

# **THE GLOBAL INTERNAL AUDIT PROFESSION: NAVIGATING THE CURRENT CRISIS AND OUTLOOK FOR THE FUTURE**

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# TOPICS

- A decade in retrospect
- Impact of the current economic crisis
- 5 global challenges for 2010
- Beyond the current crisis: what is the long-term outlook for internal auditing
- Final thoughts

# **FIVE NOTEWORTHY ACHIEVEMENTS FROM THE PAST DECADE**

1. Helping our organizations navigate the demands of new legislation and regulations.
2. Enhancing our proficiency in enterprise risk management.
3. Becoming a respected source of talent for our organizations.
4. Diversifying our focus and demonstrating our value in the face of a global economic crisis.
5. Upgrading our global standards and emphasizing quality assurance.

# ADAPTING TO THE “NEW DEFINITION” IN A DECADE OF DYNAMIC CHANGE

1999

2010

## INTERNAL AUDITING REDEFINED

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Controls

Enhanced proficiency in assessing controls were byproduct of global focus on financial controls

Risk

Internal audit's proficiency in assessing risks has increased dramatically

Governance

Internal audit's role in corporate governance is still evolving

# Impact of the Global Economic Crisis on Internal Auditing



# LESSONS LEARNED FROM THE CURRENT CRISIS: IMPACT ON OUR COMPANIES

- 81% of respondents report that their companies have been negatively impacted
- 48% report moderate or worse impacts (55% of F100 respondents)
- 3% indicate that impacts threaten the future of their companies

|  |     |
|--|-----|
| Little to no impact                                  | 19% |
| Mild - revenues/profits decreased by less than 20%   | 33% |
| Moderate - revenues/profits decreased by 20 - 50%    | 29% |
| Severe - revenues/profits decreased by more than 50% | 16% |
| Enterprise threatening                               | 3%  |

GAIN Survey: March 2009

# LESSONS LEARNED FROM THE CURRENT CRISIS: COULD MY COMPANY HAVE MANAGED RISKS BETTER?

The current financial situation my organization finds itself in could have been prevented by better risk management.

|                   |     |
|-------------------|-----|
| Strongly agree    | 14% |
| Agree             | 43% |
| Neutral           | 20% |
| Disagree          | 15% |
| Strongly disagree | 4%  |
| Not applicable    | 4%  |

GAIN Survey: March 2009

# LESSONS LEARNED FROM THE CURRENT CRISIS: IMPACT ON GLOBAL INTERNAL AUDIT BUDGETS

|                          |     |
|--------------------------|-----|
| Increased                | 9%  |
| Stayed about the same    | 49% |
| Decreased by 10% or less | 15% |
| Decreased from 11 to 25% | 16% |
| Decreased from 26 to 50% | 7%  |
| Decreased more than 50%  | 4%  |

# LESSONS LEARNED FROM THE CURRENT CRISIS: ACCOMMODATING BUDGET REDUCTIONS

| <b>Response</b>                                  | <b>Global</b> |
|--|---------------|
| Reducing contracting and administrative expenses | 41%           |
| Reducing or eliminating co-sourcing support      | 23%           |
| Reducing travel expenses                         | 59%           |
| Reducing training expenses                       | 57%           |
| Freezing or reducing staff compensation          | 42%           |
| Imposing a hiring freeze                         | 37%           |
| Laying off internal audit staff                  | 15%           |
| Other  | 7%            |

# ALIGNING INTERNAL AUDIT COVERAGE TO MEET NEW EXPECTATIONS

## *PROJECTED AREAS OF INCREASED COVERAGE*

|   |     |
|---|-----|
| Financial risks (general)               | 55% |
| Sarbanes-Oxley testing or other support | 29% |
| Operational risks                       | 63% |
| Compliance risks                        | 54% |
| Credit risks                            | 34% |
| Liquidity risks                         | 32% |
| Effectiveness of risk management        | 62% |
| Cost/expense reduction or containment   | 42% |
| Reputational risks                      | 26% |

# CONTRIBUTING FACTORS TO THE ECONOMIC CRISIS

- Extraordinary latitude by management to define risk appetite and accept risks for the enterprise
- A corporate governance model that did not emphasize the board of directors' role in risk management
- An overriding emphasis by external and internal auditors on effectiveness of financial controls following financial failures of early 2000's



Everyone must enhance their performance going forward!

# KEY CHALLENGES FOR INTERNAL AUDITING IN THE YEAR AHEAD

# FIVE GLOBAL CHALLENGES FOR 2010

1. Aligning internal audit coverage to meet evolving expectations
2. Realigning skills to address new emerging focus
3. Enhancing internal auditing's role in risk management
4. Demonstrating value and adding to the bottom line
5. Enhancing roles in prevention and detection of fraud



# BEYOND THE CURRENT CRISIS: WHAT IS THE LONG TERM OUTLOOK FOR INTERNAL AUDITING

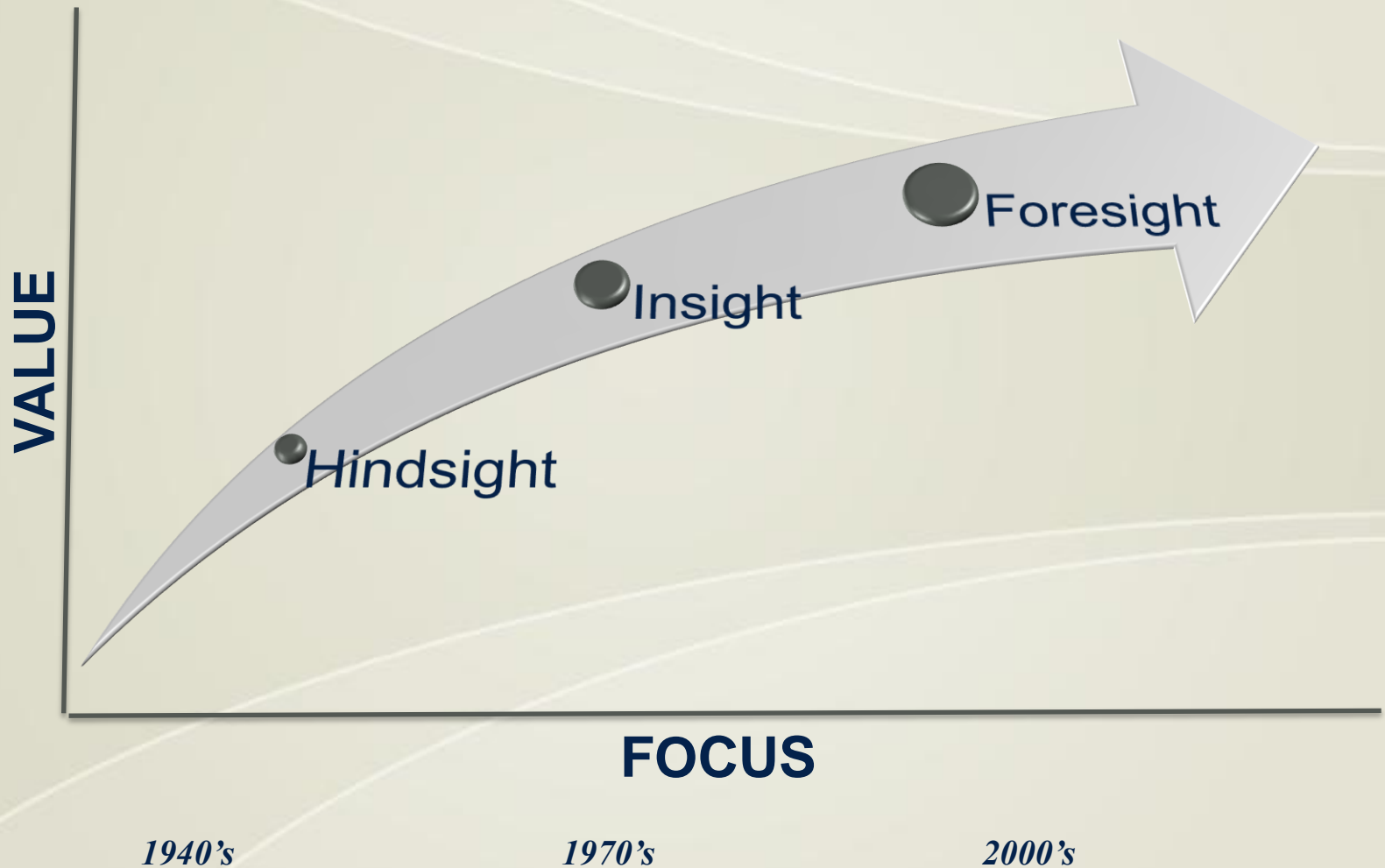
# KEY IMPERATIVES IN THE DECADE AHEAD

1. Enhancing our role in enterprise risk management:
  - Stay abreast of evolving theory and practice
  - Foster compliance with new regulations and legislation
  - Deploy continuous risk assessment
2. Enhance our proficiency in data mining and analysis.
3. Better integrate the deployment of IT and non-IT audit resources.
4. Enhance our coordination with other risk and compliance functions in our organizations.
5. Continue our quest to be universally recognized as a profession.

# KEY IMPERATIVES FOR THE DECADE AHEAD: WHAT IS THE IIA'S STRATEGY?

- Pursuing universal recognition of Internal Auditing as a profession
- Defining the principles of the profession and assuring that the principles are available seamlessly worldwide
- Assuring adherence to professional requirements
- Serving as the preferred provider in the research, development and disseminating knowledge to advance the profession
- Being seen by its members and operating as one global organization
- Ensuring the long-term viability of The Institute

# THE MATURITY-VALUE MODEL



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