



Chartered Institute of
Internal Auditors



AUDITBOARD










Adapting to economic uncertainty:

Internal audit's journey



July 2023

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Foreword

The economic landscape since the start of this decade has been eventful, to say the least. The flash recession in 2020 spurred on by the pandemic has been followed by the war in Ukraine which has exacerbated food and energy prices. On top of this, we have had a rise in interest rates to tackle ongoing inflation that has spurred the cost-of-living crisis. There has not been a moment to sit still in the past three years and as we fend off the threat of another economic downturn there is no guessing what uncertainty is around the corner. In uncertain times, internal audit professionals are ideally positioned to demonstrate their expertise in risk and control management by being adaptable and proactive in tackling the risks associated with economic volatility. For the internal audit functions that are being impacted by this volatility, this can be an opportunity to showcase internal audit's value when promoting a culture of resilience, providing assurance through times of economic uncertainty and supporting the organisation as the economy recovers.

The results of our internal audit in an uncertain economy survey of internal auditors in the UK and Ireland, which forms the core of this report, revealed that 55% of respondents perceive the current risk level posed by economic uncertainty to their organisations as ranging from high to very high. Multiple risk areas such as financial stability, fraud, business continuity, liquidity and human capital, diversity and talent management are impacted by economic uncertainty and internal audit can see this as an opportunity to confront these risks head-on.

The collapse of Silicon Valley Bank in the USA, followed by the emergency takeover of Credit Suisse by UBS in Europe earlier this year are reminders that economic disruption is not going away anytime soon. This report explores three key themes: hindsight, insight and foresight of internal audit's journey through the economic cycle. Firstly, we will look at the lessons learned from previous economic shocks and how this can influence internal audit's response. Secondly, we look at internal audit's present response to current economic uncertainty and how they are navigating these uncertain times. Finally, we explore how internal audit can support their organisations on the journey as the economy recovers. As we delve into the findings of this report, we want internal auditors to start a dialogue, if they are not already doing so, with senior management and audit committees about the risks, and opportunities, that economic uncertainty brings.

The power of internal audit, if harnessed appropriately, can support organisations as they navigate this period of economic volatility. The global landscape is constantly evolving, and internal auditors have recognised the importance of speed, flexibility, and adaptability in navigating rapid economic change. Internal audit plays a role in shaping the culture of resilience within an organisation, collaborating closely with other departments across the three lines of defence contributing to a cohesive risk management effort. The Three Lines Model, as adopted by the IIA, provides a basis for building and implementing robust assurance across organisations during times of economic uncertainty.

Internal auditors are not economic forecasters or stock market gurus but during the peaks and troughs of economic uncertainty they can articulate what they can bring to the table. If their organisation is not using economic scenario planning or financial stress testing, they can encourage them to do so. If they are using it, they can make sure internal audit is providing sound assurance against these processes to ensure they are robust, effective and appropriate. The internal audit function, if utilised correctly, can foster an environment where the organisation's response to economic challenges is both relevant, proportionate and most importantly, impactful.

In this report, internal auditors in different sectors have shared their experiences and strategies, providing valuable insights for others facing similar challenges. I extend my appreciation to the internal audit professionals who contributed their expertise and insights to this report. I also express my gratitude to the team that has compiled and analysed the data, allowing us to gain valuable knowledge from this comprehensive study. May this report inspire internal auditors across all sectors to embrace resilience, drive innovation, and navigate economic uncertainty with confidence.

Anne Kiem OBE

Chief Executive, Chartered Institute of Internal Auditors



About the research and methodology

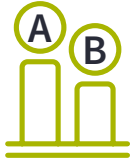


We conducted a quantitative survey of 123 internal audit professionals across all sectors of the UK and Ireland. The survey aimed to understand the impacts that economic uncertainty is having on their organisation, as well as actions that internal audit functions are taking to help their organisations identify, manage and mitigate the associated risks.

In addition to the survey, we conducted qualitative research that involved five sectoral roundtables and six one-to-one interviews with internal audit professionals covering a range of sectors that make up GDP. This included the services sector (with separate roundtables for financial services and non-financial services), the construction sector, the manufacturing sector, and the public/third sector.

We would like to thank everyone who participated in our research for their contributions. Their involvement does not mean that they endorse the contents of this report.

Survey findings



56%

of internal audit professionals perceive the current risk level posed by economic uncertainty to their organisations as ranging from high to very high and over a third of organisations face medium risk.



26%

of respondents highlighted “financial capital, cash flow, and liquidity risk” as the single biggest risk area impacted by economic volatility, this once again highlights the importance of monitoring financial stability & liquidity during uncertain times. Changes in consumer demand and behaviours emerged as a significant risk, impacting **22%** of organisations.



42%

of internal auditors have experienced an unchanged or real decrease (adjusted for inflation) in their budget/resources due to inflationary rises in the past 12 months. Over one-fifth of internal audit functions have seen an increase in the budget/resources, but this was not fully adjusted for inflation.



73%

of internal auditors surveyed either support or include a risk management framework assessment in their internal audit plan for 2023-24. Cost-saving and financial efficiency audits are widely adopted, with **58%** of internal audit functions employing these measures to navigate economic uncertainty and bolster financial stability. However, only **11%** of internal audit functions support economic scenario planning in their organisation. This is alongside the **23%** of internal auditors that engage in financial stress testing exercises carried out by their organisation.



35%

of internal audit professionals integrate resilience measures into their standard audits and **42%** of internal auditors do not include any aspect of auditing resilience measures against macroeconomic uncertainty in their audit plans.



50%

of survey respondents anticipate that economic conditions will remain the same in their region/country over the next 12 months.



Key takeaways



Promoting a culture of resilience

1.

Building resilience through economic scenario planning - Internal auditors should be prepared to provide assurance against economic scenario planning to ensure they reflect a wide range of possible outcomes and risk impacts that can occur during an economic crisis. This can be done through the validation of assumptions, the evaluation of risk impacts, and testing mitigation strategies employed against these scenarios. This assurance work provides confidence to management as flagging these possible vulnerabilities and concerns around economic scenario planning processes, leads to informed assumptions and can help enhance the resilience of the organisation.

2.

Sharpen up your skill set – Whether it's hiring subject matter experts and retraining them as internal auditors or engaging with more experienced internal auditors who have been through economic crises before, improve the skill set of the internal audit team ahead of an economic crisis. Be creative in the jobs market, especially when internal audit talent acquisition is competitive.

3.

Evaluate financial stress testing - Internal audit should evaluate the effectiveness and robustness of the organisation's financial stress testing measures, as this is a powerful risk mitigation tool in times of economic uncertainty. It is important to consider the current economic context and challenge the validity of testing outcomes if necessary. Providing assurance on financial stress testing measures strengthens financial resilience and instils confidence when navigating challenging economic conditions.

*“Are we simulating business continuity? Are we simulating business crises?
Only by exercising those simulation muscles can we get better at dealing
with crises when they happen.”*

Richard Brasher, Vice President, Corporate Audit, LKQ Corporation

Adapting to the new normal

4.

Be alert – Not thinking just about the immediate risk but the knock-on effect that risk may have on other risk areas. Has a rise in inflation been considered in the organisation's pricing structure? Has the cost-of-living crisis increased fraud cases? Sometimes taking a step back and having a birds-eye view of the risk landscape is necessary, so the possible pathways and connections of risks are clear.

5.

Stop when necessary – In response to economic volatility, internal audit needs to be swift and effective with its recommendations. Long, drawn-out audits are simply not fit for purpose considering the economic climate. Identify the key issues, agree on actions and move on to the next audit.

6.

Make sure your voice is heard – Clear and impactful communication by internal audit functions is essential to facilitate a proportionate and effective organisational response to economic volatility. There can be uncertainty about what is going to happen next and there is always a risk of overreacting or not reacting enough to economic changes. Having a strong voice and striking a balance between conveying risk exposure without causing undue panic is key. Explore creative communication methods such as flash memos and one-page audit reports. This enables timely and concise information during times of crisis, rather than relying on yearly internal audit opinions.

- 7. Time to be flexible and agile** – Why continue to pursue audits that are not relevant to the context and environment that the organisation is currently in? Read the room and find out how internal audit can help. Be adaptable and responsive to the needs of the organisation. Conduct audits of contracts and evaluate pricing strategies in response to inflation. Check if the prices paid to suppliers and charged to customers remain suitable and aligned with the market conditions. Look at cost/budget controls to see if they are too stringent or loose for the economic environment, evaluate the controls relating to financial crime and fraud to see if these are being tested during times of volatility.

“You have to adapt to whatever the environment looks like and the reality is that the risk has increased in severity and has increased in the frequency of change, and that’s what the internal audit process needs to accommodate”

Paul Kaczmar, Head of Internal Audit and Risk Management, Page Group

The road to recovery

- 8. Seize opportunities** – When recovery is in sight it is time to implement the lessons learned to drive growth in the organisation. Internal auditors should continue to be agile after periods of economic uncertainty so they can spot and respond to growth opportunities for the organisation. Internal audit could explore rebate audits to see what the organisation is entitled to. Assessing existing contracts with external suppliers may provide some efficiencies. Evaluating controls that were put in place during times of economic uncertainty may remove any blocks that could hamper growth activities. Being proactive during this period can reap dividends for some organisations.

- 9. A data-driven approach** - Data analytics needs to become a cornerstone of internal audit functions. Internal auditors’ natural use of the sniff test “if it doesn’t smell right, it probably isn’t right” needs to be complimented with a data-driven approach. This skill is essential as it enhances internal audit’s ability to identify potential risks, efficiencies and growth opportunities.

- 10. Stay relevant and show value** - Internal audit’s impact during both economic downturns and growth can sometimes be downplayed and often faces the risk of being perceived as an expendable cost by some organisations. By actively promoting its value and seizing opportunities during growth periods, internal audit can provide valuable insights into organisational weaknesses and contribute to the recovery strategy.

“We have to matter. For me it’s really about having a commercial mindset: empathic, pragmatic, proportionate and risk-based responses that give you the right to be at the top table and to be part of decisions that matter”

Carolyn Clarke, Non-Executive Director of Starling Bank and Founder of Brave Within LLP



Introduction

We are currently in the midst of ongoing economic volatility off the back of the Covid-19 pandemic, the war in Ukraine and now a cost-of-living and cost-of-doing-business crisis. This economic uncertainty is now the new normal and impacting a multitude of risk areas such as financial stability, fraud, business continuity, liquidity and human capital, diversity and talent management. As some organisations battle against soaring energy prices, and supply chain issues, along with high inflation and interest rate rises, internal audit can play a key role in supporting these organisations to navigate this period of economic volatility and uncertainty.

This economic uncertainty, if not addressed can lead to a decrease in economic activity, as some organisations and consumers become more cautious in their spending and investment decisions. Although the UK has so far managed to escape a technical recession at the beginning of 2023¹, the presence of economic volatility this decade has made even economic experts unsure about what is around the corner. This is not only an issue in the UK, but the picture is also similar in Ireland. Ireland is now in a technical recession, the Central Statistics Office found that GDP in Ireland fell by 4.6% in the first three months of 2023². In the wider context, the eurozone has also slipped into recession³, with GDP falling in the first three months of 2023 and the final three months of 2022. The IMF anticipates there to be a significant deceleration in growth for advanced economies in 2023. Although global headline inflation is expected to decrease from 2022, inflation is not forecast to return to target levels before 2025 in most cases⁴. In fact, the UK inflation rate recently hit a 41-year high and interest rates have shot up dramatically to help curb this inflation, with further rate increases on the horizon. Tough business decisions are being made regarding resourcing and investments. Company insolvencies reached a 13-year high in the UK over the past year and are expected to continue to rise in 2023⁵. There are still concerns about the trajectory of the UK economy, the Institute of Directors recent survey revealed that nearly two in five directors are pessimistic about the economy's fortunes over the next year⁶.

¹ CIMA expects UK economy to avoid recession, BBC. [🔗](#)

² Irish economy enters technical recession following unexpected 4.6% fall in GDP, Irish Examiner. [🔗](#)

³ Eurozone sinks into recession as cost of living crisis takes toll, The Guardian. [🔗](#)

⁴ World Economic Outlook Report, IMF, April 2023. [🔗](#)

⁵ UK company insolvencies rise to 13-year high, ICAEW. [🔗](#)

⁶ Business confidence in the UK economy stabilises "just below neutral" in May, IoD. [🔗](#)

There have been thousands of layoffs as some organisations feel the force of a combination of accumulated debt, high-interest rates, inflation and supply chain issues. Notable tech organisations such as Google, Amazon, Microsoft, Yahoo, Meta and Zoom have laid off over 168,000 workers in 2023 alone⁷. Vodafone and ASDA have also announced job cuts are on the horizon. Economic uncertainty is bringing about anxiety for both organisations and consumers.

There are always winners and losers during times of economic volatility, and this tends to affect different sectors in different ways. Roundtable discussions conducted by the Chartered IIA revealed that along with the business-critical risks faced by the financial services sector such as higher interest rates leading to more loan and mortgage defaults, the public sector may see cuts in funding and increased pressure on services. With consumers facing rising inflation and now facing higher interest rates, the construction sector may experience reduced demand for new builds and the manufacturing sector may face supply chain disruptions.

Challenges for internal audit

At the same time, internal audit functions themselves may not be immune to the impacts of the volatility in the economy. The Chartered IIA's survey on economic uncertainty revealed 42% of internal audit functions do not include any aspects of resilience measures against macroeconomic uncertainty in their audit plans. In addition, 42% reported that their internal audit function's resources/budget either stayed the same or decreased due to inflation rises in the past 12 months. For some internal audit functions, this inflationary squeeze is a real-term cut to their resources/budgets, which may lead to a tighter financial and cost-controlled environment. Internal audit functions will need to ensure they are on top of the multitude of risks likely to be exacerbated by economic uncertainty, ensuring they are agile and flexible enough to respond to the assurance needs of the organisation. Despite this, our research suggests many internal audit functions are faced with the challenge of doing more with less.



⁷A comprehensive list of 2023 tech layoffs, Tech Crunch. [🔗](#)

Promoting a culture of resilience: lessons learned from previous economic shocks and preparedness for the future



Resilience in times of crisis: How has the past shaped the present?

In the face of economic uncertainty, internal audit professionals across various sectors have learned valuable lessons from previous economic shocks. This in turn has shaped their approach when building resilience within an organisation. The days of rigid, fixed annual audit plans and internal audit working in isolation, away from the rest of the organisation are over. The 2008 financial crisis led to subsequent regulatory measures that have influenced internal audit practices, particularly in the UK. The Financial Services Act 2012, which established the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), strengthened regulatory oversight and stability in the financial sector⁸. For example, the PRA has implemented stress testing requirements for financial services providers. In addition, the Bank of England has established a stress testing framework for UK banks and financial

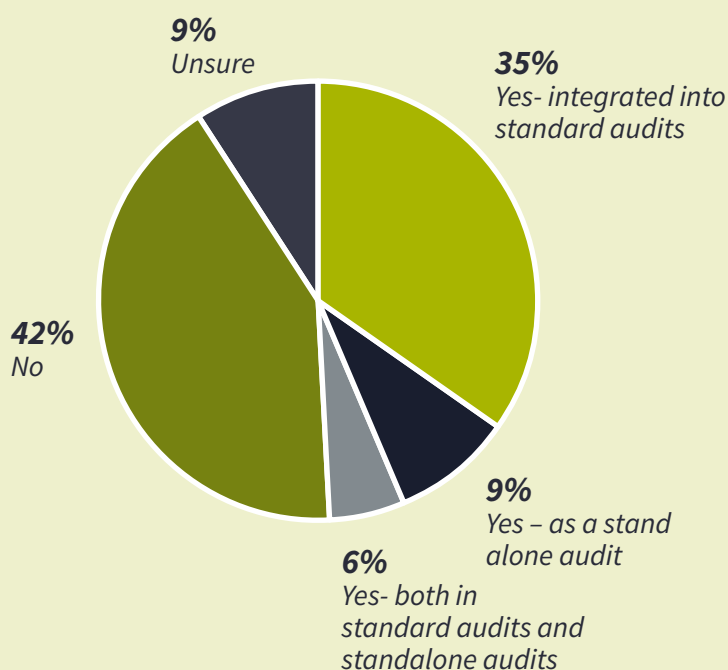
institutions, aiming to assess their resilience and ability to withstand severe economic scenarios⁹. These regulatory actions are intended to foster a stronger and more stable financial system in the UK, improve knowledge of any weaknesses, and evaluate the resilience of banks in challenging economic times.

“Resilience needs to be consistent throughout an organisation, there is no point in being resilient in one part of the business if another part is the one being impacted”

Paul Kaczmar, Head of Internal Audit and Risk Management, Page Group

Does your audit plan include any aspect of auditing resilience measures against macroeconomic uncertainty?

A third of respondents have integrated auditing resiliency measures against macroeconomic uncertainty into their standard audit. However, a notable proportion (42%) indicated that their audit plans do not currently include such measures. This highlights a potential gap in internal audit's preparedness for macroeconomic uncertainty.



⁸Financial Services Act 2012, Legislation.gov.uk. [Link](#)

⁹Stress testing, Bank of England. [Link](#)

Proactive approaches for future economic shocks: thriving in uncertainty

Internal audit teams have the opportunity to take proactive measures to protect organisations against the risks that may arise from economic uncertainty. These are some approaches that could be implemented to aid the preparedness of organisations against future economic shocks:

Go digging

Identify the key risks that the organisation may face through periods of economic volatility and expose the underbelly of weaknesses throughout the organisation. The risk assessments for both the organisation and the internal audit team needs to be up to date. And if a risk internal audit has flagged is not on the organisation's radar, it needs to be expressed in a way where the impacts will be immediately understood. The risks associated with economic volatility are complicated, so they need to be broken down and made digestible.

Build alliances

Internal auditors who cultivate strong relationships with key business functions such as finance, HR, risk management, and the CEO's office are set to do well. This facilitates a comprehensive understanding and timely communication of potential risks associated with an economic downturn for the organisation. Close collaboration with audit committees, its chairs, boards and risk management on economic scenario planning prepares the organisation for future economic shocks.

Evaluate the organisational culture

Be aware of the culture and the strategic goals of the organisation. The alignment of individual strategies and actions with the overall organisation's values and goals is fundamental when building a resilient culture, or the organisation might be more exposed to economic headwinds.

Be seen and heard

All these proactive measures may be hard for some people in the organisation to hear. Creative messaging, highlighting what the risks associated with economic uncertainty can do to the bottom line will help focus attention.

Developing diverse skill sets

Internal audit professionals are investing in developing a diverse mix of skills and competencies. This includes enhanced communication skills, emotional intelligence, data analytics and business acumen. With the lack of fresh internal audit talent available in the jobs market, hiring subject matter experts or people with skills that can translate to the internal audit profession may give that different voice in the room, rather than an echo chamber.

Staying fit

Are organisations using tools such as economic scenario planning and simulation exercises? If yes, internal auditors could assess whether this is being done to the required level within the organisation. The value of scenario planning and simulations should be highlighted to management in a way that is meaningful and clearly link the potential impacts that economic shocks can have on the organisation. These exercises help identify vulnerabilities, assess viability, and provide valuable insights for not only internal audit but the organisation as a whole.

Fingers on the pulse

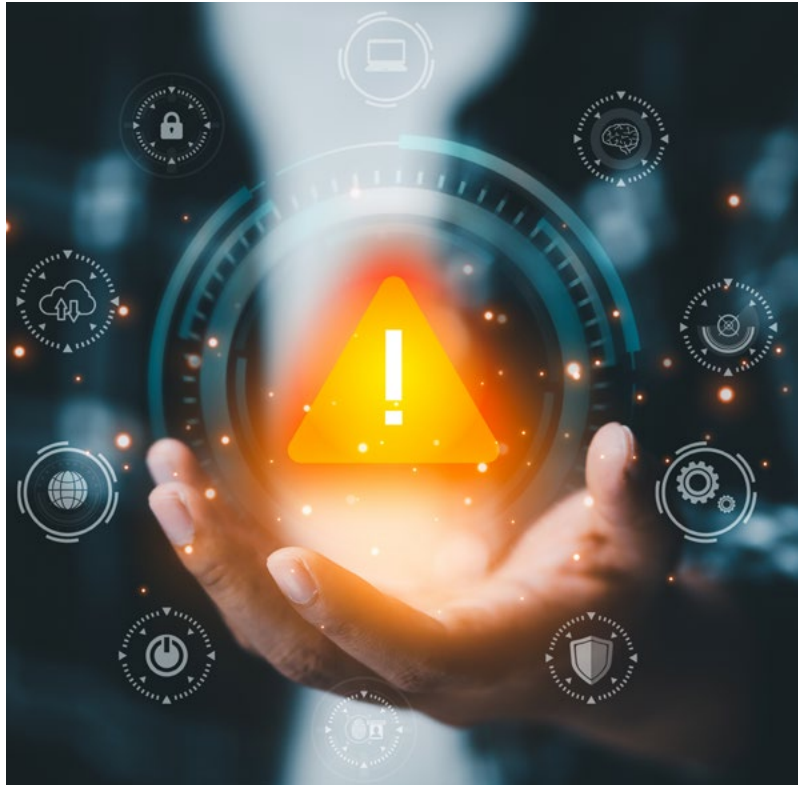
Internal audit functions need to keep a close eye on key macroeconomic indicators to help anticipate future risks to their organisations. This includes monitoring rising prices of commodities, changes in funding levels, rises in fraud, customer defaults, changes to inflation, house prices, interest rates, and a whole host of factors that may signal a turn for the worse.



By leveraging effective strategies and adopting proactive approaches, internal audit functions can navigate economic uncertainty and position organisations for success in an ever-changing landscape.

“Whether it be a drop in demand, a credit risk or key suppliers going bust, if you understand the key areas, where you are most vulnerable, then you can do something about it in advance”

Alistair Smith, Internal Audit Risk & Control Director,
EDF Energy



Which business functions does your internal audit function/team collaborate with to manage economic uncertainty?

Risk management emerges as the most common business function for internal audit collaboration, with **81%** of organisations recognising the value of cross-functional partnerships.



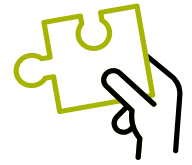


Key questions

- Q1.** Are you incorporating the lessons learnt from previous economic shocks into your audit plans?
-
- Q2.** Are you adapting your audit plans and practices to be more agile and responsive to economic conditions?
-
- Q3.** How are you monitoring key indicators that can signal an approaching economic downturn?
-
- Q4.** Are you keeping a close eye on rising commodity prices, changes in funding levels, fraud incidents, customer defaults, staff turnover, and other factors that may indicate a turn for the worse?
-
- Q5.** Have you thought about your organisation's culture? How does our culture align with the organisation's purpose, values, corporate strategy, and vision for the future? ([Check out our report on cultivating a healthy culture](#))
-
- Q6.** Do individual strategies of internal audit and other parts of the organisation align with the overall strategic goals of the organisation? Is it resilient enough?
-
- Q7.** Is there a culture of resilience in your internal audit team, and does it mirror the culture set by the board? If not, why not?



Adapting to the new normal: a look at internal audit's present response to ongoing economic uncertainty



On the lookout: addressing emerging risks and effective risk management

The volatile economic environment since the start of this decade has brought about a complex and unforeseen risk landscape for some organisations across different sectors and industries. The current economic climate can be characterised by volatility, uncertainty, complexity, and ambiguity (VUCA) and the challenges posed by VUCA have impacted organisations across the economy. For the financial services sector, the collapse of Silicon Valley Bank in the USA, followed by the emergency takeover of Credit Suisse by UBS in Europe, has been a timely reminder of how quickly things can change in the sector in comparison to the financial crash

of 2008. The combination of house prices tailing off whilst building costs skyrocket has exposed the construction sector to a risk environment not seen in years. Actively trying to manage the risks associated with land investments, regulatory changes, raw material increases, reputational risk and fraud has kept the industry keeping a close watch on economic indicators. Many departments and organisations in the public and third sectors face a multitude of risks, from budget constraints to public scrutiny. Some of these organisations are finding it difficult to balance these economic risks against ESG and social mission goals and the need to demonstrate progress and impact.

“Management has a very robust process of identifying emerging macroeconomic risks and we integrate that into our assessment. In addition, we challenge our internal auditors to look both internally and externally for risk factors impacting the organisation. This process is continuously evolving in the teams”

Brian Watts, Global Assurance Head Methodology and Reporting, ArcelorMittal

“You sometimes have to do it old school and look at simple things like working capital and look what is happening to stock, debtors, creditors. Have debtors had their credit limits increased? Have bad debts gone up? Checking the year-end accounts can give you a picture of where the cash is going in the business, really kick the tyres and you can learn some things”

Head of Internal Audit, Major Food Manufacturer

A common theme among internal auditors we spoke to as part of our research was issues around recruitment, retention and talent acquisition for the internal audit function. As inflation and interest rates rise and the cost-of-living crisis intensifies even more, the financial pressures have meant staff are more willing to jump ship and switch roles in pursuit of higher salaries. Even beyond the financials behind a job switch, the workforce is now seeking organisations that align with their values and/or offer a degree of flexibility working-wise that fits in with their lifestyles e.g., hybrid working. On the other hand, as organisations feel the squeeze of economic uncertainty, the real threat of mass layoffs is another clear pressure point, keeping both

employees and employers on their toes. This new economic landscape combined with the great resignation or great reshuffle following the pandemic has caused a notable upheaval in the internal audit profession. Despite the presence of job vacancies, the process of hiring in the current market continues to present challenges. The scarcity of skilled professionals and the intensifying salary competition has elevated the level of rivalry, rendering traditional recruitment and retention strategies insufficient. “Work from everywhere” arrangements, development opportunities, clear career progression, and top-notch training courses are creative approaches that tend to attract and retain talent

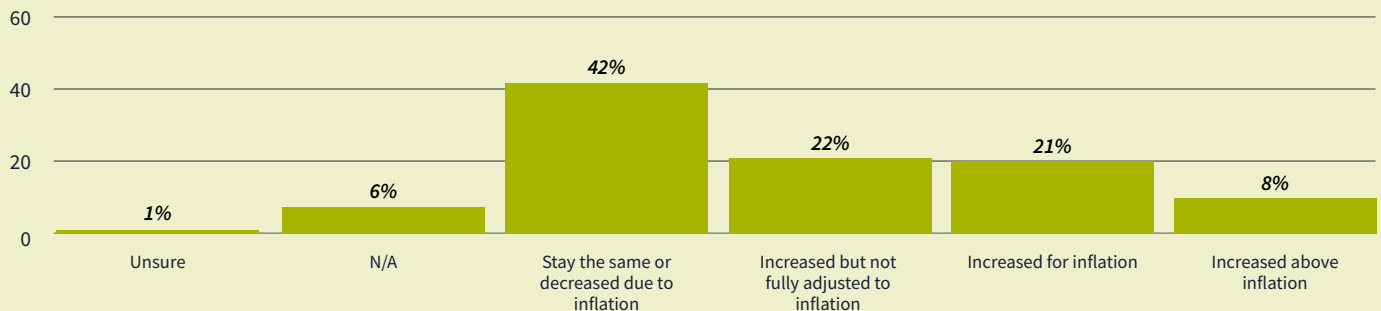
“Recruitment is a massive issue; the private sector can match inflation better than the public sector. We are working harder with what staff we have got whilst continuing to try and fill vacancies”

Leanne Hawkes, Director, 360 Assurance (NHS)



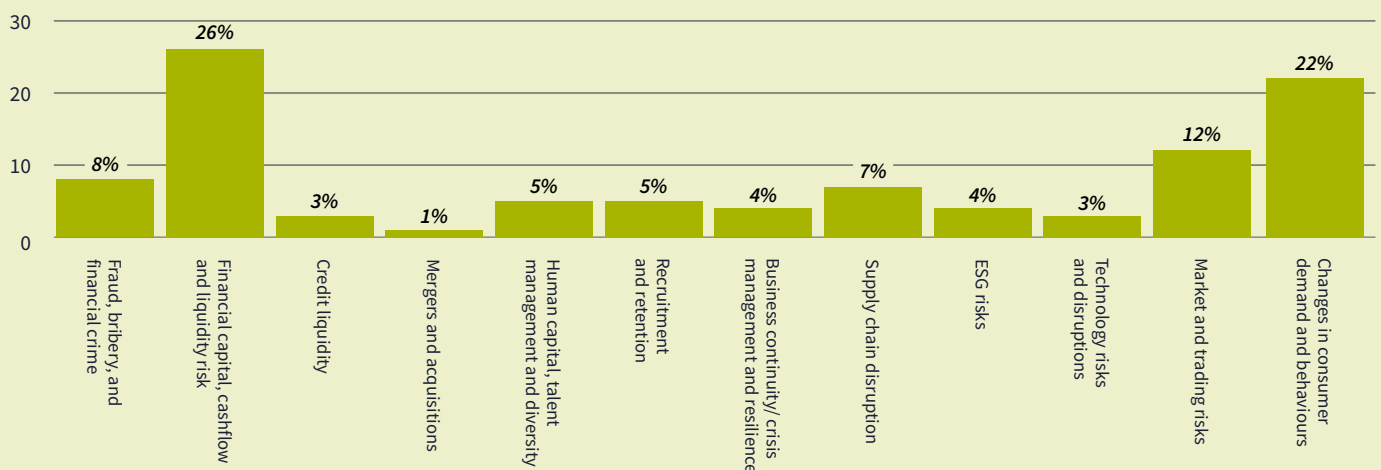
Have there been any changes to the internal audit function's resources/budget because of inflation rises in the past 12 months?

A large proportion (**42%**) of internal audit functions have either maintained their resources/budget or experienced a decrease due to inflation rises in the past 12 months. This highlights the inflationary squeeze that some internal audit functions are facing in the current economic climate.



What is the single biggest risk most impacted by economic uncertainty and volatility?

Our survey revealed that financial capital, cash flow, and liquidity risk are the primary concerns during periods of economic volatility, with **26%** of respondents emphasising its significance. During times of economic uncertainty, monitoring financial and liquidity risks is vital as the organisation's financial position can change rapidly. Additionally, **22%** of respondents highlight the risk of changing consumer demand and behaviours, underlining the need for organisations to adapt their strategies to the behaviours of customers. Both "fraud, bribery and financial crime" and "market/trading risks" have also featured prominently in these results.



Time to be flexible: changes to audit plans

The new normal of economic uncertainty has necessitated adjustments to internal audit plans. Not only do the needs of the organisation change during times of crisis but also the internal audit function itself is impacted by the uncertainty. In the public and third sectors, internal audit functions have experienced changes in budgeting and resource allocation decisions whilst other sectors have seen an increase in demand for their services but not an increase in resources, leading to further strain on internal audit teams. Internal auditors need to be prepared to adapt and show a greater degree of flexibility during these uncertain times.

Economic volatility brings challenges when trying to balance an increased demand for immediate assurance against a yearly audit plan that may be based on a different economic outlook. However, it is essential in times of crisis to show the value of internal audit.

Here are some key actions internal auditors can take to ensure they are responding effectively:

Provide Assurance for Risk Assessments and Scenario Planning

Provide proactive assurance on the organisation's overall risk assessment processes and scenario planning in order to analyse whether they are in line with the current economic climate. Evaluate the potential impact of risks associated with economic uncertainty on the organisation's objectives, operations, and financial liquidity. Collaborate and coordinate with risk management to ensure that key risks identified are aligned.

Dynamic Auditing

Adapt internal audit plans to reflect changing risks and priorities. Prioritise audits that directly address high-risk areas affected by economic uncertainty and adopt a start/stop audit approach to ensure time and resources are not being wasted on long, drawn-out audits. Use effective messaging such as flash memos or one-page audit reports to make sure the message is heard. Implement a rolling internal audit plan for these adjustments based on real-time economic developments.

Evaluate Business Practices

Collaborate with risk management and business continuity teams to strengthen the organisation's overall resilience. Auditing costs, identifying efficiencies, and evaluating pricing strategies in relation to inflation changes mitigate financial risks and promote financial stability. Scrutinizing any major projects and investments ensures their feasibility, alignment with financial objectives, and effective resource allocation while mitigating associated risks.

On the Lookout

Assess the effectiveness of anti-fraud measures, ensure compliance with regulatory requirements, and detect/prevent fraudulent activities during times of economic uncertainty where fraud could rise. Internal auditors play a vital role in evaluating controls that combat this. Assess the organisation's ability to meet financial obligations and sustain operations during times of economic volatility. This evaluation of these going concern assumptions includes analysing cash flow projections and debt levels.

“We identified an audit methodology of when to stop an audit. If the auditors have identified they have done enough work to cover the key risks and can reach a conclusion and if performing the additional work would not change our overall conclusion, then we stop the audit there”

Brian Watts, Global Assurance Head Methodology and Reporting, ArcelorMittal

“We are doing a lot of mini audits, where we initially spend some time with the business. If we identify weaknesses or poorly designed controls, why spend ages auditing it? We can quickly give some recommendations and move on to something else”

Sarah Vause, Head of Audit and Assurance, NG Bailey

“(During an economic crisis) The interconnected nature of a lot of the risks we face and the direct correlations that they can have between each other means that it's too difficult to have too long-term of a view on the audit plan, what we try to do is have a much shorter cycle of review to refresh the audit plan”

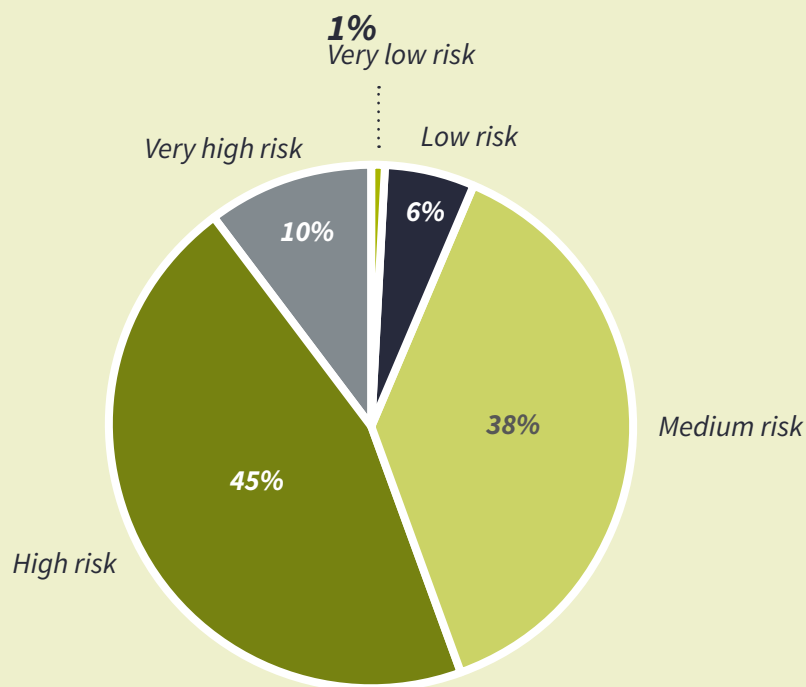
Head of Internal Audit, Distribution and Manufacturing business

“During the Covid- 19 downturn we used flash memos that would highlight key issues like the liquidity position or financial markets or hybrid working etc. We wanted to give a concise message but quickly so there could be some views, debates and responses rather than agonising over traditional methods”

Regional Head of Audit, FTSE 100 Banking Group

What is the current level of risk associated with economic uncertainty to your organisation?

Over half of the respondents perceive the current risk level posed by economic uncertainty to their organisations as ranging from high to very high indicating that there is a significant portion of the profession is being impacted by economic uncertainty. However, this doesn't marry up with internal audit preparedness for economic uncertainty as over 40% of the survey respondents do not include any aspect of auditing resilience measures against macroeconomic uncertainty in their audit plan.



An effective response: a voice that is heard

Internal audit functions should recognise the importance of effective communication with senior management in order to help the organisation respond to economic uncertainty proportionately and effectively. In times of economic volatility, internal auditors may need to strike a balance between not causing undue alarm whilst being clear about the risks the organisation may face. Internal auditors can ensure that senior management is clear about these risks by speaking up when things are not right, i.e., 'speak truth to power'. Internal audit needs to bridge the gap between themselves and other departments and developing relationships with business leaders throughout the organisation is key. Embedding the three lines model is a tool that could support such an approach. This builds trust and in times of crisis, internal audit needs to be seen as working towards one goal rather than being seen as a tick-box exercise that inhibits organisational growth and/or innovation.

By listening to the heartbeat of the organisation, internal audit functions can also effectively align audit plans with the current economic environment. Working and collaborating with risk management in the second line can help internal audit gain better insights into the risk landscape associated with economic uncertainty. Internal audit establishing and cultivating a strong relationship with the Audit Committee and its Chair can also enhance the credibility and influence of the internal audit function. Having an open line of communication where audit findings relating to the emerging risks associated with economic uncertainty can enable quick and informed decision-making by the organisation.

Internal audit cannot be effective if the function is seen as isolated from the rest of the organisation. During our research, it became apparent that before the 2008 global financial crisis, internal auditors in the financial sector had limited influence on boards and senior management.

The increased expectations driven by regulators after that recession led to an appreciation of the internal audit function. Don't let another global financial crash be the wake-up call for the organisation on the importance of internal audit.

"As internal auditors, we are not going to be subject matter experts in every area, but we are experts in risk and control and that is why we are employed. I think sometimes internal auditors are so scared that they know they don't know 'everything about everything' that we don't speak at all. I think having the skill set of just knowing how to ask open questions and become confident in what we don't know is also really an important skill set for auditors."

Group Chief Internal Auditor, FTSE 250 Banking Group





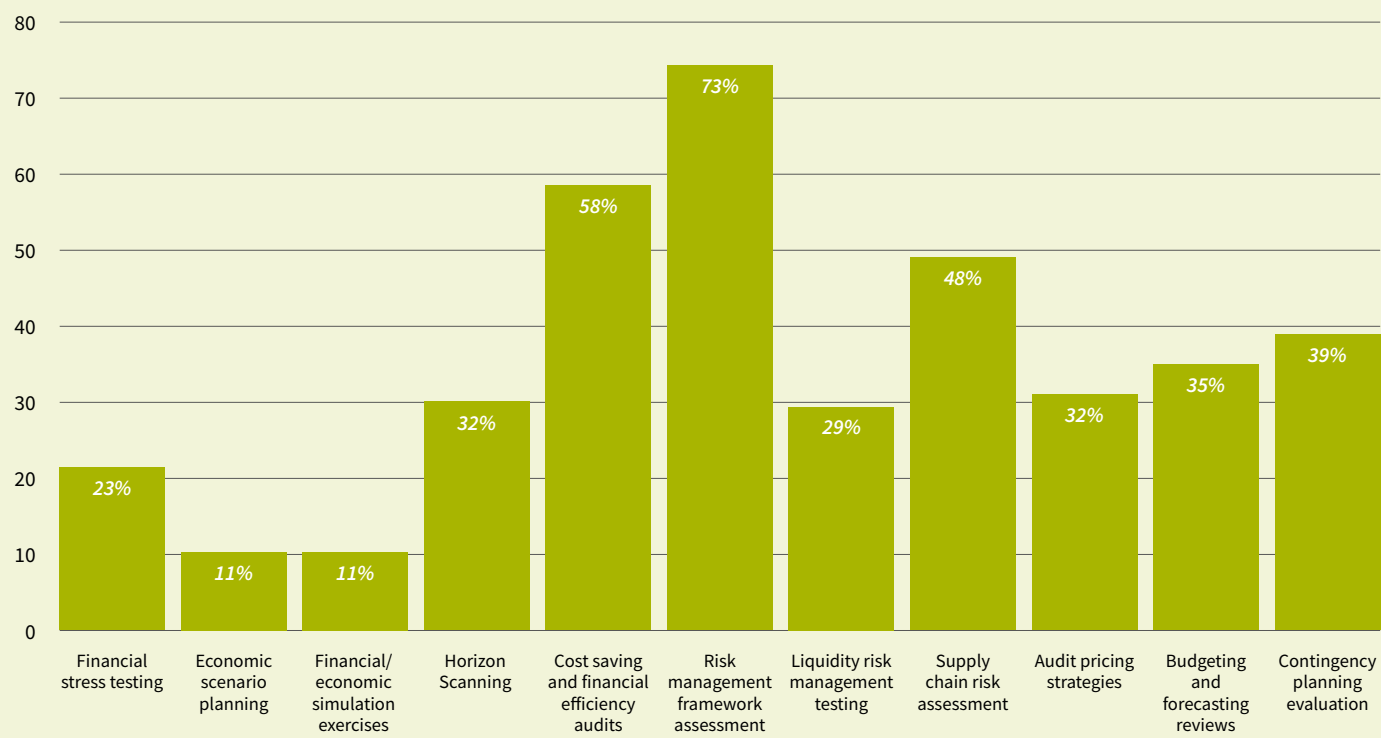
Questions for internal audit

- Q1.** Are you actively collaborating with management and other parts of the organisation to identify key risks, assess their likelihood and impact, and assess the controls management has put in place to mitigate those risks in response to ongoing economic uncertainty?
-
- Q2.** Have you adapted your audit plans and controls to address the changing risks and priorities associated with the new normal of economic uncertainty?
-
- Q3.** Are you conducting proactive risk assessments and providing robust assurance for financial stress testing and economic scenario planning?
-
- Q4.** Is there a strong relationship between internal audit and other key stakeholders across the organisation including the Audit Committee, risk management and other business functions and are you utilising these relationships?



Which of the following measures used to manage economic uncertainty is both included in your internal audit plan for 2023-24 and supported by the internal audit function?

Nearly three-quarters of internal audit functions predominantly use risk management framework assessments when managing economic uncertainty. Cost-saving measures (58%) play a big part in internal audit strategies when managing economic uncertainty. Economic scenario planning (23%) and financial stress testing (11%) and financial/ economic simulation exercises (11%) are key measures that could be deployed or supported by internal audit when managing the risks associated with economic uncertainty. However, the survey findings show these measures may be underutilised by some internal audit functions.



The road to recovery: how internal audit can support their organisations on the journey to economic recovery and harness growth opportunities



Enabling economic recovery: internal audit's support in rebuilding organisational resilience

Often after times of economic volatility, organisations realise how resilient they really are. The Covid-19 pandemic threw every rule book out the window, but some organisations still made it work. In reality, adapting is the only choice. When the recovery strategy is being put in place, resilience to economic shocks can be baked into the strategy in order to use the lessons of the past to shape the future. Internal audit can identify the risks that impact the organisation the most and can evaluate the robustness of existing processes and controls. Internal audit can also examine any ad-hoc measures that were put in place to see if they are still needed or no longer fit for purpose. Did something specific such as the lack of technology, data analytics or even AI capabilities hamper or slow down the recovery process? Whether it be a wash-up meeting, detailed report or chat by the water cooler with other departments, the lessons learnt

must be translated in times of crisis to fortify the organisation's resilience for any future crises. Organisations should use the lessons learnt from times of economic volatility to support building back an even more resilient culture.

"It's not so much about where you are now compared to where you'll be tomorrow, but rather about evaluating your current state in relation to where you should be. The importance lies in setting a baseline, defining standards, and measuring your progress against them."

Siebrand Wolberink, Head of Internal Audit, SoftwareOne

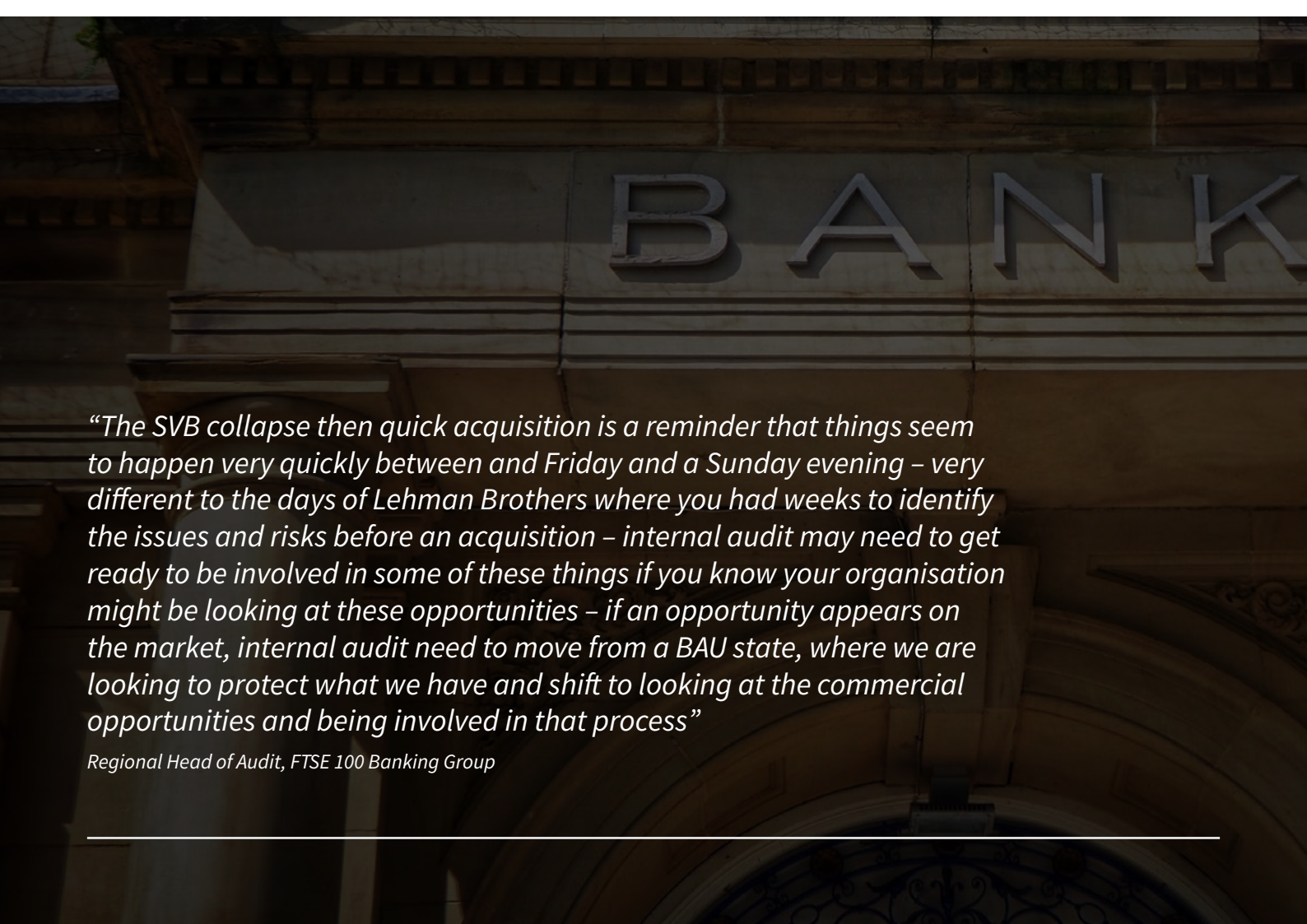
**ROAD TO
RECOVERY**

Driving innovation and informed decision-making: internal audit's contribution to rebuilding and growth

As organisations navigate the path to recovery and growth, internal auditors need to embrace identifying possible growth opportunities and spot underutilisation of existing tools within the organisation through their audits.

Evaluate whether the organisation is using their resources effectively, sometimes tasks are outsourced to other organisations at a cost when they can be done in-house more cheaply. Spotting these things and alerting the right people can save costs in the long run. If the internal audit team has embraced data analytics and AI, are other parts of the organisation doing the same? Sharing the story of the internal audit function's digital transformation can help other parts of the organisation.

Even during internal audit activities, business processes can be improved leading to increased efficiency. This can be done by for example running rebate audits to see if the organisation is receiving the rebates that they are entitled to. Carrying out contract audits to see if contracts with suppliers/contractors are appropriate, cost-effective and stable. Reviewing restrictive financial controls that were put in place during a crisis that could be hampering growth. These actions can impact the bottom line of an organisation and contribute to overall growth. By providing relevant insights, demonstrating value, driving innovation, and facilitating informed decision-making, internal audit plays a critical role in supporting the rebuilding of organisational resilience and setting the stage for sustainable growth in a challenging economic environment.

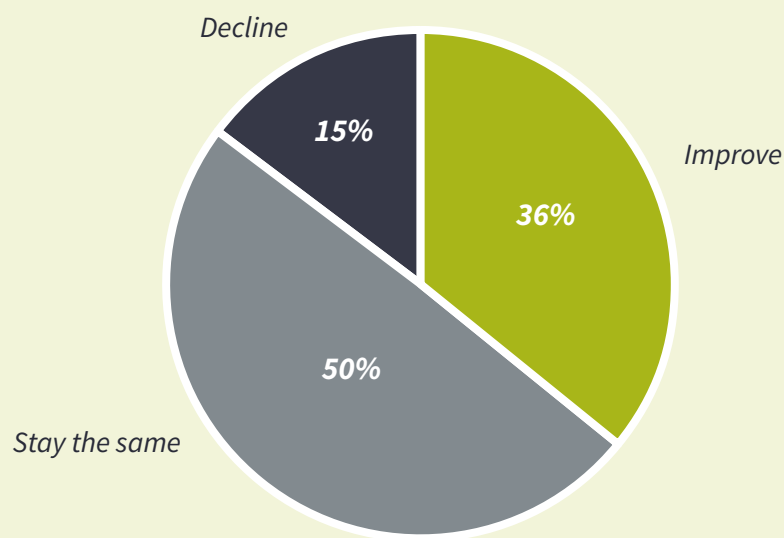


“The SVB collapse then quick acquisition is a reminder that things seem to happen very quickly between and Friday and a Sunday evening – very different to the days of Lehman Brothers where you had weeks to identify the issues and risks before an acquisition – internal audit may need to get ready to be involved in some of these things if you know your organisation might be looking at these opportunities – if an opportunity appears on the market, internal audit need to move from a BAU state, where we are looking to protect what we have and shift to looking at the commercial opportunities and being involved in that process”

Regional Head of Audit, FTSE 100 Banking Group

What do you think will be the economic growth prospects in your region/country over the next 12 months?

More than one-third of internal auditors surveyed believe there is growth on the horizon. However, with just over 14% believing it will decline further there is still a cautious sense of caution about the future of the economy.



“Be aware of what the wider economic uncertainty does to confidence, not just the confidence for the sector but the confidence of the staff and morale of the organisation, as individuals may be struggling personally through these economic challenges”

Steven Welsh, Chief Internal Auditor, Funding Circle

Showing value: staying relevant during times of growth

The peaks and troughs of the economy and the volatility that comes along with that have made it difficult for organisations to know where they stand day by day. However, internal auditors may need to adopt a stance that enables them to sustain the essential work they carry out within their organisation, whether they are in times of growth or a downturn. Frequently, whether an organisation is seeking to free funds for investment purposes or cutting costs in a crisis, internal audit is perceived as an expenditure that can be minimised or even eradicated e.g., in 2020 a survey in our “Internal Audit in Lockdown” report showed that 15% of Chief Audit Executives indicated that all or part of their team has been put on furlough during the pandemic.

Building a strong relationship with management and ensuring there is a level of trust between internal audit, the board, and the audit committee the function can be seen as an ally and a trusted advisor. Internal audit should embrace its role as a trusted advisor but must balance this with the fundamental of providing assurance for organisations. Before advice is given internal

audit should remain independent and objective. Challenge assumptions or things it may deem are wrong but approach things differently with audit engagements. Be forward-thinking, honest, and objective.

Actively listening to management and the organisation's needs helps to keep internal audit relevant during times of growth. Enhance value by providing concise communications, conducting benchmarking work, and delivering training programs, all of which provide added value. Be an internal audit function that can highlight opportunities for efficiencies, and cost-savings and be seen to be proactive in preventing crises before they occur.

“Internal audit can soon become irrelevant if it doesn't act how the business acts”

Mark Penlington, Head of Internal Audit, Irwin Mitchell LLP



Questions for internal audit

- Q1.** Have you explored opportunities for driving innovation and informed decision-making within your audits to support your organisation's growth trajectory?

- Q2.** Are you effectively demonstrating the value and relevance of internal audit during both times of economic growth and downturns?

- Q3.** Are you actively engaging with senior management to understand their needs and provide added value beyond assurance activities?



Conclusion: a golden opportunity

The ongoing volatile economic environment, although not new to the profession, is something that is impacting all corners of the economy including the work of internal audit functions. From the Covid-19 pandemic to the War in Ukraine and now the cost-of-living and cost-of-doing-business crisis, these are certainly challenging times for both organisations and individuals alike. There is a real risk that the internal audit professionals being impacted by economic volatility cannot see the wood for the trees when so many interconnected risks are present all at once. Some internal audit professionals in different sectors may be more seasoned than others to combat these risks but the risks are faced by all. Therefore, this could be an opportunity for some internal audit functions to really show how invaluable they are when promoting a culture of resilience, providing assurance through times of economic uncertainty and supporting the organisation on the road to recovery.

Analysing economic indicators, monitoring early warning signs, and developing a diverse skill set within your internal audit function have never been more important than when trying to anticipate and mitigate potential risks posed by economic volatility. Be proactive and participate in economic scenario planning and financial stress testing. Collaborate with risk management and finance teams to assess the potential impact of different economic scenarios on the organisation.

Change the mindset of the internal audit function by being flexible, and agile when the time calls and spotting any opportunities for growth and efficiencies as the organisation is on the path to recovery. To effectively support the organisation, build relationships across all levels, use creative communication skills and embrace change by leveraging data analytics. These key actions

enable internal audit to provide optimal support, ensuring relevance and demonstrating value in both periods of economic growth and downturns. By doing so, internal audit can mitigate the risk of being seen as an unnecessary cost and instead offer invaluable insights during times of economic uncertainty.

This is an opportunity for internal audit to rise to the occasion and showcase their risk management and internal control skill set. Who knows what may be hiding around the corner for the global economy. But by providing timely insights, delivering relevant and effective audits, providing assurance around new and emerging risks and encouraging a culture of resilience, internal audit functions can demonstrate real value in a challenging economic environment.

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