Beyond the Horizon: What Lies Ahead for Internal Audit?
“The next great frontier for boards is unknown risk. We have to understand risks as well as we do strategy.”

Audit Committee Chair

(1) Tapestry Networks -- *VantagePoints, Issue 3, January 2015*
# Top 5 Increasing Risks

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Type of Risk</th>
<th>2015</th>
<th>2014</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation</td>
<td>Strategic</td>
<td>5.34</td>
<td>4.83</td>
<td>0.51</td>
</tr>
<tr>
<td>Inability to utilize data analytics and &quot;big data&quot; to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plan</td>
<td>Operational</td>
<td>4.99</td>
<td>4.48</td>
<td>0.51</td>
</tr>
<tr>
<td>Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand</td>
<td>Operational</td>
<td>5.70</td>
<td>5.26</td>
<td>0.44</td>
</tr>
<tr>
<td>Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors</td>
<td>Operational</td>
<td>5.17</td>
<td>4.88</td>
<td>0.29</td>
</tr>
<tr>
<td>Rapid speed of disruptive innovations and/or new technologies within the industry may outpace our organization’s ability to compete and/or manage the risk appropriately, without making significant changes to our operating model</td>
<td>Strategic</td>
<td>5.16</td>
<td>4.87</td>
<td>0.29</td>
</tr>
</tbody>
</table>

(1) Protiviti – *Executive Perspectives on Top Risks for 2015*
Which of the following risks (aside from financial reporting risk) pose the greatest challenge for your company? (1)

How satisfied are you that your company’s internal audit function delivers the value to the Company that it should? (1)

(1) KPMG -- 2015 Global Audit Committee Survey

What Are the Expectations of You?
Internal audit must look ahead to:

a) help key stakeholders identify unknown risks and opportunities
b) add value by influencing the necessary actions to navigate those risks and opportunities to effectively and efficiently achieve organizational objectives.
Beyond the Horizon

Oil heading for $30, currency war coming: Analysts
By Tom DiChristopher 5 Feb 2015

China cuts bank reserves to ‘keep economy stable’
By Katrina Bishop I Matt Clinch 4 Feb 2015

We Need to Think in Terms of Ripple Effects for Our Organizations
Beyond the Horizon

World has not woken up to water crisis caused by climate change: IPCC head
By Nita Bhalla  Feb 3, 2015

Risk of American 'megadroughts' for decades, NASA warns
By Ben Brumfield, CNN, Feb 14, 2015

“We didn’t realize until recently how much our economy and society relied on hydrologic stability.”
Bob Sandford, Chair
Canadian Partnership Initiative

Potential impacts:
• Agricultural and Food Shortages
• Organization Operating Decisions
• Extracting/Producing Energy
• Population Movements
• Human Conflict
### Table 1: The Ten Global Risks in Terms of Likelihood and Impact

<table>
<thead>
<tr>
<th>Top 10 global risks in terms of Likelihood</th>
<th>Top 10 global risks in terms of Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interstate conflict</td>
<td>Water crises</td>
</tr>
<tr>
<td>Extreme weather events</td>
<td>Spread of infectious diseases</td>
</tr>
<tr>
<td>Failure of national governance</td>
<td>Weapons of mass destruction</td>
</tr>
<tr>
<td>State collapse or crisis</td>
<td>Interstate conflict</td>
</tr>
<tr>
<td>Unemployment or underemployment</td>
<td>Failure of climate-change adaptation</td>
</tr>
<tr>
<td>Natural catastrophes</td>
<td>Energy price shock</td>
</tr>
<tr>
<td>Failure of climate-change adaptation</td>
<td>Critical information infrastructure breakdown</td>
</tr>
<tr>
<td>Water crises</td>
<td>Fiscal crises</td>
</tr>
<tr>
<td>Data fraud or theft</td>
<td>Unemployment or underemployment</td>
</tr>
<tr>
<td>Cyber attacks</td>
<td>Biodiversity loss and ecosystem collapse</td>
</tr>
</tbody>
</table>

**Categories**

- **Economic**
- **Environmental**
- **Geopolitical**
- **Societal**
- **Technological**

Beyond the Horizon

**Digital future**
- Technology is disrupting all areas of enterprise, driving myriad opportunities and challenges

**Entrepreneurship rising**
- Entrepreneurship around the world is growing, driving the need for more supportive ecosystems

**Global marketplace**
- Economic power continues to shift east and south, driving new patterns of trade and investment

**Urban world**
- Effective infrastructure investment and sound planning will make future cities competitive and resilient

**Resourceful planet**
- Growing demand and shifting supply are driving innovation in the energy and resources space

**Health reimagined**
- Technology and demographics converge to drive a once-in-a-lifetime transformation

Ernst & Young LLC -- *Megatrends 2015: Making sense of a world in motion*
Seizing the Opportunity

Will you “Shape the Future” for your organization and team?
Will you ensure we are “Achieving our Potential”?
Will you focus on communication skills to “Say it Right”?
Will you “Imagine the Possibilities” of value you can add?
Will you “Assess your Relevance” and become indispensable?
Will you “Mind the Gap” between stakeholder’s expectations and what you deliver?

Will You be a Superhero and Change Agent?
Investment in Learning not Keeping Pace with Velocity of Change

CBOK Update

• 2015 - Average Internal Auditor Receives 40 Hours of Annual Training

• 2010 - Average Internal Auditor Receives 40 Hours of Annual Training

• 2005 - Average Internal Auditor Receives 40 Hours of Annual Training
My 2015 – 2016 Theme

INVEST IN YOURSELF
What Percent of Our Members Are Active?

How do we reach those members who are not active?
What This Means For Leaders

- Leaders must monitor long- and short-term global risks and assess impact on organizational strategies.
- Leaders must measure how fast to change by monitoring both internal and external factors.
  - What are current and future competitors doing?
  - How much team development needs to occur?
  - How much communication should be taking place?
- If leaders move too slowly, they lead their teams into failure, into non-competitiveness.
- Knowing how to drive and manage change is key to remaining competitive and relevant in a shifting environment.
- Leaders must be willing to invest in themselves beyond what an organization invests in them.
Superhero/Change Agent Characteristics

Great communication skills
Focus on innovation
Global and organizational knowledge
Multigenerational awareness

Organizational savvy
Facilitation skills
Relationship building skills
Cultural intelligence

It is not enough to identify the need for change, you must influence stakeholders to make the change; therefore, the ability to influence others is critical.
Building Influence

- Unquestionable technical skills and organizational knowledge.
- Practice selfless reciprocity with stakeholders.
- Commitment – do what you say you will do.
- Consistency, respect and fairness in all you do (e.g., performance, methodology, ratings).
- Be truthful – and courageous.
- Listen, ask questions and seek to understand.
- Take responsibility, and hold yourself accountable.
Creating A Team Of Superhero’s/Change Agents

Developing Expert Communicators

• Enabling opportunities for team members to practice
• Providing formal coaching and/or training
• Delivering timely 360 feedback on presentations or client meetings
Creating A Team Of Superhero’s/Change Agents

Inspiring Innovation

• Encouraging risk taking within your own processes

• Sponsoring an innovation challenge

• Allowing your team to fail forward

• Rewarding success

• Leading by asking and listening
Creating A Team Of Superhero’s/Change Agents

 Starts with investment – in yourself and in your team

• Participate/Speak at a conference
• Attend local IIA events
• Webinars
• Start a local CAE roundtable
• College courses

• Get a Mentor
• Hire a coach
• Practice in everyday work environment
• Read (or equivalent)
• Get certified

“An investment in knowledge pays the best interest.”

Benjamin Franklin
Inspiring Your Team Of Superhero’s/Change Agents

Leaders are trustworthy, respectful, honest, down to earth

Elaborate a vision with inspiration and passion

Always willing to listen, flexible, approachable, and empathetic

Do not take credit for team success; takes responsibility for failures

Encourages decisive actions, is courageous, and leads by example

Easily challenges status quo; an innovator who drives the vision

Speaks with conviction, motivator and enjoys the success of others

Has the wisdom to admit mistakes and learn from them

Is a continuous learner, coach and developer of others

Puts people first; hires the right ones and replaces wrong ones
Summary of What Lies Ahead

• The increasing pace of technology innovations and globalization will greatly impact organizations.

• To survive and thrive, an organization’s leaders must change as fast or faster as the change impacting their organization.

• Internal audit must be change agents in an environment of constant change.

• The CAE must inspire their team to be innovative, organizationally savvy, skilled facilitators, and expert communicators.

• A team of skilled change agents will be best prepared to master whatever lies beyond the horizon.
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• +1 (781) 895-8317