


**MNP**



 The Institute of  
Internal Auditors

## Accelerated Risk Internal Audit Report

---



# How Internal Audit Can Help Organizations Keep Up with the Speed of Risk

Geoff Rodrigues, MNP National Leader, Internal Audit Services

Although 2020 is in our rear-view mirrors, the impact of COVID-19 continues to reverberate. Over the past year, the pandemic has taken a devastating toll on human lives, global economic stability and corporate productivity. It has also taught us how quickly unanticipated risks can irrevocably reshape industry dynamics.

In many ways, this has been a wake-up call for the internal audit function. While internal auditors couldn't be expected to factor pandemic risk into their universe and planning, executive management and board of directors still rely heavily on the function to identify, prioritize and measure risk. They depend on the independent, objective validation of the organization's management controls in place to mitigate risk. Indeed, the internal audit function may not be keeping pace with the rate of change in organizational risk, according to the Institute of Internal Auditors' (IIA) *2020 North American Pulse of Internal Audit Survey*.

Approximately 630 chief audit executives, directors and / or senior managers were polled by the IIA for its 2020 report. To understand what the survey results might mean for the future of the profession — and assess the longer-term impact of COVID-19 on internal audit — MNP sponsored a Chief Audit Executive roundtable in November 2020, presented by IIA Canada.

Here we share some of the insights from the roundtable and survey, as well as identify steps internal audit shops can take to emerge stronger from the pandemic. By pinpointing some critical areas of focus for 2021, it is our hope Canada's internal auditors will gain the insights they need to preemptively manage the risks emerging in today's altered world.

## Inside the challenge: Low resource allocation to high-priority risks

Based on survey responses, many internal audit plans fail to allocate sufficient resources to key strategic risk areas, such as cyber security / information technology; third-party relationships; environmental, social, governance / culture and sustainability.

Given the speed of risk is only accelerating as a result of this global pandemic, these gaps paint a troubling picture.

Moreover, it raises concerns across the profession around being a trusted advisor to executive management and boards and dedicate resources to the area of highest strategic risk. While the survey revealed a number of trends, we've chosen to focus on the key risk areas highlighted as being most pressing during the November round table discussion, in order of priority.

**Cyber security / information technology** - According to the results of the IIA survey, 32 percent of respondents did not expect to allocate any internal audit resources to cyber security. This statistic would have been worrying before the pandemic. Now, it's a glaring omission. As MNP noted in our 2020 report, *Internal Audit Trends During COVID-19 & Beyond*, cyber risks accelerated at an alarming pace over the past year. With employees working remotely, hacking attempts and data privacy breaches increased significantly. This has pushed cyber security back to the top of the corporate agenda. As a result, internal audit teams are under mounting pressure to shore up their organizational cyber risk frameworks — a task that's particularly daunting for smaller organizations that lack the resources, budgets and expertise to close this gap.

**Third-party relationships** - Despite how heavily dependent most organizations are on external vendors, suppliers and partners, 52 percent of respondents were not planning to allocate resources to auditing third-party relationships. This is yet another blind spot harshly illuminated throughout 2020, as major supply chain disruptions underscored the inherent weaknesses of overreliance on potentially over-exposed and / or undercapitalized third parties.

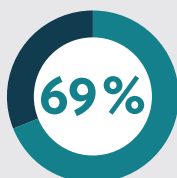
**Sustainability** - While some industries (such as energy and natural resources) see sustainability as an existential risk, others are not as sanguine. In fact, a full 90 percent of respondents allocated no internal audit resources to sustainability, one of the fastest-growing areas of investor interest. On the one hand, sustainability may be a victim of urgent priorities overtaking longer-term strategic risks. On the other hand, organizations defer these investments at their peril. As pressure from capital markets, Boards, shareholders and the public mounts, internal audit teams will need to be more proactive about tackling this issue.

**Governance / culture** - Although governance missteps and weak corporate culture are often the culprits behind ruinous organizational scandals, the IIA noted that 55 percent of internal audit plans did not assess governance and culture. With business processes seriously disrupted amidst the pandemic, however, the risk of internal control breakdowns has been on the rise.

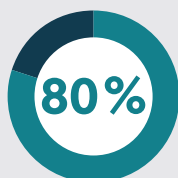
What makes these findings so surprising is that, while these areas are perceived as high risk in every organization's internal audit universe, audit plan resource allocations do not seem to align audit efforts with those areas of high importance. Clearly, there is a notable difference between how audit leaders view organizational risks and how internal audit resources should be allocated.

What is more concerning is, in light of the current pandemic, things could get worse before they get better. In a June 2020 follow-up survey to uncover the longer-term impact of COVID-19 on internal audit, the IIA found that 41 percent of Canadian chief audit executives expected their budgets to decline rather than get larger. While the majority of the budgetary cuts are not expected to affect internal staffing levels, this trend seems to indicate less reliance on experts and specialized resources allocated to the more complex and high impact risk areas.

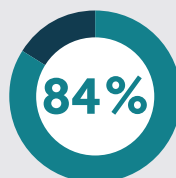
#### IIA's follow-up survey also indicated that:



Of Canadian organizations plan to increase the frequency of their risk assessments.



Plan to update their audit plans more frequently.



Plan to adopt more flexible audit plans.



Hope to increase the use of agile auditing techniques.

### Addressing the challenge: New leaders bring new ideas

There's little question that these challenges are real, but this is an ideal time for transformation with the generational shift that internal auditors are seeing in the workplace as a new cohort of leaders may be well-positioned to steer the internal audit function into the future. As baby boomers retire, Generation X and millennials are filling the void, and now occupy two-thirds of leadership roles. The percentage of women in internal audit leadership positions also grew to 40 percent in 2020, showing an increase in gender diversity at the highest levels of the profession.

How will these demographic shifts change the profession? With more millennials and women at the helm, internal auditors may begin to further challenge the status quo, ask harder questions and foster more collaborative and participatory team environments.

Reliance on new technologies and tools may accelerate as well, as the digital generation begins to automate internal audit processes by adopting data analytics, dashboarding and continuous monitoring. Commitments to sustainability and diversity may also rise.

All that said, it's important not to stereotype or expect broad generalizations to hold true across the board. If the internal audit function is to evolve and grow, leaders will need to consciously commit to fostering a more dynamic learning environment, embracing diversity and adopting more agile, data-based audit practices. With three generations working together, the profession now has a unique opportunity to leverage existing best practices while developing innovative future approaches.

## Accepting the challenge: A platform for innovation

As we embrace 2021 with renewed optimism and resiliency, the pandemic continues apace. By now, most organizations have recognized that the world will likely never revert to the normal that we knew. The landscape of the future is defined by ongoing massive change — and with change comes risk along with opportunity for reward.

This raises a critical question for internal audit functions threatened with shrinking budgets: how to remain relevant amid unprecedented uncertainty and organizations focussing on what are essential services. In short, what steps can you take to demonstrate value and become necessary in a world with unprecedented change and associated risk?

While there are no hard and fast rules, our roundtable panelists did identify several critical success factors:

- Take a proactive stance to educate management and the board of emerging risks by earning a seat at the table and encouraging cross-functional discussions. Leading-edge internal audit shops are those where the chief audit executive plays a central decision-making role and brings together both internal and external experts to help identify, measure, and manage risks.
- Move away from only executing on cyclical audit plans to foster more of a strategic advisory role. Strategies could include providing more real-time risk and control monitoring, becoming data-driven, building multi-disciplinary teams and potentially even assisting management with decision support to help identify latent control gaps.
- Continue to foster and constitute diverse teams. Countless research studies over the years have demonstrated that a commitment to diversity and inclusion helps organizations to enhance resilience, boost productivity, avoid groupthink and drive innovation—all qualities internal audit shops have long aimed to cultivate.
- Empower the next generation of leaders. The rapid transition to work from home environments is making it harder to transfer knowledge, particularly to newer team members. To make sure the future cohort of internal audit leaders is prepared to tackle emerging risks, the function must consider how to optimize team training.
- Analyze the lessons learned from your organization's pandemic response to further refine your internal audit practices. Going forward, resilient organizations will likely be those that engage internal audit as part of their crisis response teams so they can transform rapidly to situational leadership and tactical response.

## Demonstrate leadership by embracing change

Risk is a reality of business life, and no one recognizes this more intimately than internal audit teams. However, 2020 accelerated the speed of risk in an entirely unanticipated way — creating a platform for agility, innovation, and a catalyst for change.

Going forward, it is incumbent on the internal audit function to embrace uncertainty and focus on real-time risk monitoring and analytics to introduce fluid and ongoing strategic risk assessment techniques. To ensure the function has the resources it needs to effectively manage emerging risks, internal auditors will need to more visibly demonstrate the value they bring by staying ahead of the curve and identify patterns and trends before they become major impediments and barriers to organizational success. This will likely involve providing more leadership, coaching and advice to help executive management and the board navigate through such turbulent times.

By being leading edge, continuously innovating and optimizing processes and technologies, internal audit shops should be able to maintain sufficient capability and capacity to address those critical areas of risk that are of highest impact to their organization.

Regardless of the approach taken, one truth remains constant: it is up to each of us as internal audit leaders to earn our seat at the executive table by empowering our organizations to prevent, detect and deter hidden, insidious and non-traditional risks.

---

<sup>1</sup>Catalyst, June 24, 2020. *Why Diversity and Inclusion Matter: Quick Take.* <https://www.catalyst.org/research/why-diversity-and-inclusion-matter/>



## Our National Internal Audit Specialists



**Peter Guo**  
Vancouver  
peter.guo@mnp.ca



**Adam Taylor**  
Victoria  
adam.taylor@mnp.ca



**Robert Kuling**  
Regina  
robert.kuling@mnp.ca



**Mariesa Carbone**  
Edmonton  
mariesa.carbone@mnp.ca



**Gustavo Meschler**  
Winnipeg  
gustavo.meschler@mnp.ca



**Richard Arthurs**  
Calgary  
richard.arthurs@mnp.ca



**Geoff Rodrigues**  
Toronto  
geoff.rodrigues@mnp.ca



**Adriana Gliga-Belavic**  
Toronto (Privacy)  
adriana.gliga-belavic@mnp.ca



**Heloise Bedard**  
Montreal  
heloise.bedard@mnp.ca



## About MNP

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.

