Rapid Risk Sensing:
Planning at the Speed of Risk

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Learning Objectives

Participants should be able to:

Sense	Know internal and external risk signals to monitor
Measure	Distinguish between minor and major risk-driven audit changes
Pivot	Adjust in risk-appropriate ways w/o formally changing the plan
Vet*	Assess, communicate and approve “significant” plan changes
Publish	Create a complete record of plan changes according to charters

** Vet – To evaluate for possible approval or acceptance.*

Starting from the Source

The Standards and Principles that pertain to audit planning

- **Standard 9.4** – Internal Audit Plan
- **Standards 6.1 through 8.4** – Essential Conditions for Board Oversight
- **Principle 9** – Plan Strategically
- **Principle 13** – Plan Engagements Effectively
- **Principle 15** – Communicate Results and Monitor

Shift Happens

The "Speed of Risk" can be lightning quick and relentless

The Reality We're Planning Against

- **Risk velocity** - outpacing traditional audit planning horizons (e.g., "meteors")
- **Threat propagation** – in seconds, not days
- **Inability to anticipate** – discovering risks *after* they've hurt us
- **AI thrash** – AI doing crazy, unexpected things (like escaping test environments and hacking real organizations)

"History does not crawl, it jumps." - Nasim Taleb

Sense | Measure | Pivot | Vet | Publish

The Audit Planning Gap

Cycle-based and annual plans assume that risk is at least reasonably stable. It just isn't.

Traditional Audit Planning Isn't Keeping Up

- **A year is not what it used to be**
- **Overemphasis on/bias toward "getting the plan done"**
- **Risk assessments still biased toward historical (vs emerging)**
- **Frequency and magnitude of disruption:** *"We're living in a 5-standard-deviation world" - CFO, Asset Management Firm*

When the risk landscape is changing faster than the audit plan can keep up, risk sensing agility becomes a super-control capability

Rapid Risk Sensing

A structured process for continuously detecting, measuring and responding to changes in risk profile between formal risk assessments

Risk sensing requires an "always on" mode

- **Improve risk environment scanning ("signal detection")**
- **Increase focus on leading (vs lagging) indicators**
- **Cultivate an emerging risk mindset**
- **Define "existential" (vs. recoverable) risks**

Risk sensing is not about predicting every risk. It is about identifying relevant changes early enough to adapt/adjust timely and appropriately

Sense | Measure | Pivot | Vet | Publish

Signal Detection and Measurement

Signals are verifiable evidence of changes in risk.

Signals Internal Audit should monitor:

- **Internal – Operational, Financial, Technology, People**
- **External – Macroeconomic, Industry, Regulatory**
- **Strategic – "TAS" Model**
  - **Thesis –** ***"What are the life and death assumptions implicit in our strategy?"***
  - **Antithesis –** ***"What is the direct opposite of those assumptions?"***
  - **Synthesis –** ***"What signals are we seeing, and how strong are they, and what should we do to address them?"***

This is about getting absolute clarity on the nature and magnitude of the risk change

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Audit Plan Decision Framework

When considering a change to the plan

1. How has the original risk changed?
   - Has the inherent risk increased (esp. velocity)?
   - Have we gotten much better at managing it?
2. Is there a new risk that needs to be addressed?
3. Can existing audit work sufficiently address the change?
4. Would the Audit Committee likely a) pay special attention to the risk and b) expect a change to the plan?
5. Is management or the board requesting the change outright?

Every CAE should have a framework for deciding the "significance" of a change, i.e., whether a lightweight pivot or a formally approved audit plan change is warranted

Pivot Approaches

Pivots are "lightweight" changes in audit approach in response to risk changes that might not require a formal change to the audit plan

Possible pivot approaches:

- **Scope Change** – Adjust objectives within an existing audit
- **Testing Adjustment –** Refocus or deep-dive testing efforts around a new risk dynamic
- **Audit Sprints** – Targeted reviews using an Agile approach
- **Point-in-Time to Continuous Monitoring** – Leveraging data analytics to forego a full-scope audit to an ongoing monitoring approach

Not every change in the risk profile requires a wholescale change to the plan

Vetting Audit Plan Changes Credibly

The ability to explain and seek approval for the changes credibly might be more important than the changes themselves. "The value's in the dialogue."

1. **Describe the Risk Signal –** *What* happened that changed the risk?
2. **Explain the Risk Implications –** How and why does this require an audit plan change? What makes it "significant?"
3. **Describe the Audit Plan Change** – What will IA do differently, and how does it affect risk coverage?
4. **Describe the Resource Impact** – Will this change result in more or less coverage, and is the approved budget still sufficient?
5. **Describe the Expected Benefit** – How will this proposed change impact the overall control environment? "What get's better?"

Communicate the proposed changes in a way that leaves few if any questions

Publish the Change(s)

Create a complete historical record of the change that satisfies both the IA Charter and the Audit Committee Charter

- "Significant" changes require AC approval
- Update the audit plan and related reporting elements
- Adjust schedules, staffing and resources accordingly
- Update or refine IA Charter and methodology as necessary:
  - Governance statement clarifying the AC's responsibility for approving significant audit plan changes
  - Clear definition of what constitutes a "significant" change
  - Documentation standard on what needs to be retained for quality assessments and/or regulatory exams

A complete and documented record of audit plan changes helps ensure the Audit Committee is meeting its Risk Oversight responsibilities