THE SPEED OF RISK
Lessons Learned on the Audit Trail
2nd Edition

Richard F. Chambers

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The Institute of Internal Auditors Chicago Chapter
Paul J. Sobel, CIA, QIAL, CRMA
To the men and women around the world who have made internal auditing their careers, and who continue to inspire us with their personal journeys on the audit trail.
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FOREWORD

I was greatly honored when Richard Chambers asked me to write the Foreword to his latest book, *The Speed of Risk: Lessons Learned on the Audit Trail, 2nd Edition*. His previous two books have been great successes, helping the internal audit profession learn from the vast wisdom he’s gained throughout his illustrious career. After he explained the focus of this updated edition, I was excited that he was willing to put in the effort I know it takes to author a book. Our profession is very much in need of his updated insights.

I don’t recall when I first met Richard, but it was during his first stint with The IIA back in 2001–2004. I didn’t have the opportunity to work directly with him until he served as the national practice leader for Pricewaterhouse-Coopers in 2004–2008. I was the chief audit executive for an energy company in Atlanta, Georgia, and we had decided to bid out our internal audit co-sourcing contract. We selected PwC, due in no small part to the advisory role Richard was committed to play during the first year of our contract. It was extremely valuable to have access to an experienced thought leader such as Richard. His knowledge of the energy industry from his time with Tennessee Valley Authority enabled him to help me think through key business risks facing our industry. Also, his deep understanding of The IIA’s *Standards* allowed him to provide valuable advice as I conducted a quality self-assessment before our initial external quality assessment.

During his time at PwC, Richard and I started working more closely on IIA volunteer activities. He chaired the International Conference Committee when The IIA’s Atlanta Chapter was awarded the 2010 International Conference (I should note that he recused himself from the vote because he didn’t want his prior connections to the city of Atlanta to influence the committee’s
selection in any way). We then worked together on the North American Board before I moved on to The IIA’s Executive Committee.

During my first year on the Executive Committee, Richard rejoined The IIA as its president and CEO. I had the good fortune of watching him navigate some very difficult financial times when he first took that office, and then working with him as he shepherded The IIA through some of the most prosperous years in its history. My year as IIA chairman of the board in 2013–2014 gave me the opportunity to work side by side with him and gain a great appreciation for his exceptional leadership skills and business acumen. It also helped me develop a deep respect for him as a person. He’s a good listener and communicator and has proven adept at surrounding himself with talented people. He and his wife, Kim, go to great lengths to show how much they appreciate the contributions of The IIA’s many volunteers. I’m proud to call him colleague and friend.

So what does that have to do with writing a book? Well, I believe the better you know someone the greater the understanding and appreciation you have for their commitment to writing a book of this nature. In addition to his full-time job as IIA president and CEO, Richard finds time to write blogs and have an active presence on social media. These are just some of the many ways he gives back to the profession, and the business world in general. The recognition he’s received in Accounting Today and by the National Association of Corporate Directors (NACD) for his influence in accounting and corporate governance are richly deserved. But he doesn’t do all of this for the recognition; rather, he genuinely cares about advancing the profession. I don’t know how he finds the time to have such an active social media presence, but I follow him closely, knowing that he will provide insights on current events affecting the profession. I try to read all of his blogs and look at every post, because I know I can never stop learning in life and he is a great teacher. This book shows his continuing commitment to educate the profession.

I was very pleased when Richard told me the title of this updated edition started with The Speed of Risk because that’s such a relevant thought for the rapidly changing, disruptive times in which we live. He’s always had his finger on the pulse of risk, having created The IIA’s first comprehensive risk assessment and initiating the annual Pulse of Internal Audit surveys that
have helped to inform the profession. While the internal audit profession has been risk-based for some time, Richard has helped all of us better understand what that really means.

Which brings me to the contents of this book. Richard's extensive and diverse experience make him uniquely positioned to share the valuable lessons gleaned from his career. Having read both of his previous books, I knew how valuable those lessons were to a growing profession in an increasingly complex world. I believe this book better reflects the timeless nature of those lessons and reinforces the trusted advisor attributes. However, it also demonstrates how timeless insights still must be customized to meet the needs of an ever-changing world. This book's focus on stakeholder expectations, relationship acumen, the nature and pace of risk, disruption, and culture creates messages that are relevant not only today but for the foreseeable future as well.

I highly recommend The Speed of Risk: Lessons Learned on the Audit Trail, 2nd Edition. It should be on every internal auditor's reading list in 2019 and beyond. The new lessons, and application of the old lessons, apply to internal audit leaders as well as those just starting their career. They apply to both public and private sector organizations, in any industry and any country throughout the world. I commend Richard and thank him for taking the time to share his wisdom with the profession.

Paul J. Sobel, CIA, QIAL, CRMA
Chairman of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
Chief Risk Officer and former Chief Audit Executive,
Georgia-Pacific, LLC
ACKNOWLEDGMENTS

As I noted at the time when crafting the first edition of *Lessons Learned on the Audit Trail*, writing the book was one of the most rewarding experiences of my life. Revisiting and updating lessons learned for this edition has been equally rewarding and also inspiring. Once again, however, it would not have been possible without the encouragement and support of so many family members, friends, and colleagues.

My wife, Kim, has been a vital partner on the audit trail I discuss in this book. 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 father, Linville Chambers, was a lifelong source of inspiration personally and professionally. His death in 2013 was a catalyst for my own self-reflection and the decision to write the original book. Thanks, Dad, for all you taught me about life, the pursuit of excellence, and perseverance. My mother, Mildred Chambers, has always been a pillar of strength. Without her loving support throughout my academic years and the early years of my career, there would likely have been no audit trail. My talented and beautiful daughters, Natalie McElwee, Christina Morton, and Allison Chambers, have always been unwavering in their affection and support. No matter how many times the new chapters in my professional journey disrupted their lives, their love and resilience always shined through.

Thank you to Paul J. Sobel and The IIA’s Chicago Chapter for sponsoring this 2nd edition of *Lessons Learned on the Audit Trail* and to The IIA’s Dallas Chapter for sponsoring the first edition. Thanks to Lillian McAnally, my editor on the original manuscript, who graciously agreed to come back and reprise her role with this edition. Lillian’s expertise and time in organizing the 2nd edition and polishing the manuscript were invaluable. Thanks to
Robert Perez, Jane Seago, and Mike Gowell for their contributions to new content in this edition. I remain indebted to Barbara Dycus, Jodi Swauger, Edward Popkins Jr., and John Babinchak for their contributions to the manuscript of the first edition, and thanks to John Babinchak for returning for round two. Thanks to Erika Beard and Lee Ann Campbell for their contributions in managing this project and putting the finishing touches on the manuscript. Thank you to Jim Kinder and Monica Griffin for their extraordinary work on the cover design of the book. Thanks also to Paul Sobel for the kind words he shared in the Foreword to this edition.

Finally, I would be remiss if I didn’t thank the countless men and women whom I had the privilege of calling my colleagues in the Trust Company of Georgia, the U.S. Government Accountability Office, the U.S. Army, the U.S. Department of Health and Human Services, the U.S. Postal Service, Tennessee Valley Authority (TVA), PwC, and The IIA. The opportunity to work with such extraordinary professionals over the course of more than 40 years has been the highest honor of my life. Without them, my audit trail would have been a lonely and unfulfilling path.
ABOUT THE AUTHOR

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA, is president and CEO of The Institute of Internal Auditors (IIA), the global professional association for internal auditors. He has spent more than 40 years in internal auditing, serving as inspector general of Tennessee Valley Authority, deputy inspector general of the U.S. Postal Service, and director of the U.S. Army Internal Review at the Pentagon. Before joining The IIA, he was national practice leader in Internal Audit Advisory Services at PricewaterhouseCoopers (PwC).

Richard is a prolific blogger and speaker and has been featured in numerous major media outlets, including The Wall Street Journal, The New York Times, Bloomberg Radio, and CNBC. Accounting Today selected him as one of the 100 Most Influential People in Accounting, and the National Association of Corporate Directors (NACD) named him one of the most influential leaders in corporate governance. Richard and his wife, Kim, reside in the Orlando, Florida, area and have three grown daughters, Natalie, Christina, and Allison.
CHAPTER 1
There Are No Speed Limits on the Audit Trail

When I “put my pencil down” and submitted the final manuscript of Lessons Learned on the Audit Trail for publication five years ago, I assumed it was my last word on the subject. Yet, I was ignoring a key message from the book: We must never stop learning from the lessons that life teaches us. Since the first edition of this book was published, I feel I have almost lived another professional lifetime. I have shared numerous new lessons across various content media—blogs, presentations, and social media. In fact, the speed at which life is teaching us new lessons is a lesson unto itself. For that reason, I am compelled to update Lessons Learned on the Audit Trail to share new perspectives on the lessons in the first edition and to impart new lessons learned during these last few years.

As we travel down life’s path, each of us experiences things in both our personal and professional lives that prepare us for what lies ahead. In that regard, my journey is not unique. What sets it apart, however, is that I have invested more than four decades serving the same profession—internal auditing. During that time, I have learned many important lessons, some early in my career and some recent. The paradox of encountering lessons later in life is that you have less time to apply them, which is a motivating factor for me in writing my books. If I can help just one internal auditor to be better prepared for the challenges and opportunities that await in his or her career, then the effort will have been worth it.

A Bird’s-Eye View of My Audit Trail

I suspect that you, as the reader, might want to have some idea of where I gathered these lessons before you dive headlong into reading about them.
After all, there are many useful books in the marketplace written by highly experienced authors. Why should you read this one? To answer that, I have listed below a brief chronological review of my career. I have been fortunate to have the opportunity to work with many talented experts in numerous fields with significant levels of responsibility. The experiences and milestones I have accrued combine to forge the insights discussed in this book.

• 1975–1976: Internal audit associate with Trust Company of Georgia, a large regional bank in Atlanta, Georgia, USA
• 1976: Auditor, U.S. General Accounting Office, Washington, DC, USA
• 1976–1980: Internal auditor at levels of increasing responsibility at a major U.S. Army command in Atlanta, Georgia, USA
• 1980–1981: Accountant with the U.S. Department of Health and Human Services Bureau of Medicare, Atlanta, Georgia, USA
• 1981–1984: Returned to the position of internal auditor at the major U.S. Army command in Atlanta, Georgia, USA
• 1984–1988: Operations research analyst with the major U.S. Army command in Atlanta, Georgia, USA
• 1988–1991: Chief audit executive of the internal audit department of the major U.S. Army command in Atlanta, Georgia, USA
• 1991–1992: Student at the U.S. Army War College resident program, Carlisle, Pennsylvania, USA
• 1992–1993: Resumed the role of chief audit executive with the major U.S. Army command in Atlanta, Georgia, USA
• 1993–1998: Chief audit executive (chief of Internal Review) for the U.S. Army, the Pentagon, Washington, DC, USA
• 1998–2000: Deputy assistant inspector general; assistant inspector general; and deputy inspector general of the U.S. Postal Service, Washington, DC, USA
• 2000–2001: Inspector general, Tennessee Valley Authority (TVA), Knoxville, Tennessee, USA
• 2001–2004: Vice president, the Learning Center, The Institute of Internal Auditors (IIA), Altamonte Springs, Florida, USA
• 2004–2008: National practice leader, PricewaterhouseCoopers, USA
• 2009-date: President and CEO, The Institute of Internal Auditors (IIA), Lake Mary, Florida, USA

Over the course of these assignments, I have come to believe that internal auditing can be an extraordinarily rewarding profession, fostering a sense of accomplishment unlike any other. It has been so for me, and I believe that as we explore the lessons discussed in this book, you will discover principles that can make your personal internal audit journey equally rewarding.

The *Merriam-Webster Dictionary* defines an audit trail as “a record of a sequence of events from which a history may be reconstructed.” As I reflect on my own career in internal auditing, I often contemplate the sequence of events that brought me to where I am today—my own personal audit trail. As the chronology above reflects, there were periods in my career in which I advanced very rapidly. We should never hold ourselves captive to artificial timelines. There are no speed limits on the audit trail. More important than the events themselves, however, are what they taught me.

In this book, I share the most impactful of the lessons I have learned about our profession and those we serve. More than ever, I believe that—far from being a monotonous, black-and-white job—internal auditing holds exciting potential for those seeking a vibrant profession that provides real value to the enterprises they serve.

**What's New on the Audit Trail**

In 2014, I shared what I believed were the most critical lessons from almost 40 years as an internal audit professional in the first edition of this book, *Lessons Learned on the Audit Trail*. The response to the book was quite remarkable. It was swiftly translated into Spanish, French, Traditional Chinese, and Simplified Chinese, and internal auditors scooped up more than 15,000 copies worldwide.

The lessons we learn over the course of a career will serve us well if we remember and apply them. And we will need every one of those lessons to surmount the ever-increasing challenges and opportunities internal auditors
face today. This edition has been updated to include perspectives on recent developments that pose critical implications for the profession.

I have written more than 200 blogs and articles since the first edition was published. The research and conversations with global experts I used to prepare those writings have afforded me insights I share in this book on topics of concern to the profession today:

- Perspectives that management and audit committees are reluctant to share
- How marketing internal audit can enhance awareness about its value
- Frequent sources of tension between management and internal audit
- The idea that internal auditors can audit anything—but not everything
- The importance of tact and the art of bringing about positive change
- How poor audit planning can cause “the wheels to come off” the engagement
- How smart internal auditors ask smart questions
- The need for ethical internal auditors to be courageous

These topics are of increasing concern to the internal audit profession, which is called on to excel in an environment that is shaped by challenging trends, including the following:

1. The Speed of Risk

Businesses worldwide frequently focus on managing risks, both internal and external, whether related to finance, operations, strategy, technology, regulations, or reputation. While organizations are raising the bar on effective risk management, executives face extraordinary headwinds spawned by a turbulent environment in which risks materialize virtually overnight. In the past five years, global financial and business markets have been rocked by spectacular cybersecurity breaches, corporate failures induced by toxic...
cultures, the #MeToo movement highlighting sexual assault and harassment in the workplace, and more.

Internal auditors are finding that rigid, risk-based annual audit plans are increasingly relics of the past that position them to addressing yesterday's challenges. This reinforces my long-held belief that internal audit must take a more continuous approach to risk assessment—auditing at the speed of risk—which is a recurring theme in this updated edition.

2. The Implications of Auditing Organizational Culture

Our profession has long recognized that tone at the top is critical to the overall effectiveness of an organization’s system of internal controls. When the first edition of this book was published, auditing culture was not a frequent topic of conversation for many of us. In the last few years, however, there has been virtually an epidemic of corporate failures induced, at least in part, by a toxic culture.

Regulators, stakeholders, and the public have looked to internal audit as a source of assurance or insight on organizational culture. Organizational culture reflects “how we do things around here,” so when the culture becomes toxic, it impacts the workplace environment and generates a ripple effect on the entire organization, ultimately impacting the bottom line. In this edition, a new chapter has been added to cover the concept of auditing organizational culture and potential roles internal audit can play in its assessment.

3. Technological Innovation

The speed at which technological changes have advanced since the first edition of this book affects how innovation drives greatness in internal audit departments. In chapter 8, I explore how new and emerging technologies such as robotics process automation and artificial intelligence will impact internal audit, and the imperative to embrace them.

4. Becoming a Trusted Advisor

Near the end of the first edition, I introduced what I believed were the essential skills that internal auditors needed to build and sustain trust with those
they serve. In this edition, I update the definition and attributes of trusted advisors and incorporate these concepts throughout the book to align with those outlined in my second book, *Trusted Advisors: Key Attributes of Outstanding Internal Auditors*.

We are well positioned as a profession to tackle the challenges now before us. New regulations are imposed with increasing frequency, causing audit plans to undergo regular adjustments to encompass compliance activities. But not all changes are challenges; opportunities are emerging as well. Internal audit departments continue to receive added resources, reflecting stakeholders' expanding recognition of the value they provide. And internal audit is increasingly offered a more engaged role in addressing strategic business risks.

**When Reading This Book**

A few words before you begin reading this book. While I believe firmly that the content within this revised edition is valuable, useful, and helpful, it does not constitute professional guidance from The IIA, although you will find that these lessons clearly align with the current version of The IIA's International Professional Practices Framework (IPPF). I am not endeavoring to give you direction or guidance as you manage an internal audit department or undertake internal audit engagements. Every internal audit department is different, and every set of circumstances is different. This book is a composite view of organizations I have worked in, led, or dealt with throughout my career, and these are my personal views about how best to address some of the challenges we face in this critical profession.

In sharing my experiences and exploring how the lessons I learned apply to internal auditing today, I frequently draw on my time spent in government. Because government operations are generally more transparent than those in the corporate sector, I am able to talk more candidly about the details, referring to real people, dates, and locations. Having spent portions of my career in government, the corporate world, and the not-for-profit sector, I find the similarities far outweigh the differences. As you proceed through the book, I strongly suspect you will agree.
While I do not yet know if The IIA will be the last stop on my audit trail, it has certainly enabled me to pull together and draw upon all of the lessons learned during my other stops along the way. In the pages ahead, I share many of those lessons and the circumstances that enabled me to get the most from them. My hope is that, as you read this, you will find the journey worthwhile and be inspired to harness your personal passion for the profession.