AGENTS OF CHANGE
INTERNAL AUDITORS IN AN ERA OF DISRUPTION

CIA, QIAL, CGAP, CCSA, CRMA
RICHARD F. CHAMBERS with Robert Pérez

INTERNAL AUDIT FOUNDATION™
AGENTS OF CHANGE
Internal Auditors in an Era of Disruption

Richard F. Chambers

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“They say timing is everything, and that is certainly the case for Richard Chambers’ latest book. *Agents of Change* brings a vital message about the transformational change needed in internal auditing at a time when organizations are reeling from dramatic and dynamic change. The magnanimous wisdom of Richard, combined with his talented co-author Robert Pérez, offer a compelling and inspiring challenge for practitioners to become catalysts for change in their organizations, together with a concise and insightful blueprint for how to get it done. Bravo!”

Jenitha John, CIA, QIAL
CEO, Independent Regulatory Board of Auditors
South Africa

“Another masterpiece from Richard! Each page turned revealed more nuggets of insight that will enable all auditors to become Agents of Change, influencing positive change that enhances our organisation’s value. This book is an essential element of any auditor’s toolkit!”

David Hill, CIA, CMIIA, QIAL
Chief Executive Officer
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“As we race toward the inevitable convergence of several disruptive technologies, Richard Chambers’ timely book highlights the imperative that internal auditors must be ready for the future. He correctly points out that to add value to the organization, internal auditors must lead by example and be agents of change.”

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“Once again, in a hat trick, Richard has produced a treatise of wisdom for internal auditors, gleaned from his decades of experience, crystal clear thinking, and piercing focus on the future. *Agents of Change: Internal Auditors in an Era of Disruption* is an outstanding guide for all internal auditors to plan their trajectories to become ‘catalysts for transformation’ and enhance value for their organizations. Richard highlights the skillsets and the mindset needed by internal auditors to change their DNA in preparation for the future. Most importantly, he advocates that the profession, going forward, not merely has to highlight risks facing our organizations but also identify opportunities for growth and improvement. In short, this is a survival guide. Internal auditors, ignore this book and your organizations will ignore you!”

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“In *Agents of Change*, Richard has written an intuitive and in-depth perspective of the role of the internal audit function at present and well into the future. Sound guidance from a respected global leader in the internal audit profession. Read this book and learn from one of the best!”

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“My professional acquaintance with Richard Chambers dates back more than two decades, and over that time he has been a consistent source of insights and vision about the evolving role of internal audit. In his latest book, Richard’s passion for the profession comes through and lights the way for the next evolution in internal auditing. *Agents of Change: Internal Auditors in an Era of Disruption* is a must-read for anyone who wishes to understand the interplay of risk, technology, business, and the constancy of change.”

Ellen Caya  
Chief Audit Executive and Corp. VP-Global Internal Audit  
McDonald’s Corporation

“A very timely call for action for all internal auditors in the age of disruption! From internal auditors changing themselves to becoming catalysts of change, Richard shares a wealth of insight and wisdom on what it takes for internal auditors to drive value for the organizations they serve.”

Prof. Bao Guoming, CIA  
Chair  
China Institute of Internal Audit (IIA–China)

“Every single chapter of Richard’s previous books offered some insightful takeaway or message. This latest book not only does the same but also inspires internal auditors to take a lead in meaningful and transformational change to positively impact their organizations.”

J. Michael Peppers, CIA, QIAL, CRMA, CPA  
Chief Audit Executive  
The University of Texas System

“Richard Chambers has been at the forefront in moving the audit profession forward. *Agents of Change* builds off the concepts in *Lessons Learned on the Audit Trail and Trusted Advisors* and will inspire internal auditors and risk professionals of all levels to boldly be catalysts for change in our organizations.”

Seth Peterson, CIA, QIAL, CRMA, CISA  
Chief Enterprise Risk Assurance Executive  
The First National Bank in Sioux Falls

“Richard Chambers shares key insights on how internal auditors can become change agents by not only providing objective assurance, advice, and insights but how to be influential, add value, and be instrumental in helping their organizations be successful. Stakeholder expectations are high for internal audit to be agile, innovative, to have business acumen, to leverage technology, and to be an agent of change! A must-read for leaders at all levels who want to make a difference in their organizations.”

Sandy Pundmann, CIA, CRMA, CPA  
Global Internal Audit, Senior Partner  
Deloitte & Touche LLP
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To the men and women of
The Institute of Internal Auditors Global Headquarters.
Their tireless dedication as agents of change
has inspired internal auditors and
elevated the profession for 80 years!
Foreword

Richard does it again!

It is no secret that Richard's books are popular around the world. Internal audit fans typically queue up in long lines at his speaking engagements to get the latest signed copy and perhaps a quick photo. And Richard doesn't disappoint in *Agents of Change: Internal Auditors in an Era of Disruption*, the final installment in his outstanding trilogy exploring the characteristics of the best of the best and what we should all aspire to be in our profession.

Like his previous books, *Agents of Change* is well-timed as the world copes with a global pandemic and forces us to drastically change how we live, work, and even play. We are certainly living in a time of uncertainty as we pivot to respond to unexpected risks and try to accurately predict what may lie ahead, especially in the very near future. As Richard acknowledges, the only constant in this world is change, which helps him build his case in these pages for why we all must strive to become agents of change — to thrive or, perhaps, simply survive.

When I consider the concept of an agent of change, I cannot think of anyone who fits the description better than Richard. From the time he worked in the U.S. Army to change their audit process to his role as the leading voice, president, and CEO of The IIA, he has consistently demonstrated an ability and zeal to constantly evolve and offer ways to modernize internal auditing so that we can remain relevant to the organizations we work so hard to serve. Through his earlier books, *Lessons Learned on the Audit Trail* (both the first and second editions) and *Trusted Advisors: Key Attributes of Outstanding Internal Auditors*, we had the opportunity to read about Richard's first-hand experiences, learn what he learned over more than 40 years in the profession, and set an informed path toward becoming better at what we do.

He has an impressive track record for meeting challenges head on, defining the opportunities in each situation, and exceeding the expectations of even the most critical among us. He came to The IIA at a time of great turmoil, with the Great
Recession leaving its mark on every organization. It was Richard’s time, and he led The IIA from the depths of its worst crisis since the organization was founded in 1941 to achieve exponential growth in membership and certifications. I was fortunate to be part of The IIA’s Executive Committee that selected him as our new president and CEO. Richard skillfully navigated The IIA out of dangerous waters with swift, thoughtful, and sometimes radical change. Some of it was painful, but he was determined to do nothing short of saving The IIA and the profession.

Today, The IIA marks record membership and professional certifications, including the flagship Certified Internal Auditor (CIA), in every corner of the world. He did that by embracing innovation, including new technology, and seizing pent-up demand for IIA offerings. As an example, the CIA designation has attracted tens of thousands of internal auditors in recent years after The IIA converted to computer-based exams and opened the certification process to a vastly larger pool of qualified applicants.

Richard continues to amaze with his passion and eagerness to advance our profession. I am not sure how he finds the time to give presentations, write blogs, books, and articles, and represent our profession with various stakeholders such as government and media — all while managing a huge association of more than 110 affiliated organizations globally. But as many who have experienced one of his in-person presentations know, he always takes the time for members and affiliates when they need his help and advice. He is literally walking the talk of the characteristics of an agent of change.

This book is full of practical suggestions that are useful to any auditor who wishes to become an agent of change. Richard’s vast knowledge and experience — and recommendations on how to apply his advice in day-to-day activities — add up to a recipe for success. I personally subscribe to everything he suggests in this book. In fact, I tell my team at AIG that “the only constant thing in this life is change, and they will change you if you cannot change.” I also tell them that we need to continue to learn and adopt new ways of auditing as our stakeholders’ expectations continue to evolve. As this book suggests, we all risk becoming irrelevant amid an ever-disruptive, risk-packed environment.

Richard is direct in addressing the stark reality for those who merely hide behind independence and objectivity, which may make some readers feel uncomfortable. But if you want to be relevant and involved in helping your organization
succeed, I encourage you to follow his advice and implement what he suggests. I guarantee you will not regret it, and you will thank Richard for suggesting that you take the risk.

Richard is stepping down as president and CEO of The IIA after 12 rewarding years. I am not sure what the future holds for him and his lovely wife, Kim, but my hope is that we will continue to benefit from his deep and profound knowledge and experience in the profession. He will most likely change the definition of “retirement” as an agent of change. 😊

Naohiro Mouri, CIA, CPA
Executive Vice President and Chief Auditor
American International Group Inc.
IIA Global Chairman, 2018–2019
Acknowledgments

Writing this book has been another rewarding experience in my journey to inform and inspire the global profession of internal auditing. This is the third manuscript I have published, and once again, it would not have been possible without the encouragement and support of so many family members, friends, and colleagues.

I must first acknowledge the extraordinary efforts of my writing partner, Robert Pérez. His vision, energy, and tireless dedication to this project were critical to its success. Robert has been helping me find my voice in my articles, blogs, and books since joining The IIA in 2014. He was the first person I asked to assist me with this book, and I will be eternally grateful that he said yes.

My wife, Kim, has been a vital partner who has been inspiring me to be a change agent for more than 30 years. She is a source of encouragement and support each time I write a book. Her words of advice, reassurance, patience, and understanding were vital to undertaking such demanding projects. My talented and beautiful daughters, Natalie McElwee, Christina Morton, and Allison Chambers, have always been unwavering in their affection and support. As I grow older, I am also motivated by my three grandchildren, Kennedy, MacKenzie, and Luke. They help me maintain a healthy perspective on life.

Thank you to AuditBoard, Inc., for sponsoring this Internal Audit Foundation publication and for their assistance in preparing chapter 6, “Leveraging Enabling Technology.” Thanks to Erika Beard and Carrie Summerlin, whose persistence convinced me to write another book for the Internal Audit Foundation. Thanks to John Babinchak and Matthew Bennett for their help in keeping me organized and focused during the many months that this project was under development. Thanks to Harold Silverman, Tim Berichon, Greg Jaynes, and Jim Pelletier for their support and insights during the research and writing phases. Thanks to Ben Bouchillon and Lee Ann Campbell for their contributions in managing this project and putting the finishing touches on the manuscript. Thank you to Monica
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About the Authors

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA, is one of the leading voices and thought leaders in the internal audit profession. He has spent more than 40 years in internal audit and association management, including serving as president and CEO of The Institute of Internal Auditors (IIA) from 2009 to 2021. During his tenure at The IIA, he led the organization to achieve record membership while presiding over the launch of numerous key initiatives and achieving key milestones in certifications.

Prior to leading The IIA, Richard was national practice leader in Internal Audit Advisory Services at PwC; inspector general of the Tennessee Valley Authority; deputy inspector general of the U.S. Postal Service; and director of the U.S. Army Worldwide Internal Review Organization at the Pentagon.

A prolific blogger and highly sought-after speaker, Richard has authored two award-winning books: Trusted Advisors: Key Attributes of Outstanding Internal Auditors (2017) and Lessons Learned on the Audit Trail (2014), which is currently available in five languages. His third book, The Speed of Risk: Lessons Learned on the Audit Trail, 2nd Edition, was released in 2019. He has been consistently listed among the 100 Most Influential People in Accounting by Accounting Today, and among the most influential leaders in corporate governance by the National Association of Corporate Directors.

Richard and his wife, Kim, reside in New Smyrna Beach, Florida, and have three grown daughters, Natalie, Christina, and Allison.

Robert Pérez is an award-winning writer who has spent nearly four decades as a professional journalist, editor, and strategic communicator. In his current role as The IIA’s director of content development and delivery, Robert helps shape communication strategy and thought leadership to support internal audit practitioners globally. He is part of IIA teams that produce the annual North American Pulse of Internal Audit report, OnRisk guide, and the American Corporate Governance Index.
Prior to joining The IIA in 2014, Robert was vice president of CBR Public Relations. Earlier in his career, he spent more than 25 years as a journalist at several newspapers, including the Orlando Sentinel, the Dallas Times Herald, and The Wall Street Journal.

Robert and his wife, Barbara, reside in the Orlando, Florida, area.
Introduction

When I began contemplating my third book, the intent was to create the final installment of a trilogy.

My first book, Lessons Learned on the Audit Trail, was a semi-autobiographical look at my experiences over nearly 40 years in the internal audit profession. I wanted to impart a bit of wisdom based on my exposure to hundreds, if not thousands, of audits and internal auditors who shaped my views of risk, independent assurance, good governance, and the value that internal audit provides. Five years later, I offered an updated look at the audit trail in a second edition to the original manuscript, titled The Speed of Risk.

One of the chapters in Lessons Learned on the Audit Trail touched on becoming a trusted advisor. I have long preached the value of building relationships with our stakeholders — on the board, in the C-suite, and across the organization — to help elevate internal audit and earn a seat at the table with management and others. This is possible only by demonstrating conclusively and consistently how internal audit helps an organization achieve its goals. The abbreviated examination of some key characteristics of proven trusted advisors provided the genesis for my second book.

For Trusted Advisors: Key Attributes of Outstanding Internal Auditors, I surveyed and interviewed an array of leading internal auditors. From those discussions, I gleaned insights into the traits that characterize outstanding internal auditors — those individuals who have earned that seat at the table and are also considered trusted advisors in their organizations. I examined attributes including ethical resiliency, critical thinking, business acumen, intellectual curiosity, dynamic communication skills, and insightful relationship building.

While Lessons Learned on the Audit Trail was a retrospective on our roles as assurance and advisory providers, Trusted Advisors was a contemporary look at the profession and the traits that leading internal auditors demonstrate in building and sustaining trust. While exploring the past and the present is important,
we will never realize our full potential until we look forward. That is where this book, *Agents of Change: Internal Auditors in an Era of Disruption*, is intended to take readers.

**What Is an Agent of Change?**

My intent is for this book to be a call to action for internal audit practitioners at all levels. To truly impart value to our organizations, we must be catalysts for transformation that creates value within the organizations we serve. To be sure, we add value when our assurance engagements identify corrective measures that need to be undertaken in the wake of audit findings. We certainly add value when we impart advice as our organizations’ trusted advisors. But our objectives should not be limited to providing assurance and advice. More importantly, we should be influencing positive change that enhances our organizations’ value.

I first wrote about internal auditors as agents of change in a 2015 blog post. In the years since, I have often urged internal auditors to embrace the role and join other catalysts in their organizations who thrive on change and innovation. We have a unique seat at our organizations’ table. It is often a seat that affords a 360-degree view of the risks and opportunities facing our stakeholders. We have become adept at highlighting the risks. We must become equally comfortable shining a light on opportunities.

In preparing to write this book, I embraced the same approach I used when writing *Trusted Advisors*. I had my own ideas on how internal auditors can drive change and what it takes to be successful. But I didn’t want this book to reflect only my point of view. So, once again, I went to the most reliable source of knowledge of what agents of change are all about — change agents themselves. Working with the Internal Audit Foundation, we surveyed almost 600 chief audit executives (CAEs) and internal audit directors around the world on what it takes to be an agent of change in twenty-first century internal auditing. The results were revealing and provided the basis for this book.

As we did for *Trusted Advisors*, we followed up our survey with in-depth conversations with CAEs who clearly model what it takes to be agents of change. The survey feedback and interviews were very instructive in organizing this book. *Agents of Change* comprises three parts that make the case for becoming change agents, emphasize that internal auditors must start by changing themselves, and articulate the skills embedded in change agents’ DNA. Specifically:
PART ONE: A LEGACY OF CHANGE

Modern internal auditors are a product of centuries of change. Indeed, the profession has been in constant evolution since its inception. In the twenty-first century, the velocity of risk has accelerated exponentially, and change can no longer happen at a methodical pace. Indeed, our organizations need us to audit at the speed of risk. The internal audit profession has embraced a vision that it will be indispensable in protecting and enhancing value in the organizations we serve. Those who succeed are the change agents among us.

PART TWO: ENACTING THE CHANGE

Before internal auditors can be indispensable agents of change within our organizations, we must change ourselves. We can no longer embrace processes rooted in the past century if we are to be taken seriously by those we serve in this one. We must bring an agile mindset to the way we execute our mission so that we are truly adept at auditing at the speed of risk. Perhaps most importantly, we must become adept at telling our story. We cannot expect others to envision our potential if we keep our heads down and mouths shut.

PART THREE: THE RIGHT STUFF

The most valuable insights from our global survey were the feedback on the common characteristics of agents of change. Respondents rated the importance of 14 characteristics, and we identified four common traits that distinguish great change agents from the rest. First, they possess strong business acumen and have a keen understanding of their organizations. Second, they bring a strategic mindset to everything they do. Third, strong agents of change are relationship-centric. They recognize that the success in influencing and inspiring change must be rooted in strong, resilient relationships. Fourth, agents of change are innovative. They aren’t content with recycling the same solutions. They are purveyors of solutions that drive change and enhance organizational value.

Trusted Advisors versus Change Agents

By now you may be wondering — what is the difference between a trusted advisor and an agent of change? By my definitions, it is not an either/or proposition. Trusted advisors build and sustain trust in those they serve, and the recommendations and advice they offer are valued and embraced by their stakeholders. As I noted earlier, agents of change are catalysts for transformation that creates value
within their organizations. They also must be trusted advisors, but not all trusted advisors are agents of change. Trusted advisors are often fulfilled by being heard, while agents of change are fulfilled by inspiring transformation that enhances value.

Internal auditors used to be derisively referred to as “bean counters.” The classic assurance providers in the profession still count the beans. Trusted advisors, on the other hand, know how to grow, harvest, and take the beans to market. But it is the change agents in the profession who are bold and confident enough to advocate changing the crops from growing beans to growing corn.

I hope this book will inform and inspire you to become a catalyst for transformation within your organization.
PART ONE

A LEGACY OF CHANGE
CHAPTER 1
An Evolving Profession

— • • • —

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

— Charles Darwin —

I am often asked for the one piece of advice I would give to someone new to the internal audit profession. The answer has been the same for almost two decades: Follow the risks. My reasoning is that we add the greatest value to our organizations when we allocate our scarce, highly skilled talents to the most significant risks — the events that can potentially disrupt or prevent our organizations from attaining their objectives.

It is easy enough to simply say “follow the risks.” But it is critically important for internal auditors to understand how risk influences strategies and decisions that executive management and boards make to create and sustain value in our organizations.

These components should feed our understanding of risk, our biases about how risks should be managed, and our views on how internal audit can provide value to organizations. But even as these factors complicate an already unimaginably complex web of risks that affect today’s organizations, the work of internal audit comes down to a simple truth first articulated in La Logique ou l’Art de Penser (Logic, or the Art of Thinking), published in 1662:

“Fear of harm ought to be proportional not merely to the gravity of the harm but also to the probability of the event.”
This is a fundamental concept in risk management — balancing impact and likelihood. Yet, while the work of modern internal auditing is all about risk, we spend surprisingly little time trying to understand our relationship with it, though that relationship is as old as humankind itself.

As long as humans have existed, we have had to manage risk — so much so that risk is embedded in our DNA. I refer to the “fight-or-flight” response built into our brains to handle a perceived or real threat. However, outside of this instinctive response, humans have developed a more sophisticated relationship with risk, one that is built on calculating probabilities and potential rewards. Peter L. Bernstein notes in his 1996 book, Against the Gods: The Remarkable Story of Risk, that the word risk derives from the early Italian word risicare, which actually means “to dare.” He writes:

"In this sense, risk is a choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being."

This choice to dare is at the heart of modern business theory and something all internal auditors must understand and embrace. The risk/reward concept takes on many forms, from racecar drivers who pit their skills against the risk of serious injury or death to businesses that invest in developing new products or venture into new markets to boost sales and profits.

From an organizational perspective, effectively managing risk — whether external or self-imposed — is fundamental to good governance. What’s more, the assurance that an independent and objective internal audit function provides over the effectiveness of risk management is a critical component of sound governance.

While “follow the risk” is the most common piece of advice I give internal auditors, the second most frequent is “adapt to meet the needs and expectations of stakeholders.” In fact, “adapting” has been a common theme throughout the history of our profession. Internal auditing in the twenty-first century bears little resemblance to the profession in its early origins. The value being delivered by the profession today is the product of a legacy of change dating back centuries.
The Evolution of Internal Audit

That I have dedicated the first chapters of this book to a discussion on risk is remarkable. The very concept that internal auditors should focus their work on the basis of risk is a relatively recent phenomenon. Not until 2002 did professional standards even mandate a risk assessment in audit planning. But the truth is that the internal audit profession has a legacy of change dating back to its origins.

Any examination of internal auditing in an era of disruption, such as the one in which it finds itself today, requires context and must begin with a review of the profession’s history. Understanding how we came to where we are affords an opportunity to analyze significant developments that shaped our thinking, our biases, and our blind spots.

The Institute of Internal Auditors (IIA) has published a number of accounts on the history of internal auditing. Most tend to focus on the organization as much as the profession. I believe that is appropriate in that The IIA is unquestionably the leading voice for the profession and provider of standards, guidance, research, and thought leadership. However, the seeds of internal auditing were planted well before The IIA’s founding in 1941.

A friend of mine, University of Dayton Associate Professor Sridhar Ramamoorti, authored an insightful paper, Internal Auditing: History, Evolution, and Prospects, published by The IIA’s Internal Audit Foundation in 2003. He chronicles events and practices driven by the need for accountability in business and government as far back as 4000 B.C.

Of significance in Ramamoorti’s analysis is the evolution of the profession by the early twentieth century and the recognition among stakeholders that the value of assurance went “far beyond financial statement auditing and devoted to furnishing reliable operating reports containing nonfinancial data...” This is the earliest acknowledgment that internal audit generates value as a provider of true enterprise-wide assurance, and reflects the need for, and willingness of, the profession to change to meet the evolving needs of the organizations it serves.

The value of enterprise-wide assurance continues to vex our profession. Few would argue against the vital need for assurance across the enterprise, but there remains disagreement over how it should be delivered — and by whom.
From a historical perspective, the primary risks that drove creation of the need for checks and balances and for controls that predated internal audit revolved around threats to organizational assets. Protecting against losses was the principal driver for creating internal auditing. As Ramamoorti notes:

“Starting as an internal business function primarily focused on protection against payroll fraud, loss of cash, and other assets, internal audit’s scope was quickly extended to the verification of almost all financial transactions . . . (Reeve, 1986).”

It was only later that organizations grasped the value of understanding and managing interrelated risks across the enterprise that encompass not only financial considerations but also those involving compliance, operations, business continuity, culture, and more.

**The Birth of Independent Audit**

Studies of the evolution of internal auditing invariably focus on the westward migration in the United States in the nineteenth century. By the mid-1800s, development in the western half of the country created a need to improve transportation, and it was the burgeoning railroad industry that answered the call. The resulting physical scattering of company assets (rolling stock) and financial transactions (ticket sales along rail routes) decentralized operations. “It was not until the rapid railroad expansion began in the 1840s,” according to author James L. Boockholdt, “that companies began to conduct financial transactions at widely dispersed geographic locations. This development required the appointment of internal auditors to monitor the processing of these transactions.”

The same economic pressures that created opportunities for the railroad industry and the need for internal auditors also led to the first corporations funded by stockholders. That is a key development in the evolution of modern business and internal auditing. It established a separation not only of management from ownership but the need for the audit function as a check on management.

“As corporations were created, the need developed for reporting to stockholders on the performance of management. The railroads, as the first major enterprises in the United States to rely primarily on outside capital, were also among the first to encounter the need for reporting to the sources of that capital. Examinations by parties independent of management were frequently used to validate management’s reports during the nineteenth century.”
Those early efforts for independent validation of management reports were taken on by committees of the board, the precursors of today’s audit committees. However, the complexity of the task soon required a level of skill and expertise outside the realm of most director-led committees.

“Many of the early audit committees in the United States appear to have been utilized to investigate frauds within their companies. By the middle of the nineteenth century, independent accountants and bookkeepers were in practice in most major cities, and frequently they were engaged to aid audit committees in their investigations.”

This outside, or independent, support for validating management reports often included recommendations for improving controls to prevent inaccurate accounts and outright frauds. That planted the seeds for another fundamental of modern auditing — assurance and advice over controls.

The observations from Boockholdt’s 1983 article, *Historical Perspective on the Auditor’s Role: The Early Experience of the American Railroads*, suggest an early realization of the value of auditing not only on matters of finance but also on internal controls.

**The Birth of The IIA**

By the mid- to late-1800s, the separation of owners from managers, the dispersal of organizational activity over large areas, and the recognition of the potential for biased reporting from management had firmly established the need for professional auditing. Also established were the concepts of independent and objective assessments and a systematic, disciplined approach to assurance over controls. Having an internal function acting as the eyes and ears of management further cemented the need for internal audit.

However, by the time The IIA was founded, internal auditing was entrenched in providing assurance over the accuracy of financial reporting. From *Internal Auditing: History, Evolution, and Prospects*:

“...internal auditing was still perceived as a closely related extension of the work of external auditors — they were frequently called upon to assist external auditors in financial statement reviews or perform accounting-related functions such as bank reconciliations. Internal auditors were seen to be playing a fairly modest role within organizations and had
only a "limited responsibility in the total managerial spectrum (Moeller & Witt, 1999)."

A principal driver to that focus were two landmark Depression-era pieces of U.S. legislation — the Securities Act of 1933 and the Securities Exchange Act of 1934. Those acts, which continue to regulate issuance of securities in primary markets and trading of the securities in secondary markets, include strict requirements on financial reporting.

This is not a criticism of practitioners of that era. Indeed, their assurance work was focused on the greatest needs of their organizations. They were following the risks. Legislation and regulation influencing internal audit’s focus is a theme that repeats itself, driving change throughout the profession’s history.

But from the 1940s through the 1970s, there was a gradual expansion of internal audit’s scope beyond financial assurance. Ramamoorti notes that nearly two decades after the founding of The IIA, the following definition of internal auditing was presented by Brink & Cashin (1958):

“Internal auditing thus emerges as a special segment of the broad field of accounting, utilizing the basic techniques and method of auditing. The fact that the public accountant and the internal auditor use many of the same techniques often leads to a mistaken assumption that there is little difference in the work or in ultimate objectives. The internal auditor, like any auditor, is concerned with the investigation of the validity of representations, but in his case the representations with which he is concerned cover a much wider range and have to do with many matters, where the relationship to the accounts is often somewhat remote.”

It is not surprising that, during this period, The IIA acted as the principal facilitator of internal audit’s evolution, primarily by establishing informal standards and responsibilities. For example, the fundamental Statement of Responsibilities of the Internal Auditor, first issued in 1947, remained a valuable touchstone for practitioners well into the 1990s.

In 1978, The IIA issued the Standards for the Professional Practice of Internal Auditing (Standards). That pivotal document helped elevate the profession’s stature by clearly communicating its role, scope, and objectives while setting a global standard for practitioners. It also established a benchmark against which internal
audit activities are still measured. But equally important, it signaled to stakeholders and the world that internal auditing is a true profession.

At the same time, the importance of having a proper reporting line that helped preserve internal audit’s independence from management was becoming increasingly clear. In an early but landmark study on corporate audit committees, Mautz & Neumann (1977) stated:

“For the most part, the audit committee is viewed as a bridge between the board of directors and the auditors . . . To fulfill their responsibilities to shareholders and the public at large, audit committee members have had to become more interested in, and better informed on, auditing matters. Management also has become aware of the necessity of protecting itself through adequate attention to internal controls and effective audits. Consequently, it has become more responsive to auditor suggestions and audit committee requests for information.”

In similar vein, authors Brink & Witt (1982) noted:

“In most situations, the internal auditing group has moved to very high levels in all operational areas and has established itself as a valued and respected part of the management effort. To an increasing extent also the internal auditor is serving the board of directors — usually via the audit committee of that board.”

The Influences of a Dynamic Risk Landscape

Earlier in this chapter, I noted the influence of legislation and regulation on the scope and focus of internal audit. As risk areas evolve and mature, organizations have consistently steered internal audit to best fit its risk management needs at the time. Clearly, the profession’s evolution has been influenced by visceral reactions to scandal.

That was abundantly evident in the first 10 years of the twenty-first century, as major scandals shook the financial world. It began with the Enron and WorldCom debacles, which led to the landmark U.S. Sarbanes-Oxley Act of 2002. That legislation was jokingly referred to as the Internal Auditor Full Employment Act because of the bevy of new regulations that broadly expanded financial reporting compliance risks. As late as 2019, financial reporting compliance still accounted for more than 15% of the typical internal audit plan in
the United States. Meanwhile, as the globe was thrust into the Great Recession, banking scandals led to development of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010.

Throughout this century, advances in technology that have disrupted and redefined business models also created a new risk area — the menacing and ubiquitous threat of cyberattacks. But the ultimate disruptive risk may be the emergence of the novel COVID-19 pandemic in early 2020, which opened a Pandora’s Box of business continuity, crisis management, and new cyber vulnerabilities.

It is significant that the profession responded by successfully pivoting to the changing demands created by a dynamic risk landscape and new regulations. What’s more, The IIA has been instrumental in helping to create tools and frameworks to support evolving risk management.

In 2013 and 2017, respectively, the Committee of Sponsoring Organizations of the Treadway Commission (COSO), of which The IIA is a founding member, released important updates to its signature frameworks on internal controls and enterprise risk management (ERM). Both have become essential amid the growing complexity of governance, risk, and control in a fast-moving world.

Of significance, the updated internal control framework built on the original’s focus of designing, implementing, and evaluating the effectiveness of internal control. Meanwhile the ERM framework update helped to clarify just what effective ERM is and is not:

“Enterprise risk management is not a function or department. It is the culture, capabilities, and practices that organizations integrate with strategy-setting and apply when they carry out that strategy, with the purpose of managing risk in creating, preserving, and realizing value.”

The ERM framework’s emphasis on “creating, preserving, and realizing value” has also been critical to the evolution of internal audit, as it makes clear that part of the risk management mission is the creation of value.

Beyond their impact on regulations, high-profile corporate scandals this century have fed a growing recognition that culture is often at the core of scandal, and that internal audit has a role to play in assessing culture. Many inside and outside the profession have expressed doubts about internal audit’s ability to audit culture effectively, but the profession is making great progress in this area.
One of the most significant contributions to support the evolution of the profession in response to the volatile and dynamic risk landscape was the addition of Core Principles for the Professional Practice of Internal Auditing to the 2017 update to the International Professional Practices Framework (IPPF). But the change is more than just an addition or update to the profession’s guidelines. The 10 principles articulate the fundamental beliefs that drive the internal audit profession. Those guideposts are designed to help practitioners remain centered on the core philosophies of internal auditing, even as technology, climate, geopolitics, macroeconomics, and social norms change the world around us.

The IIA’s guidance has inexorably moved the profession toward its rightful place as a trusted advisor to management, an equal partner in risk management, and a fundamental component of sound corporate governance. The IIA’s 2030 vision statement sets an objective of having the profession “universally recognized as indispensable to effective governance, risk management, and control.” By steadily marching forward to a drumbeat of change, we have made palpable progress toward that lofty goal, but achieving it will require further evolution and a mindset that motivates internal auditors to become agents of change.

A Natural Evolution

Looking back at the history of internal auditing, it’s clear the profession has never been static. Since its origins nearly 6,000 years ago, our evolution has been extraordinary. As we look forward, we need to consider the next leap in terms of our value proposition. Embracing challenges and opportunities amid the chaos of near constant change is that next leap.

While at times it may seem like for every step we take forward we take two steps back, there is an unmistakable trajectory of progress. New challenges are a call to action to step forward — wherever it may take us. We can never sit on our laurels. Indeed, we are not at all different from other professions. The medical profession has evolved from diagnosing and treating symptoms to developing preventative medicines and encouraging lifestyles that keep people healthier and more resilient and resistant to disease.

So it is with internal auditing. We must provide our organizations with the insight and foresight to not only protect value but help them fulfill their mandate to create value for their investors and stakeholders.

Becoming true agents of change is part of the natural evolution of internal audit.