The State of Organizational Risks:

Moving Past the Pandemic

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Your Presenter

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Objectives

- How to adapt your organization to address environmental changes
- Understanding the greatest risks of 2022 and how to manage them
- How to take a proactive approach to addressing risks and collaborating with key stakeholders

Polling Question #1

What area do you believe will continue to be the largest impact to your organization in a post-COVID world?

a) Remote Work

b) Turnover / Staffing Shortages

c) Supply Chain

d) Other

Topics

- Current State of Business Overview
  - Changes over the past year and continued effects of COVID-19
- Significant Risks of 2022
  - What do these risks mean
- How Can Organizations Stay Informed
  - Keeping a pulse on risks and changes
  - Leveraging the Three Lines of Defense Model
  - Communication and Collaboration
- How Organizations Can Adapt
  - Cross-department collaboration and management of risks
  - Leveraging technology
  - Focus on efficiency, effectiveness, and resource allocation

Current State of Business

COVID-19 AND NEW VARIANTS

- Peaks and valleys of progress
- Protests and Opening of offices and cities
- Continued challenges in workplace settings i.e. optional masking, social distancing and office staff rotations
- Legal challenges to vaccination requirements

REMOTE OR HYBRID WORK MODELS

- Changes in productivity?
  - Society for Human Resource Management (SHRM): Of 800 employers surveyed, 94% reported steady or increased productivity
  - The long term impacts and connectivity to the organization are unknown
- Difficulty in validating performance of processes and controls
- Managing various stakeholder schedules

Current State of Business

WORKFORCE SHORTAGES

- Shifts in labor – "The Great Resignation"
  - Impact of current situation
  - Recruiting and managing talent
- Doing more with less – not just a slogan anymore

SUPPLY CHAIN ISSUES

- Global Shortages of commodities, from furniture to food and building materials
- Logistics issues, including shipping containers and transport services
- Importance of prediction
  - Lead times and inventory management
  - Usage of data and analytics to uncover trends

Current State of Business

INFLATION

- Rapid increases in the costs of goods, including food and fuel
- Interest rate increases

GLOBAL AND LOCAL POLITICAL INSTABILITY

- Threats of war
- Civil discourse regarding handling of vaccination requirements
- Mass immigration and migration

2022 Significant Risks

Published in Oct 2021, the Institute of Internal Auditor's 2022 OnRisk Report identifies the following **12 risks** that every organization should be evaluating:

1. Cybersecurity
2. Talent Management
3. Organizational Governance
4. **Data Privacy**
5. Culture
6. Economic and Political Volatility
7. **Change in Regulatory Environment**
8. **Supplier and Vendor Management**
9. Disruptive Innovation
10. **Social** Sustainability
11. **Supply Chain Disruption**
12. **Environmental** Sustainability

2022 Significant Risks

From the Institute of Internal Auditor's 2022 OnRisk Report, the following **5 key observations** are of most relevant of the 12 total risks:

- Talent Management
  - Work from home trend
    - COVID -19 impact or shift in culture?
    - Cross country abilities
  - Shortage and Shifting of Talent
    - Work-life effect
    - Movement between industries or to new industries
- Data Privacy / Cybersecurity
  - Growing sophistication and impact of cyber threats, such as the Colonial Pipeline and Kronos outage
    - Being proactive and knowledgeable of current threats
    - Impact of threats through home or shared networks outside of the office

2022 Significant Risks

DISRUPTIVE INNOVATION

- Accelerated adoption of technology
  - No more "wait and see" approach to innovation
  - Staying ahead of customer needs

ECONOMIC AND POLITICAL VOLATILITY

- Supply Chain
  - Global impacts to raw materials and commodities
- Social Injustices
  - Reputational risks to organizations that do not evolve and consider diversity and equality

SUSTAINABILITY

- Social and Environmental
  - Corporate social responsibility
    - Employee benefit and serving
    - Community and political impacts
- Recognizing and Adapting to changes of Climate Impacts
- Promoting of environmental friendly practices

Gartner Emerging Risk Trends

Emerging Risk Trends 2Q22

As the risk landscape continues to change, what emerging risks does your organization need to monitor and prepare for now? To help answer this question, each quarter, Gartner publishes the Emerging Risk Report based on insights from an extensive network of risk management and audit executives.

At the right, see an excerpt from this quarter's research, providing a benchmarked view of 20 top emerging risks. Gartner clients have access to the full report and an interactive tool allowing them to dig deeper into the data.

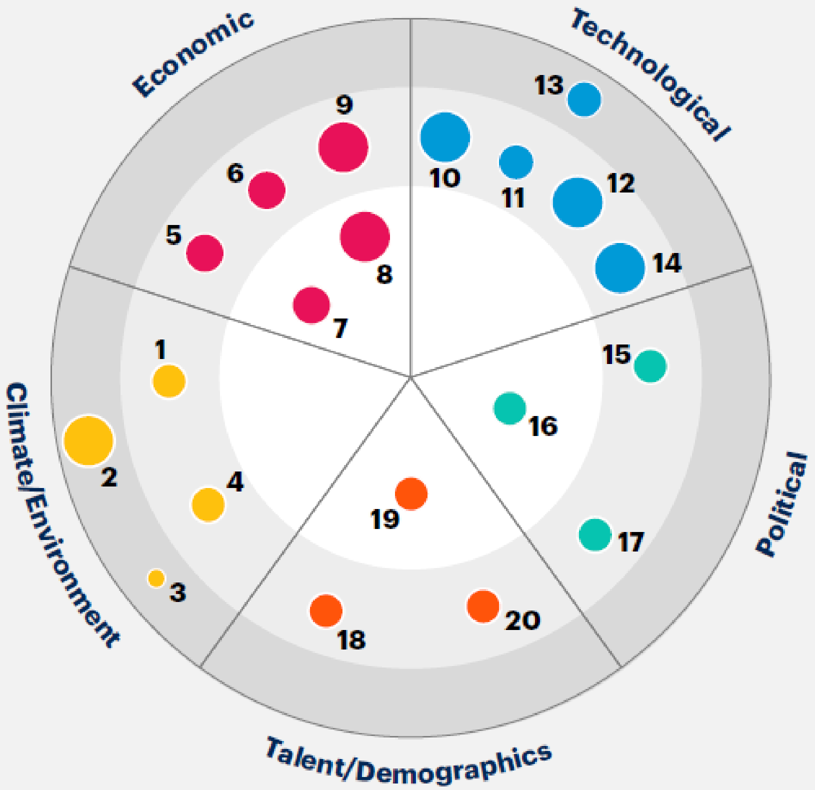
Impact

- High
- Medium
- Low

Time Frame

- Within 1 year
- 1 – 2 years
- 2+ years

2Q22 Emerging Risk Universe Map



The numbers below are for labeling purposes only and don't indicate rank or priority of risk.

#	Risk Category	Risk Name
1	Climate & ESG	Climate Activism
2	Climate & ESG	Energy Transition
3	Climate & ESG	ESG Commitment-Execution Gap
4	Climate & ESG	ESG Implementation Challenges
5	Economic	Agri Commodity and Food Scarcity
6	Economic	Crypto Bubble
7	Economic	Energy Price Inflation
8	Economic	Key Material Shortages
9	Economic	Macroeconomic Downturn
10	Technological	Cloud Concentration Risk
11	Technological	Cost of Computing Spike
12	Technological	Critical Infrastructure Failure
13	Technological	Earth Orbits Crowding
14	Technological	State-Sponsored Cyberattacks
15	Political	Chinese Trade Tensions
16	Political	Escalation of Conflict in Europe
17	Political	Evolving Sociopolitical Expectations
18	Talent/Demographics	Hybrid Workforce Disparities
19	Talent/Demographics	Increased Employee Leverage
20	Talent/Demographics	Remote-Working-Era Mental Health

Cybersecurity Trends: IBM's Predictions for 2022

13 Predicted Trends:

1. One Business's Ransomware Attack will Become Another Business's Extortion
   - » Ransomware attacks on one business will also impact their partners who hold their data
2. Supply Chain Attacks will Become a Top Boardroom Concern
   - » Continued attacks on supply chain through evaluations of vulnerability's in suppliers
3. We are Close to Becoming our Own Passwords
   - » Impacts of weak passwords
   - » Maturation of AI and biometric technology
4. Blockchain will Become a Cyber Crime Hideout
   - » Increase usage by cyber criminals to hide malicious traffic and avoid detection
   - » Increased difficulty in identifying appropriate and inappropriate activity
5. Hybrid Cloud will Win Security Points
   - » Increased use of hybrid cloud approach to better manage and protect data across multiple platforms
6. Cybersecurity Regulation will Lead to Bigger Security Budgets
   - » Growing momentum in security mandates and threats will force adoption of larger

Cybersecurity Trends: IBM's Predictions for 2022

13 Predicted Trends:

7. Regional Regulatory Solutions will Lead to Global Business Problems
   - Challenges in adhering to conflicting security mandates and requirements
8. Zero Tolerance for Trust will Redefine the State of Security
   - Increased scrutiny in trusted relationships over the use of their data
9. Ransomware Syndicate Takedowns Will Shift Attackers' Target Focus
   - Shifting to targets in regions with immature security resources, defenses, or governments with cyber strategy to stop them.
10. High Number of Breaches in Early 2022
    - Increase expected due to minimal staffing during holidays and slow return to offices
11. Cloud-Bound Malware and Attacks will Proliferate Considerably
    - Cyber attacks will focus on the cloud and those with new or less familiar programing languages

Cybersecurity Trends: IBM’s Predictions for 2022

13 Predicted Trends:

12. Triple Extortion: The DDoS Flavor
    - Increased pressure from ransomware gangs, including encryption, data hostage, and direct denial of service attacks.
13. Sanctioned Nation-State Will Step Up Financial Attacks
    - Increased sanctions on adversarial nation –states will increase economic pressures and financially motivated attacks by advanced and persistent threat groups.

Theme: proactively moving to a zero trust approach to build a strategy that works for what is coming in 2022 and the future

2022 Emerging Risks

Sustainability: Impact on global and local environment, community, society and economy

- IIA definition:
  - Organizations adding value by maintaining sustainable operations and ensuring a neutral long-term environment impact
- Risks:
  - Reputational, Strategic, Political, Demographic
- Considerations:
  - Velocity of Change
  - News about Environmental, Social, and Governance (ESG) reporting
  - Key stakeholder in all levels of government will be required to adjust
- Impacts:
  - Environmental consciousness
  - Use of public funds on conservation
  - Responsible sourcing of environmental friendly goods
  - Diversity and inclusion
  - Transparent governance practices

Polling Question #2

What other significant risks do you see being an impact to your organization?

a) Third Party

b) Board Information

c) Organizational Governance

d) Data Governance

e) Culture

How can organizations adapt?

Tips on Assurance from the IIA OnRisk 2022 Respondents:

- The scope of internal control work should reflect the organizations assurance needs – more than check the box
- Coordination among assurance stakeholders, including Internal Audit and Risk Management, which should **report directly** to Executive Management and the board to create more transparency and improve information sharing
- Staff performing assurance work should be well rounded and staffed with knowledgeable, confident, and **assertive** practitioners that hold appropriate business acumen
- Provide more than compliance assurance – provide **insight**
- **Clarify** roles between assurance providers within the organization
- Pay attention to risks on the horizon
- Identify and understand the delta of risk relevance between stakeholders

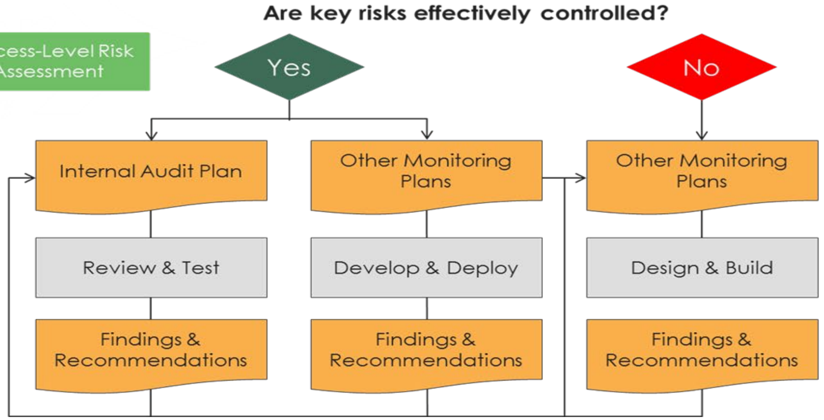
Perspective

How can organizations adapt?

- **Keeping Pulse on Risks and Changes to the Organization**
  - Benchmarking
    - Know your comparative/peer organizations and their metrics
    - Routine evaluations of where the organization is and where it should be
  - Identifying new risks early along with industry or regulatory changes
  - Routine updates to your risk assessment
  - Utilize data to tell the story and identify trends
- **Communication and Collaboration**
  - Communication with key stakeholders and management
  - Collaboration on risks and opportunities for
  - Enhancement, including systems and applications
- **Getting a Seat at the Table**
  - Key stakeholders involved in organization initiatives, including Internal Audit and Risk Management
  - Participate and understand the impact of strategic initiatives
  - Request for consultation – the other side of internal audit
  - Provide relevant information and insights to management, without being prompted
    - Help address trends and identify issues before feeling the effect

How can organizations adapt?

Adoption of a formal risk assessment process



- Organization-wide collaboration on risks
  - Identification of risks and assessment of controls
- Group assessment of risk ratings and areas for further review and focus
- Routine monitoring and assessment of risks

How can organizations adapt?

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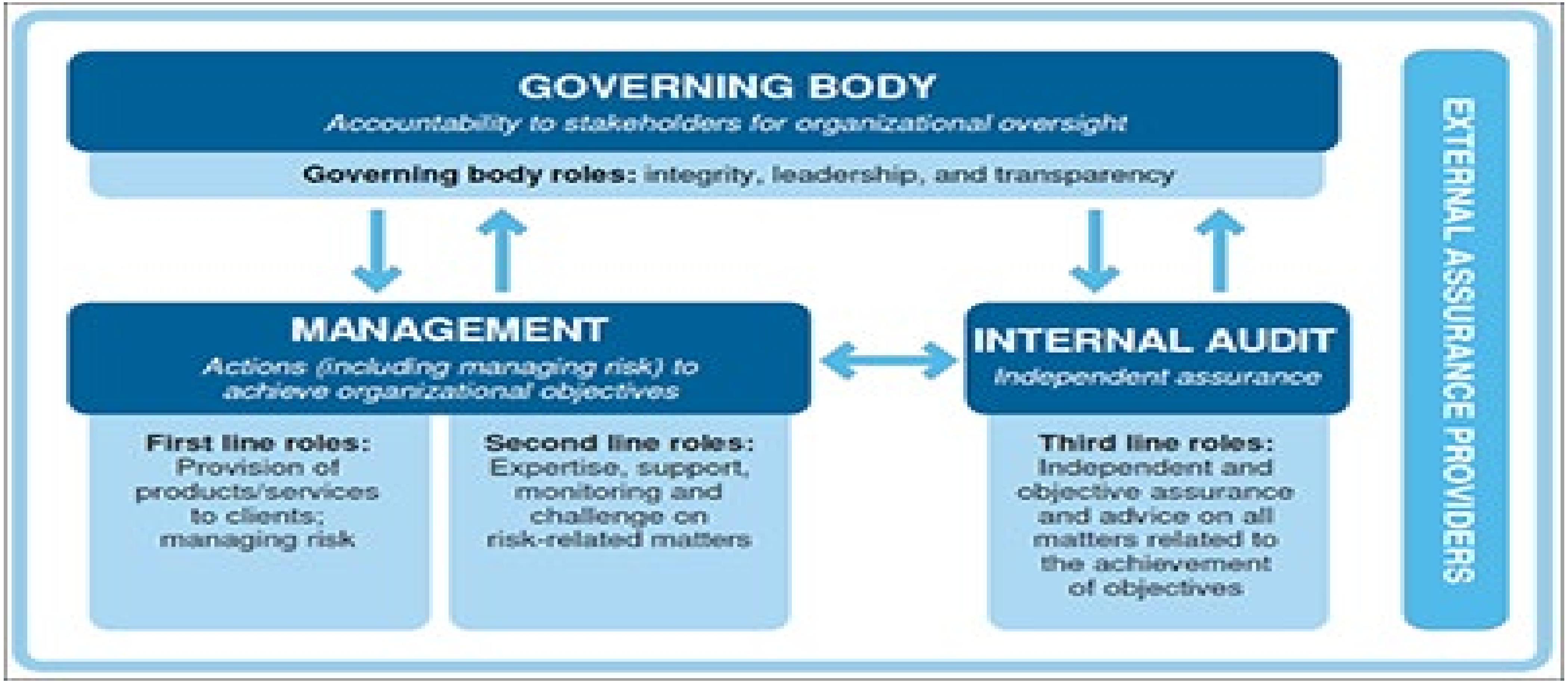
WINDSHIELD OR HORIZON ASSESSMENT OF FUTURE IMPACTS AND RISKS

- Collaboration on emerging risks and future impacts to the organization, including:
  - Regulatory changes
  - Culture or demographic changes
  - Political or Fiscal instability
- Early adoption of new technology or processes to improve responsiveness to stakeholders
- Collaboration with peer groups to discuss changes and pending impacts

How can organizations adapt?

The IIA Three Lines of Defense Model

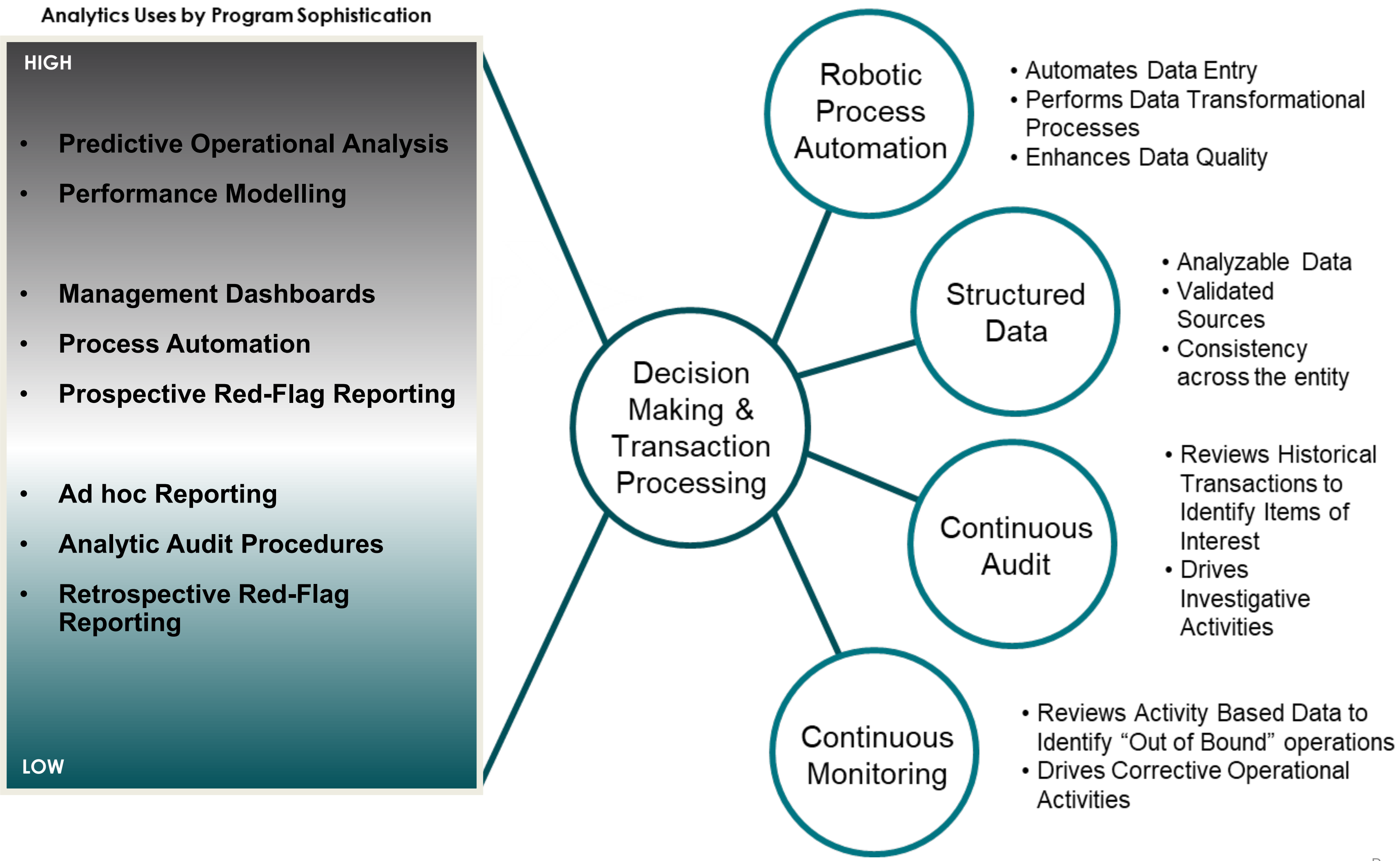


Leveraging Technology

Leveraging Technology

- Virtual platforms for remote work, i.e. MS Teams
- Data Analytics

Use of Data in Transaction Processing and Decision Making



Polling Question #3

What focus areas do you see as serving the greatest impact to your organization?

a) Further collaboration between Departments
b) Incorporation of an organization-wide risk assessment
c) Proactive identification of future impacts to the organization
d) Adopting and leveraging technology
e) Benchmarking to peer groups

Wrap Up

- **Key Takeaways:**
  - Focus on the ever **evolving risks** and **collaborate** with key stakeholders on addressing those risks
  - Leverage technology to increase **adaptability** and **insight** through data analytics
  - **Utilize peer groups** as benchmarks
  - **Ensure a seat at the table** with executive management
  - **Reevaluate** and **focus** resources on priorities
  - **Prepare** for the next global event

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