



2022

RISK IN FOCUS

Hot topics
for internal
auditors



SW Conference

Hot Topics for 2022 and Beyond

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Auditing Amid Rapid Change

- Organisations and their internal audit functions face a dizzying pace of change and unprecedented uncertainty.
- The pandemic has destabilised operations and labour, disrupted supply and demand, and undermined previously sound business models to an extent few would have thought possible.
- Large sections of the workforce are reflecting on their futures, seeking new employment to advance careers stalled by the pandemic or changing course altogether by migrating into different sectors. Many countries are witnessing a resignation crisis, staff shortages and high vacancy rates demonstrating how profoundly the pandemic has exacerbated the talent management risks that existed long before 2020.
- Organisations can no longer ignore the climate change and sustainability agenda. Those that do not take immediate action face the genuine risk of extinction. As long-term stewards of capital, institutional investors are pulling out of companies that are not prioritising the environment or society and failing to make the necessary adjustments to their strategies, business models and operations.

Impact of 2022 on internal audit

The Government has recently said optimistically the Covid impact/tail will be around until end 2022 early 2023 but realistically it will be late 2023 mid 2024!

- Change and uncertainty will define 2022 and the years that follow.
 - Internal audit must understand this change in the outside world, articulate how well it believes the organisation is adapting to these pressures and identify how effectively associated risks are being accounted for and managed.
 - In many cases this will require a complete rethink of internal audit's strategy, planning and where it focuses its efforts.
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- **The world has changed, internal audit needs to change to adapt to the world of increasing uncertainty.**

Protiviti ran a session with Dr John Ashcroft the Saturday Economist, on 2nd December which had a survey in terms of level of worry against the wall of worry

What do you think the top worries were?

The Wall of Worry

- Pandemic
- Growth
- Inflation
- Interest Rates
- Recruitment / Retention
- Sourcing / Supply Chains
- Energy Costs
- Shipping Costs
- Global Conflict
- Global Tensions
- Extreme Weather Events
- ESG Perspectives
- Generation Z ers
- Digital Disruption
- Digital Acceleration
- Digital Accommodation
- The Metaverse is coming



The Saturday Economist

Risk in Focus 2022 - methodology



- Risk in Focus is an annual barometer of what Chief Audit Executives (CAEs) and others perceive as their organisations' risk priorities, for 2022 and beyond.
- The quantitative survey saw **738 responses** from across Europe – the highest response rate since the survey began. Now in its sixth year, we begin to see trends and patterns over time.
- Survey and interviews were carried out between March and April 2021, **35 CAEs, 12 audit committee chairs and 3 CEOs across all sectors**, providing insight and context to the survey data.
- Participation from institutes in Austria, Belgium, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Spain, Sweden, Switzerland and the UK & Ireland.
- Risk in Focus is an **essential point of reference** for the internal audit profession, not just in Europe but worldwide.

Risk in Focus 2022 - this year's hot topics

IT security: response and recovery

Rising sustainability regulations

Accelerated digitalisation and low-code adoption

Workforce fatigue and cultural erosion

Pandemic response: organisational and strategic resilience

Financial risk and the looming insolvency wave

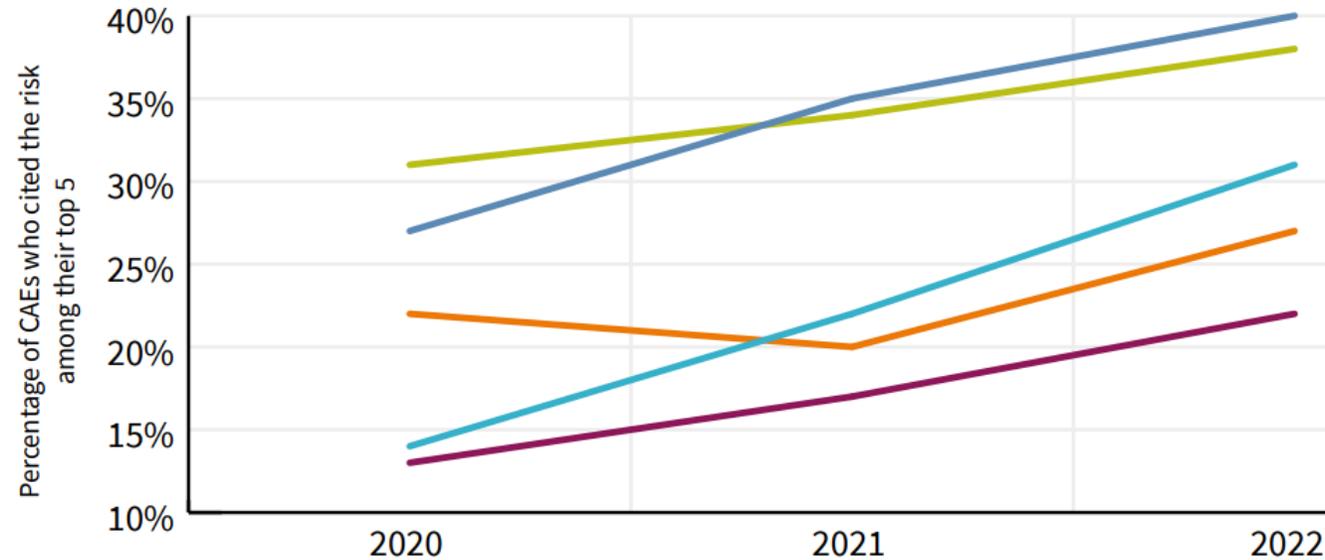
Rising inflation and the global tax clampdown

Climate change and sustainability is now a principal risk

Supply chain strains and the race to flexibility

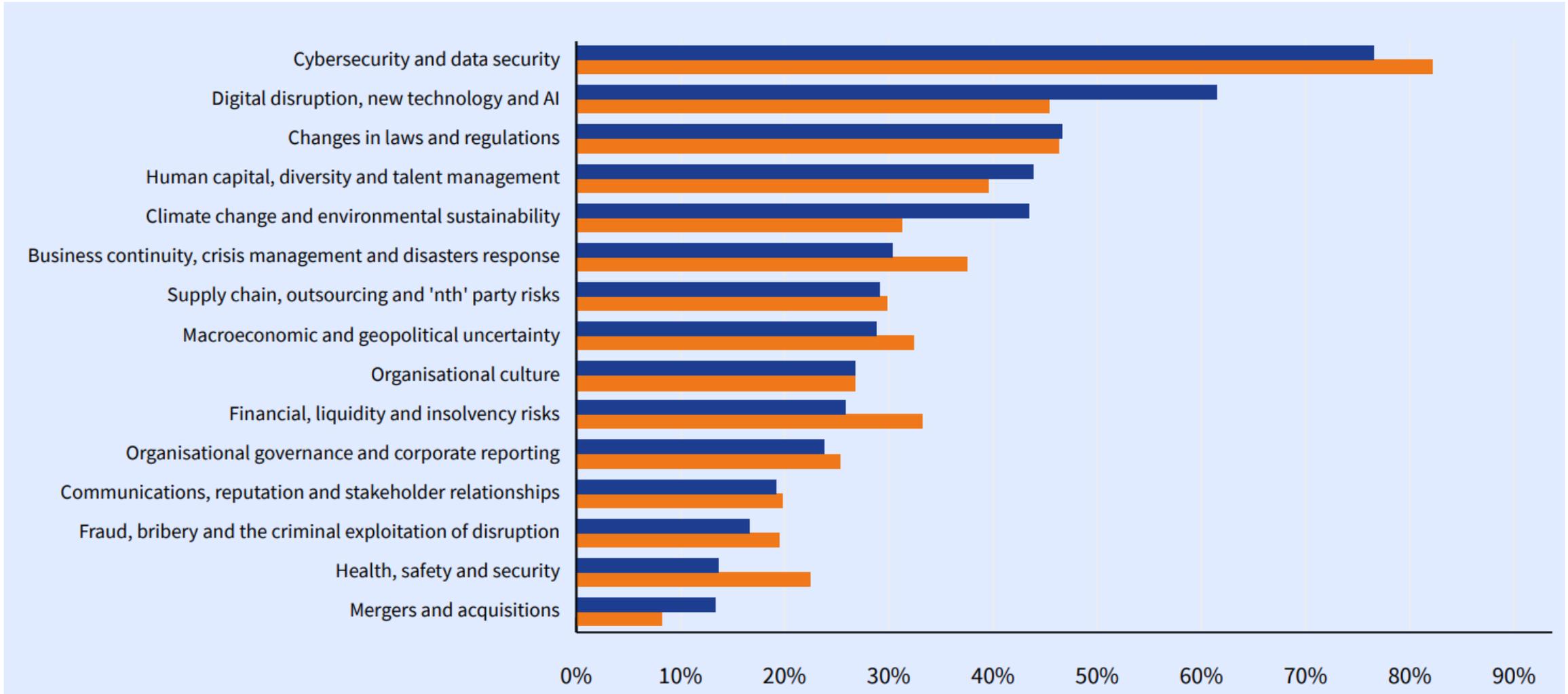
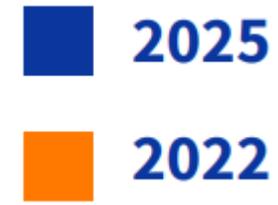
Health and safety amid the continued COVID-19 threat

Risk trends over time

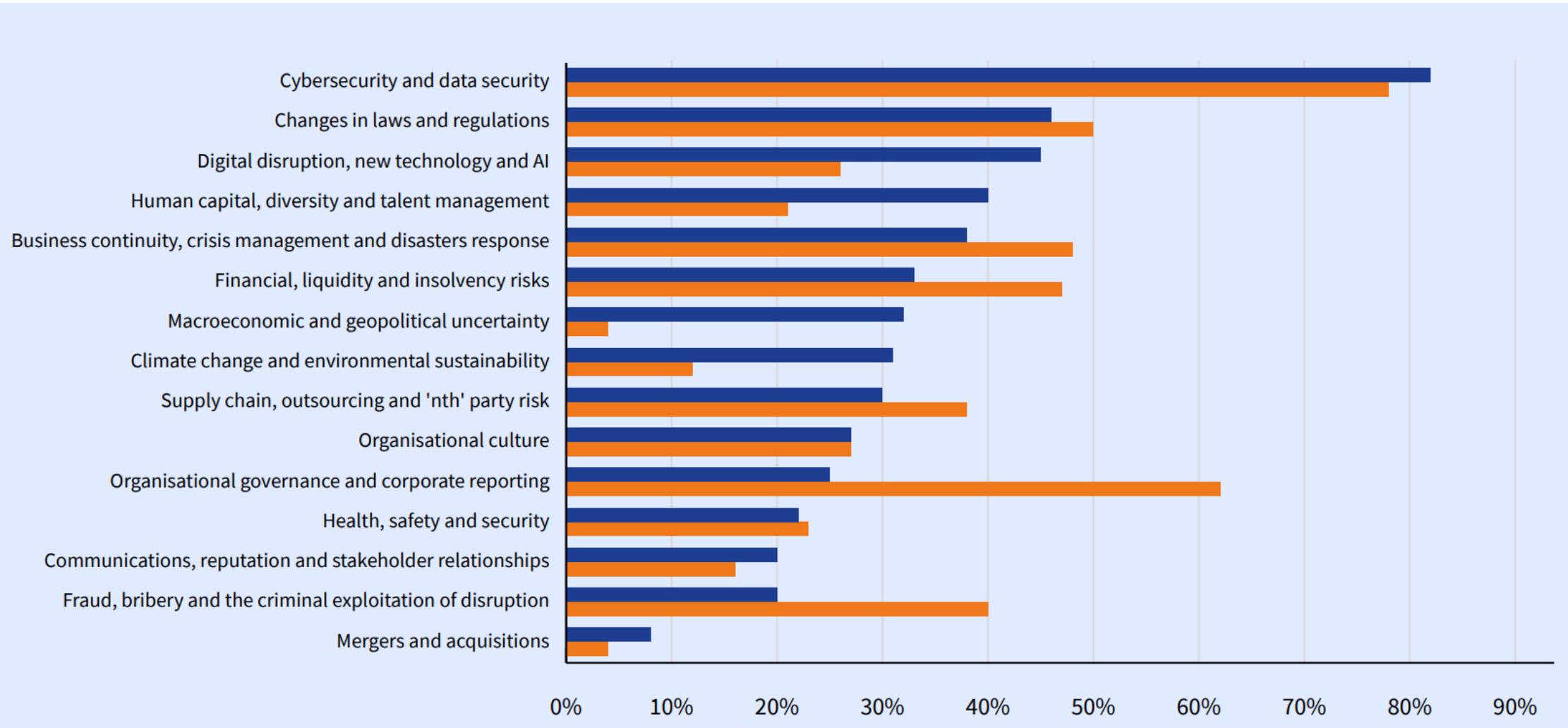


- Human capital, diversity and talent management
- Business continuity, crisis management and disasters response
- Climate change and environmental sustainability
- Organisational culture
- Health, safety and security

Risk today vs risk tomorrow... focus changing over time



Is internal audit devoting its time proportionately?



Cybersecurity & data security

This is the top risk in Risk in Focus for the last 4 years running.

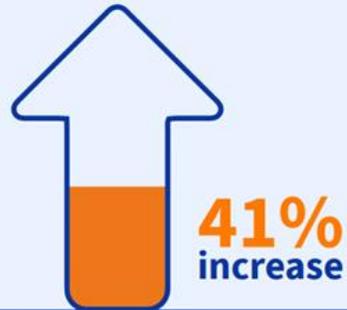


- 82% of CAEs say that Cybersecurity and data security is among their top five risks, once again putting it ahead of any other risk type (#1). An up slightly on the 79% who said the same last year.
- Not only that, 34% of CAEs say this is their single biggest risk (#1).
- This coincides with a material increase in cybercrime over the past 18 months, as criminals have sought to exploit the security weaknesses exposed by operational disruptions.
- To help make sense of this growing risk area, earlier this year we published our report, 'Mind the Gap: Cyber security risk in the new normal' - a tool enabling you to provide assurance on cyber security culture within your organisation.

Climate change & environmental sustainability



Climate change and environmental sustainability is now seen as a top five risk by as many as

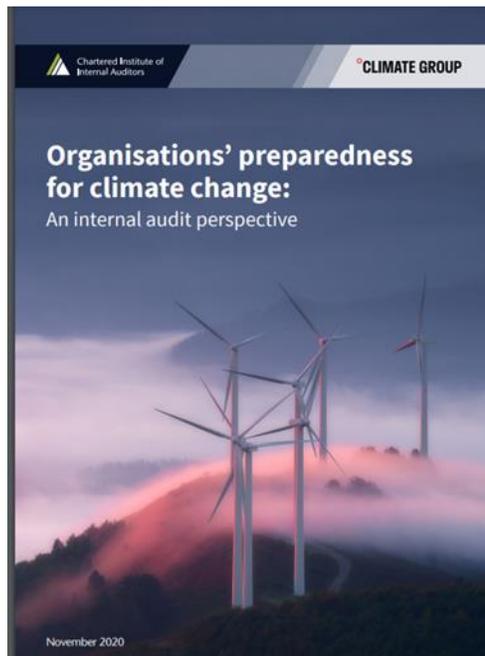


in the proportion of CAEs who view **Climate change** and **environmental sustainability** as a top five risk since last year's survey.

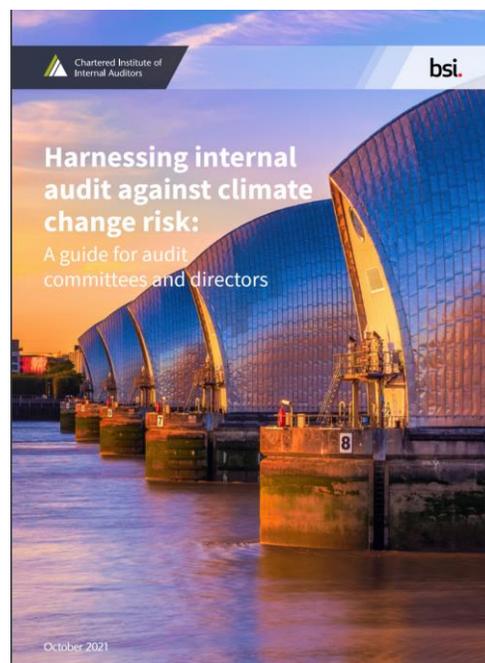
- The swift and consistent year on year increases in the priority of this risk over time is one of the most interesting findings of the report.
- Risk in Focus 2022 reveals a gap between the priority that CAEs assign that risk, and the amount of time that they devote to auditing it.
- *Climate change and environmental sustainability* is seen as a top five risk by as many as 31% of CAEs (#8, up by as many as five places from last year's survey), representing an increase of more than 40% on last year's survey when 22% of CAEs said the same. In just 2 years, this topic has gone from a talking point to a principal item on risk maps and corporate risk registers.
- More than half of Risk in Focus interviewees raised environmental and sustainability as a core risk topic that has firmly come to the fore over the past 12-18 months.
- In November the UK will host the COP26 UN climate summit. Increased sustainability regulations are on the horizon, originating in the EU and UK governments.

How can the Institute support with regard to Climate Risk Assurance

These reports contain advice, guidance and best practice to support internal audit, and your audit committee in delivering your local authorities goals and objectives and mitigate risk.



<https://www.iaa.org.uk/policy-and-research/research-reports/organisations-preparedness-for-climate-change-an-internal-audit-perspective/>



<https://www.iaa.org.uk/media/1691950/harnessing-internal-audit-against-climate-change-risk.pdf>

For those of you who are members we have the following technical guidance

Climate change resources

The following guidance supports our [climate change research report](#).

<p>Climate change and environmental impact</p> <p>Climate strategy</p> <p>Auditing climate data and reporting</p> <p>Carbon usage</p> <p>Auditing climate change responses for insurers</p>	<p>Auditing working conditions - climate impact</p> <p>Climate Financial risk auditing</p> <p>Sustainable product risk management</p> <p>Climate impact within supply chains</p>
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Climate Change



Human capital, diversity & talent management

“What hasn’t necessarily been dissected enough is what the impact of new working models will be. There is a big risk that it’s eroding culture. How do you keep the culture alive when everything’s remote or hybrid and when you’re not interacting in-person?”



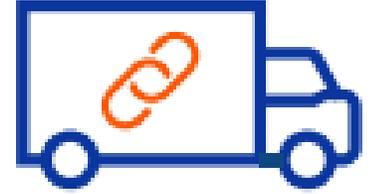
- *Human capital, diversity and talent management* is cited by 40% of CAEs as being among their top five risks, up from 35% in 2021 and 27% in 2020.
- Meanwhile, 27% view *organisational culture* as a top five risk - a notable year-on-year increase of seven percentage points.
- As businesses weigh up what working models to embed post-pandemic, the risks to culture, morale and staff cohesion should not be underestimated.
- These issues are not simply risks to be audited - they have impact across the internal audit profession itself.
- The Chartered IIA is currently carrying out further research on corporate culture through the lens of diversity, equality and inclusion, in partnership with the Leadership Institute.
- Data available – 46% of the workforce is actively seeking new opportunities

Supply chains, outsourcing and 'nth' party risk

Is the supply chain sufficiently flexible such that the business can dial up/down production and source new suppliers when necessary?

Are the procurement function's planning and forecasting modelling efforts effective?

Have any necessary adjustments been made and are these based on sound data and analysis?

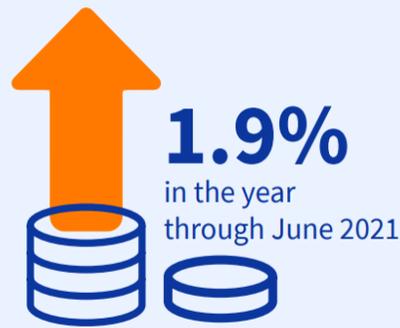


- The pandemic stress-tested supply chains and many companies may feel like they have come through the worst.
- As demand recovers, supply chains are coming under immense strain. Just under a third (30%) of CAEs put *Supply chains, outsourcing and 'nth' party risk* among their top five risk.
- We are seeing these challenges play out, with high-profile incidents affecting the UK & Ireland.
- Supply chain crisis can be impacted by other factors: worker shortages (e.g. HGV drivers), changing regulations related to Brexit, and rising costs related to importing goods from China.

Rising inflation and the global tax clampdown

(aka Macroeconomics and geopolitical risk)

Annual consumer price growth across the eurozone reached



nearly triple the rate
a year prior.



- 32% of CAEs say that Macroeconomic and geopolitical uncertainty broadly defined is among their top five risks (#7, maintaining last year's position), while 10% say it is their top risk (#3).
- Inflation has spiked with the economic restart and the governments of the world's leading economies are training their crosshairs on global corporation tax rates
- At the same time that companies are facing the prospect of absorbing higher costs, the world's most wealthy nations are coordinating to introduce a new global corporation tax.
- The aim is to tax multinationals in each country in which they operate, preventing them from profit shifting to low-tax havens.
- Is senior management having discussions about the potential for long-term inflation and what it means for the business? If not, does internal audit need to flag this as a potential area of concern that requires attention?

Pandemic Response: organisational and strategic resilience

“I will be looking at how the business has bridged any gaps identified in protecting people. I will also look at incident response and how we responded through our BCP, including whether VPN connections for such a wide range of people working remotely is included in our plans for other scenarios.”

CAE, Greece, insurer listed on Athens Stock Exchange

From surviving to thriving



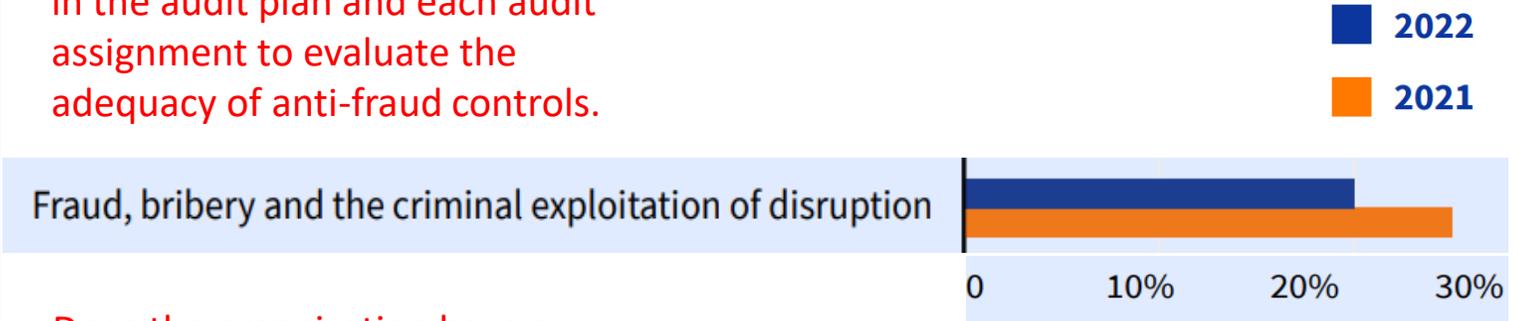
- The events of 2020 caught even the most prepared businesses off guard.
- Unlike the physical events that businesses commonly plan for (extreme weather, power outages, cyber-attacks etc), the pandemic has been pervasive, simultaneously impacting employees, suppliers and customers across the globe and for a duration previously not considered a possibility.
- Analysis has shown that around half of senior executives in Europe report that the crisis exposed weaknesses in their companies' 'strategic resilience', i.e. the extent to which an organisation's business model and competitive position prove resistant to disruption.
- It is ultimately for the CEO and the rest of senior management to define and set the strategy and it is not for internal audit to opine on any pivots or changes of course.
- What are the lasting impacts of the pandemic on the organisation likely to be and are these well understood by the leadership?

Fraud, bribery and criminal exploitation of disruption

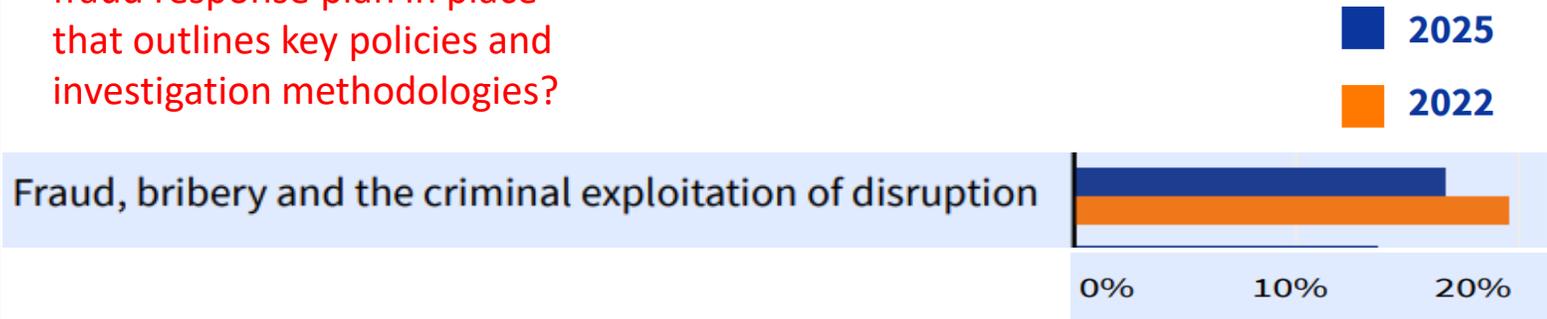
What is happening, why is internal audit spending more time on this risk that would perhaps seem appropriate?

Internal audit should consider where fraud risk is present within the business and respond appropriately by auditing the controls of that area, evaluating the potential for the occurrence of fraud and how the organization manages fraud risk through risk assessment, and audit planning

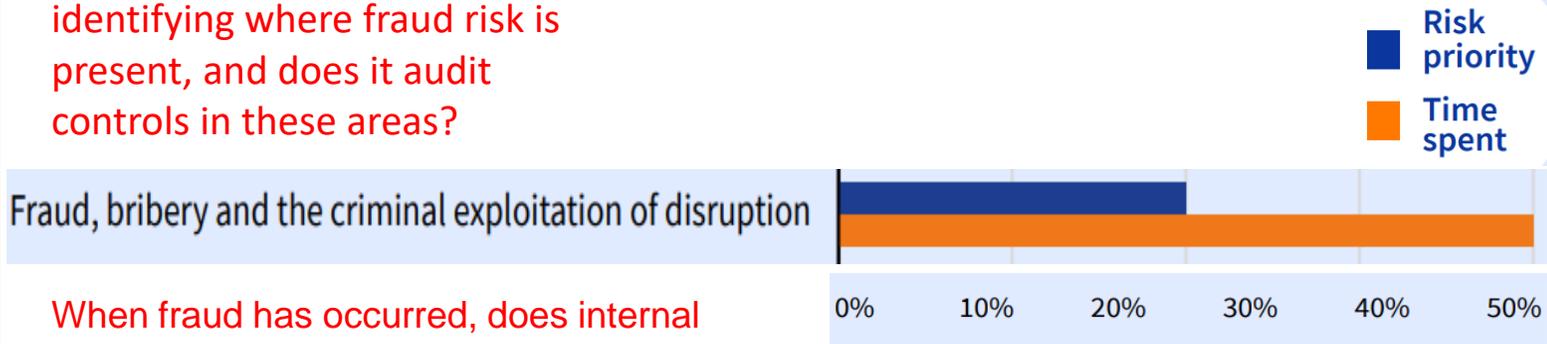
The risk of fraud should be included in the audit plan and each audit assignment to evaluate the adequacy of anti-fraud controls.



Does the organization have a fraud response plan in place that outlines key policies and investigation methodologies?



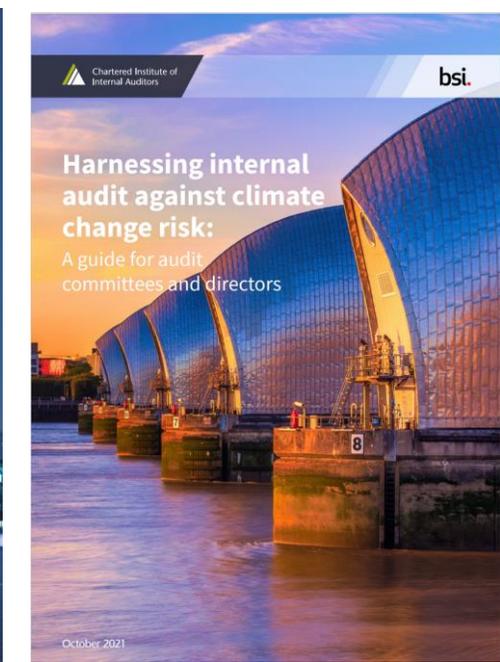
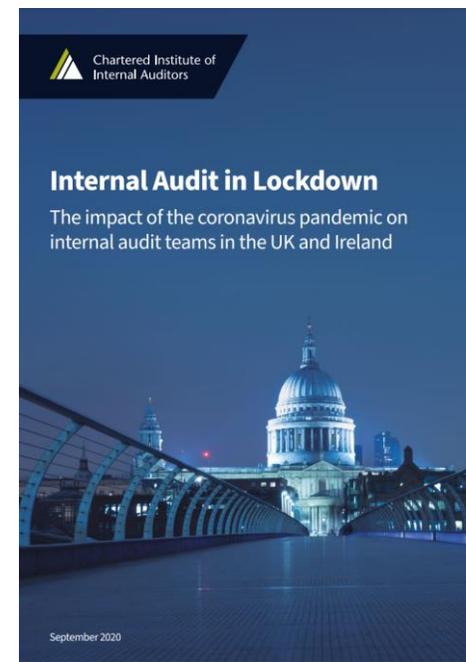
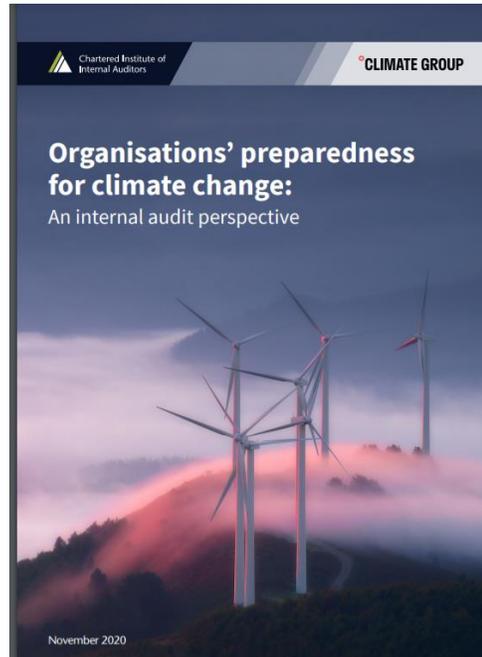
Is internal audit tasked with identifying where fraud risk is present, and does it audit controls in these areas?



When fraud has occurred, does internal audit investigate to understand how the controls failed and how they can be improved?

Thought Leadership Reports from the Institute

These reports contain advice, guidance, questions to ask and best practice to support internal audit, and your audit committee in delivering your organisations goals and objectives and mitigate risk.



IA Codes of Practice



Internal Audit Code of Practice

Guidance on effective internal audit in
the private and third sectors

January 2020



Internal Audit Financial Services Code of Practice

Guidance on effective internal audit
in the financial services sector

January 2021

BEIS White Paper – Restoring Trust in audit and corporate governance

Resources page on the website –

Audit and Assurance Policy (AAP) -
role of internal audit

How to facilitate creation of the
Audit and Assurance Policy (AAP)

Audit is key to assuring investors and others that company reports are both accurate and meaningful. The White Paper document outlines governments proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future.

Key elements –

- **Tackling Fraud** - the White Paper recommends that fraud awareness and forensic accounting training form part of the qualification and continuous learning process for financial statement auditors, with **parallel training being developed for auditors whose expertise lies in other areas**.
- **Audit and Assurance Policy** - annual Audit and Assurance Policy that describes the company's approach to seeking assurance of its reported information over the next three years.
- **Strengthening financial control** - the key SOX provisions are requirements for the management of public companies to assess and report annually on the effectiveness of their company's internal control structure and procedures for financial reporting.
- **Approach for internal audit** - the Audit and Assurance Policy also provides an opportunity for companies to explain their approach to internal audit and assurance and what improvements they might propose to this in the light of lessons learned.

Audit and Assurance Policy – BEIS White Paper ‘Restoring trust in audit and corporate governance’

The Government agrees with the Brydon Review recommendation and proposes to introduce a statutory requirement on public interest entities to publish an annual Audit and Assurance Policy that describes the company’s approach to seeking assurance of its reported information over the next three years.

Section heading	Brief overview of
Purpose and scope	What the AAP means to the organisation and how it fits into the overall governance.
Development	Who owns the policy, how it is produced and how often it is reviewed. This should also include an explanation of whether, and if so how, shareholder and employee views have been considered.
Statutory auditors	Recruitment policy/process, frequency of review, remit and policy for permitted non-audit services.
Internal audit	Structure, resourcing, remit and approach to providing assurance and advisory engagements.
Assurance over auditor quality	How assurance is gained for statutory and internal audit activities, including for instance QAIP reporting to the audit committee and external quality assessments.
Three-year assurance plan	<p>Table of planned key assurance in relation to:</p> <ul style="list-style-type: none"> • Principal risks and uncertainties (PRU) • Corporate disclosures such as sustainability, diversity and corporate social responsibility <p>This section should be forward looking, it should include regular and ad-hoc assurance. It may be useful to think of it as a high-level version of the internal assurance map.</p>
Control framework assurance	How assurance is provided - link to the assurance plan for key controls. Examples might include reference to three lines model, validated annual director attestation, etc.
Resilience statement assurance	How assurance is provided, by whom, reference could be made to scenario tests and stress testing approach.

New Initiative – Audit Committee Service

An exclusive service spotlighting the relationship between the chair and members of the audit committee and/or the audit and risk committee and internal audit, especially the Chief Audit Executive/Head of Internal Audit.

- A broad service for audit committee chairs and members
- Relevant content for application at audit committee level
- An exciting array of audit committee content, including video interviews, podcasts and essential reading material
- Plus valuable external links for their reference

Audit Committee Service



The Audit Committee Service is exclusive to audit committee chairs and members. The aim of the service is to provide you with information that enables you to be a great audit committee chair or member. This space will equip you with the tools to be more informed and more effective against a backdrop of great change and uncertainty.

In contextualising what you need to know as a member of an audit committee, this service aims to put to rest the confusion and stasis that comes with being new audit committee member in an organisation and having to navigate in the dark. A problem which, as our Chief Professional Practices Advisor notes, is a common feature amongst new audit committee members who initially struggle to understand their responsibilities and wished they were effective sooner.

Key Messages:

Auditing amid rapid change

- While the economic recovery is promising following the deepest global recession in living memory, businesses are contending with critical supply chain issues and inflation risks.
- Production costs have risen at a rate not seen for decades. Businesses are struggling to forecast demand for their products as virus infection rates and consumption continues to wax and wane. This uncertainty and disruption is being felt end-to-end through supply chain
- If audit committees expect the third line to concentrate on traditional risk areas that are already well controlled, the business is not realising the full potential of internal audit. In such cases, CAEs must push back and educate stakeholders, urging them to harness the third line to assess big and rapidly emerging risk themes.
- **The world has changed.**
- **Internal audit must change too.**
 - **Internal audit must be bold, brave, and innovative e.g. one page audit reports, enhancements to internal audit methodology, shorter more focussed audits, prompt issue of the report .**

A photograph of a warehouse aisle with high metal shelving units filled with numerous cardboard boxes. The image is overlaid with a dark blue semi-transparent filter. On the left side, there is a large, dark blue geometric shape that tapers to a point towards the center. On the right side, there is a yellow geometric shape that tapers to a point towards the center. The text "Questions?" is centered in the aisle.

Questions?

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Thank you