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2020s:

The Decade Ahead for Internal Audit

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

• **Prologue:** Our Journey Over the Past Decade
• **Insight 2020:** The World Around Us
• **Foresight:** A Call to Action for the Road Ahead
• **Parting Thoughts:** 5 Things We Must Get Right
PROLOGUE
The Journey Over the Past Decade
Prologue: Internal Audit’s Journey in the 2010s

- Weathering the financial crisis (2010-2012)
  - Global regulations illuminate board oversight of risk management
  - The Chartered Institute of Internal Auditors issues Financial Services Code
  - The COSO Internal Control Framework refresh
- Enhanced expectations to meet new scrutiny (2016-2017)
  - Global FS regulators raise the bar for internal audit
  - COSO Risk Management Framework refresh
  - Cyber breaches put CAEs in the crosshairs
  - Culture
  - Data ethics
  - Artificial Intelligence
Prologue: The IIA’s Journey in the 2010s

- Audit Channel
- Pulse of Internal Audit
- Specialty/industry centers
  - Audit Executive Center
  - Center for Government Auditing
  - Financial Services Audit Center
  - Environmental, Health and Safety
- Principles for internal audit
- NYSE opening bell
- CRMA
- OnRisk and ACGI

- Total global Affiliates topped 110
- Membership crested 200,000
- CIAs eclipsed 150,000
Insight: Key Observations About Our Circumstances in 2020

- Expect the unexpected
- There is misalignment on key risks
- Corporate governance isn’t making the grade
- The glass is only half full for internal audit
Top Risks for 2020

- Cybersecurity
- Data protection
- Regulatory change
- Business continuity/crisis response
- Data and new technology
- Third party
- Talent management
- Culture
- Board information
- Data ethnics
- Sustainability (ESG)
- New: Pandemic fallout
Misalignment on Key Risks

- Board overconfidence
- Risk maturity misalignment
- Misalignment danger
- Risk strategy concerns

- Insufficient understanding of key risks
- 3 risks to watch
- Focus on talent
Board Overconfidence Is Pervasive

Organizational Risk Capability:
C-suite and Board Perceptions
Corporate Governance Isn’t Making the Grade
8 Guiding Principles of Corporate Governance

1. Regular and constructive interaction among key stakeholders.
2. Board should ensure identify and solicit feedback from key stakeholders.
3. Boards should act in the best interest of the company and shareholders.
4. Board should ensure the company maintains a sustainable strategy.
5. Board should ensure the culture of the company is healthy.
6. Board should ensure information is timely, complete, relevant, and accurate.
7. Board should ensure corporate disclosures are consistently transparent and accurate, and in compliance with laws and regulations.
8. Companies should be purposeful and transparent on key corporate governance policies.
Corporate Governance Index: Key Findings

• Overall American corporate governance is only a “C+”
• 10 percent of Index companies scored an “F”
• Many companies are willing to sacrifice long-term strategy in favor of short-term interests
• More than one-third of board members are not willing to offer contrary opinions or push back against the CEO
• Boards fail to verify the accuracy of information they receive
• Independent boards drive stronger governance
COVID-19: The First Global Crisis of the New Decade

- The most significant global disruption in generations
- Organizations facing a multitude of risks:
  - Financial
  - Operational
  - Compliance
  - Strategic/Business
  - Reputational
Insight 2020: Crisis Brings Transformation to Internal Audit

Pandemic Is No Black Swan – It’s in Technicolor

Long-term impact promises to permanently change how we do business and how we interact with each other

The challenge now, and on the road ahead

• Be part of the team
• Be an inquisitive and informed partner
• Provide foresight and encourage long-term thinking
• Speak truth to power
FORESIGHT
Call to Action for the Road Ahead
COVID-19: Will Internal Audit Transformation Accelerate?

“Disruption Accelerates Innovation!”
Foresight:
How the World Will Change in the 2020s

- The world will be tested by a series of significant political/economic crises
- Health and environmental crises will present greater global risks
- The line of human-machine interface will be permanently blurred
- Several economies will adopt basic/universal income models
- Principal driver of cybercrime will evolve from financial gain to personal/political manipulation
- Western economic dominance will wane significantly as developing economies mature
Internal audit professionals will be universally recognized as indispensable to protecting and enhancing organizational value.
Foresight: Predictions for Internal Audit in the 2020s

- Pressure will mount on the profession to demonstrate greater value.
- Resource stresses will increase, especially in financial services.
- The gig economy will give rise to on-demand staffing – “Uber Auditing.”
- Data ethics and artificial intelligence (AI) governance will become the next decade’s “culture” audits.
- Torch will pass to new tech-savvy and tech-fearless generation.
- The image of internal audit as “bean counters” will finally end.
- Scandals will heighten the awareness that internal audit serves the public interest.
PARTING THOUGHTS

Five Things We Must Get Right
In the Decade Ahead: Five Things We Must Get Right

• Be a beacon for emerging risks:
  • Data ethics
  • AI governance
  • Sustainability

• Recruit and retain game-changing talent
• Be champions for strong governance
• Innovate for greater efficiency and impact
• Be prolific in telling “internal audit’s story” – how we preserve and CREATE value