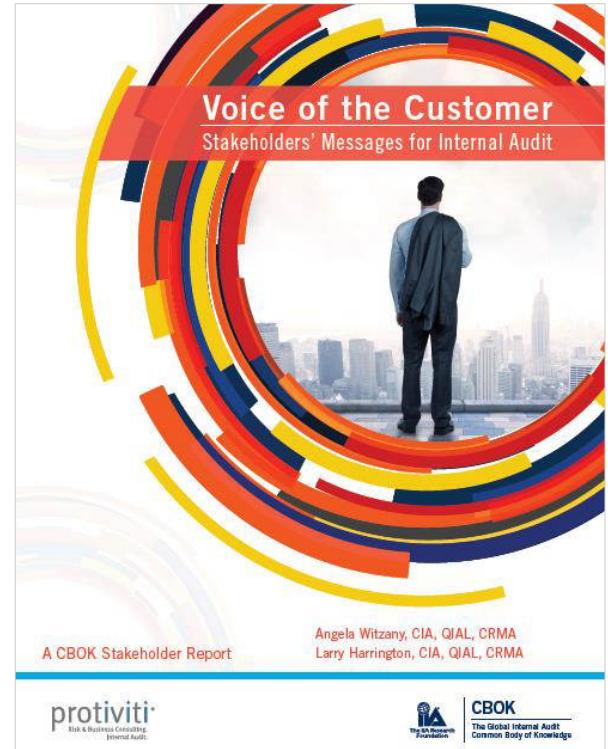


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Voice of the Customer: Stakeholders' Messages for Internal Audit



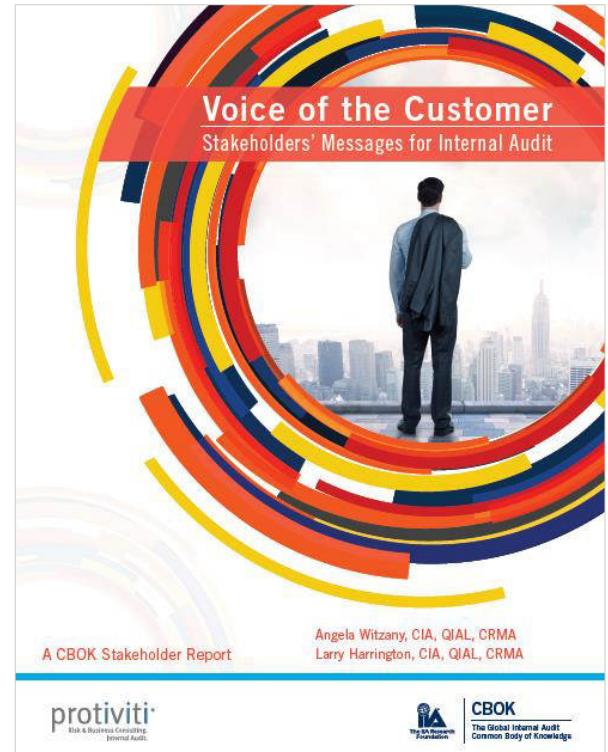
- The Internal Audit Foundation and Protiviti
- The CBOK Stakeholder Study:
 - 1,124 survey participants
 - 112 interview participants
 - 23 countries
 - 13 languages
- The Participants:
 - 34% - Board members
 - 15% - CEO's
 - 18% - CFO's
 - 34% - Others in the C-suite



Poised for the Future: Respond to the Voice of the Customer



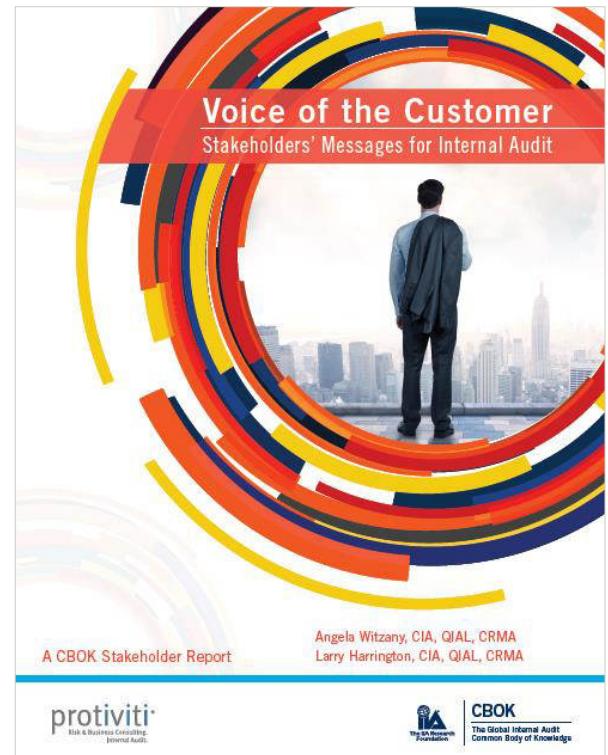
- Know your organization's mission, strategy, objectives and risks.
- Assurance work:
 - comes first
 - is highly valued
 - is most valued when aligned with strategic risks
- Advisory work:
 - is highly desired
 - should align with areas related to risks
- Build relationships with management and board members



Poised for the Future: Respond to the Voice of the Customer



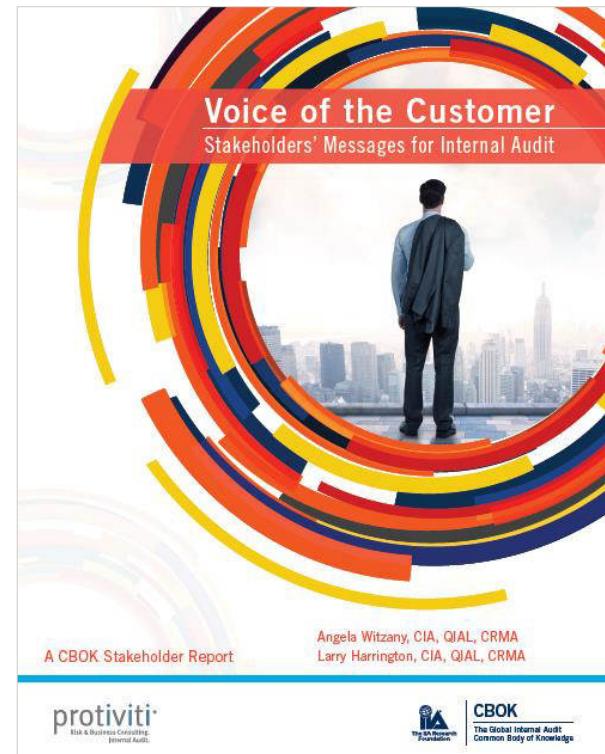
- Conformance with the IPPF is expected
- When it comes to communications:
 - communicate observations and opinions frequently
 - do not rely solely on written communications
- Coordinate with second line of defense and rely on objective and reliable assurance work
- Internal audit must be structured 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)



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Poised for the Future: Striving for Agility

- 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

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



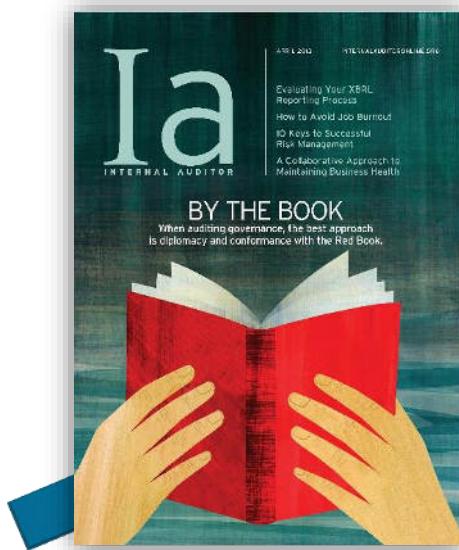
- Profession serves the public interest
- Advocacy is critical to elevating our image – but “it begins at home”
 - Well-crafted, strategic plans
 - Alignment with the business
 - Dynamic, risk-centric audit plans
 - Quality assurance and improvement
 - Continuous feedback and realignment
- The IIA advocates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



Parting Thoughts: The Journey Continues



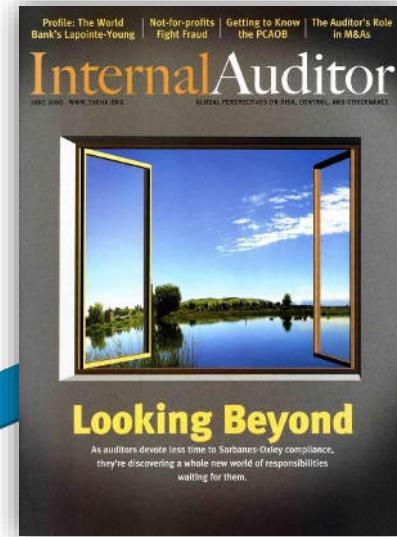
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Hindsight



Insight



Foresight



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Thank You!



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