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on Resilience Amid Extreme Change

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A Year of Change, Continuity, and Resilience

While business continuity management is about recovering from an unexpected natural or manmade event that causes an operational shutdown, business resilience extends far more widely. It assesses the organization's ability to operate, remain competitive, and thrive long-term, regardless of most circumstances.

Businesses globally are on a path of continuous change as the pandemic and other significant occurrences—such as social and political unrest, natural disasters, and catastrophic events—cause extensive disruptions to the way people work and the way enterprises operate. At the same time, the pace of business and digital transformation has increased at record speeds, requiring organizations to adapt rapidly and innovate frequently. Digital transformation, once an advantage point for competitiveness, is now a key aspect of business resilience.

While crises cause upheaval on business and economic performance, they also create opportunities for many professions, including internal auditing, to help their organizations emerge renewed and strengthened. This is causing a fundamental shift in internal audit's mindset and mission.

While internal audit traditionally assesses business continuity management in its overall risk assessment processes, this is only a small part of the picture regarding the organization's business resilience strategy. This is an area that has come under greater scrutiny recently, certainly over the past year.

Internal audit is accustomed to focusing on assessing business continuity; it is much less accustomed to looking at business resilience. This may be an uncomfortable stance and will certainly be a challenge to address in the audit plan. But the C-suite, board of directors, and senior stakeholders want internal audit to stretch beyond its historical borders and become a consultant and partner in addressing strategic risks. They also look for internal audit to have a clearer understanding of enterprisewide changes and priorities as internal audit groups themselves strive to be more resilient in how they operate and serve the business and board.

Now is the time for internal auditors to think and act boldly about the activities needed to help their organizations manage known and unknown risk. Internal auditors have the knowledge, experience, and tools to rise to the occasion and enhance the profession beyond the traditional preconceived ideas. New technology can drive the profession forward by being more anticipatory, responsive, and flexible. But any tool is only as good as the person who crafts it. In this time of emphasis on business continuity management and business resilience, internal auditors must enhance the value of core assurance services to help organizations remain competitive and thrive long-term, regardless of most circumstances. Internal auditors must move beyond their third line functions, as described in The IIA's Three Lines Model, and become an engaged resource for the board and senior executives in first line roles.

Addressing business resilience is a challenge. But it is necessary to meet stakeholder expectations for deeper and broader strategic insights and to gain a sharper understanding of enterprise changes and priorities.

Business Resilience vs. Business Continuity

Many in the field compare business continuity to a rubber band that snaps back to where it was before it was stretched. Business continuity focuses on returning operations to “normal” and getting back to providing the products and services that were offered prior to a disruptive event. This remains an important operational capability and is a critical component of any business plan. Internal audit plays an active role in ensuring the business continuity plan is in place and works with organizational leadership on questions about specific or potential risks or gaps that they see in the plan.

Business resilience is a growing area of focus for organizations worldwide. Going beyond business continuity, it opens up far-reaching questions and addresses a wider range of issues at a strategic level. Business resilience encompasses how to structure an organization to stay operating and successful—i.e., resilient—in the event of an unexpected long-term shutdown (e.g., the COVID-19 global pandemic), market disruption, or other unforeseen event. But it also takes a much broader and long-term view, looking at the nature of how the world changes. For example, what if a company relies on raw materials from a specific country and that country undergoes upheaval and is no longer able to deliver those exports? This becomes more than just about supply chains, IT, or cash flow. A company has to ensure that it is prepared to remain relevant in a constantly changing market. The financial and related risk is too great to do otherwise.

Addressing these issues is becoming a top-line priority for many organizations and their internal audit functions as they try to maintain a competitive edge throughout all phases of a business disruption. In October 2020, The IIA and Internal Audit Foundation conducted a quick poll of audit executives. More than 40 percent of respondents said that their organization takes a business continuity approach to addressing disruption. Fewer than 5 percent take solely a business resilience approach, while an additional 42 percent take a combined approach. (Source: Internal Audit Foundation/Protiviti - Business Resilience Quick Poll. Question: Does your organization take a business continuity planning or business resilience approach to addressing disruption? $n = 93$.)

With a strong business resilience plan focused on issues and risks well beyond business continuity management, an organization can experience a potentially catastrophic event and come out even stronger than before. It involves adapting to and accelerating change to operate in a new reality.

“Companies report that one month or more of disruptions occur every 3.7 years, resulting in losses worth almost 45 percent of one year’s EBITDA over the course of a decade...The successful companies today—and in the years ahead—will redesign their operations and their supply chains to protect against a wider and more acute range of potential shocks and disruptive events.”
(Source: McKinsey & Company Special Report, “The Next Normal: Reimagining operational resilience.”)

An Important Challenge for the Internal Audit Profession

As boards and executive management increase their focus on business resiliency in their organizations, there is an opportunity for internal audit to elevate its role. Audit executives and staff should explore new options and ask, “Who are we as auditors?” and “What new value can we provide?” Focusing on business resilience creates an opportunity to enhance the profession and expand value for stakeholders.

Internal audit can help ensure that a focus on business resilience is a continuous effort, rather than a one-off activity, by:

1. Embedding resilience into audit objectives.
2. Being involved in process transformations, system implementations, and organizational transformations.
3. Serving in an advisory capacity, including the facilitation of solutioning sessions, and establishing and reporting on metrics.

Fluidity will continue to be important throughout the enterprise as employees and organizations evolve and adapt to build greater resilience. Audit teams will have to inform the first and second lines about new areas in which the third line can contribute—many stakeholders only know what internal auditors did in the past.

Bold changes are required from internal auditors, who need to take some risks. To focus on business resilience, they need to share valuable, decision-worthy information with the board and executive team.

“Alibaba founder Jack Ma sees change, not stability, as the default. Resilience is less about occasional adjustments under extreme circumstances and more about building organizations and supporting systems predicated on constant change and experimentation. This is partly to avoid rigidity and partly because iterative incremental adjustment is far less risky than a massive one-shot adjustment.” (Source: Harvard Business Review, “A Guide to Building a More Resilient Business,” by Martin Reeves and Kevin Whitaker, July 2, 2020.)



Navigating Obstacles

Without question, there are factors holding internal audit back that must be addressed. One of the biggest obstacles is that the traditional audit approach is retrospective in nature. Auditors historically have sought to provide assurance on the past and checked the quality of data that showed what happened, rather than being forward looking and shifting into more of an analyst mindset. Some feel that these activities move the profession out of its swim lanes and its independent objective role, but with the proper approach, internal audit can maintain its objectivity while delivering on these broader, strategic-level expectations.

Why is business resilience an internal audit “problem”? As the need for resiliency has emerged, internal auditors are now looked upon by the first line to provide a unique and beneficial view of strategic risks. This goes beyond what is in their audit plan or on the list in front of them. It reaches into a broader environment to explore the potential risks that could detrimentally affect the organization.

This is not a perspective that every auditor embraces, at least not yet. But to establish an increased level of respect and relevancy, internal auditors need to start putting themselves out beyond their historical guardrails and say, “Okay, this isn’t what I usually sit down and talk about with the CFO, but there are some issues that we have identified. Let’s figure out if the organization is looking at it from a resilience perspective.”

The Internal Auditor Transformation

To address this—and to help the organization be more focused on resilience—internal auditors need to have candid conversations with their stakeholders on where the business is headed.

To optimize these conversations, internal auditors should prepare relevant research and business intelligence about what is happening in the current and future market. For example, Protiviti and NC State University’s ERM Initiative conducted their ninth annual top risks survey among more than 1,000 top global board members and C-suite executives. For the first time, in late 2020, they asked about risk issues in two time frames—risk impacts over the next 12 months and over the next 10 years. For 2021, the main concerns relate to the pandemic, economic conditions, government policies around stimulus packages, and healthcare. These are relatively near-term issues around their organization’s ability to rebound or recover in the new normal. Looking out over a 10-year span, concerns about those types of risk issues dissipate and the main themes become digital transformation, innovation, culture, and the evolution of jobs and skills—all of which revolve around a core objective of increasing the organization’s resilience.

One of the most interesting aspects to come out of the study is that millions of jobs will be displaced and then created. Historically, unfortunately, those two things do not happen at the same time. There is displacement and eventually the creation of millions of jobs, but the skills in demand will be different. Many of the activities workers are doing today will not be needed 10 years from now. This is a critical business resilience-related area for organizations to address. It represents another reason internal auditors need to heed the call of self-empowerment and start now to gain skills and knowledge to take on new, expanded roles in their organizations.

Internal Auditing in a Resilient Organization

Internal audit has become one of many groups looking to change outlooks to ensure the organization is capable of embracing the coming evolution. Internal auditors should sit down with stakeholders and discuss:

- *Do we have the right culture to embrace the needed change?*
- *Do we need to encourage new attitudes and outlooks in our culture?*
- *How open are our people to change? If they need better support, how can we provide it?*
- *Are we developing the skills needed to compete and succeed in the new resilient environment?*
- *Are we embracing and undertaking innovation?*
- *How can/are we transforming as an organization to meet current and future market trends and needs?*

These are all productive questions regarding the development of a resilient internal audit function and support the broader organization's drive to bolster resilience. Each question has the potential to uncover risks that fall under the purview of internal audit. Internal auditors then must get to the heart of these risks to assess whether controls are in place, or if new controls are necessary.

The internal audit profession is shifting to become a forward-thinking, flexible, and consultative resource for organizations worldwide. Change can be difficult at times, but the results of not changing can be worse—being left behind and rendered irrelevant. It is time to start becoming comfortable with feeling uncomfortable.

If internal audit professionals are not willing to extend themselves beyond traditional boundaries and embrace these changes, leadership will turn to other functions to fulfill those needs. This means it is an especially exciting time to be in internal audit. Auditors have the opportunity to become strategic contributors and cement their place at the executive table.



Getting Started: Ignite Resilience in the Internal Audit Function

One of the first steps to becoming an integral part of a resilient organization is to proactively find out what is going on in other areas. Internal auditors can take part in innovation activities such as steering committees, project management roles, working groups, and other initiatives. Yes, schedules are already packed, but they can take a look at current tasks and see what might no longer be effective or appropriate. The checklists of yesterday should not be dictating the plans for tomorrow. Now is the time to become embedded in the growing innovation culture.

Internal auditors also can start looking at ways to transform the internal audit function to become a next-gen entity and embrace a new flexible environment of advancing governance, methodologies, and enabling technologies such as artificial intelligence (AI) and robotic process automation (RPA). This serves two overriding purposes—it will bring internal audit function staff into the new mindset. It will also help internal audit be a relevant leader around these activities.

Building the right talent sets is also vital. Although digital expertise is critical, it is important to use it as a starting point and venture beyond to ensure that audit leaders and staff are skilling up appropriately and being aligned for the future. Every organization and field has unique needs, but overall areas to pursue could include advanced analytics, machine learning, and communications. This includes training staff and also potentially bringing in new people who already have this experience.

Transformation is inevitable and these new skills are required for internal audit staff to remain relevant. But how can internal audit functions ensure they have staff members with the right competencies when many organizations are still in the midst of transition and don't always know where they will end up?

Again, the use of technology and data are good starting points. Getting staff members accustomed to learning and using new tools is a skill in itself. The tools may change, but staff attitudes and acceptance of new methods need to be firmly established. Many people have been doing their jobs in the same, or similar, way for years, even decades. This was a great way of doing business for a long time and is to be commended. But the global disruption caused by events such as a pandemic, unrest, innovation, digital transformation, and new expectations have done cartwheels around "business as usual," and this is not going to change. This is the new non-normal, and internal audit teams need to stay ahead of the pack.

An effective way of addressing impactful change in the organization is to have a plan in place, even with many unknown variables. Internal audit teams need to ask themselves, "What is our plan for developing leadership roles in our resilient organization?", "What talent, skills, and abilities do we need?", and "How do we go about this?" The plan can incorporate the different transformation activities occurring in the organization, outline what new internal audit technologies need to be brought in and which are unnecessary, define how to build an understanding of these technologies, and specify the timetable within which it all should happen.

New Conversations with the Board and Executives

Reports and presentations with board and C-suite executives are also being transformed. In addition to learning what new expectations and needs the board requires in the future, it is time to put a greater focus on conversations about innovation, transformation, and business resilience with leadership. Many are not having these discussions with other functional areas, so it is an ideal time to establish a new outlook and baseline.

This may be as simple as including new items in the audit committee package showing the internal audit team's new and future-planned capabilities. Auditors should be confident in showing examples of innovative activities and ways of supporting the organization. It is important to at least start the conversation. Audit committee packages are understandably standardized, but it is time to extend beyond the regimented process and change it up a bit—maybe even schedule some time with the audit committee to have an open conversation that gauges their interest and plans regarding resilience, innovation, and transformation. Adequate time needs to be allotted to discuss these areas thoroughly to firmly establish a new form of relationship between the audit committee and the internal audit team. This discussion should not occur with only a few minutes left on the agenda.

For example, many audit reports include a section on potential long-term risks, and these are often echoed year after year. This creates an immediate channel for audit leaders to address these risks and go a step further and initiate a conversation about a broader range of risks related to strategy, innovation, transformation, or business resilience that should or could be reviewed. It is also an ideal time to reference research and reports that support the conversation, for example, noting that the team has gathered information from an industry economic forum/university group/think tank, etc., that brings up new risk issues that have not already been discussed, and suggest that together they consider these items.

At this time, it could also be appropriate to bring up some critical "what if" questions, such as:

- *What if we lose access to supplies or our supply chain in a specific country?*
- *What if our product line becomes irrelevant or outdated?*
- *What if the market experiences a completely new set of needs?*
- *What if we lose historical knowledge and staff with specific skills?*
- *What if the offsite work model results in greater competition for staff skills?*

There have been too many times, and too many examples, of now-defunct organizations that didn't ask these questions early enough, or asked them but settled for answers such as "No worries, we'll be okay, there is no need to do anything now." Internal audit is uniquely positioned to work with executive management to address these questions for the future and ensure appropriate controls are in place.

Building Internal Audit as a Resilient Entity

While the innovative mindset should be encouraged, it does not mean that change necessarily has to be associated with disorder and disarray. It is more about encouraging exciting ideas and still ensuring they operate in a clean, well-controlled process.

Auditors can start this process by talking within the department and gauging what needs to be done to bring others on board. Some may readily accept newer roles—others may be more resistant. Either way, the fact is that change is needed and it is going to happen. If you don't evolve, you won't be around to do what you are doing now. Either ride this wave or get out of the water.

A good first step toward transformation and resiliency is embracing mega trends—digital transformation, innovation, and culture—especially the culture to support the first two. For internal audit to develop and grow, it is critical to be in the forefront of these changes, such as agile auditing, dynamic risk assessment, continuous monitoring, process mining, and automation. Next-generation internal audit functions have moved beyond annual or quarterly risk updates to obtain a real-time view of changes to risk and their impact on the organization, as well as the effect on the assurance needed from internal audit. These functions can recognize emerging risks and changes to the organization's risk profile quickly and efficiently, and incorporate them into the audit plan timely.

Another broad megatrend is often referred to as “the future of work,” part of which is about skill development. This includes understanding the skills that will be needed and those that the internal audit function currently has, to discern where change is needed.

The next decade will bring greater acceptance and use of AI, RPA, and machine learning, but most internal audit functions do not have all of those proficiencies in place now. They need a plan for bringing those skills on board, but does that include upskilling current staff? Recruiting new people? A hybrid? This is another important area for internal audit to discuss with management—is the organization recruiting for the talent needed in the future? Does the human resources (HR) team understand these strategies and the types of skills needed? Is internal audit communicating clearly with HR about the skills that should be prioritized for its team?

Another key factor then emerges as the internal audit and HR departments discuss future recruiting—will the focus change from hiring for technical skills to hiring people who embrace change? A new mindset like this is a critical element in changing an organization's culture. It all rolls back into having clear, open conversations with management on where the business is going to change. For example, is a product line going to be retired and/or will a new product line be started? Audit plans need to reflect these business changes, and if this is done in tandem, then the change doesn't seem so abrupt and helps deliver more effective results.

Forging Forward

All organizations are thinking bigger, broader, and faster in today's environment, and internal auditors offer a core strength to building efficiency by developing effective controls and approaches for changes underway and planned. To foster this change, it is critical that internal auditors embrace these three primary channels for internal audit's future and growing role in business resilience:

- **Conversations.** *Meeting with and talking to management about the organization's strategic growth plans is necessary for the internal audit team to share scenarios to consider and broader risks to prepare for, and also to manage the enterprise's resilience profile.*
- **Understanding.** *The internal audit team needs to understand these strategic growth plans on a deeper level so they can develop and execute effective audit plans and risks and controls to manage these changes appropriately. The team needs to be involved and ensure there is a risk and control mindset to the new way of operating and managing data and security effectively.*
- **Internal audit resilience.** *A resilient internal audit function can provide significant support to the business. It involves having the right people, skills, and knowledge to ensure it is familiar and experienced with controls and the business as it adopts new digital technologies.*

Despite the tremendous change and upheaval that has occurred, much of the global disruption that began in 2020 was predictable. Pandemics, natural disasters, social and political unrest, and other similar occurrences have been expected—and happened—for decades. The difference is that in recent years, only the digitally mature organizations that were future-looking were better able to address the steep drops or accelerated increases needed in production and growth.

Yes, sticking with the old way of doing things is more comfortable initially, but is it really where the organization is headed in the long term? In many instances, blazing a new path is not only more efficient but also more secure, and it eventually becomes the new, established way of doing things. New corporate cultures will encompass innovation, new ideas, and fresh approaches. Such cultures are open to this and allow people the freedom to bring forward innovative thinking without the fear of failure.

It is a great time to strengthen enthusiasm among internal audit teams—people are looking forward to becoming more engaged in meaningful achievements that make a significant impact on the overall business and building something new. The future can be intimidating, but it also is exciting and rewarding to be a leading partner in the inevitable change.



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