

2022
&
2031



EXECUTIVE PERSPECTIVES ON TOP RISKS

CAEs focused on succession and talent management challenges, cyber threats, and adoption of digital technologies

Massive disruptions in the global supply chain. Challenges in attracting and retaining talent to address needs all across the enterprise. COVID-19 variants. Cyber attacks and ransomware. Wildfires and flooding. Geopolitical tensions in specific regions and shifts on issues related to climate change. Long-overdue shifts in expectations related to diversity, equity and inclusion. Political divisiveness and gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. More permanent shifts to hybrid and remote work environments. Shifting customer preferences and demographics. Big data analytics.

The global marketplace is dramatically impacted by these and a host of other notable risk drivers triggering significant levels of uncertainties that make it difficult for an organization's leaders to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. As no one is immune to uncertainty, C-suites and boards need to be vigilant in scanning the horizon for emerging issues, and chief audit executives (CAEs) need to support and provide independent perspectives around risks and the effectiveness of risk mitigation strategies. Because it is impossible to anticipate everything of significance that lies in the future, organizations must focus on building trust-based, resilient cultures that can pivot at the speed of risk.

In this 10th annual [survey](#), Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2022 and over the next 10 years, into 2031. Our respondent group, which includes 1,453 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:¹

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy

¹ Each respondent rated 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – CAE Risk Outlook for 2022 and 2031

Overview of top risk issues in 2022

The top risks that CAEs identify for 2022 align closely with those ranked highly by board members and C-suite executives globally. These wide-ranging issues include succession challenges and the organization's ability to attract and retain top talent, cybersecurity threats, the adoption of digital technologies and advanced tools, inflationary pressures and other economic conditions, and a resistance to change embedded in the organizational culture.

The fact that most of these issues are also prevalent in the global list of top risks is good news, as it indicates that internal audit leaders are maintaining healthy communications and collaborations with the board and C-suite leaders while appropriately prioritizing their audit plans and consulting activities.

CAEs rate succession challenges and the ability to attract and retain talent as their top risk issue. Its score increased substantially compared with our prior year results, moving it into the "Significant Impact" level. As CAEs are well aware, there is an extensive amount of activity in labor markets representing what many refer to as "the great reshuffle." In some countries, resignations and job openings are at or near record highs, and hiring efforts are struggling to keep pace with job openings. The demand for individuals with knowledge and experience of risk, control and audit concepts is incredibly robust, and those skills are being sought across all three lines in many organizations.

CAEs are viewing talent risk not only for their own teams but also for the broader organization. The workforce of the future needs to be reimagined for increased flexibility and be able to respond to rapid changes in business. Next-generation internal audit groups need to ensure that a robust resource management strategy and supporting processes are in place to acquire, manage, retain and enhance the resources, skillsets and capabilities that will enable the internal audit function to achieve both core assurance and transformational goals and objectives. These objectives become even more difficult to accomplish amid a highly challenging and competitive talent market and within such a dynamic risk landscape.

Of note, CAEs express substantial – and appropriate – concerns about the organization's ability to withstand cyberattacks. Ranked ninth globally, cyber threats represent the second highest-ranked risk for CAEs. This is not a surprise given internal audit's risk mindset and the global prevalence of cyber attacks, targeted ransomware and more.

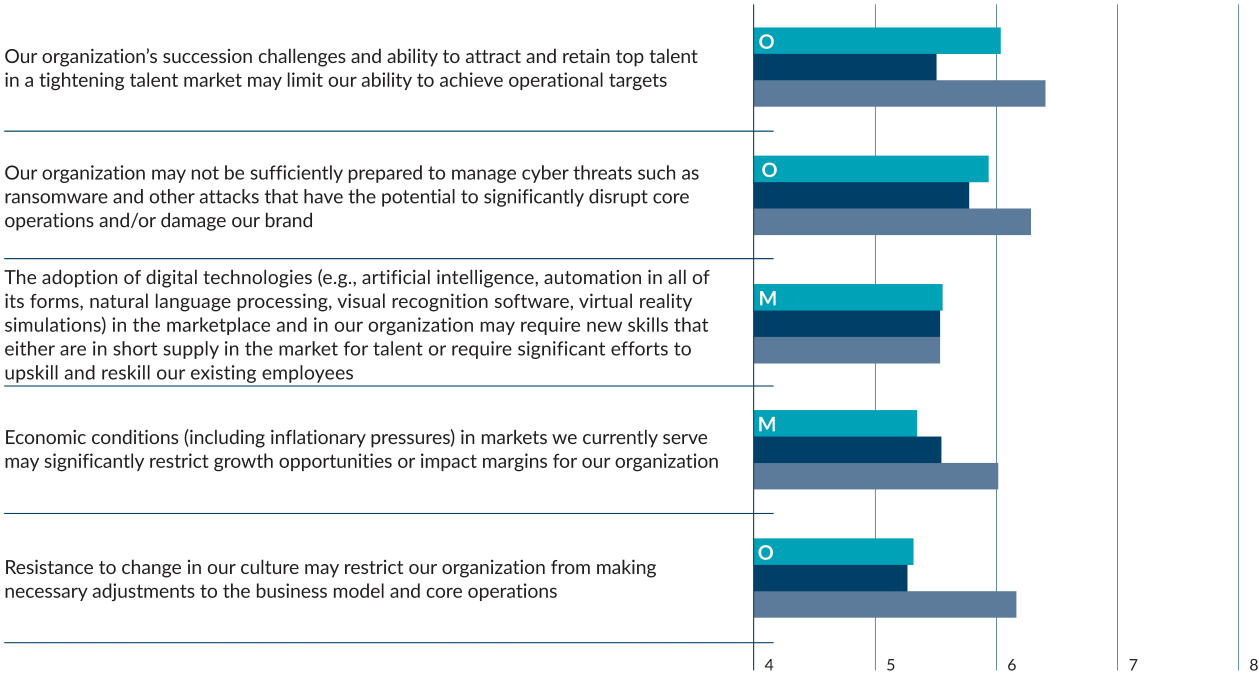
Regarding the adoption of digital technologies, CAEs undoubtedly see this to be a two-pronged challenge. First, as noted earlier, internal audit leaders looking to build or grow their next-generation internal audit functions require the talent and skillsets that will support the enabling technologies being used, from AI and machine learning to automation in all of its forms. Secondly, internal audit teams must be knowledgeable about digital transformation strategies and programs underway throughout their organizations. Having this knowledge will enable them to bring the right risk and control mindset to these initiatives to ensure they are undertaken and completed successfully.

CAEs also rate third party risks as an increasingly important concern, which is also appropriate given companies' growing reliance on third, fourth and fifth parties; the increasing cybersecurity risk posed by these outside parties; and emerging global guidance and rules concerning third party risk management.

Overall, the top concerns expressed by CAEs in the survey suggest that internal audit teams are recalibrating their priorities and activities in response to changing external risks, internal challenges and strategic pivots. This

agility is evident in the way that the risk ratings CAEs ascribe to various risks fluctuate from year to year. Compared to our 2021 survey response, CAEs this year rate succession challenges, cyber threats and the organization’s adoption of AI and other advanced digital technologies as higher concerns. That ability to pivot in a risk-intelligent way represents a core competency of a next-generation internal audit capability.

CAEs - 2022



Legend

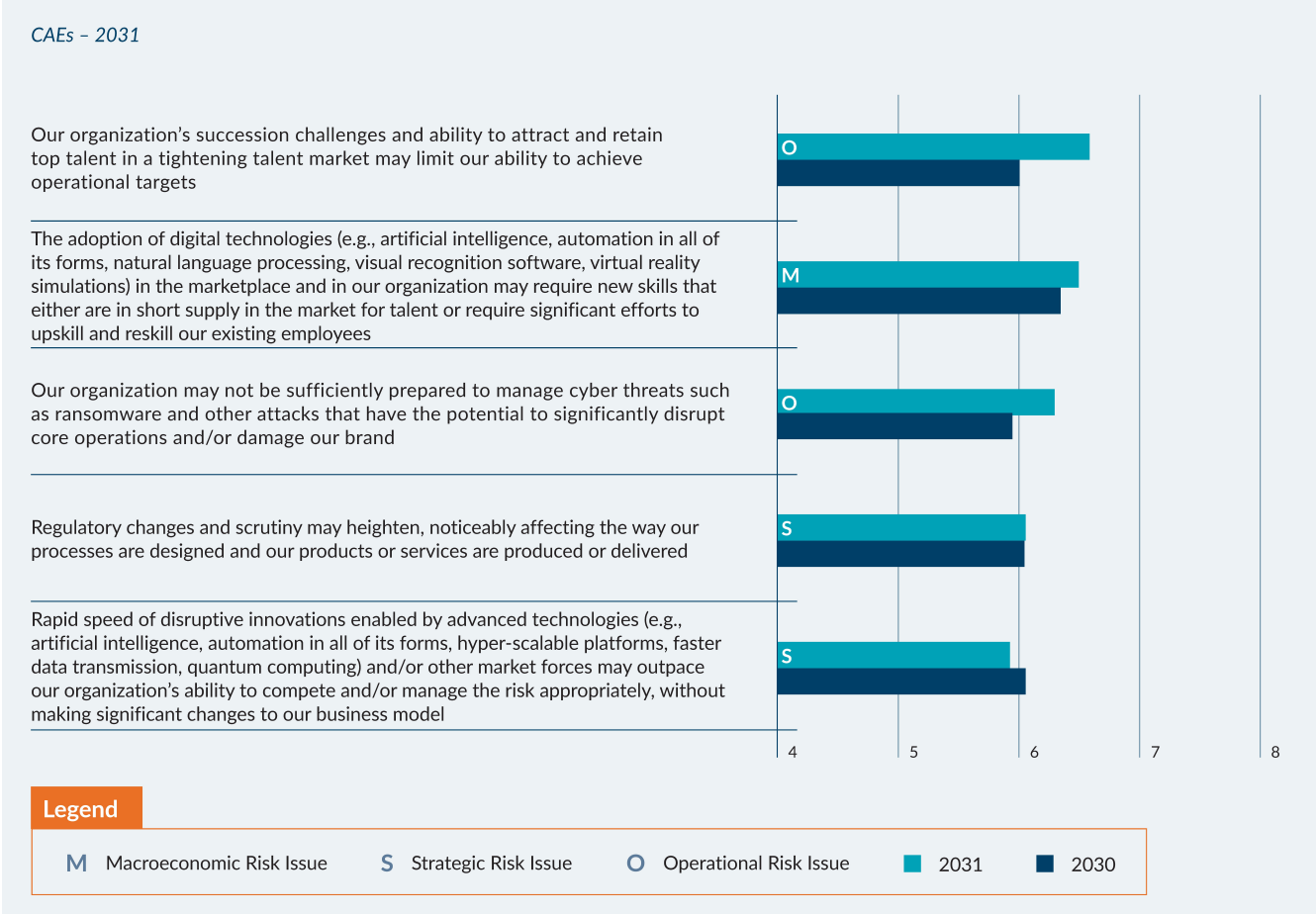
M Macroeconomic Risk Issue S Strategic Risk Issue O Operational Risk Issue ■ 2022 ■ 2021 ■ 2020

Overview of top risk issues in 2031

Similar to the CAE outlook for 2022, the top risks CAEs project for 2031 align closely with the top long-range concerns of board members and C-suite executives worldwide. The two highest-rated long-term risks for CAEs are succession challenges and the ability to attract and retain top talent, and the organization’s adoption of digital technologies, which ties back to both skills and talent, as well as the organization’s cultural characteristics that will either accelerate or prevent the exploration and adoption of change. Globally, the top two risks are the same, albeit in reverse order.

Also of note, there is a high level of consistency in the decade-out view of risk issues this year compared with the results of our 2021 survey. For CAEs, the top 10 risks are identical, though the rank order has changed for several of the risks. The scores are also similar – this differs with other groups in the survey that, for the 10-year outlook, tended to rate risks higher in this year’s survey relative to the prior year’s study. This suggests that CAEs may have had a closer pulse on the risk landscape last year and the long-term effects of the global pandemic, whereas other executives have refined their views this year compared to scores they provided last year, which trended lower.

That said, internal audit leaders do anticipate several of these challenges to become more difficult to manage over the next 10 years compared with the next 12 months. Specifically, CAEs give considerably higher risk-rating scores to their five top 2031 concerns – succession challenges, the organization’s adoption of digital technologies, cyber threats and regulatory change and scrutiny, respectively – compared to the risk-rating scores they provided for these same risk issues for 2022.



The fact that CAEs expect the magnitude of current risks to intensify in the coming decade further highlights the need to accelerate the internal audit function’s transformation.

This need is not new, but the pandemic, rapid and significant shifts in the labor force, and a host of other external threats and challenges make it critical for audit leaders to expedite the adoption of next-generation internal audit practices to be more agile and technology enabled, to have the required skillsets in alignment with these practices, and to achieve a real-time level of engagement with risk management, data and controls.

Adopting these capabilities requires CAEs to address many of the same risks closer to home, including resistance to change, the adoption of digital tools, and talent shortages within the internal audit function.

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