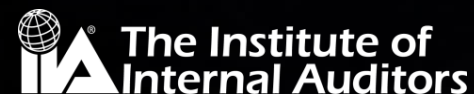




Pathfinders: Internal Auditors Navigate the Profession's Challenges and Opportunities

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President & CEO, The Institute of Internal Auditors



Pathfinders: Overview

- The state of the profession
- Pressures present risks and opportunities
- Parting thoughts

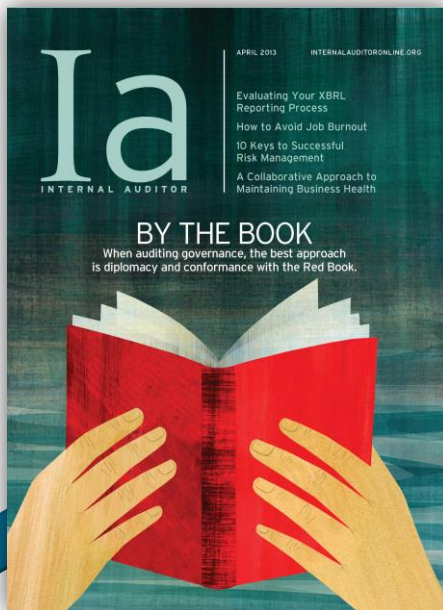


The State of the Internal Audit Profession Is Strong!

We're doing the best work we've ever done

- Have confidence of our stakeholders
- Addressing a full spectrum of risks
- Forging into new frontiers
 - Risk management effectiveness
 - Business and strategic risks
 - Organizational culture
- Our value-add is increasingly moving beyond hindsight to insight and even foresight

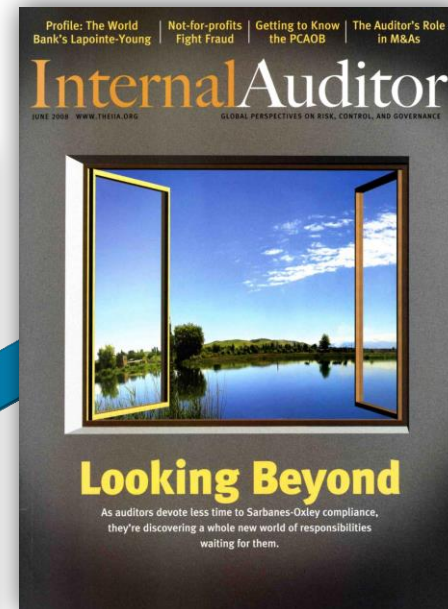
The Journey Continues...



Hindsight



Insight



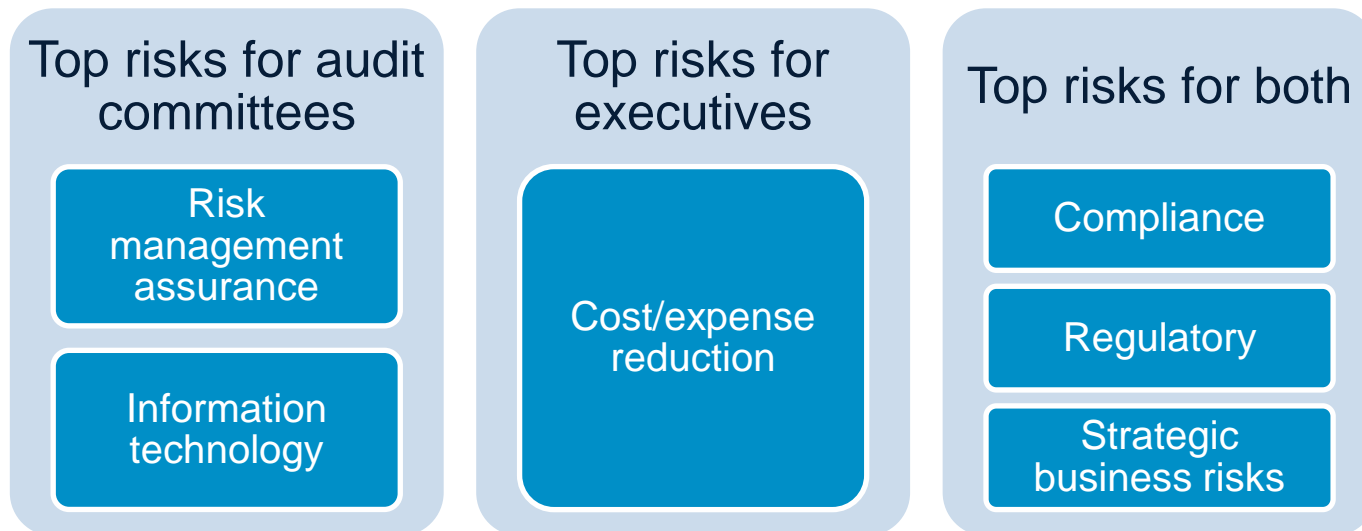
Foresight

An Abundance of Pressures



Stakeholder Expectations Are Rising

- Boards & audit committees:
 - Assurance; insight, no surprises
- Executive management:
 - Assurance; advice, partnering, value for money



Yet, European internal auditors could be doing better in formally measuring performance against stakeholder expectations – only **28%** say they do so.

Regulators Are Raising The Bar

- Heightened regulatory scrutiny means greater risks
- Internal audit is in the crosshairs too
- Financial regulators see us as “boots on the ground”
 - Expect greater independence
 - Systemic or thematic reviews
 - Audit effectiveness of risk management
 - Assess organizational culture in banks
- Environmental, health and safety regulators are likely next



Technology Risks Are More Complex Than Ever

- Technology risks from:
 - Cybersecurity
 - Mobile technology
 - Social media
 - Cloud computing
- The risks are:
 - Increasing complex and unpredictable
 - Integrated into the fabric of the business
 - Difficult to identify and mitigate

In Europe:

1 out of 4

No audit activity related to employees' use of social media

1 out of 5

No audit activity related to use of mobile devices

CBOK Practitioner Survey, *Regional Reflections: Europe*, 2015

Technology Risks Are More Complex Than Ever

- Internal auditors should:
 - Invest time to understand technology risks – cannot rely only on IT auditors
 - Stay close to IT management and SMEs who are living these risks
 - Prioritize IT risks – you can't digest all of them at one time
 - Invest in developing skills, recruiting the right staff, and outsourcing when necessary



The Risk Landscape is Volatile

- The good news:
 - 91% assess risks
 - 85% develop risk-based plans

Yet – CBOK 2015 Revealed We are Not Yet Auditing at the Speed of Risk

| | | |
|---|-----------------------------|------------------|
| Developed once each year and not changed during the year | | 20.7% |
| Developed once each year and updated 1 or 2 times per year | | 42.6% |
| Developed once each year and updated 3 or more times per year as risks change | | 18.2% |
| Highly flexible plan matched to the organisation's changing risk profile | | 15.3% |
| Response | 20% 40% 60% 80% 100% | Frequency |
| Annual assessment without formal updates | | 31.2% |
| Annual assessment with periodic formal updates | | 35.2% |
| Continuous assessment | | 21.5% |

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?

Approaches to Continuous Assessment

- Use of key risk indicators
- Risk assessment “by walking around”
- Identifying risks by connecting dots from engagements
- Keeping antennae high

A Shortage of Vital Talent

| | Skills Being Recruited | Rate |
|---|------------------------------|------|
| 1 | Analytical/critical thinking | 64% |
| 2 | Communication | 52% |
| 3 | Accounting | 43% |
| 4 | Risk Management Assurance | 42% |
| 5 | Information Technology | 38% |

CBOK Reveals An Evolving Skill Profile

| Response | 20% | 40% | 60% | 80% | 100% | Frequency |
|---|-----|-----|-----|-----|------|--------------|
| Traditional accounting and auditing skills | | | | | | 33.1% |
| Knowledge of the business and industry of the organization | | | | | | 12.6% |
| An equal mix of traditional auditing skills and industry knowledge | | | | | | 51.9% |
| Not applicable | | | | | | 2.4% |



Source: The Global Pulse of Internal Audit Survey 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.

Culture Is Increasingly the Culprit

- Unhealthy toxic cultures are often a root cause
- “Culture eats strategy for breakfast”
- Make culture a priority:
 - Analyze your organization’s culture – the good, the bad, the ugly
 - Elicit support from audit committee to include culture as area of focus
 - Assess culture on an ongoing basis and determine if it’s a root cause in audit findings

THE WALL STREET JOURNAL
Volkswagen Blames ‘Chain of Mistakes’ for Emissions Scandal

WOLFSBURG, Germany—Volkswagen AG on Thursday blamed a damaging emissions crisis on a “chain of mistakes” that began with the company’s diesel push into the U.S. in 2005 and “culture of tolerance” for rule-breaking that allowed the deception to continue for a decade.

The New York Times
FIFA Corruption: Top Officials Arrested in Pre-Dawn Raid at Zurich Hotel

ZURICH — Swiss authorities began a new series of pre-dawn arrests Thursday in the broad investigation, led by United States officials, into corruption in international soccer. Sixteen people were expected to be charged by day’s end, law enforcement officials said, nearly doubling the size of an already huge case that has upended FIFA, soccer’s multibillion-dollar governing body.

The Washington Post
Enron Leaders Found Guilty; Massive Fraud Pinned to Lay, Skilling

Jurors...said they believed [Kenneth L. Lay] and [Jeffrey K. Skilling] were firmly in charge as the company veered into financial problems, rejecting the defense that Enron fell victim to a market panic fueled by skeptical news reports; the terrorist attacks; investors who bet the stock price would drop; and concerns about the ethics of Andrew S. Fastow, then Enron’s finance chief.

FORTUNE
Toshiba’s accounting scandal is much worse than we thought

The company has disclosed by just how much it overstated its profits. Toshiba admitted on Monday that it had overstated its profits by nearly \$2 billion over the past 7 years...

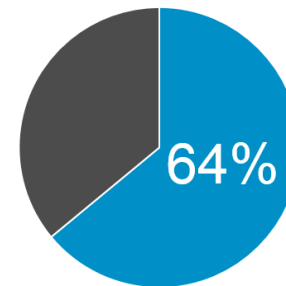
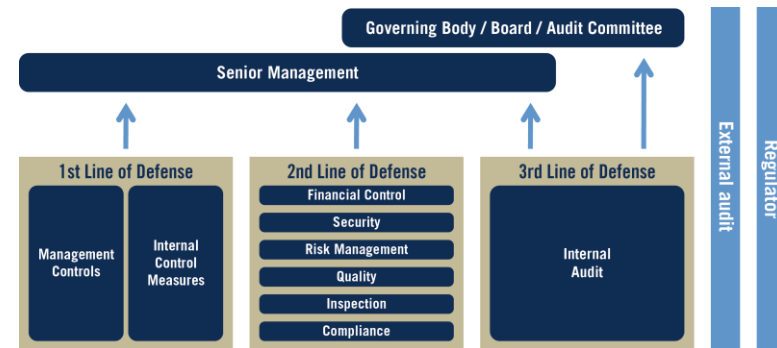
THOMSON REUTERS
Hertz CEO steps down after accounting errors

Mark Frissora has resigned as chief executive of Hertz Global Holdings Inc, citing personal reasons, as pressure from investors mounts following a series of accounting errors.

58% of internal audit functions don’t audit organizational culture

2nd Line of Defense Stature Is On the Rise

- 2nd LOD is proliferating
- The Lines are blurring
- Stakeholders:
 - Are feeling “oversight fatigue”
 - Often fail to differentiate internal audit’s value
 - Seek combined assurance
- Internal audit must:
 - Take the lead in coordinating and collaborating to minimize duplication and avoid gaps
 - Articulate its unique value



of CAEs in Europe say internal audit is considered the third line of defense in their organizations

Striking the Right Balance Between Assurance and Consulting Can Be Daunting

- Assurance is an expectation – “essential”
- Boards tend to favor assurance while management values advice
- Striking the right balance can be challenging. Don't become a Toshiba
- Internal audit should:
 - Seek to maintain an appropriate mix of assurance and consulting
 - Communicate with key stakeholders to strike a balance
 - Ensure transparency with key stakeholders

| What CBOK 2015 Told Us | | | | | | |
|--|-----|-----|-----|-----|------|--------------|
| Response | 20% | 40% | 60% | 80% | 100% | Frequency |
| All resources are spent on assurance. | | | | | | 10.0% |
| Almost all resources are spent on assurance, and few resources are spent on consulting. | | | | | | 60.7% |
| Resources are equally divided between assurance and consulting. | | | | | | 24.2% |
| Almost all resources are spent on consulting, and few resources are spent on assurance. | | | | | | 2.8% |
| All resources are spent on consulting. | | | | | | 0.5% |
| I don't know | | | | | | 1.7% |

An Abundance of Pressures



Beware of Your Comfort Zone

- We are doing well in the eyes of many
- But the world is changing too fast around us to stay comfortable
- Embrace growing and emerging risks
- Build relationships and communication channels with stakeholders
- Complacency is the enemy of progress
- Deliver insight & foresight, not just hindsight



Thank You!

The Institute of Internal Auditors

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 **The Institute of
Internal Auditors**