



2024

RISK IN FOCUS

Hot topics for
internal auditors

BOARD BRIEFING

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BOARD BRIEFING: RISK IN FOCUS 2024

Co-ordinating corporate efforts with agile strategies

Economic uncertainty in 2023 topped a seemingly permanent state of crisis first initiated by the pandemic. Organisations are now grappling with an ensuing polycrisis – with multiple catastrophic events occurring simultaneously. With Europe's economies in a fragile state, boards must deal with increased climate-related pressures, geopolitical uncertainties, a dangerous cyber-risk landscape and inflationary pressures. But many organisations face challenges in securing the talent and skills required to navigate through such uncertainties.

Preparing to be resilient for possible trouble and being ready to leap forward when conditions improve are key success factors.

Among other tactics, Boards can be successful by working with their chief audit executives (CAEs) on two key strategies. First, organisations benefit from not seeing their businesses as a set of disparate siloes and by ensuring that effort is well co-ordinated to strengthen risk identification and management. Second, boards can take advantage of internal audit's unique overview of the organisation to provide consultancy, advice and brainstorming on fast-moving strategically important initiatives.

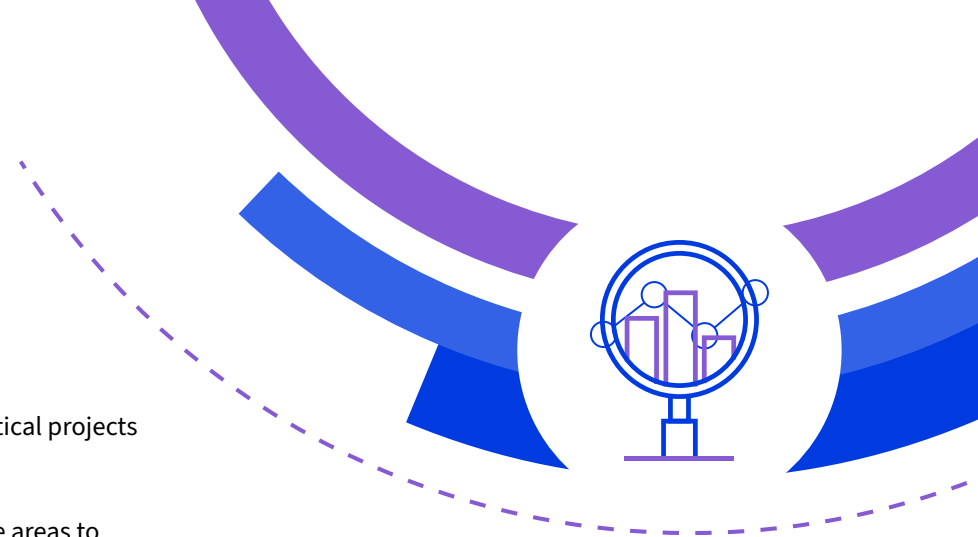
Getting an upfront risk view on mission-critical projects increases the chance of success.

In this report, CAEs have identified five core areas to help boards focus on over the coming twelve months: macroeconomic uncertainty, cybersecurity, human capital, climate change and supply chains. In addition, they have identified five strategic imperatives for boards seeking to enhance the value provided by internal audit functions.

Five strategic imperatives for boards

Maximising the value of internal audit

1. Support efforts to help CAEs co-ordinate the identification, assessment and management of strategic risks across the three lines
2. Keep a strategic perspective on legislative changes so that compliance efforts are combined with strengthening the business' longer-term goals and objectives
3. Call upon internal audit's unique perspective for advice on emerging threats and the implementation of new strategic initiatives
4. Consider internal audit as a valuable source of information in areas such as cultural transformation and on the Environmental, Social and Governance agenda – both important areas for attracting and retaining key talent
5. Use internal audit to embed long-term resilience into operational infrastructure and supply chains and to help management develop and actively test business continuity and disaster recovery programmes



Key findings 2023 vs 2024

What are the top five risks your organisation currently faces?

Business continuity and operational resilience moved up two places this year in response to continuing global turmoil with market changes coming in as a new category



HOT TOPICS

MACROECONOMIC AND GEOPOLITICAL UNCERTAINTY

Focusing on strategic transformation

Chief audit executives ranked macroeconomic and geopolitical uncertainty as the third biggest risk to organisations in the report's quantitative survey – jointly with changes to laws and regulations. Yet while organisations got to grips with geopolitics last year, this year with higher inflation, and a higher interest rate environment they focused heavily on the changing economic landscape.

This category includes a wide range of interconnected risks – from supply chains and changes in customer behaviour to financial liquidity, insolvency and fraud risk.

Board members could work with their CAEs to keep a firm strategic lens on the operational changes they make to tackle these risks. Cost cutting, for example, can be backed up with cost-benefit analyses that ensure payback does not jeopardise long-term success.

Supply chain resilience is another critical area in light of political de-globalisation trends and climate-related events.

CAEs can help by providing advisory services that help co-ordinate effort across the organisation's three lines – and by ensuring assurance is well-targeted. Data analytics can help with monitoring key risks. Risk remediation follow-up in areas of critical strategic importance must be firm.

Boards, should help ensure that internal audit has the time, technology, skills and resources to deal with these fast-moving areas effectively.



HOT TOPICS

CYBERSECURITY AND DATA SECURITY

Getting ready for regulatory change

Cybersecurity is the biggest persistent threat to Europe's organisations, according to CAEs responding to the report's quantitative survey: 84% ranked it as a top five threat. That was matched by internal audit effort – 79% said it was a top five area of focus.

Yet while ransomware attacks, industrialised hacking and state-sponsored cybercrime remained major threats, the rate of growth in the magnitude of the risk has eased. Awareness among boards and management is high.

But in sound risk management, complacency is not an option. Not only do boards need to ensure their organisations are resilient in the face of disruptive technologies such as AI, but they are prepared for (and have the talent to cope with) a broad range of new cybersecurity and data security regulations coming into force over the next couple of years. The EU's Data

Act and Cyber Resilience Act – to name just two – will help standardise cyber defences but also bring fines for non-compliance – a new regulatory threat.

Given that AI can be a major business enabler, and as organisations continue to move their operating systems onto digital platforms, internal auditors can help in ensuring these are secure, compliant and have solid disaster recovery plans in place for when trouble strikes.

CAEs have been working with IT departments to develop digital cyber security systems to monitor, detect and react to attacks. Boards have a role to play in participating in scenario testing events for ransomware attacks, for example, and supporting awareness-raising initiatives so that the culture around cybersecurity matures.



HOT TOPICS

HUMAN CAPITAL, DIVERSITY, TALENT MANAGEMENT AND RETENTION

Transforming organisational culture

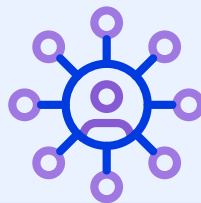
Human capital remained the second biggest risk organisations face according to the quantitative survey: 58% of CAEs cited it as a top five risk. They expect it to remain in that position by 2027.

In the cost-of-living and doing business crises, boards must balance the effect of pay increases on the bottom line with an ability to fill strategically important roles in their organisations. But with changing attitudes to employment practices – such as demands for more flexibility and hybrid styles of work – some boards have found that their organisational culture lags broader social trends.

Businesses that focus on achieving cultural transformation fare best – boosting diversity in the workplace creates more profitable businesses and clearly communicating an organisation's wider social purpose can act as a magnet to attract younger staff. People need to

feel listened to and safe to speak out in cultures that engender diversity of thought.

Boards have not always turned to CAEs for help in these softer areas of business – but that represents a missed opportunity. While traditional assurance metrics on policies and procedures have their place, internal auditors can provide a balance of well-targeted audits in key areas as well as rapid informal assessments that keep the board informed of fast-moving problems and tap into the cultural mood of the business.



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HOT TOPICS

CLIMATE CHANGE, BIODIVERSITY AND ENVIRONMENTAL SUSTAINABILITY RETENTION

Embracing ESG in the corporate mission

With two of the hottest European summers on record and climate-related disasters happening around the world, the weather has put the environment firmly on board agendas. The location of critical business infrastructure, the availability of manufacturing resources and key suppliers have become strategic issues. With growing public, investor and regulatory attention, CAEs in the quantitative survey said that climate change will be the 3rd biggest risk organisations face by 2027.

Together with other regulations and standards, Europe's Corporate Sustainability Reporting Directive came into force in 2023 and has shone the spotlight on company disclosures. At the same time, as organisations rush to enhance their green credentials in the marketplace, poor data quality raises the risk of greenwashing.

Treating such disclosures as a compliance-driven activity is a missed opportunity. But boards can work with CAEs to retain a strategic focus. That ensures that the organisation's objectives are built on solid data and that sustainability goals are firmly grounded in the broader corporate mission. Building relationships with key external stakeholders such as specialist NGOs can not only improve the quality of reporting data but help boost a company's reputation.

Internal auditors can provide assurance that such regulations not only apply to businesses' operations but also extend to their environmental and social impacts through suppliers. Boards looking to gain competitive advantage can adopt such double materiality measurements to provide much deeper, more meaningful insights into climate-related risks and opportunities.



HOT TOPICS

SUPPLY CHAIN, OUTSOURCING AND NTH PARTY RISK RETENTION

Strengthening critical partnerships

The pandemic, climate change and heightened geopolitical tensions helped push supply chain relationships into the spotlight during 2023. CAEs ranked it as their organisations' 7th biggest risk in the quantitative survey.

Deglobalisation trends accelerated by the pandemic and the US' decoupling strategy from China began to find its way into legislation such as the Inflation Reduction Act aimed at attracting corporations to move to North America. Such trends threaten to accelerate a weakening of global supply chain infrastructures.

In the qualitative research for Risk in Focus 2024, CAEs said supply chain diversification was a crucial strategy – but attention has switched to securing critical materials from wherever possible. CAEs can help boards in either supporting innovation into new materials or in finding ways to partner tightly with critical suppliers. In addition, co-ordinating efforts

across the business to create, test and run through business continuity planning and disaster recovery procedures has never been more important. Boards can support CAEs in encouraging management to fully engage with these critical initiatives.

To complicate matters, the European Union voted to back enhanced scrutiny of supplier relationships in its Corporate Sustainability Due Diligence Directive. CAEs can support the board in identifying potential compliance hotspots improving the resilience of the supply chain network through stronger due diligence processes.



ABOUT RISK IN FOCUS

For the past eight years, Risk in Focus has sought to highlight key risk areas to help internal auditors prepare their independent risk assessment work, annual planning and audit scoping. It helps Chief Audit Executives (CAEs) to understand how their peers view today's risk landscape as they prepare their forthcoming audit plans for the year ahead.

This year, Risk in Focus 2024 involved a collaboration between 16 European Institutes of Internal Auditors, spanning 17 countries which included Austria, Belgium, Bulgaria, France, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Spain, Sweden, Switzerland, and the UK & Ireland. The highest number of European countries involved so far.

The survey elicited 799 responses from CAEs across Europe. Simultaneously, five roundtable discussions were organised with 46 CAEs on each of the risk areas covered in the report. In addition, we also conducted 11 one-to-one interviews with subject matter experts that included CAEs, Audit Committee Chairs and industry experts to provide deeper insights into how these risks are manifesting and developing.

