The Risk Agenda for Assurance Functions 2026

Commercial and Government
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In an era of constant motion; resilience, trust and assurance fuel confident reinvention.

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Today's risks are changing quickly and affecting organisations in more connected ways than ever before. Big shifts like artificial intelligence (AI), climate change, and global instability are reshaping where and how value is created. PwC's Value in Motion study shows that to stay ahead, organisations need to rethink how they operate, grow, and use energy. The stakes are high: AI has the potential to boost global growth significantly, while unmanaged climate risks could drag it down.

Internal Audit (IA) has a vital role to play: helping organisations adapt with confidence. By offering independent insight and forward-looking assurance, IA supports leaders in making smarter, safer decisions during times of change.

The UK economic picture adds to the challenge. Inflation remains high in essentials like food and transport, growth is fragile, and job losses in some sectors are changing consumer behaviour. These dynamics amplify the importance of resilient financial and operational models, effective customer and stakeholder support frameworks, and robust scenario planning to safeguard performance and stability in the face of continued volatility.

Across sectors, organisations are being pulled in two directions: managing short-term pressures while planning for long-term change. From rising costs and shifting demand to new rules and expectations around sustainability and digital transformation, pressures on resources are growing.

In this context, IA's role is more important than ever, providing assurance that governance, operations, and key programmes are robust and ready for the road ahead.

PwC's Value in Motion study

This year, our document covers the following areas:

- Macro Risk Landscape: This sets out the latest view on geopolitical uncertainty and the UK economic outlook.
- Risk Hot Spots: We have curated a list of risk hot spots that are shaping boardroom discussions and impacting the commercial and government sector. These represent emerging and evolving areas of risk that assurance functions should be mindful of when setting priorities for the year ahead.
- Internal Audit Practices and Capabilities: This section includes what is front of mind for Chief Audit Executives. We share our point of view on the early experience on implementation of the Institute of Internal Auditor (IIA)'s Global Internal Audit Standards and Chartered Institute of Internal Auditors (CIIA) UK Code of Practice for IA which came into effect during 2025. Finally, we consider good practice in relation to the adoption of AI in IA.

We hope you find this a helpful document to guide planning for the year ahead and to spark meaningful conversations on risk and reinvention. If you would like to discuss any aspect further, please do not hesitate to contact me or one of my colleagues whose contact details are at the end of this paper.

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Macro Risk Landscape

Geopolitical uncertainty

Summary

We continue to live in an era of geopolitical uncertainty. The systems and structures that have helped govern the global system in recent decades are weakening and changing. Global powers, responding to this changing environment, are competing for influence, and looking to new diplomatic, economic and security relationships. The level and pace of geopolitical shifts and shocks looks unlikely to lessen in the months ahead.

For businesses, changes in the geopolitical environment impact supply chains and production, regulatory and fiscal environments, global trade and tax norms, the movement of information, and the security of workforces, facilities and technology. In the coming year, organisations will be faced with the challenges emerging from three strategic themes:

Political Realignment

01

Globalism to Regionalism

02

The Decline of Multilateralism

03

What organisations should be doing

Against the backdrop of this continued volatility business leaders remain focused on adaptability and resilience:

Adaptability

As uncertainty increases, predicting the trajectory of international events will become increasingly difficult. Businesses need an effective monitoring and scenario analysis capability to provide early warning of emerging risks and opportunities. Agility in response is required to effectively mitigate risks.

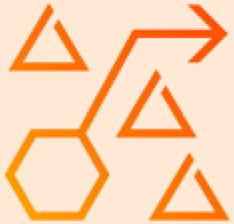
Resilience

With the pace of change accelerating, businesses will not be able to plan for every scenario. Resilience means building the capacity to absorb shocks, maintain critical operations, and adapt quickly to new realities, ensuring the organisation can withstand disruption while positioning for recovery and growth.

Geopolitical uncertainty (continued)

Strategic themes

Looking to the year ahead, there are a number of strategic trends shaping the operating environment for UK and international organisations.



Political Realignment

Many of the world's democracies are in transition following the 'year of elections'. Accompanying this is the growing popularity of far-right politics, increased political polarisation and a resulting rise in societal tensions.

Political realignments will be felt differently in different countries. This is most significant for businesses with an international footprint, where the political cultures of particularly Western democracies may be increasingly diverse. Organisations managing global workforces will need to navigate issues ranging from Diversity, Equity & Inclusion (DE&I) to immigration and regulation.

Political Transitions

2025 will be defined by political transitions as the anti-incumbent wave of 2024 elections reshapes governments worldwide. With opposition movements gaining influence and voter frustration fuelling polarisation, geopolitical uncertainty is set to rise.

The EU's (European Union) New Normal

Western Europe faces challenges from US tariffs, slow economic growth, and insecurity. Lasting solutions to these challenges will be extremely challenging.

Globalism to Regionalism

Multilateralism - the cooperation of multiple countries through international institutions and agreements - has long underpinned global diplomacy and trade. As approaches to multilateralism evolve, we are seeing a shift away from Western-led structures towards alternative models of influence. This is driving greater emphasis on regional alliances, national security priorities, protectionist trade barriers, and heightened competition over control of emerging technologies.

An increased focus on regionalism could impact global trade practices and encourage more localised models. Securing resilient and cost-effective supply chains will be increasingly challenging as organisations navigate complex regulatory environments, rising trade barriers and the weaponisation of trade as a geopolitical tool.

Trade re-orientation: Politically motivated and national security-related trade barriers are continuing to reshape the global trade environment. Divergence between the West and other global regions could result in incompatible trading and market regulations across all sectors, affecting, for example, data sharing.

Technology: Competition is at the forefront of technological innovation and will remain a key geopolitical driver. The focus on artificial intelligence, quantum computing and other advancements, including blockchain and digital assets, will lead to continuing competition across all aspects of innovation, from critical minerals to data, Intellectual Property (IP) and financial infrastructure. Control over tokenisation, central bank digital currencies (CBDCs) and digital payment systems is becoming increasingly linked to national security, digital sovereignty and future economic influence.

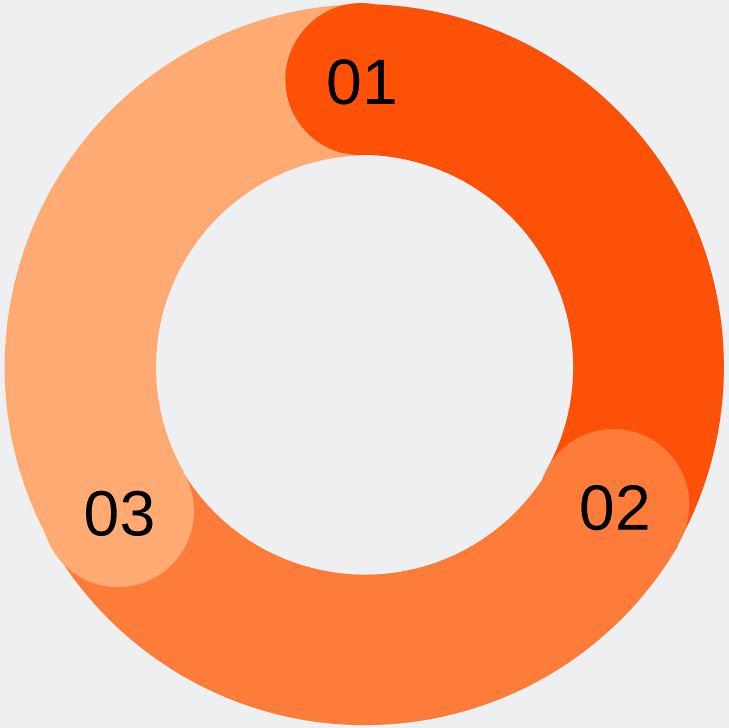
Changing international alignments: Emerging coalitions are gaining momentum and offer small and medium powers alternatives to a Western-led order. This could have implications for global security, as well as creating new norms and opportunities in global trade.

Geopolitical uncertainty (continued)

The Decline of Multilateralism

International institutions and norms that have long governed states' behaviour are weakening, leading to some states taking bolder unilateral actions with fewer consequences. Conflicts, cyber and physical sabotage attacks are continuing to proliferate as a result, and an increased sense of uncertainty and insecurity is driving defence spending globally.

The decline of multilateralism could lead to shifting global alliances, increased insecurity, and a disregard of international rules and conventions. Such changes can impact supply chains and production, regulatory and fiscal environments, global trade and tax norms, free movement of information, and the security of workforces, facilities and technology.



01 Europe-Russia relations

Russian influence campaigns and 'grey zone' attacks such as cyber, sabotage, assassination attempts on defence industry executives, and attacks on undersea infrastructure will likely continue. This could undermine EU and North Atlantic Trade Organisation (NATO) unity, complicate the operating environment, and raise direct security threats.

02 Shifting approaches to defence

Rising geopolitical uncertainty, combined with US pressure on its allies to increase contributions, is likely to reshape approaches to defence spending. This could trigger action–reaction cycles, boosting opportunities for defence and security industries while reducing government funding available to other sectors.

03 Conflict proliferation

As international norms break down, and the strength of international institutions weaken, there is a growing risk of interstate conflict. Even limited conflict events can impact security, operations, markets and supply, particularly if organisations are faced with multiple crises at once.

UK economic outlook

UK economic outlook: key themes and assurance implications

Inflation and Monetary Policy Trends

Recent data from the Office for National Statistics (ONS) shows persistent inflationary pressures, particularly in categories such as food, clothing, and transport. While market expectations point towards an interest rate cut in the near term, likely aimed at stimulating demand, uncertainty remains high.

For financial services organisations, a lower-rate environment could compress lending margins, affect pricing strategies for savings products, and shift investment portfolio performance. IA functions should assess interest rate sensitivity across key areas of the business and test how well institutions are positioned to manage profitability in this changing landscape. Risk models may also require recalibration, particularly as high inflation combined with slowing growth revives the prospect of stagflation, prompting the need for targeted stress testing and scenario planning.

Commercial organisations face sustained input cost pressures, particularly in consumer-facing sectors such as retail, logistics, and consumer goods. These inflationary challenges, coupled with softening wage growth, are likely to squeeze margins and suppress consumer demand. Internal audit teams should consider reviewing pricing strategy governance, cost pass-through mechanisms, and inventory management to ensure resilience.

Public sector bodies must navigate heightened volatility in energy and transport prices, which may disrupt budget planning and forecasting accuracy. In addition, as the Bank of England adjusts its monetary policy stance, departments and regulators should closely monitor implications for debt servicing, benefit indexation, and funding allocations at the local authority level.

Gross Domestic Product (GDP) and Growth Outlook

According to the latest ONS figures, UK GDP contracted for a second consecutive month in May 2025. This slowdown follows a period of modest momentum earlier in the year and reflects declining output in key sectors such as automotive and pharmaceuticals.

For financial services organisations, weaker GDP growth translates into heightened credit risk and increased scrutiny over capital adequacy and liquidity buffers. IA functions should test whether credit models are calibrated to reflect current macroeconomic risks and ensure that provisioning frameworks are responsive to a changing risk profile. This outlook also calls for strengthened governance over investment portfolios, including emerging exposures to tokenised assets and digital instruments, where market volatility and valuation methods may require additional scrutiny. Stress testing and scenario planning should also consider less liquid or novel assets held on or off-balance sheet.

Commercial organisations will need to reassess demand-side assumptions as growth slows. Lower consumer and corporate confidence may require businesses to revisit sales forecasts, pricing strategies, and cost control measures. Sectors like automotive and pharmaceuticals, which are experiencing contraction, should place renewed emphasis on supply chain resilience and export control effectiveness. Internal audit can add value by evaluating cost optimisation strategies, contract compliance, and supplier performance.

For public sector bodies, slowing economic activity may result in reduced tax receipts and put further pressure on public spending plans. Assurance functions should revisit fiscal planning assumptions, including contingency allocations and expenditure tracking. In addition, the economic environment may delay or reshape public programmes requiring closer oversight of risk registers, budget forecasts, and delivery milestones.

UK economic outlook (continued)

UK economic outlook: key themes and assurance implications (continued)

Labour market trends

June 2025 provisional figures show Pay As You Earn (PAYE) employment is down almost 180,000 over the past year. This looks like the second phase of a slowdown that began nearly two years ago, when organisations pulled back on hiring. Now they're starting to cut roles.

Three labour-intensive sectors that are highly exposed to cost pressures are hospitality, wholesale and retail, and admin services which account for nearly two-thirds of the losses. AI may also be a factor, but our analysis indicates that a higher proportion of UK jobs are more likely to be augmented by AI rather than replaced by it. The question now is how far the job cutting goes, and what that means for household spending patterns. Job losses affect not just those who are out of work, but also others who are worried they might be next. This at least partly explains why the household savings ratio has more than doubled in recent years, even as wages are growing more slowly in real terms.

Looking ahead, much will depend on whether the government's recently announced capital spending plans can help rebuild confidence and support job growth in affected sectors.

In financial services sector, rising unemployment and strong wage growth may affect borrower capacity and increase demand for hardship support products. Internal audit teams should ensure credit models incorporate updated labour market assumptions and validate how customer assistance frameworks are being deployed. Treasury teams may also need to reassess their rate-related planning and hedging strategies, which audit can support through review of scenario planning and governance processes.

Commercial organisations will likely continue to focus on operational efficiency, including headcount reductions and contract renegotiation. IA should evaluate whether staffing changes are aligned with business plans and whether labour compliance (e.g. IR35) is being maintained. Weaker demand may also necessitate adjustments to revenue forecasts, requiring assurance over forecasting processes and business planning.

Public sector bodies may experience rising demand for welfare services, with increased caseloads placing pressure on operational capacity. Internal audit teams should assess readiness and response planning, including how workforce constraints are being managed across critical public services. Additionally, greater coordination between fiscal and employment policy may be necessary, requiring assurance over data use, performance monitoring, and resource allocation

For further information on the UK Economic Outlook please our Economics webpage

Risk Hot Spots

AI – Governance of Agentic and Generative AI

Artificial Intelligence (AI) systems with agentic capabilities (which make decisions and take actions to achieve goals), and generative capabilities (which create new content such as text, code, or images), are introducing complex governance risks that many organisations are not yet prepared to manage.

Governing Agentic and Generative AI: Managing autonomy, ethics, and accountability in intelligent systems

Agentic and Generative AI systems are transforming how organisations operate, innovate, and engage with stakeholders. These advanced AI systems are capable of autonomously making decisions, generating content, and executing tasks in complex enterprise settings without constant human intervention. As their capabilities grow, the boundary between human-led decisions and AI-driven actions becomes increasingly blurred.

Traditional governance models, designed for static and rule-based technologies, are not equipped to handle the dynamic nature of these new systems. Emerging risks include loss of control, misalignment with human intent, hallucinations or incorrect outputs, and unintended consequences that scale rapidly. The lack of visibility into how generative models work also raises concerns around explainability, ethical use, and regulatory compliance.

Governance of these technologies must evolve to include a broader view of risk, oversight, and assurance. Regulatory developments, such as the EU AI Act and the UK's emerging AI governance principles, signal a shift towards stronger expectations for transparency, accountability, and safe deployment. Organisations need to act now to build effective governance frameworks that enable innovation while managing the risks associated with intelligent and autonomous systems.

Key considerations for organisations

As organisations scale the use of AI, especially agentic and generative capabilities, they must address business-critical risks including loss of control, reputational damage, regulatory non-compliance, and ethical misalignment.

Implement explainability and transparency practices to ensure that users and stakeholders understand how outputs are generated, and decisions are made.

Continuously evaluate training data and model performance to detect bias, drift, and harmful content, and ensure responsible data sourcing and documentation.

Embed AI governance within existing enterprise risk, control, and compliance frameworks to ensure consistency and avoid siloed approaches.

Design AI-specific risk frameworks that account for autonomy, decision-making thresholds, safe failure modes, and alignment with human intent.

Clarify decision boundaries by mapping out where AI can operate independently and where human judgment must intervene, including escalation protocols for deviations.

Prepare for compliance with fast-evolving AI regulations, including sector-specific expectations from regulators such as the Financial Conduct Authority (FCA), Information Commissioner's Office (ICO), and National Health Service (NHS).

Promote a culture of responsible AI use, supported by values-based principles and cross-functional collaboration across data, risk, legal, compliance, and assurance teams.

AI – Governance of Agentic and Generative AI (continued)

Understanding Agency in Artificial Intelligence (AI): Use case complexity, risk, and enterprise readiness

Understanding the path to Agentic AI and Enterprise Transformation

As organisations adopt more advanced AI capabilities, they are progressing beyond simple embedded applications toward complex, adaptive, and agentic systems. This shift involves not only increased technological sophistication but also a step-change in how AI systems are designed, governed, and integrated into enterprise operations.

Agentic systems are defined by their ability to make decisions and act independently in pursuit of goals. The level of agency depends not just on the AI model itself but also on the complexity and openness of the tasks assigned. As organisations move toward these more autonomous systems, they must address heightened risks around control, assurance, and alignment with strategic objectives.

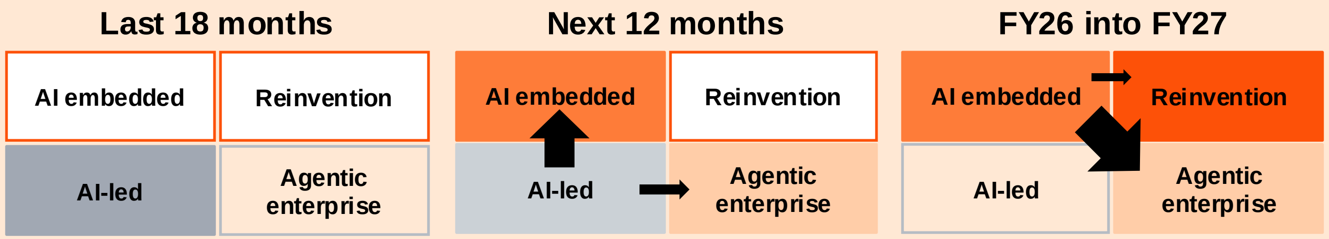
A clear roadmap is needed to support this evolution, one that connects technical capability with organisational transformation. This includes planning for AI embedded solutions, process reinvention, and eventually, the emergence of the agentic enterprise.

Use case positioning shows how autonomy and task complexity increase risk

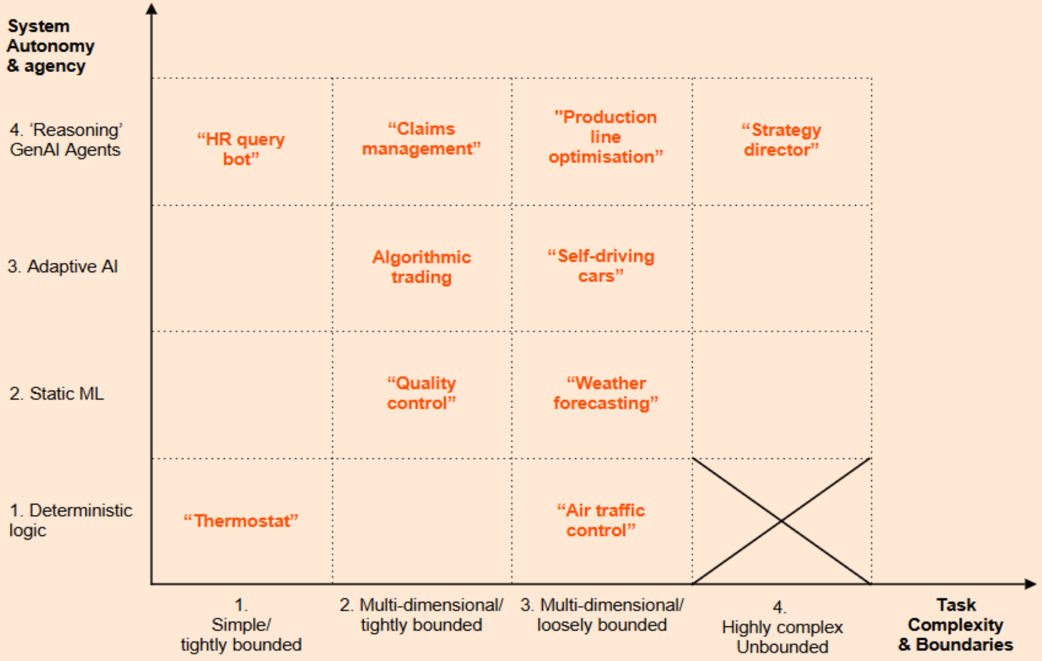
The diagram to the bottom-right illustrates how different AI use cases vary in autonomy and task complexity, helping to highlight where stronger governance and assurance are most needed.

Systems like thermostats are simple and rule based, while agentic examples like strategy director or production optimisation operate independently in dynamic environments.

As systems move up and to the right, they require stronger governance, clearer accountability, and more advanced assurance frameworks tailored to dynamic and autonomous behaviour.



An AI strategy should address a roadmap for embedded, process reinvention and agentic optionations



System Autonomy & agency / Task Complexity & Boundaries	1. Simple/ tightly bounded	2. Multi-dimensional/ tightly bounded	3. Multi-dimensional/ loosely bounded	4. Highly complex Unbounded
4. 'Reasoning' GenAI Agents	“HR query bot”	“Claims management”	"Production line optimisation"	“Strategy director”
3. Adaptive AI		Algorithmic trading	“Self-driving cars”	
2. Static ML		“Quality control”	“Weather forecasting”	
1. Deterministic logic	“Thermostat”		“Air traffic control”	☒

AI – Governance of Agentic and Generative AI (continued)

Internal Audit focus areas

01

Governance and Accountability

- Review governance structures, escalation protocols, and board-level oversight.
- Assess integration of AI risks into the enterprise risk taxonomy.
- Evaluate assurance arrangements for third-party AI tools, models, and APIs.

02

Model and Data Lifecycle Management

- Review development and data lifecycle practices (version control, retraining, validation, model drift).
- Confirm audit trails, logs, and documentation exist for traceability and explainability.

03

Monitoring and Resilience

- Test monitoring controls, feedback loops, and anomaly detection protocols.
- Validate disaster recovery and continuity plans for AI systems.

04

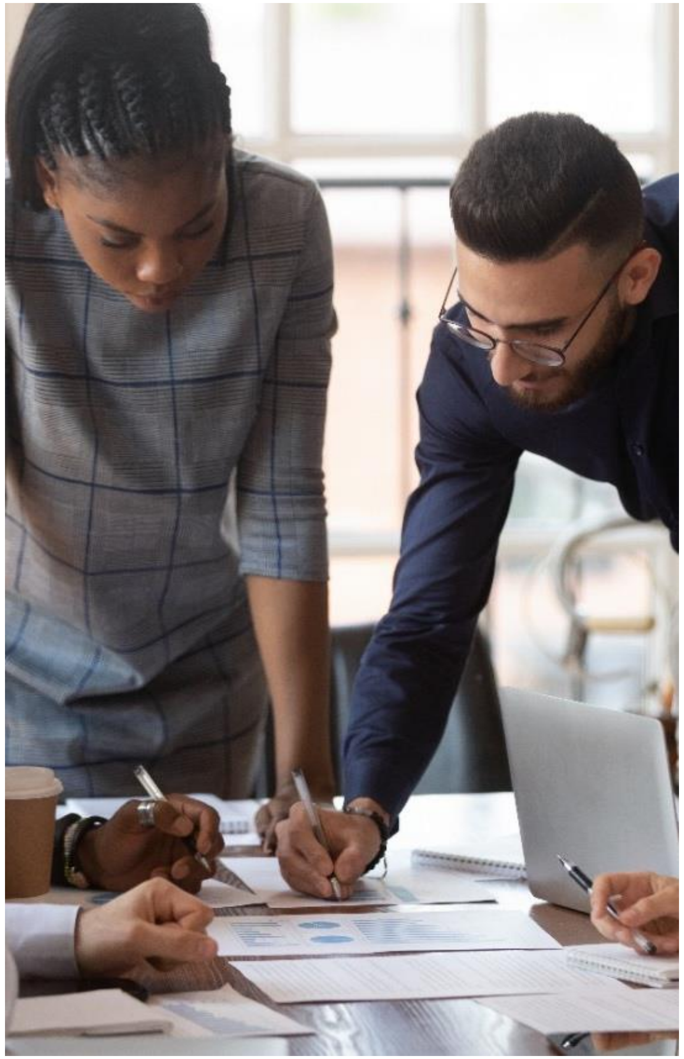
Ethics and Security

- Examine how fairness, transparency, and accountability are embedded in AI design and deployment.
- Evaluate security measures protecting AI data and models from manipulation or hacking.

05

People and Strategy

- Investigate training programmes for users and employees on AI risks and functionality.
- Review the organisation’s AI strategy to ensure alignment with business objectives and long-term value.



AI – AI Talent and Skills Gap (AI enabled workforce)

Despite rapid adoption of Artificial Intelligence (AI) across business functions, most organisations lack the skills and workforce models needed to deploy AI responsibly and effectively at scale, exposing them to operational, ethical, and regulatory risks.

Governing AI talent and the skills gap: enabling a responsible, adaptive, and AI literate workforce

Organisations are investing heavily in AI, but their people and operating models are not always prepared to keep pace. Across business functions, employees are increasingly interacting with AI tools and relying on AI generated outputs to support decisions. This shift is not limited to data scientists or engineers. It includes assurance professionals, operational teams, legal and compliance functions, and executives using AI to drive strategy.

The skills gap is broader than just technical knowledge. It includes awareness of AI risks, responsible use, ethical boundaries, and the ability to interpret AI supported insights. Without this understanding embedded across the workforce, organisations face increased exposure to mistakes, misuse, reputational damage, and regulatory non-compliance.

To safely scale AI adoption, organisations must align workforce planning with AI maturity, establish role clarity and guidance, and embed capability building across their governance, control, and assurance environments.

Refer to the link below for PwC's 2025 Global AI Jobs Barometer, which explores AI's impact on jobs, skills, and wages. The report provides valuable insight into how AI is shaping labour markets, redefining skills requirements, and influencing productivity.

PwC's 2025 Global AI Jobs Barometer

Key considerations for organisations

To realise the benefits of AI safely and effectively, organisations must ensure their workforce is equipped with the right skills, governance clarity, and cultural readiness to support responsible adoption across all areas of the business.

Identify the AI related skills and responsibilities needed across leadership, risk, operations, assurance, and frontline roles.

Establish clear rules and oversight around AI tool usage, including who can use them, for what purposes, and under what control conditions.

Invest in upskilling programmes, cross functional teaming, and partnerships that expand organisational capability beyond technical specialists.

Promote a responsible innovation culture where employees are encouraged to experiment with AI in a controlled and supported environment.

Develop and embed an AI skills strategy that promotes awareness, critical thinking, and ethical use across all business units.

Build internal understanding of core AI concepts such as model limitations, explainability, data quality, and the need for human judgment.

Implement acceptable use policies for public or third-party AI platforms and ensure these are actively communicated, governed, and enforced.

Align learning and development with emerging regulatory expectations and integrate it into performance, compliance, and change programmes.

AI Talent and Skills Gap (AI enabled workforce) (continued)

Internal Audit focus areas

01

Roles and responsibilities

- Evaluate whether critical roles requiring AI fluency or responsible usage awareness are defined, and whether skills gaps are identified and tracked.
- Review workforce and resourcing plans to confirm they reflect the organisation's AI objectives and whether assurance functions are adapting their skills accordingly.

02

Governance and access controls

- Assess governance over access to and use of AI tools, ensuring control conditions, permissions, and monitoring are clearly defined.
- Test whether acceptable use policies for AI are clearly communicated, embedded into daily practice, and applied consistently in regulated or sensitive areas.

03

Escalation and issue management

- Determine if employees understand how to escalate concerns about AI outputs, misuse, or unintended consequences, and whether escalation channels are effective.

04

Training and awareness

- Review the availability, content, and coverage of AI risk and ethics training across all organisational levels.
- Assess how cross-functional collaboration supports safe and effective use of AI tools across business units and lines of defence.

Cyber – Identity and Access Management

Identity attackers are increasingly using compromised identities as an entry way into organisations to exfiltrate data. Robust identity management is the key to defend against modern identity threats such as phishing, credential stuffing, and social engineering.

Attacks on identities are increasingly becoming the primary cause of significant cyber breaches. The conventional perimeter is disappearing, and identity has emerged as the new perimeter. In increasingly hybrid and cloud-native environments users are accessing systems from multiple locations, devices, and networks. As such infrastructure is increasingly virtualised with third parties and customers connecting via platforms and portals.

Identity is complex across sectors where potentially thousands of internal users and extensive third parties have access and where legacy systems do not integrate well with modern systems. Identity is not just a tech problem, it is a governance problem as well, and many organisations struggle with orphaned accounts, overprivileged roles, lack of Joiner-Mover-Leaver enforcement and minimum identity assurance for non-human accounts.

Key considerations for organisations

In the FS sector alone, 93% of organisations experienced at least two identity-based attacks in the last 12 months. As a result, increased investment in identity security is more pertinent than ever, especially if there has been a lack of investment previously. Organisations should look at leveraging modern identity controls from the outset to bolster identity security.

Uplifting security programmes to defend against the compromise of identities can be done by implementing a zero-trust access principle to modernise identity and access controls. Identity controls also need to be hardened against evolving threats with specific training rolled out around new social engineering threats and dedicated training for help desk staff.

80% of data breaches stem from compromised identities with third-party access which is considered an increasingly common identity governance challenge for organisations. The evolution in threat requires an evolution in strategy to move from compliance-led to more threat-led.

Building threat focused identity capabilities can be done by focusing on:

- Continuous identity security posture and exposure management
- Identity threat detection and response
- Just in time and just enough access
- Risk based access controls

Threat management tooling should also be extended to cover identity by deploying identity specific threat detection and response tooling and expanding red and purple teaming to cover identity-based attacks and social engineering.

Cyber – Identity and Access Management (continued)

Internal Audit focus areas

01 Governance and strategy

- Assess whether Identity and Access Management (IAM) governance structures, roles, and accountabilities are clearly defined and aligned to the organisation's overall security strategy and risk appetite.
- Review Board and senior management oversight, including reporting mechanisms, KPIs/KRIs, and escalation protocols.
- Evaluate whether IAM policies, standards, and procedures are up-to-date, approved, and consistently implemented across the organisation.

02 User access provisioning and lifecycle management

- Test the adequacy and timeliness of access provisioning, modification, and de-provisioning processes (e.g., joiners, movers, leavers).
- Validate segregation of duties controls to ensure access conflicts are identified and appropriately mitigated.
- Confirm whether privileged access management (PAM) processes are in place and effective.

03 Authentication and access controls

- Evaluate the use and effectiveness of multi-factor authentication (MFA), password standards, and session management.
- Review system-enforced access controls and role-based access models to confirm alignment with the principle of least privilege.
- Test access restrictions to critical systems, applications, and sensitive data, including cloud and third-party hosted environments.

04 Monitoring, logging, and incident management

- Review the design and effectiveness of monitoring controls, including logging, alerting, and anomaly detection for unusual access activity.
- Assess whether escalation and incident response processes for IAM-related breaches are defined, tested, and aligned to broader operational resilience frameworks.
- Validate the adequacy of periodic user access reviews, certification processes, and reconciliations across business critical systems.

05 Regulatory and compliance alignment

- Evaluate alignment of IAM controls with regulatory requirements (e.g., PRA/FCA, DORA, ISO 27001, NIST).
- Confirm that IAM practices are adequate to support audit trails, accountability, and regulatory reporting expectations.

Cyber – Response and Recovery

Response and recovery is a crucial part of cyber security to ensure business continuity and to minimise damage from security breaches. Only 2% have implemented cyber resilience actions across their organisation in all areas surveyed.

Response: Prompt and decisive actions are crucial when a cyber breach occurs. Initially, it's imperative to quickly detect the incident, ensuring anomalies are recognised and reported immediately. Following detection, the swift isolation of compromised systems is essential to halt the attack's progression and prevent the threat from spreading further, allowing the response team to focus on mitigation strategies without incurring additional damages.

Recovery: Preserving evidence is vital during the recovery process. This involves capturing system logs, taking snapshots, and rigorously documenting all actions taken throughout the incident response. Such measures not only support investigations but also enhance the organisation's ability to bolster future defences. Equally important is the restoration of systems, data, and services to their original state safely and securely. Resilience in recovery processes is pivotal for maintaining operational integrity and rebuilding stakeholder confidence.

In the past 12 months, cyber incidents such as those targeting a prominent UK retailer and attributed to Scattered Spider have had considerable repercussions. These attacks led to significant operational disruptions, including an inability to process online orders and shortages on store shelves. Additionally, they caused a sharp decline in share prices and eroded customer trust, highlighting the profound impact of cyber threats on businesses. The necessity for robust response and recovery strategies has never been more apparent, as organisations strive to protect their assets and uphold their reputations in the face of increasingly sophisticated threats.

Key considerations for organisations

There are time sensitive actions that should be taken in the first moments of a ransomware incident, including:

- Embarking on immediate action to limit the damage (e.g. disconnecting critical systems).
- Appointing / consulting with specialist third parties including:
  - External Legal Counsel; and
  - Incident Response (IR) provider(s).
- Invoking a command-and-control structure.
- Deciding whether to operate under legal privilege.
- Identifying safe channels for communications.

Organisations are often not prepared for the rapid and complex response required, with complex IT environments and often unclear information about critical systems restoration can present a significant challenge.

Organisations must engage constructively with regulators and ensure they understand the obligations in managing the response potentially across multiple jurisdictions.

Sustaining business operations while IT systems are being recovered presents a challenge, often necessitating the continuation of business activities without IT support, potentially lasting several weeks or longer.

In the initial stages of a ransomware incident, timely actions are crucial. Organisations should ask critical questions like:

- Have we identified and mapped out essential business processes?
- Do we have immutable backups in place, and have we tested our ability to restore from them?
- Are there contingency plans for vital business operations?
- Can we restore our most privileged assets and accounts, including identity management systems like Entra and IAM services, if needed?

Further considerations include in the following:

- Have we established clear communication channels for crisis management?
- Do we have an incident response team ready to engage immediately?
- Are the security patches and system updates current?
- Can we quantify the potential financial and reputational impacts?

These questions help assess readiness and resilience in facing IT risks and ensuring business continuity.

Cyber – Response and recovery (continued)

Internal Audit focus areas

01
Governance and oversight

- Assess clarity of roles, responsibilities, escalation protocols, and Board/ executive oversight during cyber events.
- Assess how cyber response and recovery arrangements incorporate third parties, suppliers, and outsourced services.

02
Incident detection and response

- Review monitoring, detection, and response processes, including timeliness and effectiveness of escalation.

03
Recovery and continuity

- Evaluate recovery strategies, playbooks, and restoration plans for critical systems and data to confirm alignment with resilience requirements.

04
Testing and exercises

- Validate the adequacy and frequency of cyber incident simulations, crisis management exercises, and lessons-learned integration.

05
Regulatory and reporting compliance

- Review alignment with regulatory requirements (e.g., PRA/FCA, DORA, NIS2) for incident reporting, notification timelines, and recovery expectations.

Cyber – Threats emerging from AI

Advancements in Artiifcial Intelligence (AI) have led to exploitation shifts and a widening gap between development and detection capabilities.

In the world of cyber threat actors, automation is not a new concept. Whether it is automating the scanning of vulnerable internet facing devices or scripting functions that easily propagate ransomware across a network, the modern threat has evolved to be an automated attack system. This notion raises the question of how will new AI technologies change the way attackers conduct their malicious activities, which in many cases, are already relying less on human-input.

The degree to which AI, particularly GenAI, technologies have advanced over the past year is significant and indicative of an ongoing race among those seeking to develop, invest in, embrace, operationalise, and exploit these solutions. This advancement, however, has caused a widening gap between these technologies and the technologies developed to detect AI-generated content and media.

Threat actors have, and will, continue to capitalise on this widening gap, exploiting AI solutions and developments to enhance their operations and impact on victims. By leveraging AI, threat actors are able to enhance their attacks making them faster, more sophisticated and more targeted than ever before. This targeting at scale underpins the importance for continuous threat exposure management to proactively identify, assess and mitigate risk and highlights the need for organisations to prioritise robust and timely vulnerability management.

Key considerations for organisations

The potential use cases for a threat actor leveraging AI could theoretically be endless, however, there are several areas that stand out and have potential for improving the success of attacks:

- Social engineering and access operations;
- Targeting at scale;
- Identification or processing of targets; and
- Attack playbooks.

As the threat landscape is constantly evolving and with the advancements in AI contributing to that it is key that organisations:

- Have a dynamic and proactive approach to identifying and responding to new attack vectors;
- Maintain robust supply chain and third-party management;
- Have clear accountability and responsibility of AI and machine learning security within the organisation;
- Ensure security is factored in any decisions on the adoption of AI tools;
- As AI provides increased capabilities in reconnaissance and social engineering it is imperative the training and awareness programs of organisations are adapted to address this accordingly; and
- AI should also be leveraged to improve the detection and triage of cyber attacks, helping to identify malicious emails and phishing campaigns.

The following exploitation trends have also been identified:

Threat actors using AI tools to conduct reconnaissance activities against a target organisation, its operations and employees, as well as the broader industry, for use in follow-on activities, such as financially motivated attacks, exploitation of identified vulnerabilities, disinformation campaigns, and social engineering against key roles.

Threat actors targeting AI tools that may be adopted by an organisation, such as customer-facing chatbots or internal tools used by the organisation's employees, to steal sensitive information (e.g., user inputs involving proprietary information, biometrics, user behaviour analytics, etc.).

The use of deepfake video content and AI generated voice-based technology pose detection challenges. Voice or audio is one of the most important channels of human communication, and GenAI developments in this space therefore have potentially significant ramifications for security. There have already been numerous documented examples of where malicious threat actors have sought to exploit this type of content generation. Application to date has largely although not exclusively been financially motivated, but the potential application of this technology is much wider, including for espionage or disinformation purposes.

Cyber – Threats emerging from AI (continued)

Internal Audit focus areas

01

Governance and risk assessment

- Assess how AI-related cyber risks are identified, evaluated, and integrated into the enterprise risk taxonomy and cyber risk appetite.

02

AI system security

- Evaluate safeguards protecting AI models, data, and algorithms from manipulation, adversarial attacks, or unauthorised access.

03

Threat detection and monitoring

- Review controls for detecting and responding to AI-enabled attacks, including anomaly detection, behavioural analytics, and incident escalation processes.

04

Third-party and supply chain risks

- Verify oversight of AI-related risks introduced through vendors, cloud providers, and third-party tools.

05

Training and awareness

- Test training and awareness programmes to ensure employees can recognise AI-enabled threats (e.g., deepfake fraud, generative phishing) and respond appropriately.

06

Regulatory and ethical alignment

- Validate alignment with emerging regulatory standards and ethical guidelines on AI use in cyber defence and resilience.

Enterprise Resilience & Crisis Response

Resilience is becoming a critical priority for organisations, including those outside the regulated financial sector, due to rising disruption from cyber threats, climate-related events, supply chain instability, and geopolitical tensions. At the same time, regulatory expectations are increasing with new and emerging frameworks setting clearer standards. These pressures are driving a need for more robust, forward-looking approaches to managing operational risk and maintaining continuity.

Enterprise resilience is now a priority globally across many sectors, driven by a mix of regulatory, geopolitical and market pressures.

In the UK, regulation including the Network and Information Systems (NIS) Regulations, the Telecommunications Security Act (TSA), Critical Third Parties (CTP) regime and Critical Entities Resilience Directive (CERD) are setting clearer expectations for resilience in sectors like energy, telecoms, food, healthcare and digital infrastructure. The focus of Provision 29 of the UK Corporate Governance Code on material risks inherently encompasses those controls linked to resilience, while the UK Government Resilience Framework sets out an approach to build a stronger, more proactive, and integrated resilience system. Meanwhile, the Cyber Security and Resilience Bill, due to become law in 2026, represents a significant modernisation of the UK's cyber security legal framework.

This is taking place while organisations face more frequent and complex disruptions, from cyber threats and climate events to supply chain shocks and political instability. This is raising expectations from boards, regulators and customers for credible, tested plans to maintain continuity during crises.

Internal audit teams will need to adapt their approaches to provide meaningful assurance in this space. Resilience requires forward-looking, dynamic oversight of how critical operations are protected, how response capabilities are embedded, and how organisations learn and adapt over time.

Key considerations for organisations

Organisations should demonstrate they have moved beyond traditional business continuity to embed a holistic resilience programme underpinned by clear governance. This should focus on identifying and mapping critical business services (CBS), those strategically important to the organisation and providing assurance that they can continue to operate within set tolerance thresholds during severe but plausible disruptions. Where tolerances are breached, organisations must have effective crisis response structures to manage impacts and restore services quickly and cohesively. Organisations should have clearly identified the external experts they have access to, the scope of support from those third parties, and how they are mobilised and managed by the organisation during a crisis.

Governance

Ensure governance structures, reporting channels, and metrics support informed decision-making on resilience, aligned to the organisation's size and risk profile. Clear ownership and executive sponsorship are essential to provide accountability and drive cultural change.

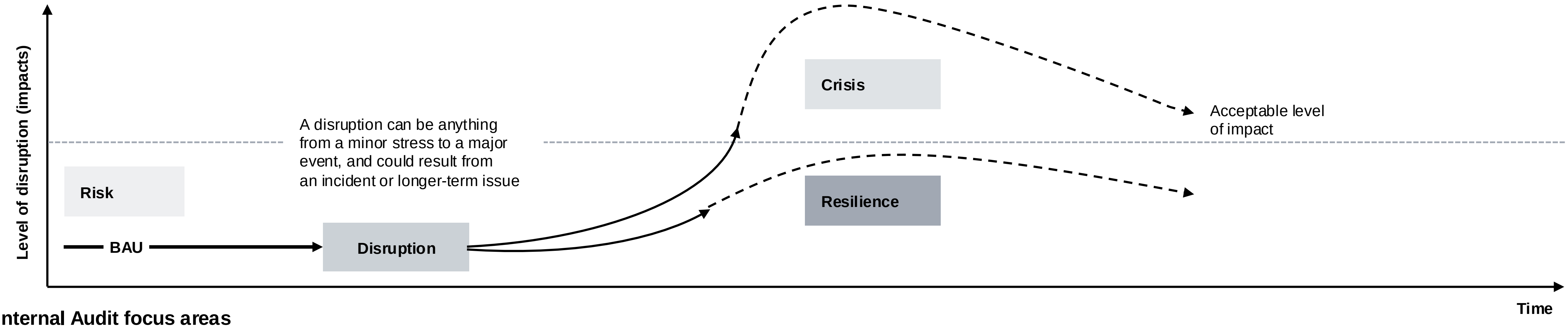
Crisis response

Organisations should have clear, tested structures in place to manage crises effectively. This includes crisis plans and scenario-specific playbooks outlining roles, responsibilities, and escalation pathways. External experts should also be identified. Regular testing of these structures helps build confidence, validate effectiveness, and ensure coordinated recovery of key services.

Enabling and embedding resilience

- Demonstrate progress from traditional continuity planning to a mature operational resilience approach: one that enables not just recovery, but also adaptation and evolution through uncertainty. CBS identification and mapping should anchor this effort.
- Embed resilience thinking into new initiatives, change programmes, outsourcing arrangements, and product approval processes. This ensures resilience is considered upfront, not just in response. Support this by investing in technology that improves visibility of critical assets, sharpens situational awareness, and reduces noise during disruption, helping deliver a more agile and sustainable resilience strategy.

Enterprise Resilience & Crisis Response (continued)


Level of disruption (impacts)
Crisis
Acceptable level of impact
A disruption can be anything from a minor stress to a major event, and could result from an incident or longer-term issue
Risk
Resilience
BAU
Disruption
Time

Internal Audit focus areas

01 Risk

- Provide assurance that governance structures, reporting channels and reported metrices enable key stakeholders to make informed decisions on the organisation's resilience capability, and that they are proportional to the size and risk profile of the organisation. A resilience programme should have assigned ownership alongside executive sponsorship to provide accountability and drive cultural change.

02 Resilience

- Assess the extent to which an organisation has moved beyond a traditional business continuity focus to a more holistic operational resilience approach. This should enable organisations to not only recovery from disruptions but also adapt, evolve and thrive amid ongoing uncertainty. Resilience should be aligned to what matters most to an organisation through the identification and mapping of CBS.
- Understand how organisations have/can embed resilience considerations into new initiatives, change management, outsourcing, and new product approval processes. Organisations can further support their resilience capabilities by investing in the right technology tools to support speed to insight through understanding underlying mapping better, resulting in a reduction of noise in disruption and delivering a sustainable approach to resilience.

03 Crisis response

- Examine the extent to which organisations have put in place structures that will enable them to respond effectively to crises. This should include the availability of plans and scenario-specific playbooks that set out team structures, roles and responsibilities, and mobilisation procedures. Organisations should have stress tested these structures and rehearsed the capabilities of their response teams (at each level) against plausible, challenging scenarios.

Third Party Risk Management ('TPRM')

The continued increase in the scale and complexity of third-party dependencies, accelerated by rapid digitalisation, is driving a more holistic, proportionate and outcomes-based regulatory focus, with operational resilience at its centre.

Institutions rely extensively on third party service providers, both external and intra-group, for a wide range of services to support their business, including those which are critical to their operations. These dependencies continue to grow in scale and complexity, accelerated by the rapidly increasing use of cloud, AI and other new technologies.

Although continuing to offer organisations considerable benefits, including sizeable operational and commercial efficiencies, the risks associated with the use of third parties are pervasive. If not properly managed, they have the potential to significantly impact organisations, customers and markets.

Regulation continues to evolve in parallel to these developments, with an extension of the historic focus on outsourcing to a more holistic, outcomes-based focus on broader third-party risk management, with operational resilience at its centre.

Despite initiatives towards increased interoperability, regulations continue to vary by jurisdiction. Nevertheless, universally, organisations remain fully responsible and accountable for the third-party services they rely on. They are expected to have robust, proportionate processes and controls in place to identify, assess, monitor and manage all risks resulting from arrangements to which they are or might be exposed, aligned to strategy and risk appetite.

Key considerations for organisations

Group versus legal entity

Ensuring TPRM frameworks are clear on jurisdictional scope and that key governance processes and controls are set up to support demonstrable senior management control, aligned to Group and regulated entity accountabilities.

Re-wiring TPRM

Greater integration of complementary processes across TPRM, Procurement, Legal and Operational Resilience to promote cross-functional synergies, eliminate gaps or duplication, better manage key dependencies, drive efficiency and enhance resilience.

Integrating new and evolving risk types

Updating TPRM frameworks to integrate processes and controls for identifying, assessing, managing and reporting important new and evolving risk types, including AI and ESG.

Embracing technology

Overhauling legacy systems and technology to support more integrated and proactive risk management, including through leveraging enhanced data models to drive increased risk intelligence and promote more proactive risk monitoring.

Data quality and reporting

Clarity on which data attributes are needed to support which internal and external reporting obligations, and how and where these are collected, with transparency on golden source and ownership, and robust quality controls.

Enhanced assurance and oversight

Ensuring contractual terms support access, audit, and information requirements, leveraging emerging third-party service provider reporting where possible, while ensuring that the use of any pooled audits or third-party certifications is appropriate to the scope of services received.

Third Party Risk Management ('TPRM') (continued)

Internal Audit focus areas

01

Third-Party risk management framework

Confirm that the organisation's framework for managing third-party arrangements, including the TPRM policy(/ies), complies with applicable laws and regulations, is effectively implemented, and aligns with Board-approved strategy and risk appetite.

02

Risk assessments and due diligence

Assess the adequacy, quality, and effectiveness of criticality/materiality assessments and broader third-party risk assessments, including initial and ongoing due diligence.

03

Governance and oversight

Evaluate the involvement and oversight of relevant governance bodies in the approval, monitoring, and management of third-party arrangements.

04

Monitoring and ongoing management

Review the monitoring mechanisms and management practices in place for third-party arrangements to ensure they remain effective and proportionate.

IA reviews for this area should align with reviews of operational resilience and applicable risk areas, assessing the design and operating effectiveness of processes and controls to enable the organisation to protect itself from threats and potential disruption, including response and recovery capabilities. Follow-up processes for findings should also be formalised, including the timely verification and remediation of material audit findings.

Data – Evolving Regulation

The regulatory landscape for data is continually evolving, spanning data protection and privacy, AI governance, digital operational resilience, and industry-specific reporting standards.

The regulatory landscape for data is continuing to evolve across the UK and EU, reshaping how organisations govern, protect and use information. The UK Data Use and Access Act (DUAA) represents the most significant reform to UK data protection law since GDPR. It introduces new flexibilities for data reuse, automated decision making and smart data access, while also simplifying the rules for international transfers and enhancing enforcement powers.

At the same time, the EU Artificial Intelligence Act establishes strict obligations for high-risk AI systems. These include expectations around data quality, transparency and documentation, which are particularly relevant for UK-based businesses operating in the EU. Alongside this, the EU Digital Operational Resilience Act brings data integrity, availability and traceability to the forefront of ICT risk management for financial services.

Internal audit teams must assess whether their organisations are staying ahead of these regulatory changes: not just in policy, but in operational practice. Increasingly, compliance requires more than written controls; it demands robust data governance, accurate records, and end-to-end traceability of data usage across business lines and platforms.

Key considerations for firms

Understand and scope the evolving obligations

Regulatory changes vary by jurisdiction, industry, and domain. Organisations should identify regulatory changes (e.g. DUAA, EU AI Act, DORA, etc.) impacting their organisation and understand how the rules impact them.

Integrate regulation into data and AI governance

Firms should ensure their AI and data governance structures can evidence compliance with regulatory expectations, including model transparency, lawful basis for processing, data minimisation, and data subject rights management. This includes clear ownership, audit trails, and integration with policy frameworks.

Operationalise new requirements, not just document them

Organisations must embed regulatory changes into operational processes, not just update policies. For example, under DUAA, Data Subject Access Request (DSAR) handling procedures must reflect the new rules on response timelines and “reasonable and proportionate” search standards.

Reassess GDPR remediation with a fresh lens

As enforcement sharpens, organisations should revisit previous IA actions relating to GDPR. This includes verifying that mitigations are sustained, records are current, and that risk registers reflect known vulnerabilities.

Data – Evolving Regulation (continued)

Internal Audit focus areas

01

Assess regulatory readiness

Review whether the organisation maintains an accurate, centralised register of applicable data and AI-related regulations.

02

Evaluate DUAA implementation readiness

Assess whether the organisation has completed an impact assessment comparing the existing privacy framework to the DUAA requirements and evaluate whether the conclusions drawn have been appropriately addressed through changes to policy and processes.

03

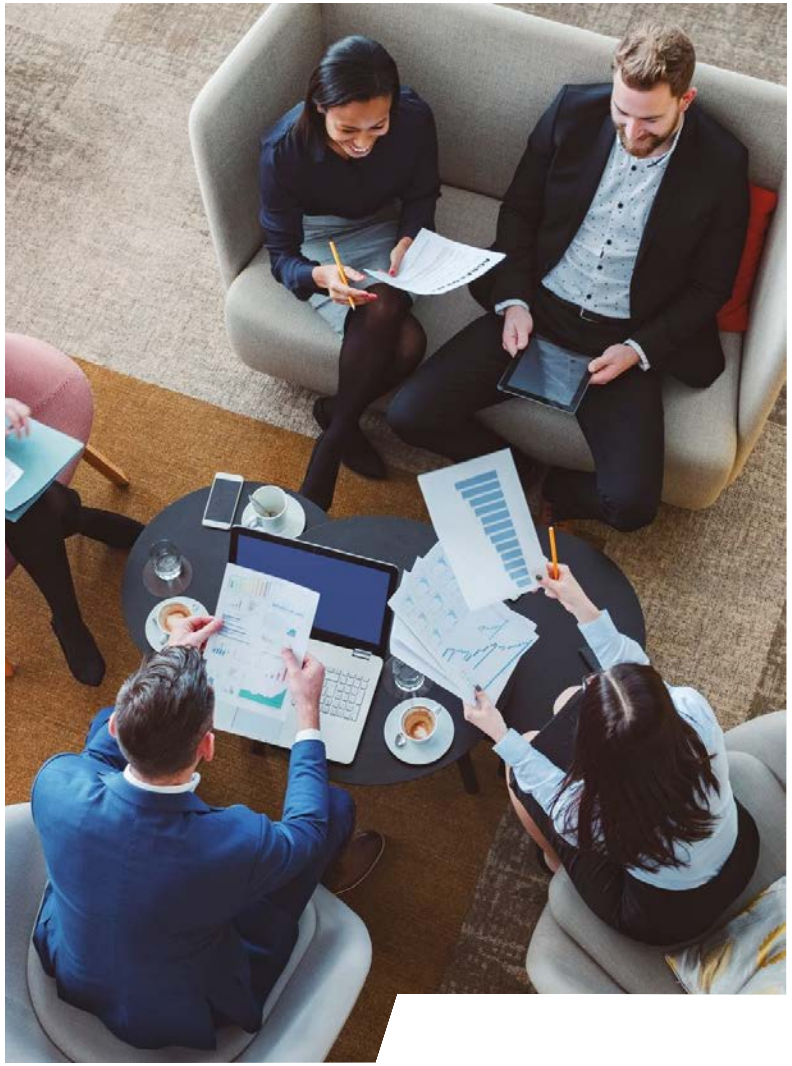
Review AI governance for regulatory alignment

For high-risk AI use cases, assess whether data quality controls, bias detection mechanisms, and model documentation comply with AI Act requirements. Confirm that lineage, testing protocols, and human-in-the-loop safeguards are demonstrable and actively monitored.

04

Test sustainability of prior GDPR controls

Reassess previous findings and confirm whether remediation remains effective.



Data – Strategy Reset

Organisations are reassessing their enterprise data strategies to stay competitive in a landscape dominated by AI and advanced analytics.

A robust data strategy sets the blueprint for how an organisation collects, governs, manages and leverages data to drive its strategic objectives. Far beyond a technology or compliance document, a data strategy enables businesses to unlock tangible value, from alignment in investment to risk reduction. In today's landscape of proliferating data, increasing regulatory scrutiny, and rising AI adoption, the absence of a coherent, adaptive data strategy often results in siloed ownership, inconsistent standards, and suboptimal outcomes.

At its core, a data strategy typically defines the organisation's data vision, governance structure, key use cases, and roadmap for capabilities across architecture, platforms, people, and processes. It sets out how data supports enterprise priorities.

Static strategies quickly fall behind. The market is evolving at pace, driven by generative AI, cloud-native architectures, digital operational resilience regulation, and shifts in customer and shareholder expectations. Data strategies that were relevant even 18 months ago may now lag behind regulatory, architectural or business model changes. Organisations must treat their data strategy as a living document, revisited and refined regularly to reflect emerging technologies, new value drivers, and shifting risk landscapes.

Key considerations for firms

Strategic alignment and value prioritisation

Data strategies should be explicitly linked to the organisation's business objectives and plans, whether focused on growth, transformation, or risk mitigation. Initiatives should be sequenced based on value, with defined Key performance indicators (KPIs) that tie directly to measurable commercial, operational or risk outcomes.

Embedding data literacy and cultural change

Technical success is insufficient without human adoption. Organisations must embed data literacy at all levels: from executive understanding of AI and data ethics to frontline use of dashboards and insights. Leadership sponsorship, incentivisation and education are key levers.

Balancing central and federated delivery models

Many organisations are now combining data fabric technologies, with their focus on unified access, metadata, and governance with data mesh principles that place accountability for data with business domains. A strong data strategy should clearly define which elements remain centrally governed (e.g. data policies, architecture standards, compliance, etc.) and where domain teams are empowered to own and manage data as products.

Performance management and accountability

Firms should establish clear governance structures (e.g. data councils, stewardship forums) and track progress using enterprise-wide metrics such as data issue closure rates, data usage trends, or business case delivery. Strategy reviews should be built into planning cycles.

Data – Strategy Reset (continued)

Internal Audit focus areas

01

Strategic alignment and oversight

- Evaluate the adequacy of data strategy, ensure that it is formally approved and regularly reviewed at executive level, with clear links to business objectives and value delivery.

02

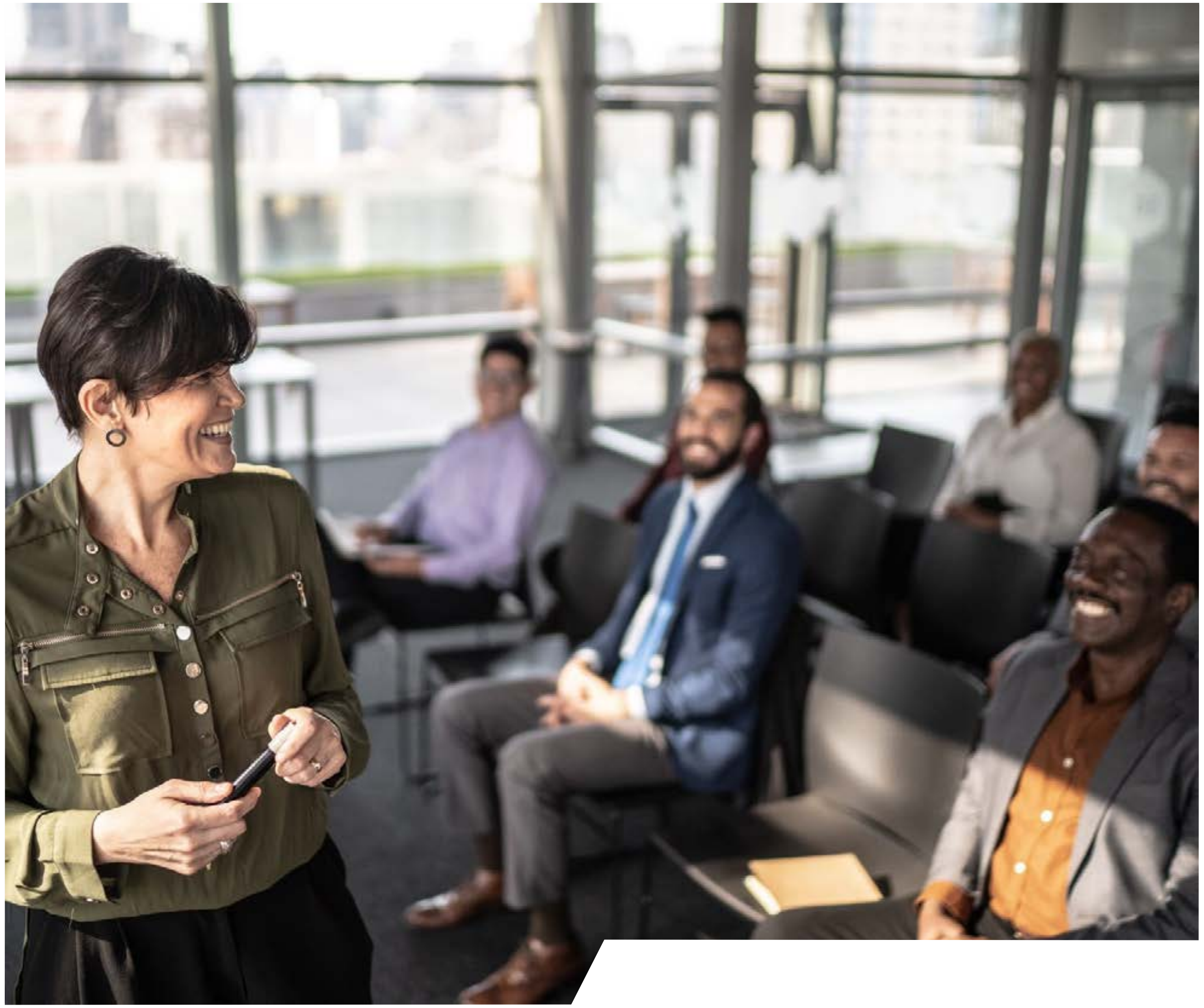
Governance and accountability

- Assess whether roles, controls and ownership structures are clearly defined and operating effectively.

03

Culture and change management

- Evaluate how well data literacy, performance metrics, and change initiatives are embedded across the organisation to support sustained adoption and impact.
- IA should also review whether cultural factors and change management practices are enabling the adoption of new ways of working and supporting sustainable transformation.



Data – AI-Ready Foundations

With the explosion of generative AI and advanced analytics, the quality and governance of data feeding these models has become critical.

Organisations across sectors are investing in AI to streamline decisions, personalise customer experiences, and unlock operational efficiencies. AI's impact potential is vast, but its success is fundamentally dependent on the adequacy of the data it consumes. Models are only as effective and fair as the data that feeds them. As regulators and boards increase scrutiny over explainability and outcomes, the need for robust data foundations has never been more pressing.

Many organisations have been overestimating their AI readiness. Initial proof-of-concepts or attempts to scale solutions have often exposed weaknesses, fragmented data, inconsistent standards, and legacy infrastructure. These gaps reflect overconfidence in perceived data maturity, a lack of formal data governance, and insufficient investment in the roles and platforms needed to sustain enterprise-scale AI.

Organisations must strengthen core data management capabilities. That includes improving data quality and completeness, embedding clear metadata standards to support transparency and discovery, and maintaining lineage from raw inputs through to model outputs. Data must be continuously monitored, supported by governance frameworks that define ownership, oversight, and issue management processes. Without this foundation, AI solutions may not be trusted.

Key considerations for organisations

Assess and remediate foundational data capabilities

Organisations should conduct data management maturity assessments, examining whether standards and practices are fit-for-purpose. These assessments often reveal "unknown unknowns", such as applications failing to meet standards and poor transparency of data flows (e.g. undocumented transformations and calculation logic). Addressing these issues early, in line with the capabilities you need set-out by your data strategy, reduces rework and builds trust in AI outcomes.

Reinforce traceability, explainability and trust

As regulatory scrutiny increases, organisations must demonstrate how AI models reach decisions and how underlying data is governed. This requires enterprise-wide standards for lineage, metadata, and versioning, plus well-defined ownership and oversight. Without this, organisations risk reputational damage, regulatory non-compliance, and poor customer outcomes.

Ensure readiness before scaling AI use cases

Before scaling AI solutions, organisations must ensure they have strong data foundations in place. This means verifying that data pipelines are stable, well-governed, and continuously monitored with clear accountability for detecting and resolving quality or integrity issues.

Embedding controls "by design" from the outset enables sustainable AI adoption. This ensures that AI initiatives deliver measurable value aligned to business objectives, while keeping associated risks within acceptable boundaries

Data – AI-Ready Foundations (continued)

Internal Audit focus areas

01

Test data management maturity

Review whether management's self-assessment of AI readiness is supported by evidence, e.g. data lineage maps, data quality metrics, data catalogue usage, etc. Alternatively, evaluate the organisation’s data management policy framework and current-state data landscape against industry benchmarks (e.g. DAMA-DMBOK*), and assess whether the capabilities in place are sufficient to support the prioritised use cases outlined in the data strategy.

02

Evaluate controls across AI-data pipelines

Assess whether data sourcing, transformation and integration processes supporting reporting and AI are documented, tested, and governed. Verify if continuous monitoring for data drift, missing values or outliers is in place and leads to actionable remediation.

03

Review governance forums and issue escalation

Confirm that data and AI governance structures are active, cross-functional, and empowered to challenge data use in reports and AI models. Audit trails should demonstrate accountability for approvals, exceptions, and issue resolution.

*DMA-DMBOK - the Data Management Association's Data Management Body of Knowledge7.5

Data – ‘Dark’ Data and Unstructured Information

Organisations typically amass extensive information assets that remain poorly managed and under-utilised.

Unstructured data such as emails, chat logs and collaboration platform content continues to accumulate rapidly across most organisations. Much of it is unclassified, unmonitored and non-compliant with enterprise policies. This “dark data” often exists outside systems of record. As a result, many organisations face mounting challenges around discoverability, over-retention, and inconsistent archival and deletion practices.

These ungoverned assets increase exposure to data breaches, regulatory non-compliance and costly eDiscovery or legal hold processes. In the context of tightening privacy regulation, organisations must be able to demonstrate effective controls over where personal and sensitive data resides, including outside core systems.

Leading organisations are shifting to a proactive, risk-based approach to managing dark data. This includes defining targeted remediation objectives, such as identifying and securely deleting redundant, obsolete or sensitive data and deploying automated discovery tools to improve visibility. Accountability is embedded through appointed Data Owners and Data Stewards who coordinate structured reviews and champion enforcement of policy-aligned retention and disposal practices.

Key considerations for firms

Understand the profile and scale of dark data

Organisations should conduct structured discovery and risk assessment exercises to establish where unstructured data resides, whether sensitive or regulated data is present, and how current practices compare to internal standards on retention, archival and deletion. Discovery tooling and sample audits can help identify key policy gaps and high-risk repositories (e.g. shared drives, personal inboxes, legacy archives).

Adopt a risk-based approach to remediation

Not all dark data presents equal risk. Firms should define prioritised objectives, such as removing unneeded personal data, isolating records subject to litigation hold, or cleaning up legacy project files, and target interventions where the potential for regulatory exposure, cost or operational inefficiency is greatest.

Automate and embed lifecycle controls

Leading firms are deploying automated tools to enforce retention and disposal policies for unstructured content across collaboration platforms, cloud storage and on-premises systems. Policy configuration should reflect legal, regulatory and business needs, with capabilities for exception handling and audit logging.

Strengthen governance and ownership

Clear accountability is essential. Appointing Data Owners and Data Stewards for business domains ensures local oversight, while enterprise policies set consistent standards. Governance forums should review progress against dark data reduction targets and report on policy compliance, breach risks and remediation outcomes.

Data – ‘Dark’ Data and Unstructured Information (continued)

Internal Audit focus areas

01

Evaluate unstructured data governance

Review whether the organisation’s data policies cover unstructured data and that roles, responsibilities and interactions are clearly defined for policy enforcement, remediation and ongoing monitoring.

02

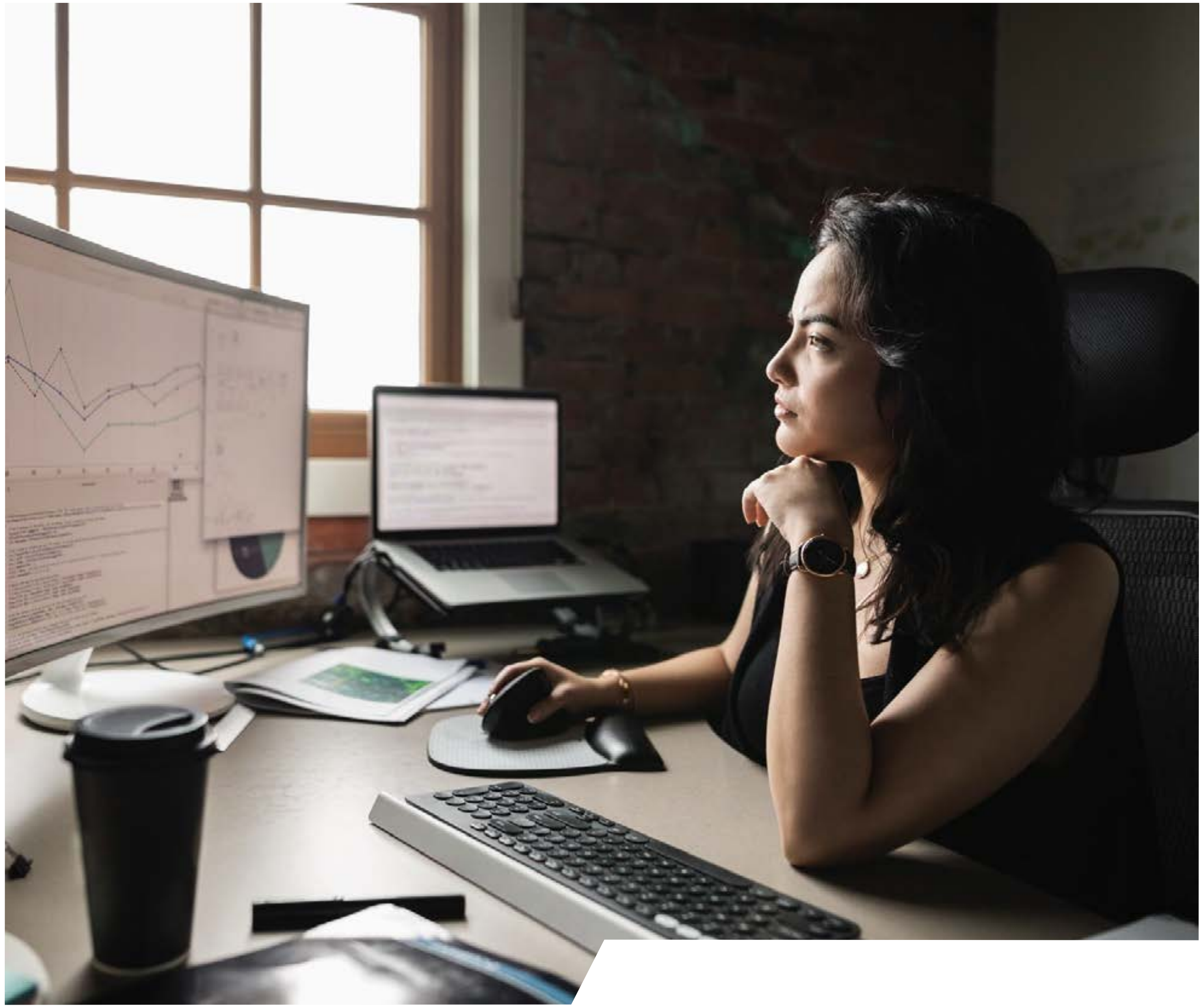
Test discovery and classification capabilities

Assess whether the organisation has conducted recent scans or classification exercises on unstructured data stores (e.g. file shares, SharePoint, email, etc.) to identify sensitive or high-risk content, and whether discovery tools or manual reviews are consistently applied across business areas.

03

Review retention and disposal enforcement

Validate whether manual or automated controls are in place to apply retention schedules, execute secure deletions, and evidence ongoing compliance. Consider testing specific repositories for unused content or records beyond documented retention limits.



Data – Data Risk

Organisations are increasingly recognising data as a standalone enterprise risk category, with linkages to privacy, operational resilience, and AI governance.

Enterprise Risk Management (ERM) frameworks provide organisations with a structured approach to identifying, assessing and managing the range of risks that could impact their ability to meet strategic objectives. These frameworks typically group risk into categories, such as operational, compliance and financial, and define processes for risk ownership, escalation, appetite-setting and control monitoring.

Data risk refers to the potential for adverse outcomes arising from poor-quality, unavailable, misused, or uncontrolled data. As data becomes more tightly linked to customer trust, AI oversight and external reporting, organisations face heightened scrutiny from boards, regulators and the public on how data is used, protected and governed.

In response, organisations are now seeking to gain greater clarity over data risk. This includes deciding where and how data risk should be captured within the ERM and developing key risk indicators to measure exposure. Some organisations have chosen to embed data risks across existing risks (e.g. embedding data quality metrics into operational risk), while others are establishing a standalone data risk with a dedicated owner and board-level reporting. Choosing the right model depends on the organisation's maturity, risk profile and cultural appetite for cross-functional governance.

Key considerations for organisations

Define what data risk means for your organisation

Data risk is multi-dimensional; spanning quality, availability, integrity, misuse, privacy, and security. Organisations should ensure their definition of data risk is tailored to their risk taxonomy and unique operational characteristics, and that it is clearly understood by risk owners across the business.

Assess how data risk is captured in the ERM framework

Decide whether data risk should be embedded across existing risk types (e.g. operational, compliance, model risk, etc.) or captured through a dedicated data risk stripe. This should reflect the organisation's risk profile, regulatory exposure and maturity in data governance. Whichever model is chosen, ownership, escalation routes and KRI definitions must be clear and enforceable.

Develop meaningful metrics and escalation criteria

Identify and monitor leading indicators of data risk, such as material data quality issues in critical reports, control failures in AI models, or high volumes of data privacy incidents. Ensure these metrics feed into ERM dashboards, influence risk appetite discussions and trigger appropriate remediation where tolerances are breached.

Establish governance and reporting mechanisms

Data risk should be routinely discussed at senior governance forums and linked to strategic and operational priorities. This includes ensuring adequate reporting to risk committees, ownership by accountable executives, and integration with broader initiatives like AI oversight and resilience.

Data – Data Risk (Continued)

Internal Audit focus areas

01

Review how data risk is defined and captured in the ERM framework

Assess whether the organisation has clearly articulated its data risk profile, and whether data risks are appropriately embedded across existing stripes or managed through a standalone risk category with defined ownership and board visibility.

02

Evaluate the design and use of data risk metrics and reporting

Test whether key risk indicators (e.g. data quality exceptions, reporting errors, privacy incidents, etc.) are tracked, linked to appetite, and trigger escalation. Confirm whether governance forums receive timely, insightful reporting to support effective oversight and remediation.

Sustainability - Preparing for UK SRS

On 25 June 2025, the UK Government released a package of three consultations[1] representing the first phase of work to modernise the UK's sustainability reporting and assurance framework. This included a consultation on the new UK Sustainability Reporting Standards (UK SRS) exposure drafts.

The consultation is the culmination of the UK's work on assessing the suitability of the International Sustainability Standards Board (ISSB) Standards on the general requirements for the disclosure of sustainability matters International Financial Reporting Standards (IFRS) (IFRS S1) and climate-related disclosures (IFRS S2) for the UK market.

Whilst there is broad alignment to the global ISSB standards, there are minor amendments currently proposed:

1. References to Sustainability Accounting Standards Board (SASB) amended to 'may refer', making use of these sectoral standards optional.
2. Extend 'climate-first' transition relief for IFRS S1 by one year, allowing entities to focus solely on climate-related disclosures for the first two years.
3. Requirement to use Global Industry Classification Standard (GICS) for disclosing financed emissions removed, allowing the use of other classifications.

Key considerations for organisations

Monitoring global developments

UK SRS will only apply to UK entities, but over 30 countries are currently in the process of adopting the related ISSB standards, with over 10 already initiating their national adoption proceedings. As each country has the option to amend the requirements, it is important to track these updates globally and consider the implications of the jurisdictional nuances, including on global reporting consistency and resource constraints.

Leveraging existing work

There is significant interoperability between ISSB and key sustainability standards such as the Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS) and Taskforce on Climate-related Financial Disclosures (TCFD). Therefore, organisations already reporting under these requirements can leverage and tailor their previous efforts, such as in performing a materiality assessment, to support their response to UK SRS requirements.

Begin 'No Regret' actions

Whilst the exact timing for UK SRS application is still to be confirmed, there are a number of actions organisations can take to prepare for ISSB with confidence and support a successful implementation. For example:

- Reviewing existing materiality assessments, such as a CSRD-aligned double materiality assessments or financial risk assessments, to identify enhancements required for UK SRS compliance.
- Performing a readiness assessment comparing existing sustainability disclosures to ISSB requirements, identifying gaps and associated mitigation actions.
- Additionally, although assurance is not yet mandatory for UK SRS, the consultation signals that it may be expected in the future. It may be helpful for organisations to review the extent to which their current reporting processes and policies comply with existing assurance standards.

Keeping track of updates

- The consultation is open until 17 September 2025. Following this, further consultations will address how the UK SRS are integrated into the UK reporting framework and which entities fall in-scope. Organisations should monitor these consultations to be enable a quick response to any future amendments and to identify future in-scope entities in a timely manner.

[1] Consultations include: UK Sustainability Reporting Standards, Developing an oversight regime for assurance over sustainability-related financial disclosures, and Transition plan requirements.

Sustainability - Preparing for UK SRS (continued)

Internal Audit focus areas

01

Review and assess the effectiveness of the implementation programme developed to comply with the UK SRS requirements, once rules are finalised. Focus should be on ensuring organisations align with the regulators' expectations and any jurisdictional nuances that deviate from global standards.

02

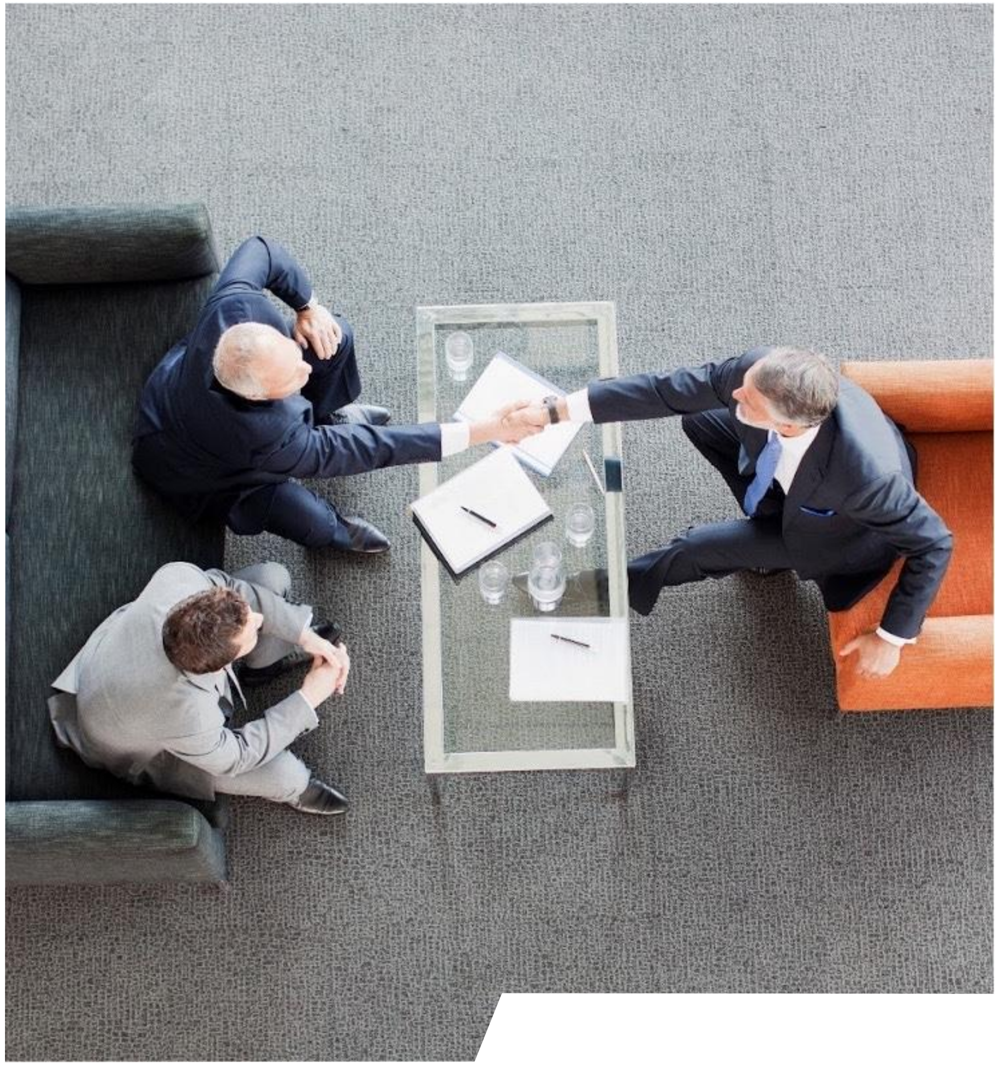
Review of materiality assessment process, including the determined thresholds for materiality. The review should include assessing any difference in outcomes between UK SRS materiality assessments and other sustainability materiality assessments, such as under CSRD, if it has been performed.

03

Review governance procedures, including sign off and decision-making process, for new methodologies, regulatory interpretations and external disclosures.

04

Assess the quality of technology and data systems, policies and controls that may be required for UK SRS reporting to identify required enhancements ahead of external reporting. Enhancements may include increasingly granularity of data to be available at subsidiary level, tightening and documenting controls over data manipulations and reviewing access protocols for sensitive information.



Sustainability - Transitioning to Net Zero

With legally binding UK Net Zero targets and regulatory momentum building, organisations must shift from ambition to action when developing their transition plans to protect their businesses from the risks of a hot house or disorderly transition scenario and, if desired, contributing to a Net Zero economy.

In its manifesto, the Labour government committed to requiring UK-regulated financial institutions and certain other large companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement.

To deliver on this, the UK Government is consulting on four key aspects of transition plans:

- Whether transition plans should be mandatory, or if a ‘comply or explain’ approach should be introduced as a transitional step
- Expanding the scope to include economically significant firms in the UK
- Exploration of whether there should be a legal requirement to deliver on transition plans
- Whether and how transition plans should align with national and international climate and environmental goals

Various frameworks are being suggested that companies may have to comply with, including the Transition Plan Taskforce (TPT) framework and UK SRS.

Key considerations for organisations

Track regulatory developments:

Firms should closely monitor UK and international regulatory developments to stay prepared for evolving transition planning expectations and ensure strategic alignment across global regimes.

Challenges for organisations with global presence:

Organisations operating across multiple jurisdictions may face challenges in meeting diverse regulatory requirements. It is crucial to track and manage these jurisdictional nuances to ensure compliance and consistency in global reporting.

Evaluate alignment with emerging standards:

This should include UK SRS S2 and frameworks like TPT, to ensure regulatory compliance and strategic coherence.

Conduct a readiness assessment:

Identify existing elements of transition plans and determine whether foundational work or enhancements are needed. Elements of Transition Planning material will exist in other sustainability initiatives previously undertaken.

Consider broader drivers and opportunities:

Such as commercial trends and value creation potential, when refining or developing transition planning approaches.

Align transition plans with corporate strategy:

Ensure transition plans are actionable and embedded into business decision-making, supported by robust governance, clear timelines, and adequate resources. Transition plans should be aligned with the firm's overall business and corporate strategy to ensure coherence and effectiveness in achieving sustainability goals.

Sustainability - Transitioning to Net Zero (continued)

Internal Audit focus areas

01

Validate any targets set, assessing actions planned to meet the targets to ensure they are actionable and effective. This should also involve a review of timelines set to assess whether they are realistic.

02

Review quality of data being used to set targets and develop actionable plans, flagging areas that require increased granularity in order to effectively track progress.

03

Assess governance pathways, ensuring that the Board is appropriately involved in developing the plan and remains informed of the progress against it. This will include ensuring that transition planning initiatives are aligned to the corporate strategy and planning process

04

Review policies underpinning the transition plan, ensuring they are documented and support its implementation.

Sustainability - Embedding Sustainability into BAU processes

Organisations are increasingly viewing ESG considerations strategically and embedding them into existing operating models in order to capitalise on opportunities. This also reflects the growing expectations to integrate climate, nature and social factors into risk management processes.

As organisations seek new sources of value, many are embedding sustainability into strategy and day-to-day operations to strengthen risk management, unlock revenue growth, and build long-term resilience. Integrating sustainability across core business pillars and operating models can streamline processes, deliver cost efficiencies, and prepare organisations for evolving reporting requirements.

This shift aligns with rising regulatory expectations for sustainability to be embedded within risk management. Organisations should ensure sustainability-related risks and transition planning assumptions are incorporated into corporate plans, capital and liquidity adequacy assessments, stress testing, and scenario analysis. Governance and oversight structures must also support the effective integration of these risks into forward-looking planning.

Key considerations for organisations

Governance and oversight

Successful integration requires adequate senior management accountability and awareness. The Board and other appropriate senior management forums must remain informed of the impact sustainability matters have on the business and should be actively involved in overseeing any associated risks. This involvement should be throughout the end-to-end process, including through supporting the setting of thresholds to determine material matters and monitoring mitigation factors for sustainability risks. Maintaining this awareness will require good quality MI.

Data quality

Sustainability information is increasingly being reported alongside financials. As a result, there is a growing need for a swift improvement on the quality of this data in order to match the standards expected of financial information. Continuing to utilise poor quality sustainability data can lead to incorrect assumptions being embedded into business and financial analysis, leading to poor strategic decision making and increasing regulatory and reputational risk.

Stakeholder engagement

Successfully embedding these considerations requires buy-in from a number of functions to ensure it is being applied consistently. This will likely require upskilling for functions and stakeholders who have historically been on the periphery of sustainability.

Assess strategic priorities

Before enhancing operating models, organisations must have a thorough understanding of their strategic sustainability priorities, including the issues most material to them and their intersection with the wider business. This helps the stakeholder engagement process and provides a central purpose the organisation can rally behind.

Technology

Successful integration relies on adequate data and tools to capitalise on opportunities and ensure efficiencies. Where tools exist to support this, they should be reviewed to assess their adequacy and to improve the control environment. This can include an assessment of processes and policies. Where data and technology capabilities are more immature, cost-benefit analysis can be performed to understand the implications of implementing various third-party tools in comparison to building an in-house solution.

Sustainability - Embedding Sustainability into BAU processes (continued)

Internal Audit focus areas

01

Assess how sustainability considerations have been embedded into existing mechanisms. For example, a review of the investment process should focus on any new steps included to assess the prospective investment's compatibility with the organisation's sustainable investment goals, such as alignment with the organisations' supplier emission targets or compliance with minimum human rights standards.

02

Review ESG data practices against organisation's data governance and quality standards, identifying areas for improvement. Focus should be on ensuring that the data is of sufficient quality and granularity to accurately and effectively be utilised in metric calculations and forecasting, where relevant.

03

Assess integration of sustainability considerations into risk management processes, which could include an independent review of climate risk frameworks and an assessment of whether and how climate risk factors have been embedded into operational risk controls, product approvals and credit policies, where relevant.

04

Review processes to ensure senior management oversight. This may include assessing whether there is a clear governance structure with accountability mapping across Board, executive and risk functions, whether senior management receives periodic training on sustainability matters and the frequency at which the Board reviews climate risk considerations.

05

Review supply chain processes with a particular view on Sustainability. In particular, reviewing procurement procedures for due diligence, on-boarding and on-going monitoring in relation to environmental topics such as emissions and nature as well as social topics such as modern slavery is important. Many organisations will already have mature processes for the latter, however third-party risk management as it relates to environmental topics is nascent.

Diversity, Equity and Inclusion (DE&I)

Global DE&I strategies are facing growing legal, regulatory, and reputational scrutiny. While expectations for fairness, equity, and inclusion continue to rise worldwide, the landscape is shifting unevenly. In the US, a wave of litigation, legislative rollbacks, and political opposition is challenging longstanding DE&I efforts. In contrast, the UK and EU are maintaining, if not intensifying, their focus on inclusive practices, backed by evolving regulatory frameworks. There is need for strong oversight to ensure that organisations stay ahead of global developments and ensure their DE&I policies are intentional, well-designed, and demonstrably effective.

Three key DE&I developments shaping the risk agenda for 2026

01 Global DE&I Backlash: Legal and Reputational Risk in the US

In the United States, DE&I initiatives are facing growing political and legal challenges. Following the 2023 Supreme Court ruling on affirmative action and the 2024 Presidential Election, corporate diversity programmes are now subject to heightened legal and reputational risk.

This includes lawsuits challenging race-conscious hiring practices, board diversity requirements, and supplier diversity efforts. Although these developments are primarily US-focused, they carry cross-border implications for global employers whose DE&I strategies are not confined to one jurisdiction.

02 Pay Transparency and Equity

Across Europe and the UK, legislative pressure is mounting to close pay gaps and increase employer transparency. The EU Pay Transparency Directive, which came into force in 2023 and aims to ensure equal pay for equal work between men and women, requires all member states to implement legislation by 7 June 2026. The Directive includes several pay transparency measures, including requiring employers to:

- Disclose pay ranges within the recruitment process;
- Share average pay for men and women in comparable roles with employees upon request;
- Provide workers with access to the criteria to determine pay, pay levels and pay progression;
- Regularly disclose gender pay gaps and pay gaps by category of worker; and
- Conduct joint pay assessments when gaps exceed defined thresholds and are not supported by gender-neutral factors.

With transparency obligations under the EU Pay Transparency Directive taking effect from 7 June 2026, and reporting due by June 2027 on 2026 data, organisations cannot afford to delay preparation. Many are already aligning job architecture to the Directive's requirements and conducting privileged equal pay analyses to identify and address potential gaps ahead of enforcement.

In the UK, momentum is also building through the draft Equality (Race and Disability) Bill, which proposes extending pay gap reporting to ethnicity and disability. Following the 2025 government consultation, the expected framework mirrors existing gender pay gap rules, with an emphasis on consistency, comparability and accountability. Although the bill is still progressing through legislative channels, the policy intent is clear. As a result, organisations are increasingly prioritising diversity data collection and voluntarily calculating ethnicity and disability pay gaps to prepare for the additional reporting obligations.

Diversity, Equity and Inclusion (DE&I) (continued)

03 Inclusion and Workplace Rights: The Employment Rights Bill

The UK Government's Employment Rights Bill, part of the 'Make Work Pay' reforms, sets out wide-ranging workplace changes, with most measures due in 2026 and 2027. These include day one unfair dismissal protection from 2027 and earlier reforms to industrial relations, such as ballot rules and strike protections, expected to take effect upon Royal Assent in late 2025.

Whilst there are many changes due to take place over 2026 and 2027, those that currently appear to be most pertinent to internal audit are as follows:

Change	Date change is due
Provision of day one rights for paternity leave and unpaid parental leave	From April 2026
Requirement for employers to take **all** reasonable steps (instead of 'reasonable steps') to prevent sexual harassment,	October 2026
Employer liability if employees are harassed by third parties	October 2026
Gender pay gap and menopause action plans which require employers to outline how they are address gender pay gaps and support employees through the menopause	From 2027 but can report from a voluntary basis April 2026

Key considerations for firms

Align policies with jurisdictional requirements

Ensure DE&I strategies reflect the legal and cultural landscape of each operating region, particularly where US legal pushback may conflict with EU and UK inclusion mandates.

Strengthen data infrastructure

Build robust systems to collect, validate, and report diversity and pay data, including gender, ethnicity and disability metrics, to meet anticipated regulatory standards.

Prepare for pay transparency obligations

Review and update job architecture, grading structures and pay criteria to comply with the EU Pay Transparency Directive and support equal pay readiness.

Adapt policies to reflect upcoming UK employment reforms

Assess the impact of new UK statutory rights and regulatory enforcement mechanisms and update internal policies and processes accordingly.

Deliver credible and measurable DE&I action plans

Meet stakeholder expectations by ensuring DE&I initiatives are supported by clear KPIs, tracked outcomes and transparent reporting on hiring, progression and retention.

Diversity, Equity and Inclusion (DE&I) (continued)

Internal Audit focus areas

01

Review policies and governance frameworks

Review DE&I policies, governance frameworks, and relevant training materials to ensure alignment with jurisdiction-specific legal standards, especially where US litigation risk may conflict with global DE&I commitments.

02

Assess data collection and reporting readiness

Evaluate whether there is robust and effective framework to ensure that demographic and pay data is collected lawfully, consistently, and accurately, with systems capable of calculating and reporting pay differentials by gender, ethnicity, and disability.

03

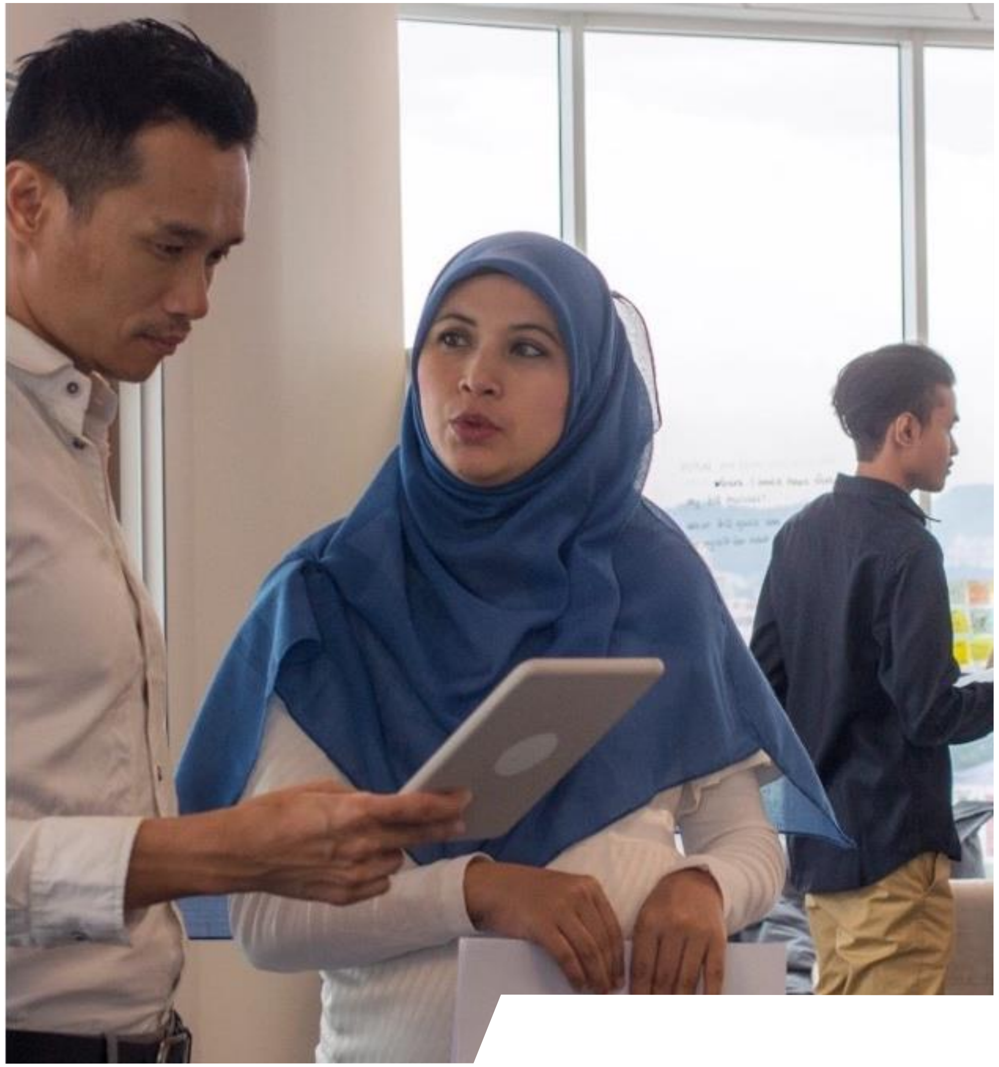
Assess compliance preparedness for EU and UK reforms

Determine whether the organisation has identified in-scope EU operations and is prepared to meet pay transparency requirements, including pay band reporting, promotion tracking, and defensible grading structures. Review alignment with UK Employment Rights Bill reforms such as leave entitlements and anti-harassment obligations.

04

Audit the quality and impact of action plans

Examine whether gender and broader DE&I action plans developed by the organisation are measurable, monitored through clear KPIs, and linked to tangible outcomes such as hiring, progression, and retention.



Building organisational resilience to fraud

Fraud threats are rising, driven by ever-increasing digitalisation, the industrialisation of fraud by organised crime groups and criminal adoption of technology. New laws and regulation in the UK bring a fresh legal and compliance perspective, alongside longstanding commercial and reputational risks. IA should assess how fraud defences are evolving to address the changing risk landscape.

Fraud continues to be a strategic risk area for all organisations regardless of sector. The nature of the threat is changing rapidly, and businesses must respond with urgency and adaptability.

The following highlights three key areas of concern in organisations:

Insider Threat: Organised criminal groups are increasingly targeting employees through coercion to infiltrate the organisation and to facilitate fraud from within. Insider threat assessment and risk mitigation measures may not be keeping pace.

ECCTA Readiness: The new 'failure to prevent fraud' offence introduced by the Economic Crime and Corporate Transparency Act ('ECCTA') came into force on 1 September 2025. This new regulation focuses on fraud where the organisation or its clients derives benefit from the fraud being perpetrated by an associated person. Organisations should have considered the impact of the new law and whether risk mitigation measures are aligned to the 'reasonable procedures' guidance. Our recent publications on ECCTA provide more detailed guidance on this: ECCTA, what happens next ; Insights, ECCTA: Failure to prevent fraud

Business-targeted scams: Sophisticated frauds using deepfakes and voice cloning are targeting high-value business transactions. These scams exploit human trust and system gaps and place further pressure on controls over payments. Updates to awareness training,payment controls and escalation protocols may be needed.

Key considerations for firms

Insider Threat

- Regular insider risk assessments should be in place, supported by a strong ethical tone and attention to cultural drivers such as low morale or pressure, with speak-up mechanisms that are effective and trusted.
- Use of behavioural analytics and clear escalation protocols are useful tools to help organisations to identify and respond swiftly to anomalies or collusion.
- As fraud risks become more complex, it is imperative that organisations regularly align and review access rights, prevent privilege creep, and maintain segregation of duties. It is good practice to seek assurance that excessive access risks are effectively mitigated.

ECCTA Readiness

- Formal governance structures and defined ownership should be established for ECCTA compliance, with Board-level visibility and regular reporting to demonstrate progress against the 'failure to prevent fraud' offence.
- Fraud prevention and detection controls should be risk-based, proportionate, and formally documented.
- Data-driven detection techniques and third-party due diligence are key anti-fraud measures, and their effectiveness should be regularly reviewed.
- Clear responsibilities across all levels can be reinforced through tailored training, scenario-based exercises, and ongoing fraud awareness, including how to recognise and address risks from associated persons.

Business targeted scams

- Robust verification processes for payments and high-value approvals help mitigate the risk of manipulation, particularly where voice, email, or video instructions could be exploited. Effective safeguards reduce susceptibility to social engineering.
- Training key staff to detect AI-enabled impersonation threats - supported by simulation exercises and case reviews - strengthens organisational preparedness. Extending awareness beyond control functions to operational teams ensures resilience is embedded more widely.
- Advanced monitoring tools that use external data, entity resolution, and AI can enhance detection of evolving scams. Clear, rapid escalation mechanisms for suspicious activity are an important part of an effective response framework.

Building organisational resilience to fraud (continued)

Internal Audit focus areas

01

Governance and accountability

- Review the governance and ownership of fraud risk management, including clarity of accountability, programme sponsorship, and visibility at Board level.
- Assess whether ECCTA compliance is being actively managed, with progress reporting and oversight structures in place that demonstrate compliance with guidance on the "failure to prevent fraud" offence.

02

Culture and awareness

- Evaluate how fraud risk awareness and ethical culture are embedded across the organisation, drawing on sentiment indicators, stakeholder feedback, and the effectiveness of speak-up mechanisms.
- Examine escalation processes to determine whether responses to suspected fraud are timely, clear, and well-coordinated across functions.
- Assess the adequacy of fraud training, testing whether programmes are tailored by role, reinforced through simulations and case studies, and effective across both frontline and controls functions.

03

Prevention and detection

- Evaluate the adequacy of fraud prevention and detection procedures, ensuring they are proportionate, risk-based, and documented, and that ECCTA-specific risks are addressed.
- Inspect governance and controls over access to systems, including oversight of user privileges, prevention of privilege creep, segregation of duties, and use of anomaly monitoring to detect irregular activity.
- Test verification controls over payments, account changes, and approvals for resilience against manipulation, including AI-enabled impersonation techniques such as deepfakes and voice cloning.

Energy and commodities risk management

As volatility, geopolitics, regulatory change, and the energy transition reshape commodity procurement and trading landscapes, risk management remains a critical focus for Boards and IA. Corporates are focused on securing supply, cost stability, and decarbonisation goals, with traders looking to build resilience and flexibility in the face of new market complexities.

Energy and commodity markets have steadied from recent shocks, but volatility remains. Prices are still highly sensitive to geopolitics, supply shifts, regulation, and the uneven pace of the energy transition. For corporates, this means renewed scrutiny of procurement and risk management. Boards want secure supply, stable costs, and credible decarbonisation. Corporate Power Purchase Agreements ('PPAs') and self-generation are becoming central, bringing new operational, accounting, and data challenges.

For commodity traders, windfall margins have faded while costs, especially in talent, have risen. The focus is turning to leaner, more resilient operating models, with greater use of automation and AI. Portfolios are growing more complex as corporates build in optionality, stretching infrastructure and capabilities.

Across both corporates and traders, stakeholders are demanding clearer earnings narratives, stronger governance, and credible risk management. Risk functions and IA must step up, providing assurance that risks are well controlled while supporting Boards in ensuring growth remains sustainable and responsible.

Key considerations for organisations

Reassess energy and commodity procurement approaches

Boards should prioritise a coherent procurement strategy and clear risk appetite that balance security of supply, price stability, and decarbonisation. In power, many are shifting towards more flexible, diversified portfolios that blend PPAs (on-site, off-site, virtual) and self-generation with traditional hedging and supply contracts.

Tailor the mix to business needs

The optimal procurement mix depends on each company's constraints, demand profile, and infrastructure (e.g. on-site solar requires space, refurbishment, and sunlight). There is no "one-size-fits-all" when evaluating options, businesses should assess contracts both (i) individually: for strategic fit, incremental risk, and cost; and (ii) collectively, to test how the portfolio aligns with demand and supports wider strategic goals.

Bolster data capabilities

Many organisations still rely on fragmented systems and spreadsheets, limiting real-time and portfolio-level visibility of consumption, generation, and tariffs. A unified, structured data view should be a priority: enabling smarter procurement, surfacing cost anomalies, supporting timely decisions, powering AI and advanced analytics, and strengthening reporting and oversight.

Strengthen contract lifecycle management

Organisations also need stronger capabilities to assess, negotiate, and manage complex features in PPAs and other bespoke contracts such as volume tolerances, rate resets, and termination clauses. Without this, businesses risk conceding value or incurring unnecessary costs.

Energy and commodities risk management (continued)

Key considerations for organisations (continued)

Prevent value leakage with robust invoice validation

Organisations should invest in processes and tools to reconcile supplier invoices against meter data and contract terms, and to verify complex non-commodity charges and tariff calculations. Increasingly, automation and AI can support this, enabling quicker detection of discrepancies and preventing avoidable value loss.

Monitor intensifying regulatory complexity

Energy strategies must keep pace with shifting market designs and evolving policies across jurisdictions. Organisations should invest in appropriate systems and expertise to track these changes and respond quickly.

Tackle complex accounting impacts

Entering PPAs or other long-term structures can trigger new accounting and valuation requirements covering fair value, hedge and lease accounting, and recognition of linked renewable certificates. Early education of senior stakeholders on these potential financial statement impacts is essential.

Modernise legacy system architectures

Energy Trading and Risk Management (ETRM) systems are struggling to keep pace with increasingly complex, data-heavy trading. Instead of costly over-customisation, leading traders are shifting to modular, data-centric technology stacks: treating the ETRM as one of several fit-for-purpose tools within an ecosystem built around an integrated data layer.

Holistic transformation of people, processes and systems

To realise the full benefits of technology transformation, organisations should redesign workflows, embed best-practice controls, strengthen team capabilities, and pursue automation and AI that is both value-driven and risk-aware.

Treat data as a strategic asset

Clean, integrated data enabled through advanced analytics and AI can drive faster, smarter decisions and streamline processes, creating real competitive advantage. Yet poor governance still undermines many organisations, leaving teams firefighting inefficiencies and risks instead of progressing.

Focus on operational cost in trade approval

As trades become more bespoke, decision makers often lack visibility on the true cost of added complexity. Two enablers are critical: (i) clear codification of the approved trading perimeter to flag non-standard features or clauses; and (ii) mechanisms to evaluate holistic trade value; balancing incremental commercial benefit against additional operational costs and risks.

Invest in operational risk and resilience capabilities

Operational risk has often been the "poor cousin" of market, credit, and liquidity risk. It now needs to mature: moving from reactive incident response to proactive risk identification, including continuous monitoring of Key Risk Indicators (KRIs) and forward-looking scenario analysis.

Integrate inorganic growth effectively

When profits are channelled into merger and acquisitions, value is only realised through effective integration. Successful integration relies on harmonising systems, aligning data models, embedding consistent governance, and uniting organisational cultures.

Energy and commodities risk management (continued)

Internal Audit focus areas

01

Assurance over complex exposures and structures

- Beyond the traditional focus on market, credit and liquidity risk, IA can add value by examining how new structures and portfolios are managed. This includes the growing use of PPAs and self-generation, embedded optionality in contracts, and the interplay between market, credit, and cash flow exposures.
- Reviews could test whether stress-testing, valuation, and risk metrics have been recalibrated to reflect these evolving complexities.

02

Data and technology as enablers of trust

- With fragmented systems and poor data quality still common, IA has a role in assessing whether data governance, integration, and analytics capabilities are fit to support decision-making, risk management, and external earnings narratives.
- This extends to testing controls over the use of automation, AI, and advanced modelling in trading and treasury, as well as evaluating whether contract lifecycle management and invoice validation processes are robust enough to prevent value leakage.

03

Navigating regulatory change with confidence

- The regulatory landscape for treasury and commodities is shifting rapidly, from ESG disclosures and transparency rules to decarbonisation commitments.
- IA can provide assurance over compliance readiness, the effectiveness of horizon-scanning processes, and the balance of resources and technology investment in compliance teams. The focus is on whether organisations can adapt quickly and credibly to new obligations without undermining commercial agility.

Corporate Insurance

Insurance plays a critical role in mitigating and transferring key operational risks, forming a fundamental pillar of an organisation's wider risk management strategy. When governed effectively, insurance not only protects against financial shocks but also enables strategic decision-making by providing confidence to invest, innovate and grow. As a core component of business resilience, insurance supports continuity through disruption and underpins long-term value creation.

As organisational risk profiles shift rapidly, insurance programmes often struggle to keep pace. A well-structured and governed insurance strategy that aligns with organisational objectives can unlock significant value, beyond serving as a financial safeguard.

The cost of insurance has risen sharply in recent years, driven by a prolonged hard market, inflationary pressures, and wider global challenges. As a result, insurance is receiving increased attention from senior executives. This highlights the need for a more deliberate and transparent approach to risk financing – one that is subject to rigorous governance and active stakeholder engagement.

Insurance can also positively influence an organisation's risk culture. Claims data and insights from insurers are often under-used, yet they hold significant potential to inform and improve risk behaviours across the business.

Despite its importance, insurance is still frequently viewed as a purely operational matter and does not always receive the scrutiny it merits. To build true resilience, organisations must ensure that decisions around what to insure – and what not to – are approached strategically and are regularly reviewed.

Key considerations for organisations

Corporate insurance plays a critical role in both risk mitigation and enabling strategic decision-making. As risk profiles evolve and insurance costs rise, Boards should ensure that insurance is receiving appropriate attention at the right level.

Value for money and broker performance

With premium costs increasing, the scrutiny of insurance spend is essential. Boards should ensure broker and insurer relationships are reviewed periodically, and that the business is leveraging available value-added services. Beyond the value of core premiums, monitoring Total Cost of Risk (TCOR) trends, claim metrics (e.g. days-to-close and recovery rates), and the utilisation of broker/insurer value-added services is also crucial.

Insurance programmes must keep pace with shifting risk profiles

Boards should regularly review how coverage reflects emerging risks such as cyber, climate and geopolitical disruption, and whether alternative approaches (e.g. captives, self-insurance) are being considered.

Manage insurance as a strategic portfolio

Leading organisations view insurance as a risk-financing portfolio aligned to strategy and risk appetite, not as a standard procurement exercise. Managed in this way, insurance becomes a strategic lever that protects earnings and cash flow, enhances capital efficiency, and creates headroom for sustainable growth.

Supporting growth and resilience

Insurance should not simply protect - it should instill confidence to grow, innovate and invest. Boards should consider whether current arrangements are aligned with business ambitions, whether they support the next 12–24 months of planned growth (new geographies, customer contracts, products) and provide adequate coverage across emerging risk areas.

Governance and accountability

Insurance often sits outside of core governance frameworks. Boards should seek clarity on ownership, oversight, and decision-making, ensuring it is integrated into wider risk management and not treated as a siloed operational activity.

Derive insights from claims

Claims data is often underutilised. Boards should encourage its use to identify trends, improve risk behaviours, and strengthen the organisation's overall resilience strategy.

Corporate Insurance (continued)

Internal Audit focus areas

01

Strategic alignment and governance

IA can explore whether insurance is treated as a strategic enabler rather than a compliance exercise. This includes assessing how well the insurance programme adapts to business change, whether coverage is mapped to risk appetite and growth plans, and whether governance structures provide effective control, supported by clear roles, responsibilities and accountability and transparent reporting of insurance costs and claims.

02

Optimising insurance arrangements and partnerships

There is scope to review whether alternative risk-financing options (such as captives or self-insurance) have been properly evaluated, and whether broker and insurer relationships are actively managed. This includes assessing value for money, the frequency of reviews, and how far value-added services (e.g. risk engineering, cyber insights) are leveraged to support resilience. Scrutiny may also extend to the quality of collaboration, the flow of information, and compliance with regulatory duties such as the Duty of Disclosure and the Insurance Act 2015.

03

Claims and data as a source of insight

Claims handling is often the true test of insurance effectiveness. IA can examine whether claims are resolved efficiently and transparently, while also considering whether claims data is being used strategically: to spot trends, strengthen programme design, and inform cultural and behavioural improvements across the business

Internal Audit Practices and Capabilities

Top of mind for CAEs

IA has always adapted to change, but the pace today feels different.

With both the IIA's Global IA Standards and the CIIA's IA Code of Practice taking effect in January 2025, attention is turning to how requirements should be interpreted, demonstrated in practice, and assessed through External Quality Assessments (EQAs) or readiness reviews.

At the same time, Boards and Audit Committees are raising expectations: they want sharper insights, broader coverage, and faster assurance - all against a backdrop of shifting risks from geopolitical uncertainty and cyber threats to climate change and organisational resilience.

For IA leaders, the question is no longer whether to broaden the remit, but how to do so without compromising independence or credibility. Drawing on recent EQAs, client experience, and market insights, we explore how functions are adapting: how technology, particularly AI, is enabling smarter assurance and sharper analytics; and how IA can evolve to meet higher expectations.

Ultimately, IA has a unique opportunity to redefine its relevance. By balancing conformance with value creation, driving functional evolution, and embedding responsible AI, it can position itself as a trusted partner that protects value while enabling resilience, innovation, and growth.

We frame our insights around three themes that are top of mind for Chief Audit Executives (CAEs) today:

01 Common challenges and early experience with the new Standards: we share what we are seeing in practice as IA functions interpret the new requirements and work to demonstrate conformance. We also share our insights into leading practices, highlighting how functions that are ahead of the curve are embedding the Standards and Code.

02 Preparing for EQAs under the New Standards: we comment on the new four-point quality rating scale, what have we learned so far from our EQA experience and some helpful tips to prepare for your next EQA.

03 Adoption of AI in IA: we share insights on how emerging technologies can support smarter assurance, sharper analytics, and more compelling insights, while maintaining independence and responsible governance.

Common challenges and early experience with the new Standards

The Global Internal Audit Standards ('GIAS' or the Standards') and the CIIA's Internal Audit Code of Practice ('the Code') came into effect in January 2025. Together with the updated Quality Assessment Manual and the first Topical Requirements (starting with Cybersecurity), they reinforce the profession's aim to elevate IA's strategic positioning in organisations. While the intent is to drive consistency, maturity, and value creation; many IA functions are still working through how to interpret and evidence these requirements in practice.

01

Board and Senior Management Responsibilities (GIAS Standards Domain III; Code Principles 1–3) - focuses on governance and sets clear expectations for the Board and Senior Management.

Over the past year, many IA functions have struggled with how best to conform with and evidence the essential conditions relating to Board and Senior Management responsibilities.

Those that undertook readiness assessments early are now ahead: they have mapped each condition to their governance structures, built frameworks aligned to their business, and embedded these into day-to-day activity. In many cases, they have also actively engaged stakeholders through structured discussions and presentations to not only communicate their responsibilities but also to demonstrate how IA will help them deliver on those responsibilities.

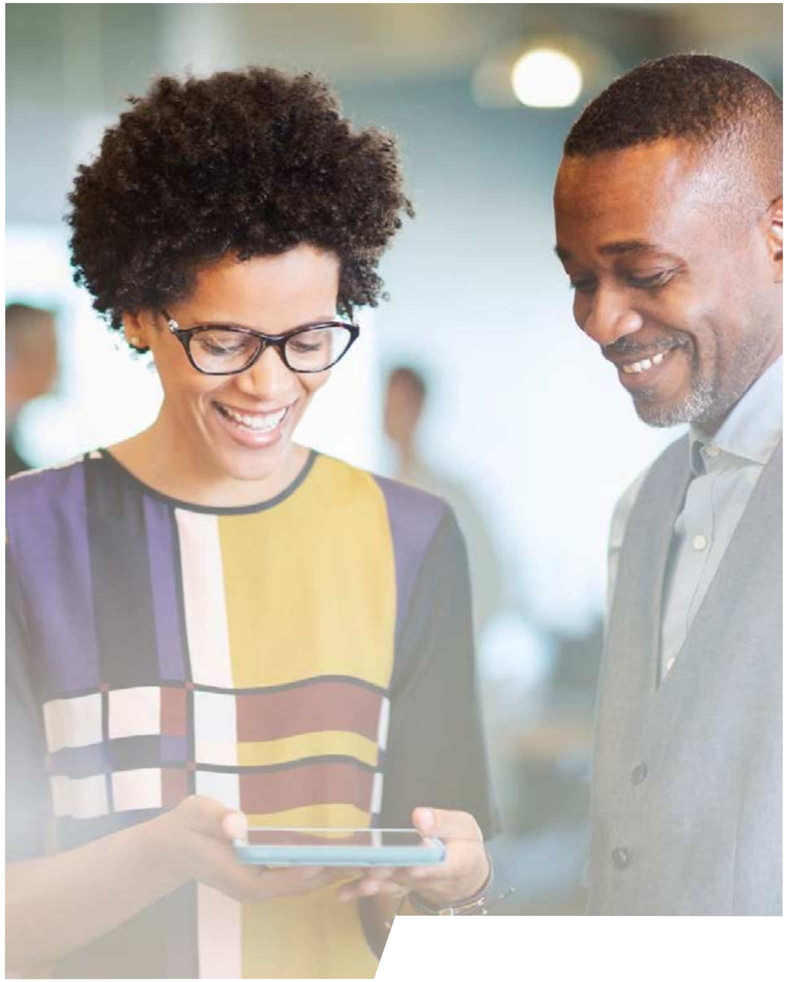
The most common challenge remains striking the right balance on the level of documentation required to evidence conformance; too much can create bureaucracy, but too little risks leaving gaps when assessed through an EQA.

02

IA Strategy (GIAS Principle 9) - emphasises the importance of developing and implementing an IA Strategy that supports the organisation's strategic goals and meets stakeholder expectations.

We still observe differences in how strategies are reviewed and approved. According to the Standards, strategies should undergo regular review and be discussed with the Board and Senior Management. However, many strategies remain as static "on a page" documents, disconnected from enterprise priorities and lacking clear delivery plans.

Leading functions demonstrate strong 'golden thread' linking the IA strategy to organisational goals, convert this into KPIs, and review the strategy with the Board at least once a year to maintain its relevance.



Common challenges and early experience with the new Standards (continued)

03

Topical Requirements (GIAS) – specific requirements set out by the IIA to be used when providing assurance on a specified risk area.

The introduction of Topical Requirements under GIAS is a major step to driving improvements in consistency and quality across the profession. The first requirement on cybersecurity has already been released, with others including third-party, organisational resilience, and organisational behavior expected to publish later this year. The Code also reinforces this agenda, with Principle 8b requiring IA to conduct risk-based reviews of culture.

Although the first topical requirement does not take effect until February 2026, many functions are already reviewing and some adopting the guidance. The newly issued IIA's Topical Requirements Application Guidance is important, as it makes clear that not every requirement will apply in every engagement, but IA must document its rationale for inclusion or exclusion.

Selected functions are benchmarking against frameworks such as the U.S. National Institute of Standards and Technology (NIST)'s Cybersecurity Framework (CSF), piloting reviews, and building evidence trails. Some CAEs remain cautious, concerned the requirements may be too prescriptive. The real opportunity is to apply proportionality while meeting a global baseline. Those who adopt early, document decisions, and engage stakeholders will be best placed to demonstrate maturity when the requirements become effective.

04

Insights from IA, Reporting and Conclusion Statements (GIAS Domain I, Standards 11.3, 14.5 and 15.1; Code Principle 11) - focuses on providing overall conclusion on the effectiveness of governance, risk management and control ('GRC').

While reporting formats continue to evolve, many IA functions still fall short of the requirements to provide an annual overall conclusion. Beyond compliance, there is also a growing expectation for IA to provide insights and foresights. The Standards (Domain I: Demonstrating Value Beyond Compliance) and the Code both emphasise the need for IA to enhance organisational value by helping stakeholders anticipate emerging risks.

We have seen leading functions excel by performing read-across analysis, for example, drawing out patterns by product lines, revenue streams, or regional performance to highlight systemic issues and forward-looking implications. This ability to connect the dots and provide an enterprise-level perspective is increasingly what distinguishes IA functions that are simply compliant from those regarded as truly value-adding.

Common challenges and early experience with the new Standards (continued)

05

Quality Assurance and Improvement Programme ('QAIP') (Standards 17.1–17.3; Code Principle 13) - not a new requirement however this remains one of the most common areas of weakness.

We continue to see undocumented QAIPs, internal quality assessments not performed annually, results not shared with the Board or senior management, and action plans that are not tracked. The Standards are clear: a QAIP must include an annual internal quality assessment, with results communicated to the Board and senior management, and improvement actions incorporated and progress monitored. Yet in practice, QAIPs often remain underdeveloped, inconsistently applied, or entirely absent.

High-performing functions treat QAIP as a catalyst for continuous improvement rather than a compliance exercise. Leading teams escalate findings to the Audit Committee, track actions openly, and link QA outputs directly to capability development. We have also seen functions where QA coverage extends beyond audit delivery into a wider “QA universe”, encompassing annual planning and risk assessment, stakeholder engagement, reporting and strategic initiatives. This broader approach ensures QA insights drive continuous improvement rather than being confined to post-audit reviews. By contrast, common pitfalls include QA that focuses too narrowly on audit execution, or varied maturity levels where no internal assessments are performed and no overall view of conformance is presented to the Board.

06

IA Performance Objectives and Effectiveness (Standards 9.2 and 16.1; Code Principle 12) - require the CAE to operate a performance measurement programme, with the Board approving Internal Audit’s objectives annually.

The requirement for IA to set objectives is not new, but it is now made more explicit under the Standards and Code. CAEs are required to establish a performance measurement programme for the function, with the Board being responsible for approving IA’s objectives annually and for assessing the function’s effectiveness at least once a year. The Code reinforces this by requiring the Board and senior management to provide input into shaping IA’s performance objectives, with final approval by the Board.

We have seen leading functions align KPIs with the IA mandate and the organisation’s wider strategy, securing endorsement from both senior management and the Board. They are also adopting digital tools and data analytics to track KPI data dynamically through dashboards, providing real-time insights that support improvement programmes and enhance stakeholder reporting. This approach transforms performance management from a compliance exercise into a strategic enabler of functional growth and maturity.

Common challenges and early experience with the new Standards (continued)

07

Coordinated Assurance and Reliance (Standards 10.2; Code Principle 5) - place emphasis on Internal Audit coordinating with other assurance providers to avoid duplication, identify gaps, and present a holistic view of risks.

In practice, we continue to see challenges where many organisations lack a structured framework for coordinated assurance. This is often the result of varied levels of maturity across the three lines of defence, with risk and issue taxonomies that are misaligned, inconsistent documentation standards, and fragmented reporting to the Board. The outcome is predictable: inefficiencies, duplication of effort, and blind spots in assurance coverage. In selected cases, IA functions (often under an agreed mandate with their Board Audit Committee) adopt a firm position of placing no reliance on the work of other assurance providers.

By contrast, a number of mature and leading functions are embracing a more integrated approach. They are developing coordinated assurance maps and establishing governance forums with second-line functions to promote alignment. Common risk and control taxonomies are agreed, supported by integrated GRC systems. Roles and responsibilities are clear, and the extent to which reliance can be placed on other assurance providers is formally defined.

Proactive collaboration across the lines of defence enables a coordinated assurance framework and plan for the Audit Committee, giving clearer oversight of coverage and highlighting assurance gaps. By reducing duplication and coordinating requirements across an increasingly demanding regulatory landscape, organisations can ensure that assurance activity remains proportionate, efficient and focused on the risks that matter most.

Linkage to the UK Corporate Governance Code Provision 29

The revised UK Corporate Governance Code (2024) applies from 1 January 2025, with Provision 29 effective for years beginning on or after 1 January 2026. Provision 29 heightens Board accountability by requiring premium-listed companies to provide an annual declaration on the effectiveness of their risk management and internal control framework, supported by a clear explanation. This represents a step change: moving beyond compliance to a requirement for Boards to demonstrate confidence in both the design and operation of their framework.

Boards and Audit Committees will increasingly look to IA for independent assurance, working in close coordination with the second line, to support a robust and defensible declaration. In many organisations, IA is already acting as a programme assurance partner for readiness. In others, particularly where the second line of defence is strong and well established, the emphasis may be on IA linking in and aligning assurance activity rather than leading it. Over time, IA may play a more active role as an integrator of assurance across the three lines of defence, though the balance of responsibilities between the second and third lines varies by organisation.

The combined effect of the GIAS and Provision 29 is encouraging organisations to:

- Align assurance planning across the second and third lines to reduce overlap and highlight gaps;
- Share data and insights more systematically to strengthen the overall risk narrative; and
- Be transparent about reliance, with IA clearly stating where other assurance work has been considered.

This does not diminish IA's independence. Rather, it strengthens its role as the third line of defence, ensuring the Board sees a coherent, evidence-based picture of assurance activity and control effectiveness, which is essential for delivering a credible Provision 29 declaration.

Click here to read more PwC's Spotlight on Material Controls

Common challenges and early experience with the new Standards (continued)

08

Culture audits: scope, delivery and evolving practice (Code Principle 8b) - approaches to culture audits still vary widely across organisations.

The Code explicitly requires IA to undertake risk-based reviews of organisational culture, including the tone set by leadership and the alignment of behaviours with stated values and ethics. To conform, functions must ensure delivery is evidence-based and objective, drawing on multiple data sources such as employee surveys, whistleblowing data, HR metrics, thematic reviews, and stakeholder interviews. Without triangulation across these inputs, conclusions risk being conclusions risk being perceived as anecdotal or lacking rigour..

Some IA functions incorporate management awareness ratings in their reports; others break culture into specific themes such as leadership behaviours, decision-making, or accountability; while some embed cultural assessments into broader audits such as Health & Safety, Conduct, or HR.

Leading functions are developing structured methodologies for cultural assurance that combine targeted deep dives with broader organisation-wide assessments. In some cases, culture or behavioural specialists are engaged to design and deliver these reviews, adding expertise in assessing values and behaviours. Increasingly, functions are also leveraging data analytics and sentiment analysis tools to identify patterns and detect emerging cultural risks.

Crucially, culture audits should not be treated as one-off exercises but embedded in the audit universe as recurring themes. This provides Boards and Audit Committees with clearer visibility of cultural strengths and weaknesses, as well as early warning indicators of behavioural misalignment before issues escalate into regulatory, reputational, or operational challenges.

Preparing for EQAs under the new Standards

Overview

Under the 2025 *Global Internal Audit Standards*, expectations around External Quality Assessments (EQAs) have been significantly strengthened. While the minimum of five-year assessment cycle still applies, the new Standards bring greater rigour, clearer accountability, and stronger Board involvement.

A key change is the requirement for the Chief Audit Executive (CAE) to actively engage the Board in planning the EQA, including the method, timing, and scope. This takes assessments beyond a box-ticking exercise and instead requires structured, strategic discussion with relevant stakeholders, including senior management.

The Standards now also specify that the results of a full EQA must go directly to the Board, reinforcing accountability at the highest level. Another important change is the expectation around assessor qualifications: at least one member of the assessment team must hold an active Certified Internal Auditor (CIA) designation. This should be explicitly addressed when confirming the scope and appointment of the external assessor.

The IIA's Quality Assessment Manual and the Four-Point Quality Rating Scale

The *Quality Assessment Manual*, updated in late 2024, sets out the IIA's expectations for evaluating IA functions. The most visible change is the introduction of a new four-point quality rating scale, replacing the former binary approach. The highest rating of Fully Conforms is now reserved for functions that not only meet the Standards but also demonstrate maturity, impact, and consistent performance.

Our point of view

This new model has sparked active debate. For example, what really differentiates "Fully Conforms" from "Generally Conforms"? Our view is that to achieve "Fully Conforms," a function must provide sufficient and appropriate evidence that each principle and Standard is fully met, in both design and intent, and that practices are consistently in place and working as expected. "Generally Conforms" recognises some differences against the Standards, so long as the intent is still achieved. In practice, most functions will find "Fully Conforms" difficult to achieve in the early years, and group functions may face additional complexity when balancing local assessments against the group-level outcome.

It is important to emphasise that **not achieving "Fully Conforms" does not mean a function is ineffective**. Effectiveness should be measured by the extent of consistency, reliability, and maturity demonstrated over time. Many Boards recognise the need to weigh the investment required to achieve full conformance against other priorities. For most IA functions, "Generally Conforms" will remain a credible and respected outcome, provided there is clear evidence that the intent of the Standards is achieved and that the function demonstrates a commitment to continuous improvement.

Preparing for EQAs under the new Standards (continued)

What have we learned so far, and what to expect next?

With only one year of implementation, adoption of the new Standards is still in its early stages, and the bar for conformance will continue to evolve as the profession gains experience. So far, we have observed three key takeaways:

- Full conformance is possible but demanding, requiring robust evidence and consistency across all Standards.
- Professional judgement is critical; and needs to be documented clearly and transparently. Decision logic should always be recorded, and teams should be ready to explain and evidence, where applicable.
- Maturity matters, even if it is not rated, as it shapes the narrative of an EQA and demonstrates Internal Audit's impact beyond compliance. Functions can demonstrate maturity through evidence of continuous improvement under their QAIP, stakeholder engagement, innovation, adoption of technology, and adaptability to business change.

Looking ahead, we expect greater clarity to emerge from the first wave of EQAs under the new Standards, particularly on how assessors distinguish between "Fully Conforms" and "Generally Conforms," and how maturity narratives are received by Boards. For CAEs, the lesson is clear: treat EQAs not just as a compliance milestone, but as a strategic opportunity to demonstrate maturity, reinforce credibility, and demonstrate how IA is delivering value to the organisation.

Preparing for your next EQA

Based on our experience, IA functions preparing for an EQA should focus on the following:

- Maintain governance oversight: Engage the Board and senior management throughout to ensure alignment, visible oversight, and conformance with the Standards.
- Define scope and requirements early: Work with the Audit Committee Chair and stakeholders to agree the purpose, scope, and timing of the EQA, including regional / jurisdictional coverage, treatment of in-progress transformation or new tools, and consideration of IIA topical requirements.
- Complete a self-assessment: Use the IIA's Quality Assessment Manual to benchmark against the Standards, feed improvement actions into your QAIP, and communicate progress transparently to the Board.
- Collate key documentation: Ensure strategy, QAIP, audit plans, resourcing plans and budget, methodologies, and other core materials are ready for review.
- Plan engagement activities: Prepare for interviews with stakeholders (both IA and the business), document self-identified issues, and provide evidence of how they are being addressed.
- Consider a maturity assessment: While optional, maturity and peer benchmarking can add valuable insight and help shape the EQA narrative.

AI in Internal Audit

Overview

IA functions are under increasing pressure to deliver broader assurance, sharper insights, and greater responsiveness to change. Traditional approaches built around cyclical reviews and sample testing are often too slow and narrow to match the pace at which risks now emerge. To remain relevant and impactful, IA must evolve its methodologies and toolset, expanding use of technology to enhance both efficiency and coverage.

AI in particular offers a step-change. Unlike earlier generations of automation, AI can read, reason, and generate outputs across vast datasets, enabling IA to expand its reach, accelerate reviews, and provide more tailored insights. This opens the door to more continuous, risk-weighted assurance, moving beyond retrospective testing to reflect how organisations operate today.

If used responsibly and strategically, AI can also strengthen IA's advisory role. By surfacing emerging risks such as cyber resilience and the governance of AI itself, functions can provide the Boards and Audit Committees with forward-looking insight while maintaining independence and rigour. This section explores how AI can be applied across the IA lifecycle and the practical steps needed to successfully embed AI into IA working practices.

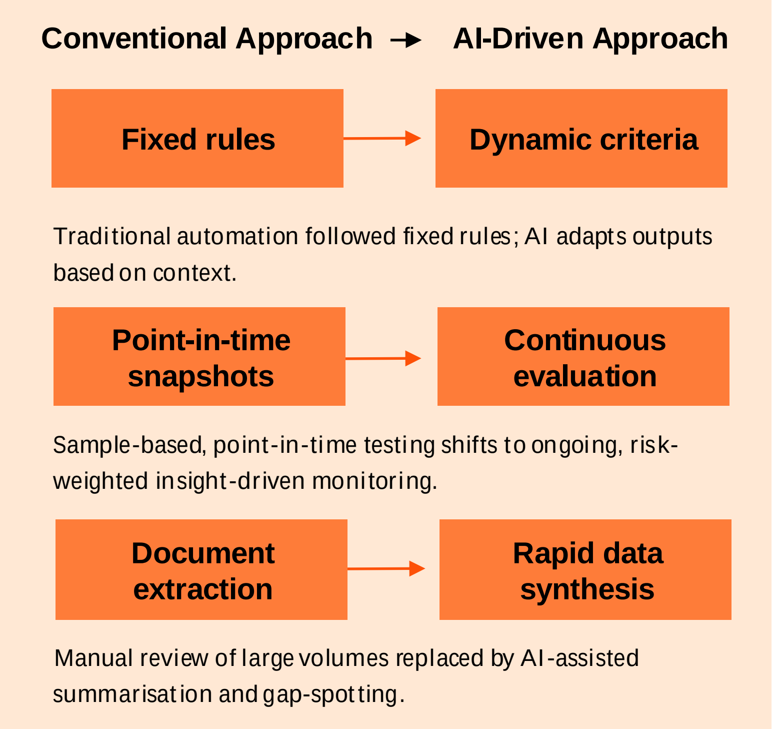
Assurance-in-the-loop: how AI is reshaping IA

AI reshapes assurance in two ways:

- First, IA must *assure with AI*, applying AI capabilities across planning, fieldwork and reporting to widen coverage and shorten audit cycles.
- Second, IA must *assure AI itself,* treating AI systems as a source of enterprise risk, applying proportionate, repeatable checks to validate how they behave and where accountability lies.

The result is a shift from periodic, sample-based testing to what we call **“assurance**-in-the-**loop”** routine: a risk-weighted evaluation that uses information the business already holds, including policies, activity logs, outcomes and incidents to provide earlier, clearer insight into how AI-enabled processes behave over time.

If done well, this expands IA's reach and the insights it can provide, raising the bar on coverage and timeliness, and moving from a conventional approach to an AI-driven one. At the same time, it reinforces IA's commitment to its core principles: evidence, independence, and professional judgement. The diagram on the right illustrates how an AI-driven approach could transform a conventional IA approach.



Conventional Approach → AI-Driven Approach

Fixed rules → **Dynamic criteria**

Traditional automation followed fixed rules; AI adapts outputs based on context.

Point-in-time snapshots → **Continuous evaluation**

Sample-based, point-in-time testing shifts to ongoing, risk-weighted insight-driven monitoring.

Document extraction → **Rapid data synthesis**

Manual review of large volumes replaced by AI-assisted summarisation and gap-spotting.

Tangible benefits to IA:

Increased coverage: Full populations tested, more scenarios examined, with stronger analysis, and linkage across control design and testing outcome.

Faster cycles: Shorter time from scoping to findings in document-heavy audits (e.g. compliance, governance)

Improved quality with consistency: First drafts that are consistent, well-sourced and tailored to each audience, minimising rework.

Earlier detection of anomalies: Detects shifts in behaviour or risks sooner, helping redirect audit effort to priority areas.

The next page features a case study showing how AI is transforming IA and delivering these benefits.

AI in Internal Audit (continued)

Case Study: From weeks to minutes – How AI reinvented reporting and follow-up

A global consumer goods group piloted generative AI in its Internal Audit function to cut reporting time without compromising quality. Within the first cycle, drafting moved from weeks to days and follow-up shifted from reactive to predictive, while maintaining full traceability and human sign-off. The pilot established a repeatable approach that now supports assurance-in-the-loop across reporting and follow-up.

The challenge

Audit teams were spending up to three weeks drafting reports after fieldwork. Walkthrough notes, meeting transcripts and evidence logs accumulated, and turning them into a clear narrative was slow and error-prone. Follow-up was largely reactive: overdue actions surfaced at quarter-end, leaving little time for remediation before Audit Committee meetings.

The AI-powered approach

- Theme extraction at scale. A secure, generative-AI workbench integrated with the audit platform processed more than 50 interview and walkthrough transcripts, clustering recurring issues such as ‘access hygiene’ and ‘supplier Service Level Agreement (SLA) gaps’. These themes informed the executive summary and the Audit Committee narrative.
- Two-minute drafts. After fieldwork, auditors uploaded structured evidence and key observations. The tool produced a first draft in about two minutes, with well-articulated context, risk statements and suggested proportionate recommendations: each linked to the underlying evidence. A human reviewer validated the draft prior to issuance.
- Predictive follow-up. A machine-learning model analysed existing metadata (issue owner, complexity, IT dependencies) to flag actions likely to miss deadlines. At-risk items appeared on a dashboard, enabling earlier escalation and re-planning.

The impact

- Report cycle time reduced from 15 days to 3 days.
- Audit Committee packs added a concise ‘risk of slippage’ heatmap, improving oversight.
- Auditors reported higher engagement, spending more time on root-cause analysis and stakeholder discussion, and less on formatting.

AI in Internal Audit (continued)

Given the breadth of the IA lifecycle, AI can be introduced to enhance consistency, speed, and coverage, while ensuring outputs remain fully traceable and reviewable. To achieve this responsibly, we group AI applications into an "AI Capability Stack": a phased approach that enables auditors to adopt AI progressively and effectively. The stack has three layers of capability: Assistants, Analysts, and Agents. The following section explains each layer and provides use cases to illustrate how AI can reinvent conventional IA approaches.

(i) Assistants: *help auditors work faster by securely searching approved information and drafting materials with clear references.*

Use cases:

- Policy recall: Retrieve exact passages from approved regulatory/policy libraries in response to queries (e.g. "What are GDPR's requirements on data retention?").
- Automated drafting: Generate first drafts of scoping documents or audit reports from historic templates.
- Meeting prep: Compile summaries of prior findings, management actions, and relevant standards before walkthroughs.
- Evidence collation: Convert interview notes into structured first drafts of control descriptions or process narratives.

(ii) Analysts: *support structured analysis by guiding auditors through scoping, testing, and reporting in line with methodology, making work more consistent and reliable.*

Use cases:

- Scoping & risk assessment: Prompt auditors with plain-language questions (e.g. *"What decisions does this tool influence? What happens if it fails?"*) and structure responses into a risk framework.
- Testing workflows: Provide structured test scripts for areas like payroll processing, supplier onboarding, or IT change management.
- Issue trend analysis: Identify recurring issues or weak themes by analysing historic audit findings (e.g. procurement delays, repeated HR compliance gaps).
- Consistency checks: Benchmark sampled files (e.g. employee expenses, supplier contracts) against thresholds or industry practice for proportionality.

(iii) Agents: *carry out standard tasks or tests on approved data automatically, recording every step so results can be repeated and reviewed with confidence.*

Use cases:

- Data accuracy testing: Run reconciliations of HR, finance, or inventory records against source systems, flagging missing fields or inconsistencies.
- Transaction monitoring: Replay test scenarios for procurement approvals or health & safety incident logging, checking whether thresholds, escalations and audit trails match policy.
- Access control checks: Continuously test joiner–mover–leaver data against HR records to detect access exceptions.
- Model validation: Run scripts against AI/ML tools in use (e.g. credit scoring, demand forecasting), capturing inputs/outputs to create a repeatable evidence pack.
- Third-party assurance: Automate periodic checks on outsourced service provider data (e.g. payroll, logistics, IT support), flag whether reconciliations were complete and within SLA.

AI in Internal Audit (continued)

Bringing it all together

Having considered how AI can support auditors responsibly and where capabilities can be embedded, it is equally important to recognise that people, processes, technology, and culture must evolve together. To manage this effectively, IA should assess maturity on two dimensions: (i) the organisation's maturity in deploying and governing AI, and (ii) IA's maturity in assuring it. These will not always progress in parallel. An organisation may be advanced in AI adoption while IA is still building baseline literacy, or IA may mature its assurance methods ahead of enterprise deployment. Balancing both dimensions is critical to setting the right pace, skills, and safeguards.

The following brings this to life through the four areas of consideration: people, process, technology, and culture, together with an illustrative roadmap for adoption, which outline how IA can build capability progressively while maintaining trust and independence.

People: Building skills and defining roles

- All auditors should build baseline literacy in AI: what it can and cannot do, and how to interpret AI-related evidence.
- Selected staff need deeper expertise in evaluation design, data fluency and model risk.
- New roles may emerge, such as Assurance Engineers (designing test packs), IA AI Product Owners (governing audit tools), and AI Evaluation Leads (defining thresholds and quality checks).

Technology: Phased and responsible adoption

- Start with Assistants (secure search and drafting over approved sources).
- Progress to Analysts (guided workflows for scoping, testing and reporting).
- Mature into Agents (controlled automations that run standard test packs with repeatable results).
- The above phased path allows IA to learn quickly, prove value, then automate safely.

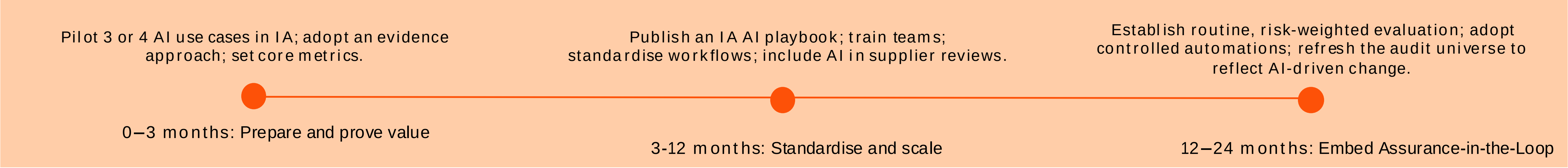
Process: Methods that safeguard quality

- Standardise scoping prompts when AI is in scope: purpose, data used, decisions influenced, expected controls, monitoring.
- Update methodology and workpapers to include an 'AI Evidence' page for any AI-assisted step.
- Build proportionate retention rules and link AI expectations into supplier management.

Culture: Putting independence and judgement first

- Human sign-off remains essential: AI supports coverage and speed, not final decision-making.
- Apply a learning loop: use review notes and rework to refine prompts, sources and test packs.
- Safeguard confidentiality by keeping sensitive data within approved environments.

Illustrative roadmap for adopting AI in IA:



Pilot 3 or 4 AI use cases in IA; adopt an evidence approach; set core metrics.

0–3 months: Prepare and prove value

Publish an IA AI playbook; train teams; standardise workflows; include AI in supplier reviews.

3-12 months: Standardise and scale

Establish routine, risk-weighted evaluation; adopt controlled automations; refresh the audit universe to reflect AI-driven change.

12–24 months: Embed Assurance-in-the-Loop

Glossary

Glossary of acronyms and abbreviations

AI/ML	Artificial Intelligence/Machine Learning
BAU	Business As Usual
CSRD	Corporate Sustainability Reporting Directive
CTP	Critical Third Party
DE&I	Diversity, Equity and Inclusion
DORA	Digital Operational Resilience Act
DUAA	Data Use and Access Act
ECCTA	Economic Crime and Corporate Transparency Act
ESRS	European Sustainability Reporting Standards
ESG	Environment, Social and Corporate Governance
EU	European Union
FCA	Financial Conduct Authority
FS	Financial Services
GDP	Gross Domestic Product
IAM	Identity and Access Management
IFRS	International Financial Reporting Standards
KPIs	Key Performance Indicators
NATO	North Atlantic Treaty Organisation
NIST	National Institute of Standards and Technology, United States
PAM	Privileged Access Management
PAYE	Pay As You Earn
PRA	Prudential Regulation Authority
SRS	Sustainability Reporting Standards
TCFD	Taskforce on Climate-related Financial Disclosures
TPRM	Third Party Risk Management
UK	United Kingdom
US	United States

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