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KNOWLEDGE ALERT

The Financial Crisis and Its Impact on the Internal Audit Profession

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The Institute of Internal Auditors Research Foundation

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EXECUTIVE SUMMARY

The current financial crisis has impacted many organizations around the world, including *Fortune 100* companies based in the United States. To ascertain the extent to which the financial crisis has impacted internal audit activities, The Institute of Internal Auditors (IIA) and IIA Research Foundation (IIARF) conducted a survey in early March 2009 asking participants — mostly CAEs — specific questions regarding the overall impact of the economic slowdown on their organizations and, subsequently, their overall internal audit efforts.

An analysis of the survey uncovered five key findings that this *Knowledge Alert* will discuss:

1. The economic recession has impacted not only organizations, but their respective internal audit activities as well.
2. Internal audit activities are transitioning risks that received extensive focus in recent years and concentrating more on emerging risks that resulted from the changing economic conditions.
3. A majority of respondents disagree with the statement that better risk management could have played a role in preventing the current crisis, yet most respondents agree internal auditing could have done more to assist their companies in identifying key risks.
4. Changing stakeholder expectations are impacting the focus of internal audit efforts.
5. Internal audit oversight and coverage of emerging risks associated with the acceptance of government stimulus funds are lacking.

This *Knowledge Alert* will provide a more detailed summary of all survey findings, including a breakdown of survey responses from participants working in Fortune 100 companies, organizations that have received or will receive Troubled Asset Relief Program (TARP) funds, and companies in the financial services, banking, and real estate industry — where many organizations are feeling the effects of the economic recession the most.

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KEY SURVEY FINDINGS

A total of 1,761 members of GAIN's Flash Survey Network were asked to participate in a survey regarding the current economic crisis and its impact on the internal audit profession.[1] Of this number, 524 chief audit executives (CAEs), internal audit directors and managers, and other audit professionals participated in the survey, representing a 30 percent response rate.[2] For the purposes of this report and analysis, this group was consolidated into the responses from North American-based organizations[3] with revenues exceeding US $100 million. The survey results discussed throughout this report are based on the responses from this consolidated group.

The consolidated survey respondents have internal audit activities consisting of either 3–6 or 7–15 internal auditors (29.1 percent each),[4] and have annual revenues ranging from US $1 billion to less than US $10 billion (46 percent). To further understand how the current economic crisis has affected organizations in different business sectors, all responses were further analyzed through three filters or categories:

1. Responses from survey participants working in the financial services, banking, and real estate industry (117 organizations).
2. Responses from participants working in Fortune 100 companies (34 organizations).
3. Responses from participants working in organizations that have accepted or are planning to accept TARP funds, which include the government, nonprofit, and education industry sectors (73 organizations).[5]

Out of this detailed analysis emerged five main research findings:

1. The economic recession has impacted not only organizations, but their respective internal audit activities as well.
2. Internal audit activities are transitioning risks that received extensive focus in recent years and concentrating more on emerging risks that resulted from the changing economic conditions.
3. A majority of respondents disagree with the statement that better risk management could have played a role in preventing the current crisis, yet most respondents agree internal auditing could have done more to assist their companies in identifying key risks.
4. Changing stakeholder expectations are impacting the focus of internal audit efforts.
5. Internal audit oversight and coverage of emerging risks associated with the acceptance of government stimulus funds are lacking.

Below is a summary of these five research findings based on related survey results.

[1] "The Current Economic Crisis: Implications for Internal Audit" (March 2009).
[2] The majority of respondents were CAEs (70 percent) followed by internal audit directors or direct CAE reports (20 percent) and audit managers or supervisors (8 percent).
[3] These organizations excluded those in the government, nonprofit, and education industry sectors.
[4] These two percentages represent the two responses with the highest frequencies.
[5] It is interesting to note that most Fortune 100 organizations and those that received or are planning to receive TARP funds are in the financial services, banking, and real estate industry (15 percent and 52 percent, respectively).

The Economy's Trickle-down Effect on Internal Audit Activities

Overall, the majority of respondents (87 percent) report that their organization has been negatively impacted by the financial crisis. Although most respondents (42 percent) described this impact as "mild," the impact has been significant nonetheless: a "mild impact" was defined as a decrease in revenues and profits by less than 20 percent (refer to figure 1 for a summary of responses from all survey participants).

In addition, 45 percent of all organizations report a moderate to enterprise-threatening impact. This number goes up to 55 percent in Fortune 100 companies and 63 percent in organizations that received or will receive TARP funds. As expected, the greatest impact has been felt in organizations in the financial services sector, where 66 percent of all respondents stated that their organization has been moderately impacted or worse. In fact, 31 percent of survey participants[6] stated that the economic crisis has had a severe impact on their organization (i.e., revenues and profits decreased by more than 50 percent). Given the financial fallout of many institutions in this sector — AIG, Freddie Mac, and Fannie Mae, among others — it is not surprising to see that the financial services industry has been impacted the most.

Figure 1. Overall Impact of the Current Financial Crisis

Response	Chart	Frequency	Count
Little to no impact		13.5%	49
Mild - revenues/profits decreased by less than 20%		**42.0%**	**152**
Moderate - revenues/profits decreased by 20 - 50%		28.7%	104
Severe - revenues/profits decreased by more than 50%		11.9%	43
Enterprise threatening		3.9%	14

Survey participants also were asked a number of questions to determine the impact of the current economic crisis on their internal audit activity. The first question asked respondents to identify if their budgets have changed during the past 12 months. Although 41 percent of respondents stated their budgets have stayed about the same (refer to figure 2), 51 percent stated their budgets have decreased anywhere from less than 10 percent to more than 50 percent. When analyzed by company category, these numbers remain somewhat consistent:

- 41 percent of internal audit activities in the financial sector have experienced budget cuts.
- 53 percent of internal audit activities in Fortune 100 companies have experienced budget cuts.
- 53 percent of internal audit activities in organizations that received or will receive TARP funds have experienced budget cuts.

[6] This was the response with the highest frequency for this particular group.

Figure 2. Impact of Current Financial Crisis on Internal Audit Budgets

Response	Chart	Frequency	Count
Increased		9.1%	33
Stayed about the same		**41.2%**	**149**
Decreased by 10% or less		26.5%	96
Decreased from 11 to 25%		15.5%	56
Decreased from 26 to 50%		7.2%	26
Decreased more than 50%		0.6%	2

As evidenced by survey results, the effect of the economic recession has had a trickle-down effect that has permeated into different organizational areas, ultimately affecting internal audit activities. For example, respondents who indicated their audit budget decreased even by as little as 10 percent have had to accommodate budget reductions in a number of ways. According to survey results, 79 percent of all participants stated that traveling was reduced as a way to accommodate budget decreases and 69 percent have had to cut down on training expenses.[7] In addition, budget reductions have greatly impacted internal audit personnel — 63 percent of all organizations have frozen or reduced internal audit staff compensation, 45 percent have actually imposed hiring freezes, and 33 percent have had to lay off internal audit staff.

Strategies for Accommodating Audit Budget Reductions

To help adjust their internal audit budgets in light of the current economic recession, CAEs can:

- Take a holistic look at their department before identifying areas for budget reductions.
- Take a hard look at the internal audit activity's structure, processes, and procedures – particularly the department's use of technology.
- Take an innovative approach to professional development and other human resources practices.
- Consult with internal audit stakeholders – where do they get their most internal audit value?
- Update the risk assessment before making staffing reductions.
- Communicate the internal audit plan and its impact to the audit committee before the plan's implementation.
- Maintain a risk-based focus throughout the budget reduction process.

In the financial services sector, cut backs in training expenses (79 percent), frozen or reduced staff compensation (68.4 percent), and travel reductions (63 percent) were the top three areas where budget decreases were accommodated, whereas frozen or reduced staff compensation (74 percent), training expense reductions (68 percent), and travel reductions (58 percent) were the top areas cited by respondents working in organizations that received or will receive TARP funds. Finally, travel reductions (100 percent), reduction or elimination of co-sourcing support (80 percent), and cut backs in training expenses (80 percent) were the top reduction areas cited by respondents working in Fortune 100 companies. (For recommendations on how CAEs can adjust their budgets during hard economic times, read "Strategies for Accommodating Audit Budget Reductions.")

[7] Respondents were allowed to choose more than one response.

Transition of Internal Audit Efforts

As the current economic crisis continues to affect organizations, many internal audit activities are changing the focus of their efforts, transitioning out of more traditional audit work and concentrating more on the emerging risks that have surfaced from the changing business and economic environment. To determine the extent of this change, survey participants were asked to specify how internal audit coverage has evolved during the past year and identify the areas where audit coverage will increase during the next 12 months in 12 categories ranging from financial and operational risks to liquidity and reputational risks.

In nine out of the 12 categories (refer to figure 3), the majority of respondents indicated that their work has remained the same in the past 12 months. However, many internal audit activities have changed the amount of coverage in areas closely linked to the current economic crisis. The two areas where the majority of respondents indicated that coverage has increased during the past year are cost/expense reduction or containment (47 percent) and operational risks (47 percent). However, when analyzed by company category, audit coverage has expanded significantly in several areas. For instance:

- Internal audit activities in Fortune 100 companies have increased their coverage in areas dealing with operational risks (62 percent), cost/expense reduction or containment (61 percent), company exposure to third parties in financial distress (59 percent), and credit risks and liquidity risks (53 percent each).
- In organizations that have accepted or will accept TARP funds, internal auditors have increased their coverage in areas dealing with financial risks (56 percent), operational risks (56 percent), cost/expense reduction or containment (51 percent), credit risks and company exposure to third parties in financial distress (40 percent each), and liquidity risks (38 percent).
- Internal audit activities in financial services organizations have increased their coverage in areas dealing with credit risks (60 percent), financial risks (53 percent), effectiveness of risk management (52 percent), and liquidity risks (51 percent).

In terms of the areas where their internal audit activity will increase its focus within the next 12 months, more than half of all survey respondents (56 percent) will increase their coverage of financial and operational risks, and nearly 50 percent of all respondents will increase their coverage in cost/expense reduction or containment areas (50 percent) and in assessing the effectiveness of risk management efforts (47 percent). (Refer to figure 4 for all survey responses.) When examined by company type, coverage of financial risks increases to 56 percent in Fortune 100 companies, 59 percent in financial-sector organizations, and 74 percent in organizations that have received or will receive TARP funds.

As stated earlier, certain audit areas have seen an increased focus that is directly attributable to the impacts of the economic crisis. These include reputational risks, liquidity risks, company exposure to third parties in financial distress, effectiveness of risk management, and cost containment and reduction measures. Consequently, many internal audit activities are evaluating their current audit plans to address these emerging issues.

Figure 3. Change in Internal Audit Coverage During the Past 12 Months

		Increased	Decreased	Remained the Same	Not Applicable
Financial risks (general)	Count	146	8	**199**	6
	% by Row	40.7%	2.2%	**55.4%**	1.7%
Sarbanes-Oxley testing or other support	Count	38	71	**159**	91
	% by Row	10.6%	19.8%	**44.3%**	25.3%
Operational risks	Count	**170**	20	167	5
	% by Row	**47.0%**	5.5%	46.1%	1.4%
Compliance risks	Count	120	15	**220**	8
	% by Row	33.1%	4.1%	**60.6%**	2.2%
Credit risks	Count	120	4	**172**	67
	% by Row	33.1%	1.1%	**47.4%**	18.5%
Liquidity risks	Count	96	6	**182**	78
	% by Row	26.5%	1.7%	**50.3%**	21.5%
Effectiveness of risk management	Count	125	5	**196**	34
	% by Row	34.7%	1.4%	**54.4%**	9.4%
Company exposure to third parties in financial distress	Count	142	2	**161**	57
	% by Row	39.2%	0.6%	**44.5%**	15.7%
Cost/expense reduction or containment	Count	**171**	2	165	23
	% by Row	**47.4%**	0.6%	45.7%	6.4%
Model/valuation validation	Count	54	7	**163**	137
	% by Row	15.0%	1.9%	**45.2%**	38.0%
Off-shoring/vendor risks	Count	68	5	140	**149**
	% by Row	18.8%	1.4%	38.7%	**41.2%**
Reputational risks	Count	73	7	**249**	35
	% by Row	20.1%	1.9%	**68.4%**	9.6%

Figure 4. Change in Internal Audit Coverage During the Next 12 Months

Response	Chart	Frequency
Financial risks (general)		**56.3%**
Sarbanes-Oxley testing or other support		11.5%
Operational risks		**56.3%**
Compliance risks		38.5%
Credit risks		42.6%
Liquidity risks		31.3%
Effectiveness of risk management		47.3%
Company exposure to third parties in financial distress		37.9%
Cost/expense reduction or containment		49.5%
Model/valuation validation		12.4%
Off-shoring/vendor risks		16.8%
Reputational risks		19.0%

The Role of Risk Management and Internal Auditing

To determine the effectiveness of risk management efforts in deterring the current financial crisis, participants were asked to indicate their reaction to two key statements: 1) "The current financial situation my organization finds itself in could have been prevented by better risk management" and 2) "I believe there are things corporate internal audit activities could have done to help identify key risks to mitigate some of the current economic impacts their organization are facing."

Surprisingly, survey findings show that more than half of survey respondents (56 percent) disagreed or strongly disagreed with the statement that better risk management could have averted their organization's current financial situation. (Refer to figure 5 for all responses.) In addition, although the sum of respondents who either disagree or strongly disagree vary slightly in the remaining two categories (i.e., organizations that have received or will receive TARP funds and Fortune 100 companies), the sum of these two responses are still greater than that of survey participants who either agree or strongly agree that better risk management could have prevented their organization's current financial condition.[8] These survey results are somewhat puzzling considering that 87 percent of all the organizations represented in the survey have been negatively impacted by the economic recession.

Furthermore, the survey findings raise questions regarding the role and effectiveness of risk management. For instance, if effective risk management processes were in place, then why were organizations not better prepared for the current economic crisis? Possible explanations to this question include the assignment of low probabilities to certain risks, the high velocity with which risks and the crisis surfaced, and the aggregation of large numbers of risks, which may have been analyzed individually rather than collectively. The IIA will be looking to answer this and other related questions in upcoming CAE roundtables to determine the underlying factors of the current economic crisis and how organizations can be better prepared in the future.

Figure 5. Respondents Who Believe Better Risk Management Could Have Prevented Their Organization's Current Financial Condition

Response	Chart	Frequency	Count
Strongly agree		4.4%	16
Agree		15.1%	55
Neutral		19.0%	69
Disagree		**33.8%**	**123**
Strongly disagree		21.7%	79
Not applicable		6.0%	22

[8] Forty-six percent of respondents in organizations that have received or will receive TARP funds disagree to strongly disagree with the statement that better risk management could have prevented the impact of the current financial crisis, while 56 percent of respondents in Fortune 100 companies and 38.4 percent of financial sector-organizations stated the same.

When asked about internal audit's role in identifying key risks that could have helped to prevent some of the current economic impacts their organization is now facing, a slight majority of respondents (40 percent) agree to strongly agree internal auditors could have done more to help their organization identify key risks, while 36 percent disagree to strongly disagree with the same statement. (Refer to figure 6 for a summary of all survey responses.) Again, when analyzed by company type, the percentage of survey participants who agree internal auditors could have done more increases significantly:

- 44 percent of respondents in organizations that have received or will receive TARP funds agree to strongly agree that internal audit activities could have done more to help the organization identify key risks to mitigate some of the current economic impacts their organization is facing.
- 44 percent of respondents in Fortune 100 companies agree to strongly agree with the same statement.
- 55 percent of respondents in financial-sector organization agree to strongly agree with the same statement.

As the results of these two statements indicate, survey participants expressed differing views regarding the overall effectiveness of risk management efforts (i.e., better risk management could not have prevented our organization's current financial situation) and the role of internal auditors in the same process (i.e., internal auditors could have done more to identify key risks to help mitigate our organization's current financial situation). These results raise questions about a possible disconnect between management, the board of directors and audit committee, the risk management process, and the internal audit activity. In organizations where this is the case, a streamlined, open, and transparent communication approach is necessary to ensure risks surrounding the achievement of business objectives are evaluated and addressed to the fullest extent.

Figure 6. Respondents Who Believe Internal Audit Activities Could Have Identified Key Risks to Mitigate Some of the Economic Impacts on Their Organization

Response	Chart	Frequency
Strongly agree		8.2%
Agree		**31.3%**
Neutral		22.3%
Disagree		23.4%
Strongly disagree		12.4%
Not applicable		2.5%

Changing Stakeholder Expectations and Their Impact on Internal Audit Efforts

As discussed previously, the majority of internal audit activities have already started to shift the focus of their internal audit work to address risks arising from the current economic crisis. In addition to these considerations, it is critical that internal auditors communicate openly with their stakeholders to address their changing expectations as well. Internal audit stakeholders include, but are not limited to, the organization's board of directors and audit committee, senior management, company shareholders, external auditors, and regulators.

Because the expectations of these and other stakeholders are constantly evolving based on the needs of their target audience, technological developments, and world events such as the current economic crisis, effective internal audit activities should constantly assess stakeholder expectations to ensure their efforts remain aligned to those of their stakeholders. Without this continuous process, the internal audit activity risks becoming out of touch with the needs of the organization it is trying to serve, in addition to not being fully aware of changes within the global landscape that could potentially impact the focus of its work (for more information, read "Maintaining Stakeholder Alignment: 10 Signs that Trouble May Be Brewing").

Maintaining Stakeholder Alignment: 10 Signs that Trouble May Be Brewing

According to a recent blog posted on Internal Auditor Online, the following 10 signs can serve to alert CAEs and other internal audit leaders they are not maintaining alignment with the needs and expectations of their stakeholders:

1. The annual audit plan is developed from a risk assessment conducted six months ago, and no new audits have been added in the past two months.
2. Auditors find themselves arguing increasingly with stakeholders about why internal auditing should not be addressing specific new or emerging risks.
3. The audit committee is surfacing more new risks to internal auditors than internal auditors are to the audit committee.
4. Audit committee members are citing best practices they have observed in other companies with increasing frequency.
5. The company's chief executive officer (CEO), chief financial officer (CFO), or audit committee chair are citing internal audit thought leadership auditors have not heard of.
6. Auditors are getting a lot of pressure from stakeholders to undergo an external quality assessment. An external quality assessment is a great idea and mandated by The IIA's Standards, but it should be the auditors' idea and not the stakeholders.
7. Audit budgets or staff levels are being reduced, and CAEs are not being asked about the impact.
8. The CAE finds himself or herself on the audit committee agenda with less and less frequency.
9. The CAE is getting fewer and fewer phone calls and e-mails from key stakeholders.
10. The CAE discovers that one of his or her peers in the CFO organization has just joined The IIA.

Source: "Chief Audit Executives Beware: We Are Entering One of Those Eras Again!" (Feb. 10, 2009 blog entry from IIA President Richard Chambers, CIA, CGAP, CCSA, available at www.internalauditoronline.org).

To reassess stakeholder needs, internal audit activities should strive to provide assurance to the board, audit committee, management, and regulators:

- **Boards and audit committees.** Assure the board and audit committee on the effectiveness of risk management efforts and on the adequacy of financial and operational controls. Auditors also can serve as the “eyes and ears” of the board and audit committee, providing independent and objective feedback on areas of interest, as well as pointing out companywide potential risks and performance-enhancing opportunities.
- **Management.** Assure management on the effectiveness of operational and financial controls, as well as provide insight on cost containment and reduction opportunities. Internal auditors also can identify key risks and evaluate the effectiveness of risk management efforts.
- **Regulators.** Assure regulators on organizationwide compliance efforts and their transparency.

Lack of Internal Audit Involvement in Stimulus Activities

Finally, the survey found there has been limited internal audit involvement in stimulus-related risks, which may have arisen in companies that accepted government funds. In the original survey, which included the government, nonprofit, and education sectors, 73 respondents identified that their organization has or will accept TARP funds. After analyzing the survey results of these 73 respondents only, it is surprising to note that nearly half (44 percent) stated their internal audit activity has not addressed this matter. While this is a new and constantly evolving political activity, it is evident that organizations need to involve internal auditing in assessing risks and controls to ensure TARP and other stimulus funds are used in compliance with guidance, regulations, and statutes. (For information on how accepting government stimulus funds can affect organizations adversely, read "Accepting Government Funds and Internal Auditing.")

In addition, although a majority of survey respondents disagreed that better risk management could have played a role in preventing the current crisis, the organizations that have been impacted enough to receive stimulus funds are taking a more aggressive approach to addressing effective risk management. For instance, 74 percent of the organizations that have accepted or will accept stimulus funds will be increasing their audit coverage in the area of general financial risks, operational risks (64 percent), effectiveness of risk management (55 percent), and compliance risks (48 percent). However, while many internal audit activities are moving in the right direction in terms of increasing their coverage of financial and compliance-related risk areas within the next 12 months, there is still a lack of coverage in areas that could potentially affect their organization adversely in the future. Thus, many organizations are still vulnerable to the same risks that caused their current financial situation in the first place.

Accepting Government Funds and Internal Auditing

As soon as an organization plans to accept government stimulus funds, reputational risks need to be front and center for internal audit activities, audit committees, senior management, and the organization as a whole. A main reason why internal audit activities must pay extra attention to reputational risks is that as soon as an organization accepts government funding, its actions concerning the use of these funds are now in the public spotlight. Hence, the public, media, and company stakeholders will begin to scrutinize the organization's use of these funds.

A recent example of how organizations are placed in the public spotlight is illustrated by AIG's use of government funds to provide US $165 million in bonuses to senior executives. As this example demonstrates, when funds are used in a way that is counter to public opinion, the organization's branding and reputation is impacted adversely and severely.

Final Thoughts

Overall, the majority of organizations represented in the survey have been affected by the current economic crisis. Although the impact ranges from mild to enterprise threatening, survey participants agree that their internal audit activities could have done more to help their organization identify key risks to mitigate some of the current economic impacts their organization is facing. Consequently, the finding that is still puzzling is why many survey participants believe better risk management is not considered a factor that could have prevented their organization's current financial situation.

In a Feb. 25, 2009 blog, IIA President, Richard Chambers, CIA, CGAP, CCSA, shed some light on this finding. According to Chambers, many internal audit activities fail to provide any assurance on the effectiveness of their organization's risk management.

"[The IIA's] International Standard 2120: Risk Management mandates that internal auditing 'evaluate the effectiveness and contribute to the improvement of risk management processes.' One could only wonder if some of the recent risk management failures could have been mitigated if corporate internal audit activities had correctly prioritized and been given the latitude to assess and report on risk management practices," writes Chambers. In other words, if internal auditors are not aware of their organization's risk management efforts, are not allowed to ask the right questions, or are ignored when recommendations that can enhance risk management efforts are provided, these same internal auditors may not be able to identify how better risk management could have helped their organizations prevent their current financial situations.

A similar explanation is offered in a recent GAIN study, the *2008 ERM Benchmarking Survey*. According to the study, only 40 percent of the 240 organizations represented in the survey have implemented a formal risk management program or process. Worse, 14 percent of CAEs who responded to the survey indicated they have informed management of the need to implement a risk management process, but risk management still does not exist. In addition, the number one obstacle to achieving risk management success according to the majority of survey respondents is a lack of support at the senior management, board, and staff levels for the risk management program or process.

As the ERM study alludes to, if internal auditors worked in an environment where lack of senior management support for risk management was prevalent, better risk management would not have helped to prevent the devastating impacts of the current financial crisis without the full support and understanding of senior management and the board first. Given the immature state of risk management activities in many organizations, what can internal auditors do to help prevent the next financial crisis? According to a recent GAIN Knowledge Briefing: *The Impact of the Current Financial Crisis on the Global Business Community* (PDF, 632 KB), it is still all about effective risk management.

The authors of this report explain how enterprise risk management (ERM) was able to alert some organizations on the perils of sub-prime loans, while in other places such as the financial services sector, ERM failed to do so. As the authors explain, organizations where ERM was not able to predict the current financial fallout share a number of common traits:

- Barriers to full ERM implementation due to a lack of senior management support for risk management.
- Ineffective risk identification and assessment channels.
- A lack of a clearly documented and communicated risk appetite that defines the amount of risk the organization is willing to accept in pursuit of its objectives.
- Fragmented ERM reporting.
- Lack of ongoing risk monitoring.

To ensure risk management efforts are effective and properly identify key risks, the authors recommend that internal auditors learn from the mistakes offered by current risk management failures. “Internal auditors have a historic opportunity to use the lessons learned from the current crisis to promote the creation of newly integrated ERM processes or to enhance existing ERM processes within their organization,” state George Aldhizer, Ph.D., CIA, associate professor at Wake Forest University, and Mark Stone, authors of the report. “The global crisis has caused the majority of audit committee members and chief financial officers to reconsider the adequacy and effectiveness of their company’s processes for managing business risks.”

Internal auditors, explain Aldhizer and Stone, can persuade boards and their audit committees that the risk of fraudulent financial reporting and asset theft is skyrocketing, in part because many organizations have not adequately identified, assessed, and mitigated key external or strategic, operational, and compliance risks over the past few years. Furthermore, as both business advisors and the eyes and ears of the audit committee, internal auditors are well positioned to improve existing ERM processes by stating that primary ERM leadership should be within a board-level risk committee or chief risk officer (CRO) that has substantial practical risk management experience.

Most importantly, internal auditors can promote a common definition of risk management throughout their organization, as well as a uniform definition of events posing the greatest risk to their organization’s ability to achieve strategic objectives. These and other recommendations, provided in the report, will go a long way in enhancing the ability of internal auditors to determine whether existing risk management efforts are on the right track and ensuring their organizations do not partake in activities that could hinder financial and overall corporate stability.

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