AUDITING AT THE SPEED OF RISK

INTERNAL AUDIT IN AN ERA OF DISRUPTION

Richard F. Chambers CIA, QIAL, CGAP, CCSA, CRMA
President and CEO - The Institute of Internal Auditors
Overview

• The Speed of Risk
• The Speed of Disruption
• Response Strategies for Internal Audit:
  • Identifying Emerging Risks
  • Leveraging Technology
  • Emphasizing Speed
• Becoming a Trailblazer for the Future
THE SPEED OF RISK
A Decade of Global Risk Volatility

World Economic Forum - Top 5 Global Risks in Terms of Likelihood

<table>
<thead>
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<th>2009</th>
<th>2014</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Asset price collapse</td>
<td>Income disparity</td>
<td>Extreme weather events</td>
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<tr>
<td>2</td>
<td>Slowing Chinese economy</td>
<td>Extreme weather events</td>
<td>Failure of climate-change mitigation and adaption</td>
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<td>3</td>
<td>Chronic disease</td>
<td>Unemployment and underemployment</td>
<td>Natural disasters</td>
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<td>4</td>
<td>Global governance gaps</td>
<td>Climate change</td>
<td>Data fraud or theft</td>
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<td>5</td>
<td>Retrenchment from globalization</td>
<td>Cyberattacks</td>
<td>Cyberattacks</td>
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The 5 C’s of Risks That Should Be Keeping Boards and Internal Auditors Awake
The Speed of Disruption
McKinsey estimates the current rate of change is 10 times that of the Industrial Revolution, and that change is happening at 300 times the scale – and with roughly 3,000 times the impact.
Products and services that were revolutionary two years ago are rendered obsolete if they don’t adapt to market changes fast enough.

— John Kotter
This year represents the **slowest rate of technological and societal change** you are likely to experience in the rest of your life!

— Jonathan MacDonald
Disruption: Internal Audit Is Not Immune

• Volatile risk environment
• Outsourcing
• Burgeoning 2\textsuperscript{nd} LOD
• Stakeholder expectations
• Technology:
  • RPA
  • AI

“Disruption, or radical change driven by external factors, is no longer episodic. In fact, it’s rapid-fire, from disruptive innovation that creates a new market, to economic volatility, new regulation, or even a catastrophic event.”

Source: “Evolving Internal Audit to Respond to Business Disruptions,” PwC.
Disruption: The Response Is Underwhelming

<table>
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<tr>
<th>Next-Generation Technologies</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Continuous monitoring</td>
<td>29%</td>
</tr>
<tr>
<td>Agile audit approach</td>
<td>22%</td>
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<tr>
<td>Dynamic risk assessment</td>
<td>23%</td>
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<tr>
<td>Advanced analytics</td>
<td>22%</td>
</tr>
<tr>
<td>Process mining</td>
<td>20%</td>
</tr>
<tr>
<td>Robotic process automation</td>
<td>19%</td>
</tr>
<tr>
<td>Machine learning/AI</td>
<td>17%</td>
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Source: *Embracing the Next Generation of Internal Auditing* © 2019, Protiviti Inc.
Responding to Disruption: Strategic Priorities

- Identifying emerging risks
- Leveraging technology
- Process innovation to emphasize speed
To identify emerging or atypical risks, boards turn to:

- Executive management 78% of the time
- Internal audit 49% of the time

Yet, 47% of CAEs report it is fairly common for management to be caught off guard by these risks.

The speed of these risks often surprises management, internal audit, and the board.

Leading to the question: “Where was internal audit?”

Continuously Assessing Risks

• Formal methodologies: Key risk indicators
• Risk assessment by “walking around”
• Connecting the dots: Making sense of audit results
• Maintaining a bird’s-eye view: Keeping your antenna high
Key Indicators of Emerging Risks

- Economic forecasts
- Your company’s strategic business risks
- Planned corporate initiatives
- Legislative and regulatory outlook
- Geopolitical and political risks
- Disruptive threats facing your industry
- Performance of leading competitors
- Risks emerging as headlines via media
LEVERAGING TECHNOLOGY
Deploying Technology

The Challenge for Internal Audit
- Speed of risk outpacing resources
- Environment more complex
- Expectations at an all-time high

Deploying Innovative Technology
- Will enable internal audit to dramatically enhance its capacity
- Will drive greater efficiency and effectiveness
- Will yield greater value for stakeholders
Artificial Intelligence

• AI holds the most promise in the coming decade
• AI won’t just be a disruptor/enabler for internal audit . . .

• It will present risks that we must address:
  • Governance of AI
  • Data quality
  • Human factors
  • Performance measurement
  • Cybersecurity
THE NEED FOR SPEED
Speed of Information: The Neglected Disruptor

• Speed of information increasing
• Our clients have immediate access to information from vast sources
• Yet internal audit reports can take days, weeks, or months
• When audit results aren’t timely:
  • Decisions are ill-informed
  • Alternative assurance sources materialize
  • Waste and inefficiency continue
  • The value of information is diminished
  • Stakeholder satisfaction ebbs

“Today, a 10-day lag is unthinkable when it comes to delivering vital information to millions of recipients around the world. If you’re going to Starbucks to get a $5 skinny mocha latte . . . you want your 734 ‘friends’ to know about it now . . . not next week, when the caffeine has worn off.”

- Joel Bowman
Effective Strategies to Address the ‘Speed Imperative’

Planning
• Assessing risk
• Formulating objectives
• Framing the scope
• Allocating resources
• Crafting the program

Fieldwork (methodology)
• Satisfy objectives
• Yield sufficient, relevant, and competent evidence
• Ensure the engagement is swift yet professional
• Deploy the right technology tools

Reporting
• Sharing audit results “as you go”
• Team writing
• Report conferencing
• Streamlined and innovative reporting formats
Before You Can Blaze Tomorrow’s Trails, You Must Be Trusted

- Critical Thinkers
- Technical Expertise
- Dynamic Communicators
- Insightful Relationships
- Inspirational Leaders
- Ethical Resilience
- Results Focused
- Intellectually Curious
- Open-Mindedness

Source: Trusted Advisors – Key Attributes of Outstanding Internal Auditors © 2017
Tomorrow’s Trailblazers

• Genetically Risk-centric – *Leading at the Speed of Risk!*
• Tech-savvy and Tech-fearless
• Incessantly Curious and Professionally Skeptical
• Ethically Far-sighted
• Intellectually Honest
• Not Your Grandfather's CPA
• Cosmopolitan
“For the internal audit profession . . . the decades to come will offer a great opportunity for transformation. . . . Those who adapt to the changing landscape will serve as trailblazers.”

– The Speed of Risk: Lessons Learned on the Audit Trail - 2nd Edition