THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Committee Item
INFORMATION

Audit Committee

3/9/2026 Committee Meeting

7f

Subject

Annual Internal Audit Plan and Risk & Control Discussion

Executive Summary

This item provides a general overview of how the Office of the General Auditor creates the annual risk-based internal audit plan, presents an overview of internal controls, and provides current risk information. The purpose of this item is to provide a formal platform for board-level discussion and input regarding the District's internal control environment and current risk profile to be considered in the development of the annual General Auditor's Internal Audit Plan.

Applicable Policy

Metropolitan Water District Administrative Code Sections 2416(b)(4), 6451(a)(1), and 6451(d)(1)

Related Board Action(s)/Future Action(s)

In June 2026, we will present our Internal Audit Plan for FY 2026/27 to the Board for approval.

Details and Background

General Auditor's Internal Audit Plan

Developing an annual audit plan involves creating a risk-based strategic roadmap that aligns Audit Department activities with Metropolitan's goals. Key steps include defining the audit universe, performing risk assessments, engaging stakeholders, and setting the scope, timing, and resources for audits. The final approved document ensures resources focus on high-risk, critical areas of the District.

Standard 9.4 of The Institute of Internal Auditors' Global Internal Audit Standards (Standards) requires the chief audit executive (General Auditor) to create an internal audit plan that supports the achievement of an organization's objectives, and must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be performed annually and be informed by input from the Board and senior management, as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes.

Additionally, the Standards recommend that the Board communicate its perspective on the organization's strategies, objectives, and risks to assist the General Auditor with determining internal audit priorities (Standard 8.1).

Internal Control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides internal control guidance in its *Internal Control – Integrated Framework*, which consists of 17 principles organized under the five components of internal control: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring Activities.

The Comptroller General of the United States created the Standards for Internal Control in the Federal Government (the Green Book), which adapts the COSO principles for government entities to establish and maintain an effective internal control system. Entity management determines, in accordance with applicable laws and regulations, how to adapt the Green Book framework appropriately.

The Office of the General Auditor has future initiatives to provide internal control training to District employees and to officially recognize the Green Book as the District's internal control framework.

Risk

Risk is the possibility that an event will occur and impact the achievement of objectives. As noted above, Standard 9.4 requires the chief audit executive to base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks, and to ensure the plan is responsive to organizational changes and emerging risks. As part of the risk assessment process, emerging risks are identified during the development of the annual audit plan and reassessed throughout the year. The risk assessment process also includes issues raised by the organization's board and senior management. This identification supports the evaluation of potential impacts to the District and contributes to the audit plan's development.

Various organizations gather and publish annual information on national emerging risks (**Attachment 1** and **Attachment 2**). The General Auditor uses this data to stay informed about the significant risks impacting organizations, which may include the District.

Metropolitan's Administrative Code Section 2416(b)(4) requires the Executive Committee to consider the effectiveness of the District's internal control system, including information technology security and control.

Metropolitan's Administrative Code Section 6451(a)(1) requires the scope of work of the Audit Department to determine whether the District's network of governance, risk management, and internal control, as designed and represented by District management, is adequate and functioning in a manner to ensure risks are appropriately identified, managed, and monitored.

Metropolitan's Administrative Code Section 6451(d)(1) requires the Audit Department to develop and present a flexible annual audit plan to the Audit Committee for review and approval. This plan should be developed utilizing a risk-based methodology and should include risks or internal control concerns identified by Management or the Board of Directors.

Attachment 1 – Internal Audit Foundation – 2026 Risk in Focus-Hot Topics for Internal Auditors

Attachment 2 – Protiviti – 2026 Edition – Unlocking Opportunity Executive Perspectives on Top Risks and Opportunities

2026

RISK IN FOCUS

Hot topics for internal auditors

NORTH AMERICA

Internal Audit FOUNDATION

ABOUT GLOBAL RISK IN FOCUS

Know Your Risks. Plan Strategically.

Risk in Focus is the Internal Audit's Foundation's premier annual initiative to identify the five most significant risks impacting organizations around the world.

Learn what internal auditors are saying about the:

- Five highest risks in their region
- Five top priorities for internal audit effort
- Key considerations for boards and audit committees

Risk in Focus uses survey results, regional roundtables, and interviews with local experts to reveal key insights about regional risks along with perspective on risks worldwide.

The Internal Audit Foundation gratefully acknowledges the work of IIA Institutes and IIA regional bodies who make this research possible: African Federation of Institutes of Internal Auditors (AFIIA), Arab Confederation of Institutes of Internal Auditors (ARABCIIA), Asian Confederation of Institutes of Internal Auditors (ACIIA), European Confederation of Institutes of Internal Auditing (ECIIA), and Fundación Latinoamericana de Auditing Internos (FLAI).

Special appreciation goes to the European Institutes Research Group (EIRG), who developed the Risk in Focus research approach in 2016 and continues to publish the report for Europe through the ECIIA.

Reports and board briefings are free to the public for:

- Africa
- Asia Pacific
- Europe
- Latin America
- Middle East
- North America
- Global Summary

Visit the Risk in Focus Knowledge Center for reports and more information.

WORLDWIDE RESEARCH PARTICIPATION

131 countries/territories

4,073 survey responses

18 roundtables with **182** participants

24 in-depth interviews

Internal Audit FOUNDATION

Visit the **Risk in Focus Knowledge Center** for free reports and board briefings (**theiia.org/RiskInFocus**).

CONTENTS

EXECUTIVE SUMMARY

Geopolitical Risks Increase Dramatically

The percentage of respondents in North America who ranked geopolitical uncertainty as one of their five highest risks spiked dramatically in North America, while cybersecurity and digital disruption remained high, according to the most recent Risk in Focus survey results.

In North America, 45% of survey respondents said geopolitical uncertainty was one of the five highest risks at their organization (up from 26% in the prior year) (Exhibit 3). North America tied with Europe and Latin America this year for geopolitical uncertainty risk levels (Appendix D). Rapid changes in U.S. policies initiated by the Trump administration are the likely drivers for this change, particularly tariffs and changes in federal funding.

At the same time, cybersecurity and digital disruption topped the risk rankings in North America, with 86% citing cybersecurity as one of the five highest risks, and 53% citing digital disruption (Exhibit 1). Risk ratings for regulatory change and business resilience increased moderately, keeping them on the list of highest risks.

Internal auditors are responding to geopolitical uncertainty with expanded advisory services and participation in broader strategic planning. They are joining cross-functional teams to proactively address new risks related to supply chain disruptions and changes in federal funding for the public sector, nonprofit organizations, and other industries.

The major driver for digital disruption risks in North America is generative artificial intelligence (AI), with cybercriminals taking advantage of it to increase their attacks. Organizations are forming AI governance teams to manage deployment and risks. At the same time, internal audit is increasing use of AI to automate routine tasks, increase efficiency, and provide data for stakeholders.

Continued volatility in geopolitics and technology is almost guaranteed, so internal auditors must prepare to provide support and direction. The North America Risk in Focus 2026 report features practical ways to address this unprecedented risk environment, using insights from roundtables and interviews conducted with internal audit leaders throughout the region.

Key Points

- Geopolitical risks spiked dramatically in North America, with 45% of survey respondents saying it was one of the five highest risks at their organization (up from 26% in the prior year) (Exhibit 3).
- Digital disruption risk, including AI, continues to increase and is now a Top 5 risk for 53% in North America (Exhibit 3).
- Cybersecurity remains the highest-rated risk in North America (86%) (Exhibit 1).
- Internal auditors are joining cross-functional teams to address supply chain issues and changes in federal funding.
- Strong IT governance is essential to prevent problems and take advantage of opportunities presented by generative AI and new technology.

NORTH AMERICA RESEARCH PARTICIPATION

- **271** survey responses
- **3** roundtables with **59** participants
- **3** interviews

NORTH AMERICA REPORT SPONSOR

AuditBoard

SECTION 1.
NORTH AMERICA'S RISK ENVIRONMENT

Heightened Geopolitical Tensions Alter Risk Landscape

The percentage of respondents in North America who ranked geopolitical/macroeconomic uncertainty as one of their five highest risks spiked dramatically, rising 19 percentage points from the prior year (Exhibit 3). Two other areas – business resilience and regulatory change – saw smaller but notable increases that could be linked to the geopolitical change.

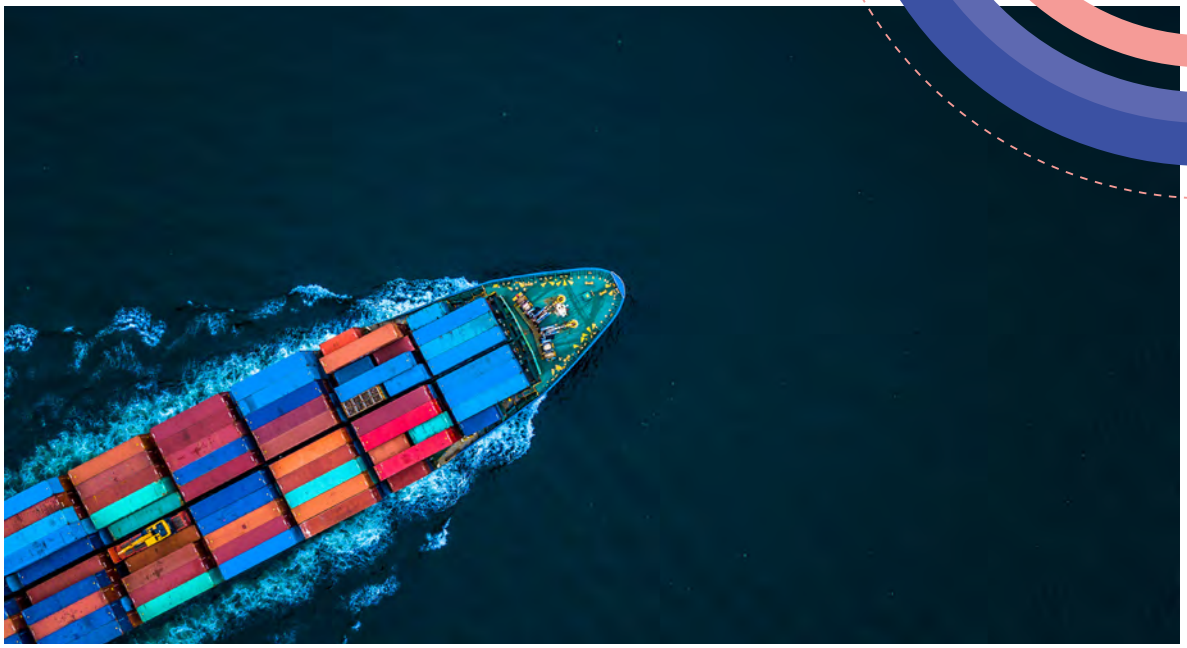
Geopolitical risks hit North America

In a dramatic shift from the previous two years of survey results, North America tied Europe and Latin America this year for the highest geopolitical risk levels in the world. In these three regions, 45% of survey respondents said geopolitical uncertainty was one of the five highest risks at their organizations (Appendix D). This stands in stark contrast to North America's survey results in the prior year, where geopolitical uncertainty was ranked ninth, with only 26% saying it was one of their Top 5 risks (Exhibit 3).

Rapid changes in U.S. policies initiated by the Trump administration are the likely drivers for this change, particularly tariffs and changes in federal funding policies.

As macroeconomic and geopolitical concerns are increasing, cybersecurity and digital disruption (including AI) remain the two top-rated risks in North America. Digital disruption continued its climb up the risk rankings from sixth to third to second. Cybersecurity remained entrenched as the highest ranked risk (Exhibit 3).

Risk in Focus survey results closely mirrored the World Economic Forum's assessment of global challenges, which were described as a "time of extraordinary volatility and uncertainty" in the Chief Economist's Outlook: May 2025. The same report noted that the rapid advance of AI has created additional complexity and opportunity in the global economic landscape.



NORTH AMERICA'S RISK ENVIRONMENT

During the North America Risk in Focus roundtables, internal audit leaders described active involvement in these two risk areas, including expanded advisory services. Additionally, interviews with internal audit thought leaders emphasized that volatility and uncertainty create important opportunities that internal auditors must embrace.

North American industries with the highest risk ratings for geopolitical uncertainty were manufacturing and mining/energy/water. These industries also showed high audit priority for supply chains. (Appendix C).

Risk levels compared to global

While geopolitical uncertainty risk went up 10 percentage points at the global level (Exhibit 4), it increased nearly twice as much for North America (19 percentage points) (Exhibit 3). The uptick for North America was the largest increase for a single risk area of any region in this year's survey results.

North America rated technology risks as higher than the global average. As in previous years, North American respondents cited cybersecurity as a high risk more often than the global average, with 86% listing it as a Top 5 risk, 13 percentage points higher than the global average. Digital disruption also was cited more often by North American respondents; 53% compared to 48% globally (Exhibit 2).

On the other hand, North America was lower than the global average for risk related to fraud (12 percentage points lower), climate change (11 percentage points lower), and governance/corporate reporting (9 percentage points lower) (Exhibit 2). Because so much fraud risk in North America is related to cybersecurity, the lower fraud risk rating for North America may be offset by the higher rating for cybersecurity.

In last year's Risk in Focus survey, North American respondents expected climate change risk ratings to increase in the next three years. However, the dramatic changes in the geopolitical landscape led more people to choose geopolitical uncertainty as one of their Top 5 risks, and climate change risk ratings dropped 6 percentage points in North America, tying for the lowest rated risk on the list (Exhibit 3).

Audit priorities

Audit priorities shifted in response to risk level changes but to a lesser extent. (Audit priorities are defined as the five areas where internal audit spends the most time and effort.)

In North America, audit priority ratings for geopolitical uncertainty grew by 8 percentage points over the prior year (Exhibit 7). Nevertheless, the audit priority ratings for geopolitical uncertainty in North America were still much lower than the risk level ratings. Roundtable participants explained that geopolitical uncertainty is not a typical audit area with identifiable processes and controls. Therefore, to address geopolitical risks, audit priority increases in related areas, for example, business resilience, which increased 6 percentage points, or market changes/competition, which increased 4 percentage points (Exhibit 7).

Risk ratings for geopolitical uncertainty in North America increased 19 percentage points – nearly double the global increase, which was 10 percentage points (Exhibits 3 and 4).

NORTH AMERICA'S RISK ENVIRONMENT

Audit priorities compared to global

North America and the global average were fully aligned for the five highest audit priority areas: cybersecurity, business resilience, governance/corporate reporting, regulatory change, and financial/liquidity (although with slightly different rankings) (Exhibit 6).

Audit priority for digital disruption increased the most, both for North America and global – 11 percentage points for North America and 7 percentage points for global. The second highest increase was for geopolitical/ macroeconomic uncertainty – up 8 percentage points for North America and 3 percentage points for global (Exhibits 7 and 8).

One notable difference between North America and global audit priority was for business resilience – increasing 6 percentage points for North America compared to a decrease of 2 percentage points for global (Exhibits 7 and 8). North America's uptick was likely a way of responding to increased geopolitical uncertainty, according to roundtable participants.

Risk compared to audit priority

For both North America and global, three out of the five highest risks were also high audit priorities – cybersecurity, regulatory change, and business resilience.

At the same time, several risks showed large gaps between risk levels and audit priority, in particular, geopolitical uncertainty, human capital, and digital disruption. Geopolitical risk ratings exceeded audit priority ratings by 35 percentage points in North America and 27 percentage points globally. Similarly, human capital risk ratings exceeded audit priority ratings by 27 percentage points in North America, but a more modest 14 percentage points globally. Digital disruption had a smaller gap, but it was still notable: 10 percentage points for North America and 16 percentage points for global (Exhibits 9 and 10).

As noted earlier, some gaps may be explained by difficulty in directly auditing an area, for example, geopolitical uncertainty. Or the issue may be a lack of processes in place or a lack of audit skills in an area, for example, digital disruption.

A closer look at urgent risks

Based on survey results and roundtables, the featured topics for this year's Risk in Focus report are geopolitical uncertainty and digital disruption. See Section 3 for insights into how internal audit and their organizations are meeting challenges in these high-risk areas.

Based on survey results and round tables, the featured topics for this year's Risk in Focus report are geopolitical uncertainty and digital disruption.

SECTION 2. RISK LEVELS

Exhibit 1. North America – Highest Risks

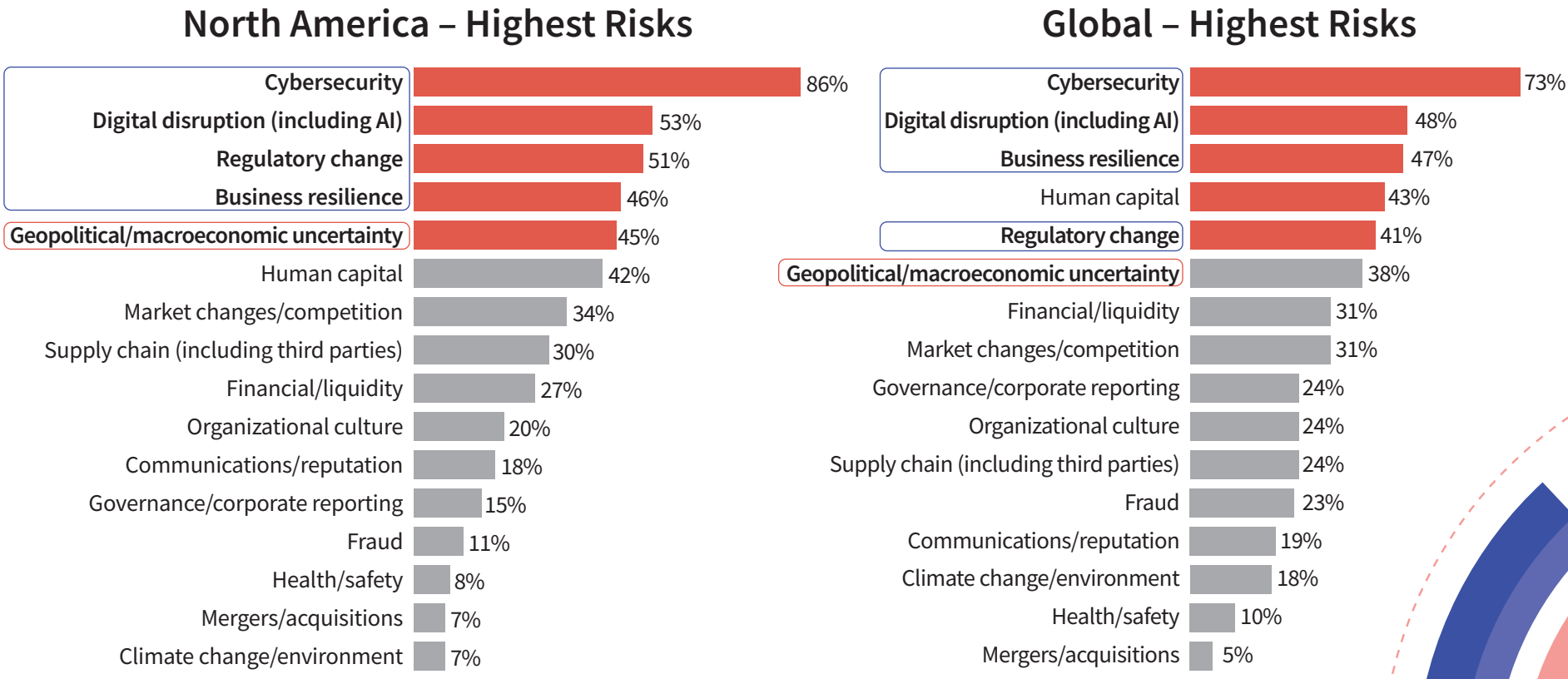
Survey question: **What are the Top 5 risks your organization currently faces? (Choose 5.)**

Note: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.

RISK LEVELS

Exhibit 2. North America vs. Global – Highest Risks

Survey question: **What are the Top 5 risks your organization currently faces? (Choose 5.)**



Note: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America. *n* = 4,073 for global.

RISK LEVELS

Exhibit 3. North America – Risk Level Trend

Survey question: **What are the Top 5 risks your organization currently faces? (Choose 5.)**

2023	2024	2025	Change from 2024 to 2025	Change	Risk area
85%	87%	86%		-1	Cybersecurity
36%	48%	53%		+5	Digital disruption (including AI)
43%	47%	51%		+4	Regulatory change
36%	41%	46%		+5	Business resilience
28%	26%	45%		+19	Geopolitical/macroeconomic uncertainty
65%	54%	42%		-12	Human capital
41%	41%	34%		-7	Market changes/competition
36%	29%	30%		+1	Supply chain (including third parties)
28%	28%	27%		-1	Financial/liquidity
21%	20%	20%		0	Organizational culture
21%	20%	18%		-2	Communications/reputation
16%	16%	15%		-1	Governance/corporate reporting
9%	9%	11%		+2	Fraud
17%	13%	8%		-5	Health/safety
8%	8%	7%		-1	Mergers/acquisitions
12%	13%	7%		-6	Climate change/environment

Increased risk level compared to prior year Decreased risk level compared to prior year

Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.
Note 2: The orange and blue bars show the difference in risk level ratings from 2024 to 2025. The column labeled "change" shows the percentage point difference between 2024 and 2025. The areas are listed from the highest to lowest risk level rating for 2025. The years indicate the year the survey was conducted.

RISK LEVELS

Exhibit 4. Global – Risk Level Trend

Survey question: **What are the Top 5 risks your organization currently faces? (Choose 5.)**

2023	2024	2025	Change from 2024 to 2025	Change	Risk area
73%	71%	73%		+2	Cybersecurity
34%	39%	48%		+9	Digital disruption (including AI)
47%	54%	47%		-7	Business resilience
51%	49%	43%		-6	Human capital
39%	37%	41%		+4	Regulatory change
30%	28%	38%		+10	Geopolitical/macroeconomic uncertainty
32%	32%	31%		-1	Financial/liquidity
32%	32%	31%		-1	Market changes/competition
27%	26%	24%		-2	Governance/corporate reporting
26%	25%	24%		-1	Organizational culture
26%	22%	24%		+2	Supply chain (including third parties)
24%	27%	23%		-4	Fraud
21%	21%	19%		-2	Communications/reputation
19%	21%	18%		-3	Climate change/environment
11%	11%	10%		-1	Health/safety
6%	6%	5%		-1	Mergers/acquisitions

Increased risk level compared to prior year Decreased risk level compared to prior year

Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 4,073 for global.
Note 2: The orange and blue bars show the difference in risk level ratings from 2024 to 2025. The column labeled "change" shows the percentage point difference between 2024 and 2025. The areas are listed from the highest to lowest risk level rating for 2025. The years indicate the year the survey was conducted.

SECTION 3. AUDIT PRIORITIES

Exhibit 5: North America – Highest Audit Priorities

Survey question: **What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)**

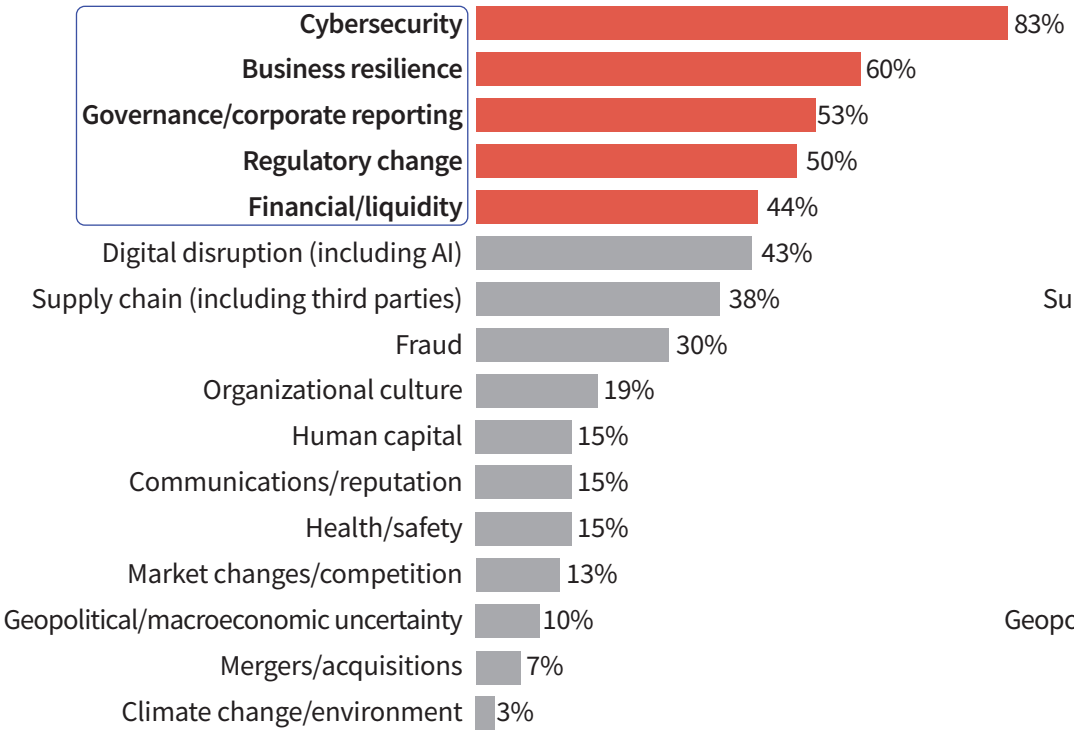
Note: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.

AUDIT PRIORITIES

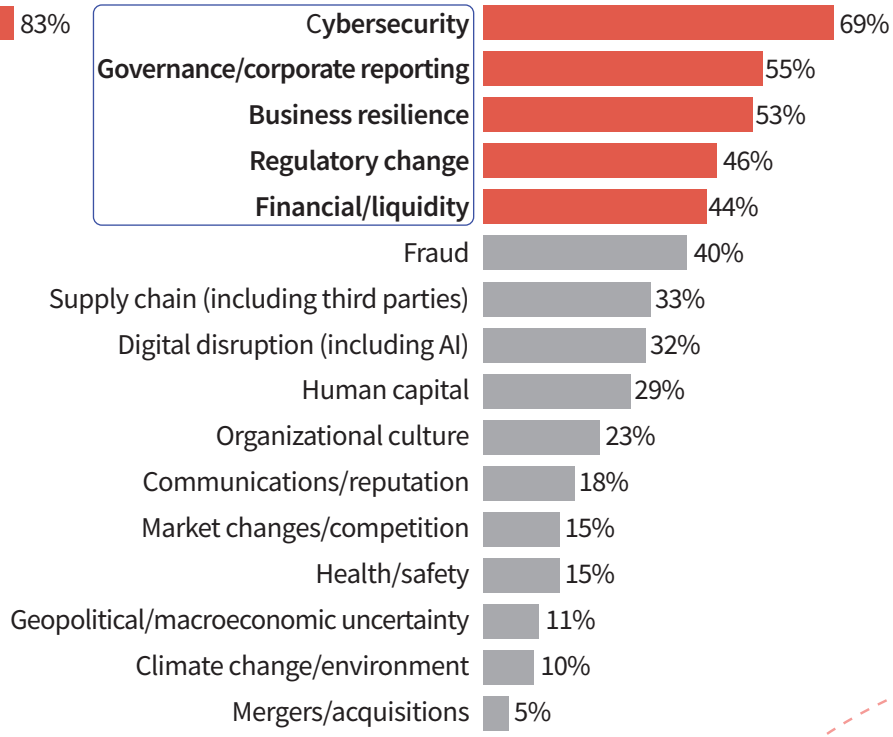
Exhibit 6.North America vs. Global – Highest Audit Priorities

Survey question: **What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)**

North America – Highest Audit Priorities



Global – Highest Audit Priorities



Highest audit priorities | Areas with high audit priority for both the region and global | Areas with high audit priority for the region but lower audit priority for global

Note: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America. *n* = 4,073 for global.

AUDIT PRIORITIES

Exhibit 7. North America – Audit Priority Trend

Survey question: **What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)**

2023	2024	2025	Change	Risk area
84%	87%	84%	-3	Cybersecurity
53%	54%	60%	+6	Business resilience
55%	58%	52%	-6	Governance/corporate reporting
53%	54%	51%	-3	Regulatory change
25%	33%	44%	+11	Digital disruption (including AI)
46%	46%	44%	-2	Financial/liquidity
38%	34%	37%	+3	Supply chain (including third parties)
26%	29%	30%	+1	Fraud
17%	15%	18%	+3	Organizational culture
21%	16%	15%	-1	Health/safety
26%	27%	15%	-12	Human capital
20%	17%	14%	-3	Communications/reputation
14%	10%	14%	+4	Market changes/competition
4%	3%	11%	+8	Geopolitical/macroeconomic uncertainty
10%	10%	7%	-3	Mergers/acquisitions
9%	9%	3%	-6	Climate change/environment

Increased audit priority compared to prior year Decreased audit priority compared to prior year

Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.
Note 2: The orange and blue bars show the difference in audit priority ratings from 2024 to 2025. The column labeled "change" shows the percentage point difference between 2024 and 2025. The areas are listed from the highest to lowest audit priority rating for 2025. The years indicate the year the survey was conducted.

AUDIT PRIORITIES

Exhibit 8. Global – Audit Priority Trend

Survey question: **What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)**

2023	2024	2025	Change from 2024 to 2025	Change	Risk area
68%	69%	69%		0	Cybersecurity
55%	56%	55%		-1	Governance/corporate reporting
54%	55%	53%		-2	Business resilience
46%	46%	46%		0	Regulatory change
45%	45%	44%		-1	Financial/liquidity
42%	41%	40%		-1	Fraud
34%	**31%**	**33%**		**+2**	**Supply chain (including third parties)**
22%	**25%**	**32%**		**+7**	**Digital disruption (including AI)**
30%	31%	29%		-2	Human capital
24%	23%	23%		0	Organizational culture
20%	20%	18%		-2	Communications/reputation
16%	16%	15%		-1	Market changes/competition
17%	16%	15%		-1	Health/safety
9%	**8%**	**11%**		**+3**	**Geopolitical/macroeconomic uncertainty**
11%	12%	10%		-2	Climate change/environment
6%	6%	5%		-1	Mergers/acquisitions

Increased audit priority compared to prior year Decreased audit priority compared to prior year

Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 4,073 for global.
Note 2: The orange and blue bars show the difference in audit priority ratings from 2024 to 2025. The column labeled "change" shows the percentage point difference between 2024 and 2025. The areas are listed from the highest to lowest audit priority rating for 2025. The years indicate the year the survey was conducted.

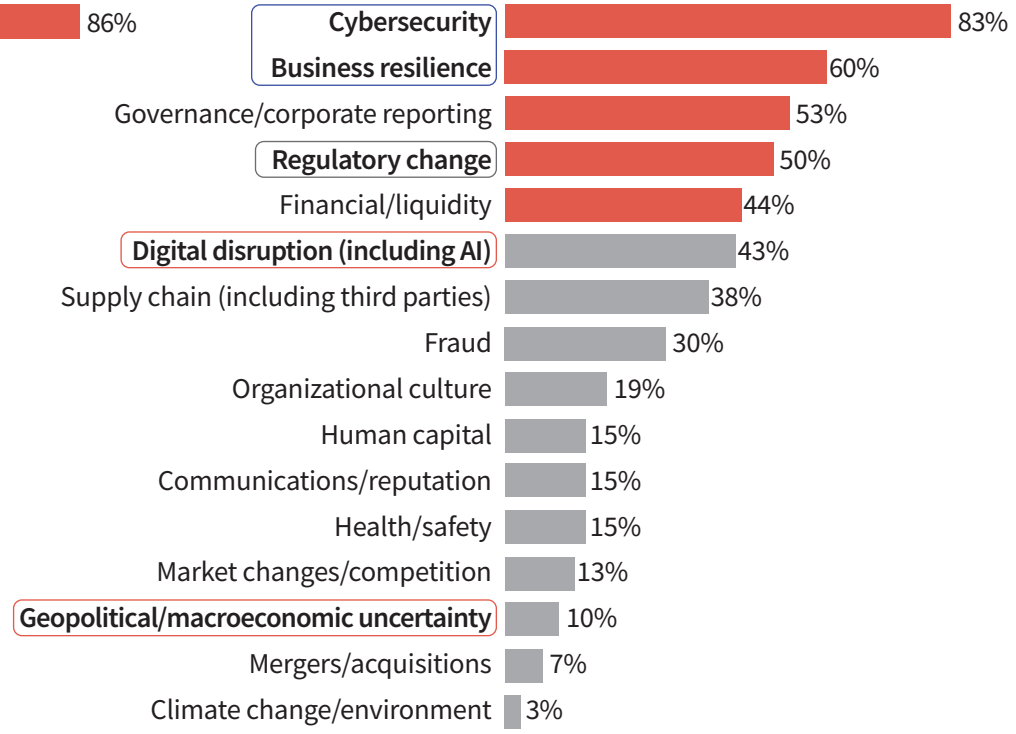
SECTION 4. RISK VS. AUDIT PRIORITIES

Exhibit 9. North America – Risk vs. Audit Priorities

Survey questions: **What are the Top 5 risks your organization currently faces? (Choose 5.)**
What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)

North America – Highest Risks

North America – Highest Audit Priorities



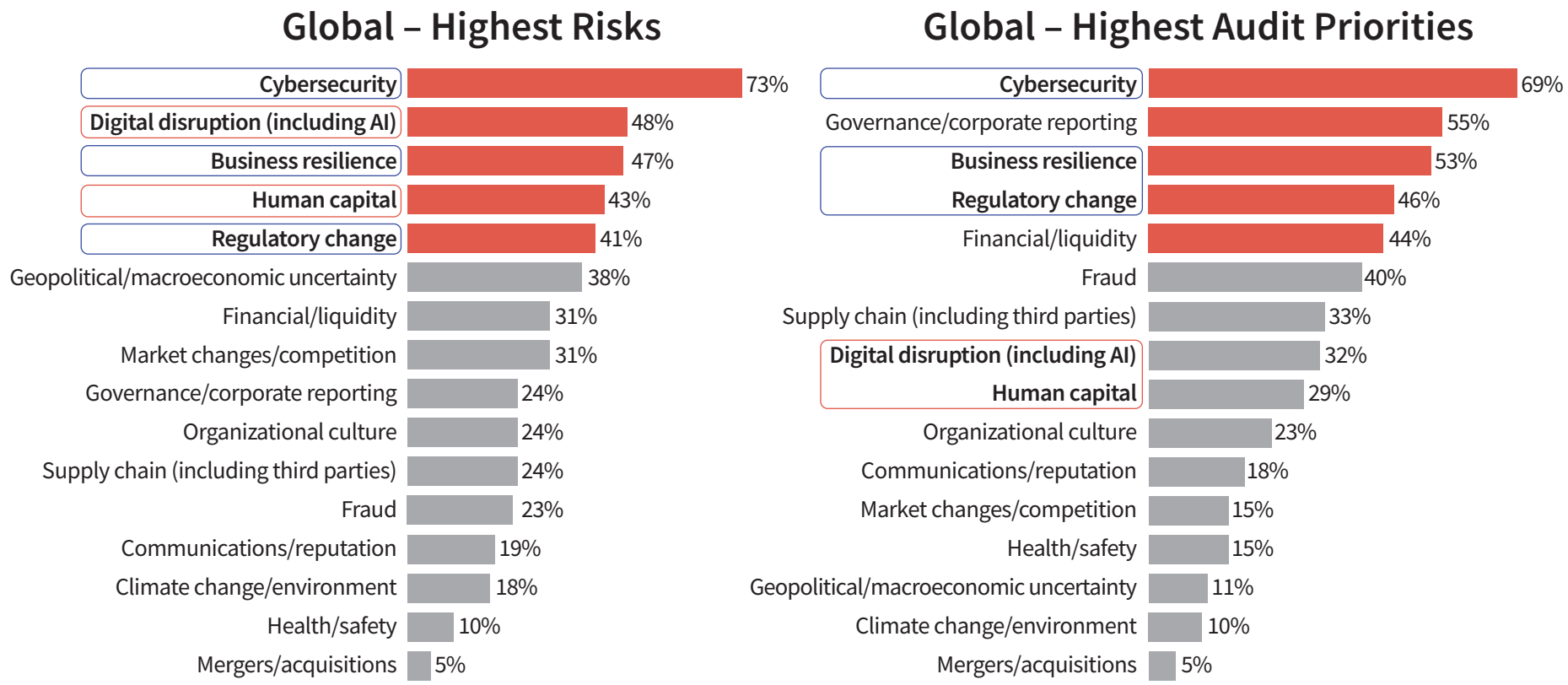
Highest risks and audit priorities | Areas with both high risk and high audit priority | Areas with high risk but lower audit priority

Note: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.

RISK VS. AUDIT PRIORITIES

Exhibit 10. Global – Risk vs. Audit Priorities

Survey questions: **What are the Top 5 risks your organization currently faces? (Choose 5.)**
What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)



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SECTION 5. HOT TOPICS

GEOPOLITICAL UNCERTAINTY

New U.S. Policies Drive Up Risk

North American internal audit leaders are responding to uncertainty by pivoting to expanded advisory services and participating in broader strategic planning.

The U.S. policy shifts were announced by the Trump administration as the Risk in Focus survey was in progress, making it likely that this risk continued to increase after the survey ended.

Geopolitical/macroeconomic uncertainty is peaking at levels not seen since the COVID crisis. Less than five years removed from that global emergency, organizations are struggling to cope with new volatility and uncertainty from policy changes implemented by U.S. President Donald Trump.

For example, the potential impact on domestic policies and spending drove one internal audit leader at an agri-business lending organization to rank geopolitical/macroeconomic uncertainty as his top risk. Uncertainty about the annual Congressional Farm Bill, which often includes provisions related to agricultural trade, such as export subsidies and international food assistance programs, is driving volatility in the sector, he said.

"We have some big winners some days in the direction that things are headed and some big losers. So, it tends to balance out a bit across our portfolio," he said. "But we have very significant clients that are dealing with crazy input costs and volatility in the markets. That's definitely why I placed it as number one for us."

GEOPOLITICAL UNCERTAINTY

Widespread impacts

Supply chain risk is one of the driving factors behind many organizations' concerns. Whether it's sourcing ingredients for a global restaurant chain or getting healthcare supplies that can only be obtained from China, organizations are scrambling for alternatives and financially viable solutions.

Another looming obstacle is the widespread cuts in federal funding, initiated by the Department of Government Efficiency (DOGE) formed by the Trump administration. The CAE at a not-for-profit company that operates in more than 20 countries said federal funding cuts have prompted reexamination of budgets, called into question the viability of foreign offices, and may trigger a reorganization. An internal auditor working in state government expressed concerns about the ban on programs for DEI (diversity, equity, and inclusion) and how that could affect funding for a variety of programs that rely on federal support.

Delivering value to boards and management

Internal auditors should be key allies in helping organizations to be resilient and deal with evolving risks, said Richard Chambers, senior internal audit advisor for AuditBoard. But boards and executive management need to be educated about what internal audit offers.

"We [internal auditors] need to have frank and candid conversations with executive management and the board about the environment in which we live, and we need to educate them on what our potential is to help navigate that environment," said Chambers. "Very few board members or executive management members are going to naturally think, 'Oh, tariffs are changing three times a day. What I need to do is call the internal auditors and see what they're thinking.'"

"We have to influence the change we want to see," Chambers said. "We want our stakeholders to see our capabilities in a broader light or in a different light. Then we have to deliver."

Benito Ybarra, IIA executive vice president of global standards, guidance, and certifications, added, "Leading internal auditors like the challenge of making their organizations better. Internal auditors have a huge opportunity to engage board members and senior leaders to make sure that they understand what internal audit can do to help organizations thrive."

"Supply change risk is one of the driving factors behind many organizations' concerns."

GEOPOLITICAL UNCERTAINTY

Advisory services across industries

The new geopolitical reality is driving an all-hands-on-deck mentality in organizations, which is expanding use of internal audit for advisory services across industries. Internal auditors are using their expertise in organizational operations to help develop new strategies.

Increasing inventory (Utilities)

For one Midwestern utility, the changing risk landscape brought together leaders from IT, ERM, executive management, and internal audit to identify and mitigate evolving risks. The utility explored how tariffs announced by the Trump administration affected supply chain strategies. For example, inventory of critical and long-lead-time products was dramatically expanded.

"We use a lot of steel poles and transformers, things that have heavily tariffed materials," said Andrea Klubertanz, audit manager at ATC, a Wisconsin-based utility company. "We are increasing our inventory by forty- to sixty-fold in the course of a few years and to an amount that is material to our financial statements. The pace at which we're growing, the long lead times, and the lack of suppliers in that space make it particularly challenging for us."

Beyond expanding inventory, the utility is reexamining its vendor list and looking for alternative suppliers who might not be impacted by tariffs. They also are examining whether there may be engineering solutions to support growing load demand. Since the pandemic, the utility has looked at better aligning audit services with company strategy, and internal audit has adopted the same mindset.

"We're really trying to think more strategically," Klubertanz said. Her team shifted away from routine audits and started to review the risks for key areas such as construction, procurement, and strategic resource alliances. "These are the kinds of things that our stakeholders, our audit committee, want to see," Klubertanz explained.

Board communications (Clothing retailer)

At an international clothing retailer based in North America, geopolitical uncertainty has become one of the organization's top enterprise risks. The internal audit function has stepped up its risk advisory work, keeping management informed about tariffs and military actions that affect suppliers.

The new geopolitical reality is driving an all-hands-on-deck mentality in organizations, which is expanding use of internal audit for advisory services across industries.

GEOPOLITICAL UNCERTAINTY

Counting costs (Manufacturing)

The audit leader of a global professional services company said she realized her organization needed to do an advisory review of the supply chain process when they tried to find alternate manufacturing locations to ease reliance on Asia. "Unfortunately…a lot of those (alternative) countries are also now impacted by high tariffs," she said. Internal audit conducted a detailed review of the supplier award process and supplier performance to determine if the mix remained beneficial to the organization. Their review also looked at supply chain decision-making and whether short-term and long-term impacts were being considered. From a financial perspective, internal audit also explored whether business units were considering tariff impacts, inventory costs, and how costs would be reflected on income statements.

Reconsidering marketing (Software technology)

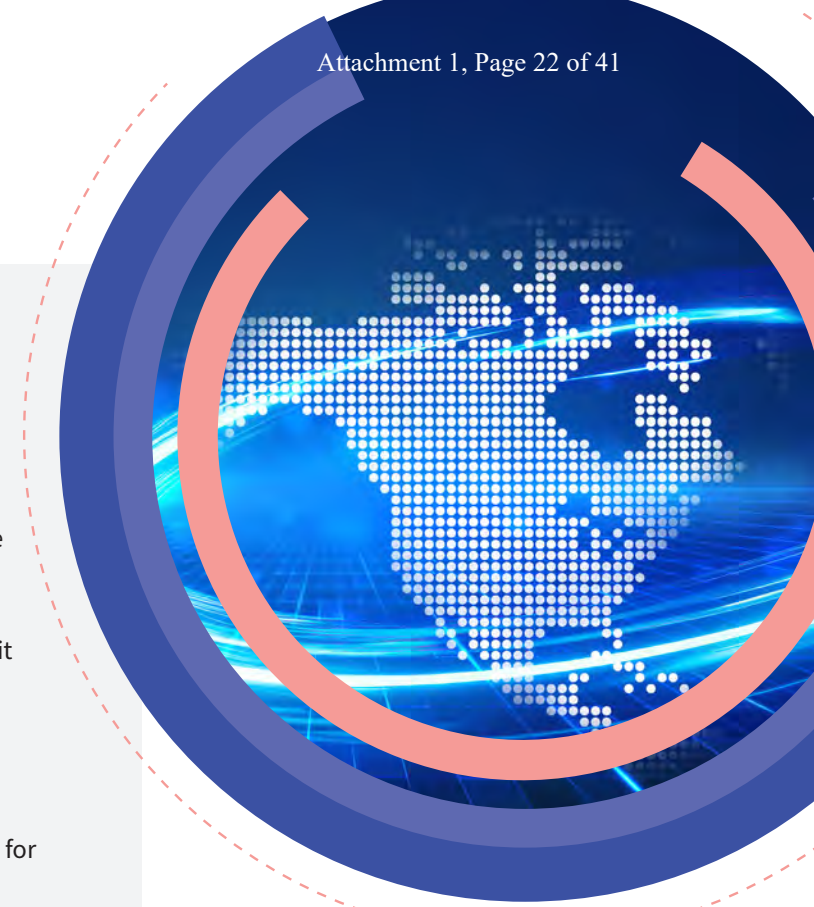
For a software technology company, the uncertainty has prompted an examination of risk concentration in some of the regions in which it operates. "We're looking at the footprint and saying, 'Can we really rationalize the number of countries we operate in without necessarily increasing our risks?'" said its vice president of internal audit, adding that such risks include compliance with sovereign data rules, privacy, and sustainability, as well as the potential for increased fraud.

Conclusion

The complexity of the business environment can seem overwhelming at some organizations, said Ybarra, but internal auditors can help bring clarity by reexamining risk assessments and understanding where the organization's critical assets lie. Having a clear idea of who provides assurance over risk mitigation efforts in key areas through risk mapping and second-line collaborations also is vital. Ultimately, the aim is to have a clear view of risks and the effectiveness of risk mitigation, and to provide assurance and support to the areas of highest risk. This presents a holistic view of risk management that boards and senior management want and need to hear, Ybarra said.

Ultimately, the aim is to have a clear view of risks and the effectiveness of risk mitigation, and to provide assurance and support to the areas of highest risk.

GEOPOLITICAL UNCERTAINTY



Key Points

Survey findings

- Geopolitical/macroeconomic uncertainty as a Top 5 risk spiked dramatically, rising 19 percentage points year over year (Exhibit 3).
- As a result, North America risk in this area was higher than the global average for the first time for the Risk in Focus project.
- Geopolitical/macroeconomic uncertainty saw the second highest increase – 8 percentage points – in the number of survey respondents who listed it as a Top 5 area where internal audit spends most time and effort (Exhibit 7).

Internal audit strategies

- Pivot to changing geopolitical uncertainty by reviewing materials sourcing.
- Monitor federal funding cutbacks for direct impacts on budgets and projects and implications for third-party contractors.
- Explore implications of new tariffs on supplier contracts.
- Examine new and existing regulations for impacts on existing contracts and supplier relationships.
- Seek greater involvement in broader strategic planning through expanded meetings with key C-suite and department leaders.
- Educate boards and executive management about internal audit's potential to help navigate the current risk environment.

DIGITAL DISRUPTION

Generative AI Causes Paradigm Shift

Less than three years after the introduction of ChatGPT, generative AI is creating profound impacts on business. From improving efficiency, competitiveness, and resilience to fundamentally altering how the C-suite views human capital, generative AI meets the definition of a paradigm shift.

Over the past two years, the percentage of North American survey respondents listing digital disruption as a Top 5 risk grew 17 percentage points (Exhibit 3). Much of that growth is likely driven by North America's rapid adoption of generative AI products. Since the first practical generative AI products were introduced in late 2022, AI use has exploded.

Stanford's 2025 AI Index Report stated that AI business usage in the U.S. is accelerating rapidly, with 78% of organizations reporting using AI in 2024, up from 55% the year before. In addition, a report from the National Bureau of Economic Research stated that nearly 4 in 10 of the U.S. population age 18 to 64 were using generative AI at work or at home in 2024, with 9.2% saying they used it every day.

Against this dramatic backdrop, internal auditors are striving to understand AI's impact on business strategies and risks (including cybersecurity) while simultaneously leveraging the technology to improve their own efficiency, relevance, and value.

Cybercriminals take advantage of AI

Cybercriminals are also using AI as a powerful tool to increase the frequency and sophistication of attacks. One of the most troubling data points is the sheer volume of attacks organizations face, with the number exploding globally from 579 attacks per second in 2021 to a staggering 7,000 password attacks per second in 2024, according to the Microsoft Digital Defense Report 2024. In addition, spammers save 95% on campaign costs using large language models (LLMs) to generate phishing emails, according to a Harvard Business Review article.

Over the past two years, the percentage of North American survey respondents listing digital disruption as a Top 5 risk grew 17 percentage points (Exhibit 3).

DIGITAL DISRUPTION

Risk in Focus roundtable participants cited a variety of personal experiences with AI-assisted cyberattacks. For example, a public sector CAE discovered that people were using AI to generate fake IDs and bills in attempts to get paid for fraudulent benefits claims.

AI's impact on the workforce

In its State of AI report (March 2025), McKinsey noted that companies are starting to implement new structures and processes designed to extract value from AI. Increasingly, this includes redesigning workflows to integrate generative AI, with 21% reporting fundamental redesigns. Larger organizations are adapting more rapidly, particularly in AI governance and risk management.

Some CEOs are insisting that employees use AI. Shopify CEO Tobias Lütke not only announced the expectation that everyone in the organization would use AI, but he also said that any request for additional resources would have to demonstrate why AI couldn't be used instead. Additionally, Lütke stated AI use would become an explicit part of employee performance evaluations.

A CAE at the roundtable said his organization has the same perspective: "Our CEO put out something very similar," he said. "Before recruiting across the organization, including for internal audit, there's a drive to make sure that AI can't do what we're trying to recruit for."

RESOURCE: The IIA's Cybersecurity Topical Requirement

The new IIA Cybersecurity Topical Requirement (February 2025) provides guidance for internal auditors to follow when auditing cybersecurity. Available free to download from The IIA global headquarters website.

The Cybersecurity Topical Requirement directs those working on cybersecurity audits to assess at minimum:

Governance	Risk Management	Controls
Strategy/objectives	Cyber risk assessment/risk management	Internal/vendor controls
Policies/procedures	RM scope	Talent management controls
Roles/responsibilities	Accountability/responsibility	Monitoring controls
Stakeholder engagement	Escalation process	Lifecycle inclusion
	Risk awareness process	Continuous improvement
	Incident response/recovery	Network controls
		Endpoint communications

Topical Requirements are available to download for free from The IIA global headquarters website.

Ford CEO Jim Farley recently predicted AI will replace "literally half of all white-collar workers in the U.S.," while Marianne Lake, CEO of Consumer & Community Banking at JPMorgan Chase, told investors she could see the massive firm's headcount falling by 10% in the future because of AI, according to an article in the Wall Street Journal.

DIGITAL DISRUPTION

Multiple roundtable participants said they are turning to external service providers and consultants to support their AI journey. A bank CAE at the roundtables wants to explore where AI fits in across all levels of the organization. "What are the questions we should be asking? I'm talking all the way up at the oversight level, at the board level," he said.

More cautious approaches

Although AI implementation is mandated by some large organizations, anecdotal evidence from roundtables suggests that smaller organizations are relatively cautious about using AI (as also noted in the McKinsey report). A CAE at a smaller community bank in Texas said she finds the current governance very restrictive at her organization. She lamented that her team cannot use AI as they'd like. A CAE from the insurance industry said that Microsoft Copilot is the only generative AI their organization allows. This organization primarily sees AI as an efficiency booster and urges users to closely review AI outputs for accuracy. The internal audit function at this organization therefore uses AI primarily to support report drafting.

A public sector auditor in Canada said that her province is slow in developing a governance framework for AI, so she has few options for implementing it in her audit function. Despite this, she is trying to leverage AI where she can safely do so to improve efficiency within her function.

AI governance teams

Whether AI implementation is conservative or aggressive, many organizations are assembling AI governance teams to manage deployment, and CAEs are being included. For example, a roundtable participant said their global professional services firm created an AI council focused on leveraging AI to interact with customers. The council is led by the CIO, CAE, and other senior management.

A CAE from financial services said his organization uses a governance council that evaluates AI use cases both internally and eventually for customers as a service. The council's work so far has focused on evaluating vendors who use AI and are providing services to customers or for clients seeking to add AI products to existing services.

"The governing council evaluates security and privacy, among other things, to see whether we can move forward with those use cases," he said. "I think the committee itself is still learning what the real risks are and what types of services we can allow."

Even when an AI governing council is in place, auditing AI governance is proving to be a challenge. A CAE in financial services said his team conducted a search for governance frameworks in 2024 that they could use for AI evaluation, but they found no blueprint at the time that described what good AI governance looks like. A second financial services CAE agreed, describing the area of AI frameworks as a "greenfield."

"Many organizations are assembling AI governance teams to manage deployment, and CAEs are being included."

DIGITAL DISRUPTION

Auditing AI automation

Tammy Valvo, CAE at Gate City Bank, said the bank is using AI and robotic process automation (RPA) to automate where possible, estimating that business process improvement automations have already delivered the equivalent of more than 66,000 hours of time saved in the past three years.

"It doesn't mean we've reduced people, because we haven't laid people off to do it," Valvo said. "It just means that we're using people to do things that only people can do and using systems to do more routine things that, quite frankly, people often get bored doing and then don't do well."

As processes throughout the organization are automated using AI and RPA, Valvo is reviewing workflows to ensure leaders remain aware of what is happening within those processes. Additionally, with the growing reliance on business intelligence and tools such as Tableau, internal audit is working to ensure there is an understanding of where the data originates, where it is going, and what it is informing, she said.

Similarly, Klubertanz said her internal audit team is working on ways to help ensure that data integrity, access management, and other aspects of automation are appropriately handled from a security perspective.

Hidden risks of automation

Valvo's experience with auditing automated systems brings to light various potential pitfalls that effective assurance can help deter, and one of the biggest is the idea that once systems or processes are automated, they can be left alone.

"It's out of sight, out of mind once you don't have to do it anymore," she said. "There's basically no human interaction in that step. It's easy to forget that that step even happens. You assume that step is still working the way that it should, but you don't know."

This is particularly relevant if changes are made in systems that feed data to automated systems, she said. "If there's a downstream change in another system, you may not know that it didn't work. Eventually you'll probably figure it out because you'll start to have errors, or you'll start to see issues. But you may not even make the connection," she said. "You may put band-aids on them without realizing that it's a systemic thing that's happening."

From a first-line perspective, those types of risks need to be identified, and automated processes need to be fully understood so that when changes are considered, all implications of the changes are understood. From an audit perspective, Valvo and her team look at source codes for automated processes to ensure they are designed to do what leadership thinks they are doing, she said.

RESOURCE: Auditing IT Governance and IT Management

This Global Technology Audit Guide (GTAG) from The IIA helps internal auditors:

- Identify gaps in IT governance
- Evaluate alignment with organizational objectives
- Provide recommendations to bolster IT oversight and resilience

Updated in August 2025 and aligned with the latest IIA Standards, this GTAG is available to IIA members for free from The IIA global headquarters website.

DIGITAL DISRUPTION

The other risk to consider is decidedly human focused – individual knowledge of what's been automated.

"For example, I'm the leader, and I know all the processes that I automated," Valvo said. "But when I change roles, and someone else comes in, they're going to have no idea what was automated, and no one's going to even think to tell them because no one's thinking about it anymore because it's automated."

Auditing AI at a technology company

An audit leader at a Canadian information management company said AI is significant at their organization for two key reasons: first, it has incorporated AI into information management software it retails, and second, AI provides a unique competitive advantage for the business.

"We're no different from Salesforce and Oracle, where we see it [AI] as a way to really digitize operations; the way you interact with products and with customers through chatbots; the way you fulfill products; the way you go to market; the way you price solutions," he said.

The challenge for internal audit is to provide assurance over a rapidly growing number of business cases across the organization, all aimed at accelerating customer response times, he said. "I want to really make sure that the governance, the policies, the expectations are well laid out and they're followed through," he said. "There's an aspect around the efficiency of AI models that we haven't got around to auditing yet, but it's very front and center."

Auditing AI models in financial services

An audit leader at a California insurance group noted that regulators are concerned about bias in AI models, privacy issues, and more. Similarly, an internal audit leader at a fintech startup in the Northeast, which has AI built into its service model, said her team is focused on identifying independent model validation processes to ensure AI models are working as intended. The organization will most likely use an external firm to validate this model to ensure operational accuracy.

Internal audit finds new ways to use AI

AI is an effective tool to increase efficiency for routine internal audit tasks, according to roundtable participants. Several describe using AI to generate emails, review draft reports for clarity and tone, and improve internal work processes. Several CAEs touted AI as the equivalent of adding a part-time junior staff auditor or intern. A CAE at a nonprofit said her organization is encouraging AI's use specifically because of limited funding.

AI can also help internal auditors improve their process analysis and communication skills. "We use AI to improve how we are doing things from an analysis standpoint, improving our work with procedures, and writing reports in a different way to make sure we're getting the right points across to stakeholders," said another CAE, repeating the views of several roundtable participants.

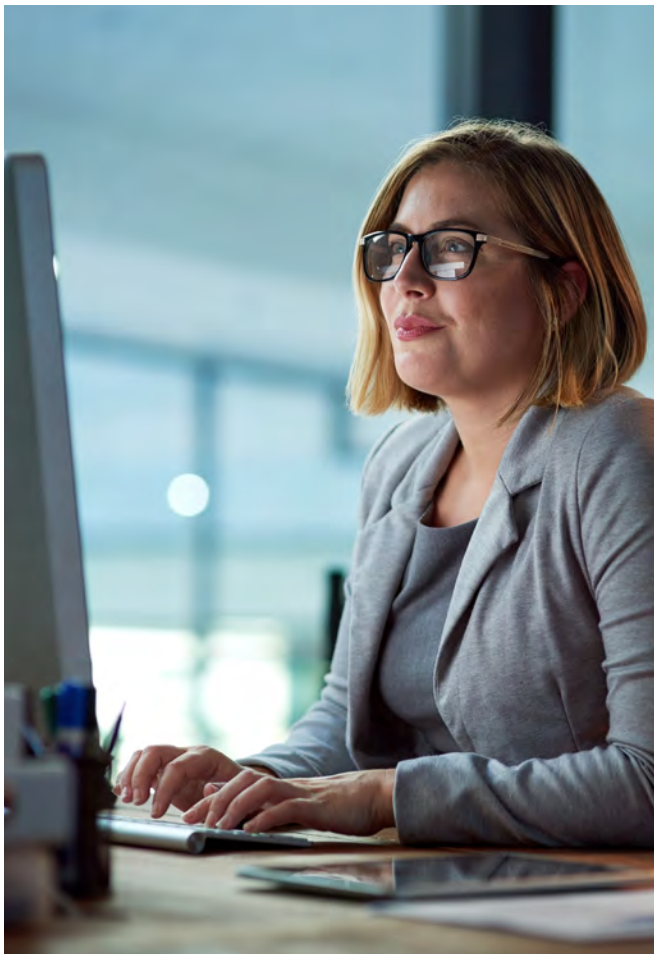
DIGITAL DISRUPTION

In contrast, one senior manager at a bank expressed concern that younger auditors accept AI output without question, "no matter how much training we have regarding using skepticism." As a precaution, AI use in his internal audit function is separated from all assurance activities, he said.

"If AI can help summarize a report, for instance, or perhaps make a process narrative more concise, that would be one permissible use, provided it still had certain precautions in place," he said. "But we would distinguish that use of AI from using it to develop assurance conclusions or observations."

Testing AI can have a playful side. A CAE at a Texas insurance company found a creative way to use her organization's internal AI chatbot to answer internal audit questions and promote the internal audit function during Internal Audit Month in May.

"We did little [video] snippets about what our company values are and how internal audit is using the bot to pave the way for the organization," she said. "We're kind of just dipping our toe into the water right now, playing with work papers and risk assessments, editing reports, and dumping data behind our firewall to see what analysis and insights that [data] can give us. We're trying to do it in a fun way where it's not intimidating or scary or unknown."



RESOURCE: Internal Audit Use Cases for AI

Read about insights and use cases from internal audit leaders who have integrated or explored AI within their teams in two new reports from the Internal Audit Foundation:

- Solving the Riddle: Harnessing Generative AI for Internal Audit Activities (in partnership with Wolters Kluwer)
- Demystifying AI: Internal Audit Use Cases for Applying New Technology (in partnership with AuditBoard)

"We use AI to improve how we are doing things from an analysis standpoint, improving our work with procedures, and writing reports."

DIGITAL DISRUPTION

Key Points

Survey findings

- Fifty-three percent of North American respondents listed digital disruption (including AI) as a Top 5 risk, which was 5 percentage points higher than the global average of 48% (Exhibit 2).
- Since 2023, the percentage of North American survey respondents listing digital disruption as a Top 5 risk grew 17 percentage points (Exhibit 3).
- Much of that growth is likely driven by North America's rapid adoption of generative AI products. Since the first practical generative AI products were introduced in late 2022, AI use has exploded.

Internal audit strategies

- Monitor and understand the risk implications of the organization's tone on AI usage, whether aggressive or conservative.
- Push for inclusion on AI governance teams that manage deployment of AI.
- Watch for hidden risks related to AI-converted systems becoming "out of sight and out of mind."
- Review AI workflows to ensure program leaders remain aware of what is happening within those processes.
- Ensure program leaders understand where the data fed to AI originates, where it is going, and what it is informing.
- Stay on top of all AI use cases across the organization and provide timely and relevant assurance.
- Be aware of regulations, particularly in financial services, that require independent model validation processes to ensure AI models are working as intended.
- Be bold in experimenting with AI usage to improve internal audit efficiency, and share work programs and processes where appropriate.

CONCLUSION

Rising to the Challenge

The risk landscape for 2026 is as uncertain and volatile as in the first year of the COVID crisis.

The key difference is that business and industry have not been slowed by quarantines and shifts in work patterns as they were with COVID. While geopolitical and macroeconomic disruptions have spooked markets and raised questions about inflation and slowing economic growth, new technology solutions, such as AI, offer enticing opportunities. Business leaders will need to leverage the organizational resilience and agility that are the pandemic's legacy to rise to the challenge.

"This dynamic risk landscape will undoubtedly prove challenging for many organizations, but it also presents a significant opportunity for internal auditors to demonstrate their value as objective assurance providers and insightful trusted advisors," said IIA president and CEO Anthony Pugliese. "These challenges are precisely the kinds of scenarios envisioned in The IIA's Vision 2035 report, and they highlight why it is essential for every internal auditor to embrace the responsibility of enhancing their organization's ability to create, protect, and sustain value."

In this environment, internal auditors face the twin tasks of supporting effective risk management while providing insightful advisory services that position their organizations for success. Finding the right balance will be as challenging as anything the profession has faced in a generation.

Data from the Risk in Focus survey, along with insights and observations from North American internal audit leaders, show promise for meeting these challenges. But just as C-suites and boards are emboldened to act in this time of uncertainty, so must internal audit. Digital disruption and geopolitical uncertainty allow internal audit to showcase its value and position itself as an integral player in risk management, and a trusted strategic advisor.

The coming year provides a unique opportunity to change how stakeholders think about internal audit. CAEs can seize that opportunity by thinking strategically, anticipating stakeholder needs, and delivering risk assurance and advice that is relevant, timely, and bold.

APPENDIX A: METHODOLOGY

Survey, Roundtables, and Interviews

The survey was conducted by the Internal Audit Foundation and the European Institutes Research Group (EIRG) from April 28 to June 6, 2025, and received 4,073 responses. The survey was conducted online through contacts associated with IIA Institutes and regional bodies.

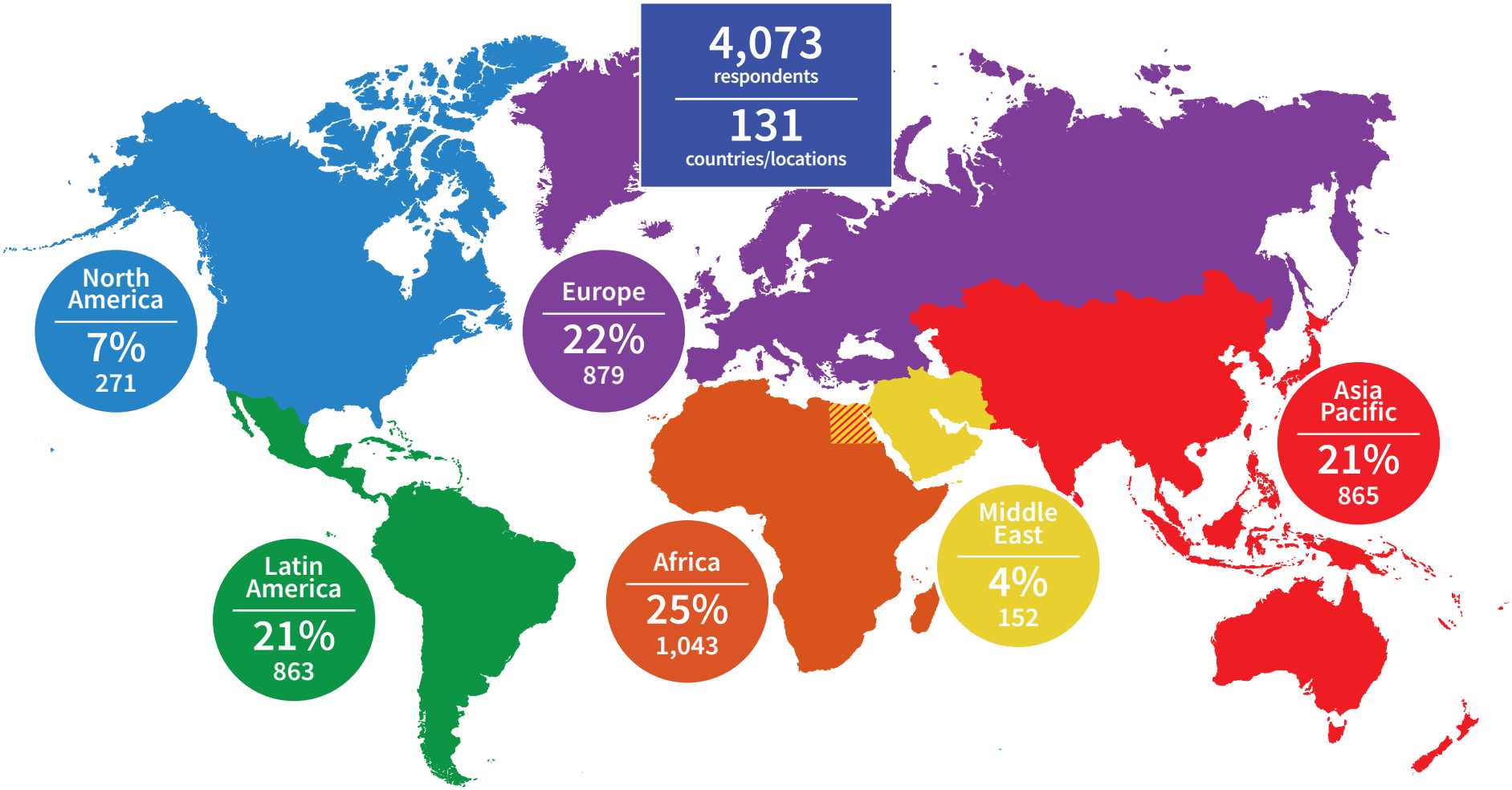
The 16 risk areas used in the survey are shown below. Respondents were asked two key questions related to these areas: What are your five highest risks, and what are the five areas where internal audit spends the most time and effort? The survey research was enhanced by roundtables and interviews with internal audit leaders in each region.

Risk areas used in the survey

Risk Name	Risk Description Used in the Survey
Business resilience	Business continuity, operational resilience, crisis management, and disaster response
Climate change/environment	Climate change, biodiversity, and environmental sustainability
Communications/reputation	Communications, reputation, and stakeholder relationships
Cybersecurity	Cybersecurity and data security
Digital disruption (including AI)	Digital disruption, new technology, and AI (artificial intelligence)
Financial/liquidity	Financial, liquidity, and insolvency risks
Fraud	Fraud, bribery, and the criminal exploitation of disruption
Geopolitical/macroeconomic uncertainty	Macroeconomic, social, and geopolitical uncertainty
Governance/corporate reporting	Organizational governance and corporate reporting
Health/safety	Health, safety, and security
Human capital	Human capital, diversity, and talent management and retention
Market changes/competition	Market changes/competition and customer behavior
Mergers/acquisitions	Mergers/acquisitions
Organizational culture	Organizational culture
Regulatory change	Change in laws and regulations
Supply chain (including third parties)	Supply chain, outsourcing, and 'nth' party risk

APPENDIX B: DEMOGRAPHICS

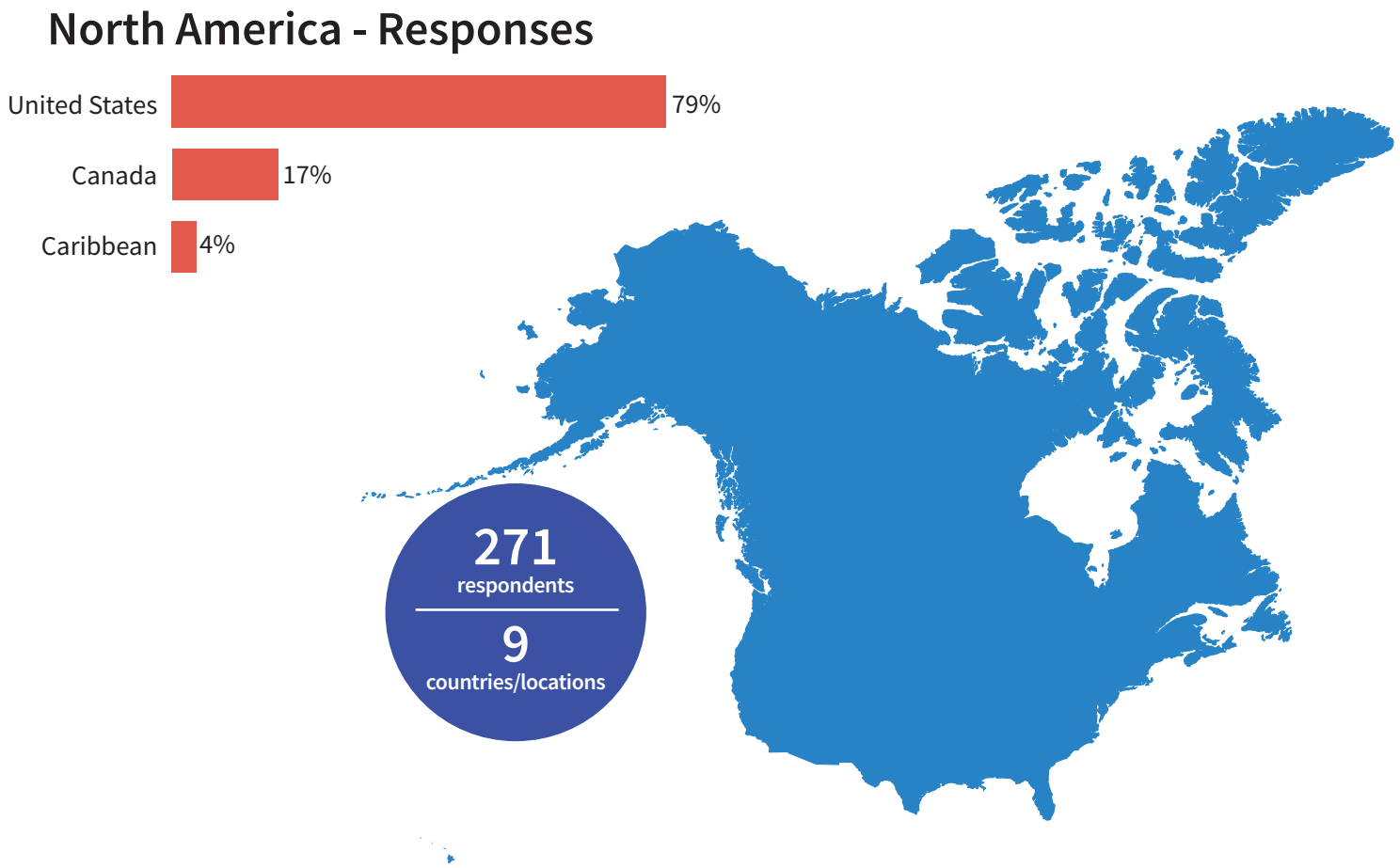
Exhibit 1. Global – Response Rate



Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 4,073.
Note 2: The map shows regional groups used by The IIA for operational purposes. The regional groups do not represent any political position for The IIA or IIA Institutes.
Note 3: Egypt is shaded orange and gold to show its respondents are divided between Africa and the Middle East.

DEMOGRAPHICS

Exhibit 2. North America – Responses per Country/Location



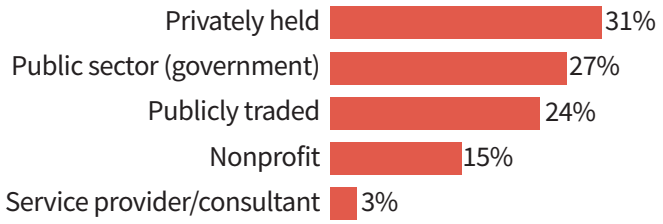
Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.
Note 2: Caribbean countries that speak English or Dutch are included with North America (including Anguilla, Antigua and Barbuda, Bahamas, Bermuda, Curaçao, Jamaica, Trinidad and Tobago. Caribbean countries that speak Spanish are included with Latin America).

DEMOGRAPHICS

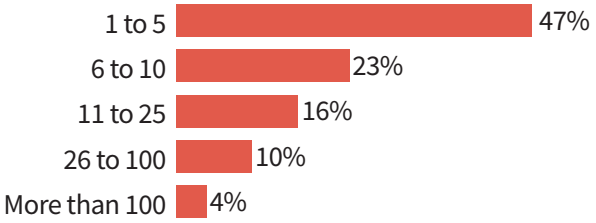
Industry, Organization Type, Size

North America – Industry

North America – Organization Type



North America – Function Size



Note: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.

APPENDIX C: NORTH AMERICA INDUSTRY ANALYSIS

North America – Highest Risks per Industry

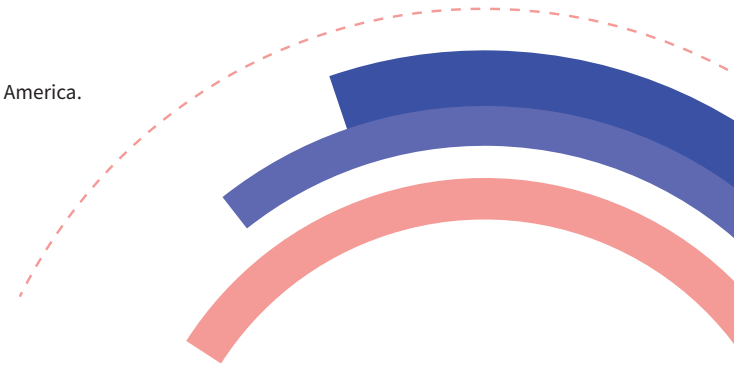
Survey question: **What are the top 5 risks your organization currently faces? (Choose 5.)**

Risk area	All	Financial services	Public sector (government)	Health/social work	Education	Manufacturing	Mining/ energy/water	Professional/ technical
Cybersecurity	**86%**	**93%**	**82%**	**92%**	**87%**	**77%**	**71%**	**90%**
Digital disruption (including AI)	**53%**	**60%**	**48%**	**46%**	**48%**	**55%**	24%	**70%**
Regulatory change	**51%**	**53%**	**48%**	**62%**	**74%**	27%	**57%**	**45%**
Business resilience	**46%**	**44%**	**52%**	31%	**48%**	32%	**62%**	**65%**
Geopolitical/macroeconomic uncertainty	**45%**	37%	33%	**42%**	39%	**64%**	**48%**	**45%**
Human capital	42%	**52%**	**67%**	**42%**	35%	36%	29%	30%
Market changes/competition	34%	37%	0%	27%	26%	**59%**	**52%**	**45%**
Supply chain (including third parties)	30%	21%	18%	**62%**	9%	**55%**	**48%**	25%
Financial/liquidity	27%	36%	12%	31%	**43%**	14%	24%	25%
Organizational culture	20%	23%	39%	8%	26%	23%	14%	10%
Communications/reputation	18%	11%	45%	19%	26%	9%	5%	10%
Governance/corporate reporting	15%	15%	30%	15%	13%	9%	5%	10%
Fraud	11%	11%	12%	0%	9%	9%	5%	10%
Health/safety	8%	0%	6%	8%	17%	9%	29%	10%
Mergers/acquisitions	7%	6%	0%	12%	0%	9%	10%	10%
Climate change/environment	7%	2%	6%	4%	0%	14%	19%	0%

Highest risks per industry

If there is a tie for the fifth highest percentage, the tied percentages are highlighted in a lighter color

Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.
Note 2: Industries with the highest response rates are shown. The column labeled "All" shows the average of all respondents.



NORTH AMERICA INDUSTRY ANALYSIS

North America – Highest Audit Priorities per Industry

Survey question: **What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)**

Audit area	All	Financial services	Public sector (government)	Health/social work	Education	Manufacturing	Mining/ energy/water	Professional/ technical
Cybersecurity	**83%**	**86%**	**73%**	**81%**	**91%**	**82%**	**81%**	**85%**
Business resilience	**60%**	**60%**	**64%**	**50%**	**57%**	**55%**	**62%**	**65%**
Governance/corporate reporting	**53%**	**68%**	**61%**	23%	**35%**	**59%**	**62%**	**45%**
Regulatory change	**50%**	**61%**	**45%**	**58%**	**74%**	**41%**	14%	**50%**
Financial/liquidity	**44%**	**57%**	24%	**50%**	**57%**	27%	**52%**	40%
Digital disruption (including AI)	43%	**45%**	**48%**	**50%**	30%	23%	33%	**50%**
Supply chain (including third parties)	38%	32%	21%	**62%**	17%	**68%**	**67%**	30%
Fraud	30%	22%	36%	15%	30%	36%	33%	20%
Organizational culture	19%	14%	36%	19%	22%	18%	5%	20%
Human capital	15%	17%	15%	15%	13%	5%	14%	25%
Communications/reputation	15%	15%	30%	19%	9%	5%	0%	15%
Health/safety	15%	2%	27%	31%	**35%**	18%	38%	0%
Market changes/competition	13%	11%	3%	15%	9%	23%	10%	20%
Geopolitical/macroeconomic uncertainty	10%	5%	6%	4%	17%	9%	5%	30%
Mergers/acquisitions	7%	5%	0%	4%	0%	18%	14%	0%
Climate change/environment	3%	0%	0%	4%	4%	14%	10%	5%

Highest audit priorities per industry

If there is a tie for the fifth highest percentage, the tied percentages are highlighted in a lighter color

Note 1: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 271 for North America.
Note 2: Industries with the highest response rates are shown. The column labeled "All" shows the average of all respondents.

APPENDIX D: GLOBAL REGION ANALYSIS

Highest Risks per Region

Survey question: **What are the Top 5 risks your organization currently faces? (Choose 5.)**

Risk area	Average of the regions	Africa	Asia Pacific	Europe	Latin America	Middle East	North America
Cybersecurity	**73%**	**62%**	**62%**	**82%**	**76%**	**72%**	**86%**
Digital disruption (including AI)	**48%**	**44%**	**39%**	**47%**	**54%**	**50%**	**53%**
Business resilience	**47%**	**49%**	**58%**	39%	35%	**58%**	**46%**
Human capital	**43%**	35%	**56%**	**48%**	**40%**	**38%**	42%
Regulatory change	**41%**	34%	38%	**45%**	**49%**	28%	**51%**
Geopolitical/macroeconomic uncertainty	38%	27%	35%	**45%**	**45%**	29%	**45%**
Financial/liquidity	31%	**43%**	19%	27%	32%	**38%**	27%
Market changes/competition	31%	19%	**49%**	32%	24%	29%	34%
Governance/corporate reporting	24%	33%	23%	20%	16%	**38%**	15%
Organizational culture	24%	29%	21%	19%	28%	26%	20%
Supply chain (including third parties)	24%	17%	28%	29%	15%	23%	30%
Fraud	23%	**43%**	20%	16%	32%	19%	11%
Communications/reputation	19%	25%	19%	12%	19%	19%	18%
Climate change/environment	18%	24%	17%	23%	25%	13%	7%
Health/safety	10%	11%	11%	12%	6%	11%	8%
Mergers/acquisitions	5%	3%	6%	5%	5%	6%	7%

Highest risks per region

If there is a tie for the fifth highest percentage, the tied percentages are highlighted in a lighter color

Note 1: The global average is calculated by summing the average from each region and dividing by the number of regions.
Note 2: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 4,073 for global.

GLOBAL REGION ANALYSIS

Highest Audit Priorities per Region

Survey question: **What are the Top 5 audit areas on which internal audit spends the most time and effort? (Choose 5.)**

Audit area	Average of the regions	Africa	Asia Pacific	Europe	Latin America	Middle East	North America
Cybersecurity	**69%**	**60%**	**63%**	**72%**	**69%**	**69%**	**83%**
Governance/corporate reporting	**55%**	**51%**	**55%**	**58%**	**48%**	**64%**	**53%**
Business resilience	**53%**	**54%**	**57%**	**50%**	40%	**59%**	**60%**
Regulatory change	**46%**	37%	**58%**	**49%**	**53%**	30%	**50%**
Financial/liquidity	**44%**	**47%**	30%	**43%**	**51%**	**47%**	**44%**
Fraud	40%	**49%**	**42%**	37%	**51%**	30%	30%
Supply chain (including third parties)	33%	31%	32%	39%	24%	35%	37%
Digital disruption (including AI)	32%	30%	25%	29%	30%	**36%**	43%
Human capital	29%	32%	36%	27%	27%	35%	15%
Organizational culture	23%	26%	23%	21%	29%	19%	19%
Communications/reputation	18%	23%	18%	14%	21%	19%	14%
Market changes/competition	15%	13%	19%	13%	16%	14%	13%
Health/safety	15%	13%	17%	17%	12%	14%	15%
Geopolitical/macroeconomic uncertainty	11%	12%	8%	8%	16%	13%	10%
Climate change/environment	10%	14%	10%	16%	9%	8%	4%
Mergers/acquisitions	5%	3%	4%	5%	6%	4%	7%

Highest audit priorities per region

If there is a tie for the fifth highest percentage, the tied percentages are highlighted in a lighter color

Note 1: The global average is calculated by summing the average from each region and dividing by the number of regions.
Note 2: Risk in Focus survey conducted online from April 28 to June 6, 2025, by the Internal Audit Foundation and partners. *n* = 4,073 for global.

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The original IIA document contained only 41 pages, not 42 as indicated on the previous page.


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Table of contents

Introduction

Successful companies view even challenging times as catalysts for innovation and growth, actively seeking opportunities where others see obstacles.

Over the last 13 years, we have issued annual research reports on the top risks faced by leaders all over the world. This year, we have added an emphasis on opportunities to set the tone for identifying and responding proactively to emerging trends, market shifts and evolving customer expectations. Organizations balancing risk management with a strong focus on seeking growth are better equipped to innovate products and services, enhance their resilience, adapt to change, and achieve top-line growth and strategic differentiation. It is all about unlocking opportunity. Accordingly, our discussions of risks are framed contextually with a high-level focus on opportunity with the intention to enhance the discussion of risk by linking it to value-creating initiatives.

This report — our **14th annual edition** — contains insights from 1,540 board members and C-suite executives around the world regarding their perspectives on:

- Three specific areas for growth considering the current environment;
- Opportunities and challenges associated with the transformative impact of artificial intelligence (AI) on their organizations;
- The top risks on the horizon for the near-term (two to three years ahead) related to 28 specific risks across three dimensions (macroeconomic, strategic and operational) and for the long-term (a decade from now) related to 12 risk themes that consider the strategic and operational near-term risks; and
- A discussion of their organizations' near-term strategic investment priorities, given the opportunities and the risks they face.

Our survey participants shared their views through an online survey conducted from early September through mid-October 2025. As in the past, the report provides analyses across organizations of different sizes, industries, geographic regions, as well as the executive positions held by the respondents (board members, CEOs, CFOs, etc.).

The key findings in this report provide useful insights for board members and senior executives to benchmark their organization's opportunities and risks against those on the minds of other executive leaders around the world. Our hope is that this report will foster meaningful dialogue and discussion among an organization's leaders as they seek to create strategic value in these challenging times.

Executive summary

Notwithstanding several years of uncertainty and shifting geopolitical and economic dynamics, our results indicate that business leaders are ready to act and are embracing innovation, strategic partnerships and long-term planning to drive transformation and realize growth opportunities. The biggest risk organizations face today is doing nothing.

In brief: what you need to know

There is strong optimism for revenue growth over the next two to three years. Nearly seven in 10 board members and executives (69%) agree somewhat to completely that, considering current conditions, there are significant opportunities to increase revenues over the next two to three years.

Ecosystem expansion is a strategic priority. More than six in 10 leaders (62%) indicate their organizations plan to expand their strategic alliances and partnerships over the next two to three years.

AI is both a transformative growth driver and a complex challenge. AI is a long-term strategic priority, with 31% of leaders focused on integrating it into current technologies and business processes. AI ranks sixth among near-term global risks, while concerns about IT infrastructure performance have risen to the fourth-rated risk this year versus 13th last year. Thus, while AI is seen as a transformative growth enabler, IT infrastructure and talent readiness present major barriers to its effective deployment and realizing its full benefits. Cybersecurity risks linked to AI also remain top of mind.

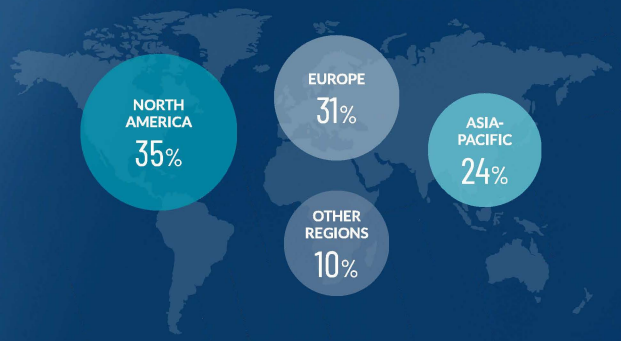
Cybersecurity is the top global risk and investment priority. Not only are cyber threats ranked as the top global near-term risk, but third-party risks (which are linked to cyber concerns) rank second. Cybersecurity also stands out as the top investment priority for organizations to address near-term risk issues. Interestingly, there are geographical distinctions in rating these risks.

Talent challenges are evolving but not disappearing. Talent risks continue to be at the forefront among board members and C-suite leaders globally, with issues surrounding workforce upskilling and the availability of skilled labor remaining significant, particularly given the expected impact of AI on job roles and workforce transformation.

Concerns about the economy and trade-related challenges and their impact on global markets are top 10 near-term risk concerns. Trade-related challenges entered the top 10 list as the 10th-rated risk for this year, while uncertainties linked to interest rates and inflation continue to create reason for pause among respondents.

Customer experience, cyber and AI are top long-term strategic focus areas. Organizations are prioritizing customer and competition dynamics, security and privacy, and AI deployments in their long-term strategies, indicating a shift toward integrated decision-making that encompasses both immediate and future opportunities and risks.

Snapshot of key findings



Number of respondents = 1,540

Top global near-term risks

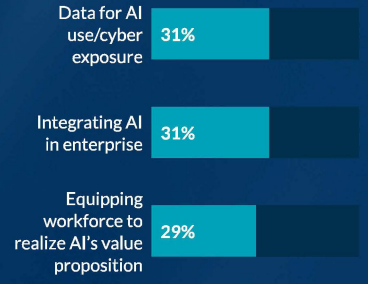
2026 rank	Risk issue	Average*	2025 rank
1	Cyber threats	3.39	2
2	Third-party risks	3.16	7
3	Adopting new/emerging technologies elevates need to upskill/reskill workforce	3.06	9
4	Operations/legacy IT unable to meet expectations	3.05	13
5	Economic conditions	3.05	1

** Average based on a five-point scale where 1 reflects "No impact at all" and 5 reflects "Extensive impact."*

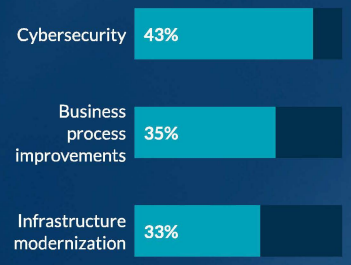
There is optimism for potential growth opportunities

Based on a five-point scale assessing agreement/disagreement. Percentages reflect sum of "Agree completely" and "Agree somewhat" responses.

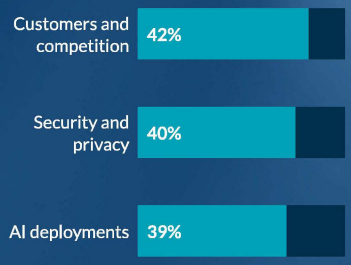
Top 3 priorities – impact of AI



Top 3 investment areas



Top 3 long-term challenges



Differences across respondent groups

In the following pages, we offer analysis and insights based on subsets of the full survey sample, including breakdowns by executive position, industry group, geographic region and organization size. These subsets are defined below.

Executive position

Position	Number of respondents	Percentage of sample
Board Member (Board)	94	6%
Chief Executive Officer (CEO)	62	4%
Chief Financial Officer (CFO)	314	20%
Chief Operating Officer (COO)	236	15%
Chief Information/Technology Officer (CIO/CTO)	211	14%
Chief Information Security Officer (CISO)	115	7%
Chief Human Resources Officer (CHRO)	24	2%
Chief Risk Officer (CRO)	159	10%
Chief Audit Executive (CAE)	168	11%
Chief Strategy/Innovation Officer (CSO)	18	1%
Chief Data/Digital Officer (CDO)	10	1%
Chief Legal Officer/General Counsel (CLO)	12	1%
Other C-Suite (OCS)	44	3%
All other	73	5%

Industry group

Industry	Number of respondents	Percentage of sample
Financial Services (FS)	325	21%
Consumer Products and Services (CPS)	241	16%
Manufacturing and Distribution (MD)	216	14%
Technology, Media and Telecommunications (TMT)	167	11%
Aerospace and Defense (AD)	125	8%
Healthcare (HC)	142	9%
Energy and Utilities (EU)	117	8%
Government (GOVT)	127	8%
Not-for-Profit/Higher Education (NFP/HE)	59	4%
Other industries (not separately reported)	21	1%

Geographic region

Region	Number of respondents	Percentage of sample
North America	536	35%
Latin America	87	6%
Europe	479	31%
Middle East and Africa	68	4%
India	87	6%
Asia	207	13%
Australia and New Zealand	76	5%

Organization size

Organization size	Number of respondents	Percentage of sample
Largest organizations: Revenues of $10 billion or greater; assets or budget under management $50 billion or more	363	24%
Medium-to-large organizations: Revenues $1 billion to $9.99 billion; assets under management $10 billion to $49.99 billion; budget under management $5 billion to $49.99 billion	586	38%
Small-to-medium organizations: Revenues $100 million to $999.99 million; assets under management $1 billion to $9.99 billion; or budget under management $500 million to $4.99 billion	406	26%
Smallest organizations: Revenues less than $100 million; assets under management less than $1 billion; budget under management less than $500 million	185	12%

03

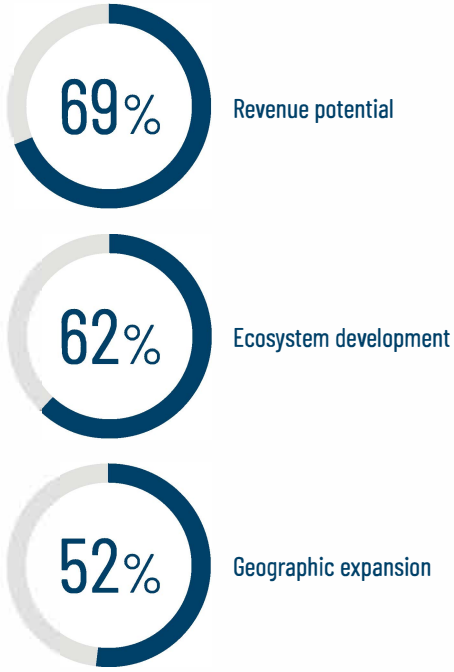
Opportunities for enterprise growth

We asked respondents to rate the level of their agreement with the following three statements about strategic growth opportunities over the next two to three years using a five-point Likert scale ranging from 1=Disagree completely to 5=Agree completely.

- **Revenue potential:** Current macroeconomic conditions notwithstanding, there are significant opportunities to grow our revenues.
- **Ecosystem development:** There are significant opportunities to expand our ecosystem of strategic alliances and partnerships to enhance how we go to market.
- **Geographic expansion:** There are significant opportunities to grow our business in markets other than our headquarters' domestic market.

Figure 1 summarizes the overall level of agreement with each of these statements from the full sample of 1,540 respondents:

Figure 1: Views about opportunities for growth



Based on a five-point scale assessing agreement/disagreement. Percentages reflect sum of "Agree completely" and "Agree somewhat" responses.

There is **strong confidence in revenue growth potential,** with 69% of respondents expressing agreement ("Agree completely" or "Agree somewhat") with this statement, the highest among the three statements. Respondents express a strong belief that **revenue growth opportunities exist despite the headwinds their organizations face,** whether it be the economy, geopolitical developments or other matters. This suggests that many organizations are maintaining a forward-looking posture, unlocking opportunities to innovate, expand offerings or capture market share even in uncertain environments. These findings highlight the importance of exploring growth avenues while ensuring that risk-adjusted returns are considered when making capital allocation decisions.

Ecosystem development is seen as a means of unlocking opportunity, with it receiving the second-highest response, 62%. Ecosystems are powerful enablers to helping organizations outperform traditional, isolated business models by fostering interconnected networks that drive innovation and value. Collaboration among ecosystem participants facilitates the sharing of ideas, technologies, capabilities and access that support rapid co-innovation, expanded market reach, and operational efficiency and agility, allowing participants to achieve revenue growth

and other outcomes that would be difficult or impossible for any single organization to accomplish alone. Our survey findings reflect optimism about **expanding strategic alliances and partnerships**, indicating that many organizations view the development of these relationships as a key enabler of success. Leaders should assess whether they are fully leveraging external relationships for co-innovation, data sharing and platform integration, among other opportunities.

Geographic expansion is viewed with more caution given there was a lower level of agreement — 52% — among respondents. This finding suggests **more tempered enthusiasm for international or cross-border growth.** This may reflect concerns about trade policies, geopolitical instability, regulatory complexity or uneven recovery across global markets. Directors and executives should probe whether strategies for growth in foreign markets are being pursued with consideration of the opportunities and risks, especially in light of shifting trade policies and regional dynamics, and are supported by robust digital platforms.

Overall implications

These findings suggest that while executives are generally optimistic about growth, they are prioritizing **strategic partnerships and core market expansion** over aggressive geographic moves as they look over the near-term horizon to enhance operational readiness, strategic clarity and competitive advantage. Furthermore, a digital world minimizes the importance of a physical footprint due to the efficiencies, capabilities and flexibility offered by virtual tools, cloud infrastructure and digital platforms. That said, half of the survey respondents overall expressed a priority to grow business in foreign markets.

The following tables summarize respondent views about opportunities for growth across different executive positions and across organizations of different sizes, industries and geographies.[1]

Table 1: Views about opportunities for growth — by executive position*

	Board	CEO	CFO	COO	CIO/CTO	CISO	CHRO	CRO	CAE
Revenue potential	81%	68%	71%	68%	73%	71%	46%	62%	66%
Ecosystem development	65%	55%	65%	61%	67%	68%	67%	60%	59%
Geographic expansion	63%	61%	50%	49%	55%	56%	46%	51%	51%

Based on a five-point scale assessing agreement/disagreement. Percentages reflect sum of "Agree completely" and "Agree somewhat" responses.

* Does not include 3 roles (CSO, CDO, CLO) for which there were low numbers of responses, and does not include the OCS group.

[1] In Tables 1-4, we have highlighted in darker blue those statements for which 66% or more of respondents are in agreement that they represent strategic growth opportunities for their organizations; statements for which 50%-65% of respondents are in agreement are highlighted in medium blue, while those for which less than half of respondents are in agreement are highlighted in turquoise.

Board members have the highest level of optimism regarding revenue potential. This may be due to the board's role to challenge management to pursue ambitious goals and think expansively. Boards receive summarized, high-level reports that emphasize strategic wins and growth initiatives. Accordingly, board members may not have the same level of transparency into the operational realities that executives manage day-to-day. In addition, directors serving on multiple boards may be positioned to bring a broader perspective to strategic conversations in the boardroom.

The focus on opportunities to expand the ecosystem of strategic alliances and partnerships to enhance go-to-market strategies is relatively consistent in the boardroom and across the C-suite. The higher interest of directors and CEOs than anyone else in the C-suite in pursuing significant opportunities to grow in foreign markets suggests a sharper focus on their respective roles as stewards of the company's vision, growth and long-term value.

In viewing the results across organization size, the two largest groups of organizations show the most optimism, though all see positive signs and opportunities, particularly in terms of revenue potential and ecosystem development.

Table 2: Views about opportunities for growth – by organization size

	Largest organizations	Medium-to-large organizations	Small-to-medium organizations	Smallest organizations
Revenue potential	74%	72%	62%	65%
Ecosystem development	66%	63%	60%	60%
Geographic expansion	60%	54%	44%	48%

Based on a five-point scale assessing agreement/disagreement. Percentages reflect sum of "Agree completely" and "Agree somewhat" responses.

Regarding the different views on growth opportunities across geographies (see Table 3), organizations in Australia and New Zealand are less bullish than other regions, likely because this year's respondents from the region have a markedly different mix, including government and mining. That said, the top 10 near-term risks overall are largely the same and the long-term risks overall are identical, with and without inclusion of the respondents from this region.

The focus on revenue potential is typically higher in North America, Latin America and India than in Europe and Asia due to a combination of factors — market growth opportunities, economic conditions, favorable consumer demographics, evolving regulatory environments and competitive opportunities. These factors generally contrast with the greater maturity and saturation in many parts of Europe and some developed parts of Asia, particularly Japan. To illustrate:

- India is projected to be the fastest-growing major economy, outpacing China, the U.S. and the EU.
- Latin America has a predominantly young and skilled labor force with a rapidly expanding middle class, driving increased consumption. In contrast, many European and some Asian nations face challenges with aging populations.
- In North American companies, the higher level of revenue growth optimism than, say, Europe and Asia likely stems, at least in part, from a more risk-embracing corporate culture, a more dynamic market-based financial system

that encourages investment, and investor expectations that prioritize growth and innovation. The U.S. market is a magnet for global investment, including substantial capital from European and other foreign investors, which drives high valuations and provides ample funding for growth.

- While markets in Europe are often considered mature and highly competitive, regions like Latin America and India offer a wide range of untapped opportunities in sectors such as digital services, infrastructure and financial services.

The heightened interest in ecosystem development in North America and Latin America is driven by dynamic market growth, innovation-friendly environments, generally supportive policies and the need for collaborative solutions to address complex challenges. While some of these factors exist in other regions, their combination creates an ideal landscape for ecosystem models to flourish, enabling organizations to unlock new opportunities, drive innovation and achieve sustainable growth.

Table 3: Views about opportunities for growth – by geographic region

	North America	Latin America	Europe	Middle East & Africa	India	Asia	Australia & New Zealand
Revenue potential	75%	79%	65%	71%	83%	67%	34%
Ecosystem development	67%	75%	60%	63%	58%	63%	34%
Geographic expansion	58%	52%	51%	56%	56%	49%	16%

Based on a five-point scale assessing agreement/disagreement. Percentages reflect sum of "Agree completely" and "Agree somewhat" responses.

As for growing business in foreign markets, we continue to point out that in a digital world, the need for physical expansion is reduced. The emphasis on pursuing opportunities in foreign markets is generally consistent across geographies, with a slight uptick in North America, where the focus on foreign markets has always been strong. Developed markets in North America and Europe have been the traditional centers of innovation and revenue. However, these markets are now often described as more mature, with higher saturation and complexity, pushing companies to look to new epicenters of growth in emerging regions for significant expansion. As emerging markets liberalize investment laws and actively create favorable environments to stimulate international trade and investments, they become more attractive for foreign companies.

The heightened interest in ecosystem development in North America and Latin America is driven by dynamic market growth, innovation-friendly environments, generally supportive policies and the need for collaborative solutions to address complex challenges.

The emphasis on revenue growth remains largely uniform across industry groups, with the exception of Energy and Utilities and Government. While a reduced focus in the Government sector may be anticipated, the pattern observed within Energy and Utilities is notable, considering the growth prospects associated with increased energy demand driven by data centers. Differences in attention to ecosystem development across industry groups can be attributed to various factors, particularly the view that sustainable growth, ongoing innovation and competitive advantage are increasingly reliant on collaboration and interdependence. Sectors that adopt an ecosystem-oriented approach are generally more equipped to respond to disruption, enhance customer value and secure long-term success. This context may explain the comparatively lower focus observed within Government and Energy and Utilities, as these organizations face less exposure on these fronts.

The focus on growing foreign business is relatively consistent across industry groups, with two exceptions. Understandably, these exceptions are Government and Energy and Utilities.

Table 4: Views about opportunities for growth – by industry group

	AD	CPS	EU	FS	GOVT	HC	MD	NFPHE	TMT
Revenue potential	79%	71%	61%	72%	50%	76%	68%	41%	76%
Ecosystem development	72%	63%	58%	66%	53%	60%	62%	62%	63%
Geographic expansion	59%	56%	40%	55%	31%	58%	55%	34%	57%

Based on a five-point scale assessing agreement/disagreement. Percentages reflect sum of "Agree completely" and "Agree somewhat" responses.

Differences in attention to ecosystem development across industry groups can be attributed to various factors, particularly the view that sustainable growth, ongoing innovation and competitive advantage are increasingly reliant on collaboration and interdependence.

04

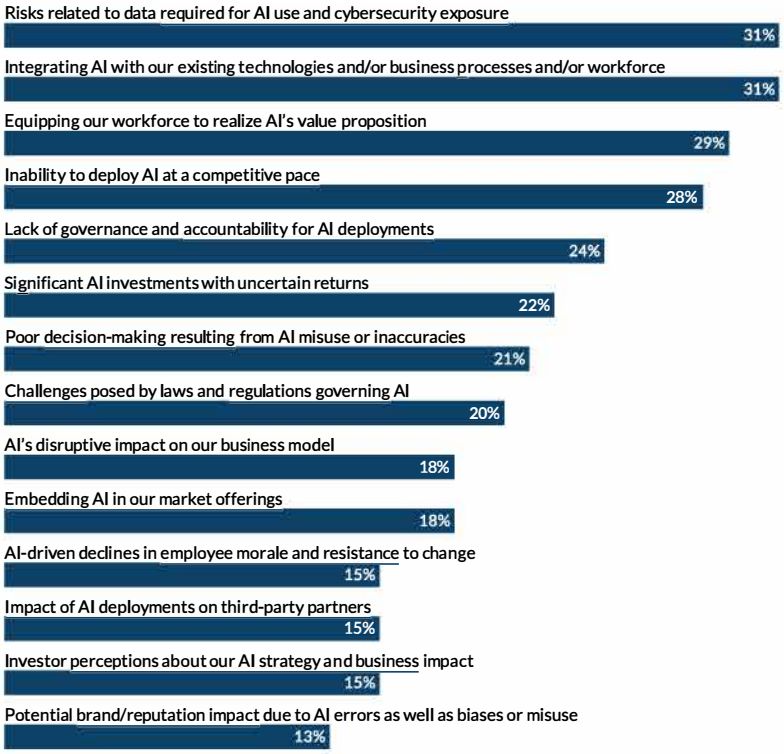
Transformative impact of AI

AI is a critical component to unlocking efficiency, personalization, new innovations and the ability to scale — all drivers of new revenue streams and expansion. As organizations increasingly integrate AI into their core strategies, they are discovering new ways to optimize operations, enhance customer engagement and stay ahead of competitors in a rapidly evolving marketplace. But AI also introduces governance challenges.

The impact of AI is interwoven throughout a number of the top risks on the minds of executives for both near-term and long-term risk horizons. Given the importance of AI capabilities to enabling growth strategies and their rapid deployment, we asked respondents to provide their perspectives about the impact of AI on their organizations over the next two to three years. Specifically, we asked them to select their three most important priorities from a list of 14 potential AI risk issues.

Figure 2 summarizes the percentage of times each AI risk was included as one of the respondents' top three AI risk concerns. As shown, "Risks related to data required for AI use and cybersecurity exposure" and "Integrating AI with our existing technologies and/or business processes and/or workforce" were included most often among the top three AI risk issues for respondents (31%).

Figure 2: Which of the following issues reflect your organization's most significant priorities regarding the impact of AI on your business over the next 2-3 years?



Percentages reflect frequency with which each area was selected among the top three.

These results reveal a unified, yet complex, perception of AI deployment risk over the next two to three years. The primary focus is not on existential threats but on **foundational organizational and operational risk.** The collective consensus points to an overwhelming prioritization of three core challenges:

- Security and data integrity
- Seamless operational integration
- Talent and skills readiness

These concerns underscore a critical tension in the current enterprise AI adoption cycle: The risk of failing to integrate AI effectively and responsibly into existing processes, technologies and workflows is seen as equally pressing as the risk of fundamental security failure. Executives are concerned that poor integration, combined with an ill-equipped workforce, will neutralize any value proposition and competitive advantage that can be gained from AI investments, all while exposing the organization to heightened data and cyber threats.

While risks associated with making "significant AI investments with uncertain returns" and "poor decision-making resulting from AI misuse or inaccuracies" are also high-ranking, our analysis of key findings across executive positions, industry groups and regions reveals that the current risk agenda is dominated by product/service delivery and enterprise defense, signaling a transition from experimental AI investment to operational necessity. A tailored, integrated strategy addressing technology, talent and cyber governance simultaneously will be the defining characteristic of high-performing organizations in the AI era.

Overall implications

The full sample results provide a definitive baseline, grouping the most pressing AI risks into three strategic focus areas that occupy the executive agenda: operationalization of AI, playing defense, and the pace of adoption and utilization. With a near-unanimous focus, C-suite leaders acknowledge that the primary hurdle for AI is not technological capability but organizational change.

- **AI integration** being tied for the top spot highlights a shift away from pilot projects toward embedding AI into the fabric of the enterprise. This risk is intrinsically a complex challenge, involving the fusion of new algorithmic logic with legacy systems and deeply entrenched human workflows. Failure to address the integration challenge means AI investments become "shelf-ware," creating fragmented, difficult-to-scale solutions that defeat the purpose of deploying AI.
- **Talent readiness** closely follows, recognizing that AI's return on investment (ROI) is contingent on human capability. This risk is a stark acknowledgment that simply purchasing AI tools is insufficient; organizations must invest in upskilling, new roles and a cultural shift where AI is a collaborative co-worker, not merely a tool. The bottom line: Properly implemented, AI becomes an extension of the workforce.

Playing defense represents security, ethical and compliance non-negotiables that must underpin any AI initiative.

- **Security and data** (31%) is the most-cited risk, signaling executives' understanding that AI models are fundamentally new attack surfaces. This risk extends beyond traditional cybersecurity to encompass model poisoning, data leakage during training and inference,

and the ethical use of massive, sensitive datasets. No AI deployment can succeed without addressing the data lifecycle from acquisition to decommissioning.

- **Governance and accountability** (24%) indicates that a quarter of all respondents foresee the risk of a direct failure of organizational control. This risk speaks to the difficulty of establishing clear ownership for AI outputs, ensuring traceability and transparency, and providing appropriate human oversight, especially as systems' decision-making and actions become more autonomous.

- The **evolving regulatory landscape** (20%) reveals that the challenges posed, as new laws and regulations governing AI emerge, are of significant concern to executives as they continue down the path to AI implementation and reliance on outputs from AI deployment.

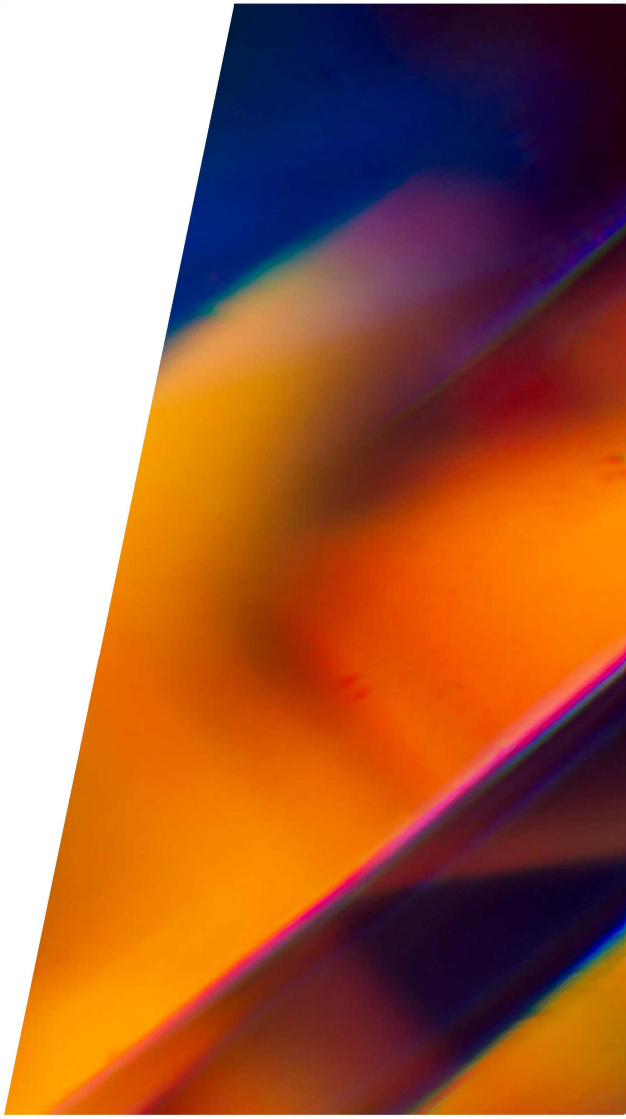
The risks related to competitive speed and financial efficacy reflect market pressures.

- **Competitive pace** (28%) shows a strong fear of falling behind competitors, treating AI deployment as a strategic race. This gives rise to FOMO (fear of missing out) because proprietary AI deployments are not easily replicated capabilities when they involve unique, protected technologies and processes owned by an organization, giving them exclusive rights and competitive advantage.

- **Uncertain returns** (22%) serve as the counterpoint: A significant portion of leaders fear that this rapid race will result in expensive failures, leading to stranded assets and a loss of confidence from the board and investors. This concern suggests a need to proceed with clear objectives, quality data sources, the right technology, pilots and testing, and continuous evaluation and monitoring to keep implementations on track.

The overall full sample picture is one of practical, immediate concern: Executives are focused on **execution risks** first and **existential risks** second, as governance and controls struggle to keep pace with the dual demands of implementation speed and seamless integration.

> No AI deployment can succeed without addressing the data lifecycle from acquisition to decommissioning.



Perspectives on impact of AI across selected respondent groups

Table 5: Top three AI risk issues — by executive position*

Risk	Board	CEO	CFO	COO	CIO/CTO	CISO	CHRO	CRO	CAE
Risks related to data required for AI use and cybersecurity exposure	35%	29%	25%	27%	23%	32%	17%	40%	42%
Equipping our workforce to realize AI's value proposition	45%	42%	21%	25%	22%	21%	42%	33%	36%
Integrating AI with our existing technologies and/or business processes and/or workforce	33%	52%	22%	18%	20%	15%	33%	53%	48%
Inability to deploy AI at a competitive pace	25%	27%	29%	23%	30%	19%	33%	40%	31%
Significant AI investments with uncertain returns	18%	19%	28%	24%	23%	23%	4%	18%	16%
Lack of governance and accountability for AI deployments	17%	29%	20%	20%	19%	23%	17%	30%	42%
Challenges posed by laws and regulations governing AI	12%	19%	21%	23%	26%	25%	38%	14%	12%
AI-driven declines in employee morale and resistance to change	15%	6%	17%	20%	23%	24%	38%	7%	5%
Embedding AI in our market offerings	18%	21%	21%	25%	17%	21%	0%	7%	12%
Impact of AI deployments on third-party partners	12%	5%	25%	18%	18%	24%	12%	7%	9%
Investor perceptions about our AI strategy and business impact	16%	5%	18%	22%	24%	20%	29%	4%	3%

Percentages reflect frequency with which each area was selected among the top three. Top three areas for each executive role are highlighted in blue (ties included).

* Does not include 3 roles (CSO, CDO, CLO) for which there were low numbers of responses, and does not include the OCS group.

A deeper dive into the data reveals that executive perception of AI risk is heavily modulated by functional accountability, resulting in distinct risk profiles across the C-suite.

CEOs, board members and COOs — the roles most responsible for overall strategic outcomes and operational delivery — demonstrate a strong consensus around the **operationalization imperative**.

- **CEOs** prioritize **integration**, followed by **workforce** and then **governance**. This profile reflects the three pillars of executive focus: ensuring the system works to make the business operate better, smarter and faster; ensuring people can use it; and ensuring it is managed, controlled and secured.
- **COOs** mirror this concern with **cyber/data risk** being their top concern, followed by the emerging risk of **embedding AI in market offerings**, and then **workforce**. This indicates that operational leaders are on the front lines focusing on data security as AI is implemented and how the deployment will translate into new products.

Both CFOs and CIOs/CTOs are focused on the financial physics of AI: speed versus investment risk.

- **CFOs** prioritize **competitive pace** and **uncertain returns** as their top two concerns. The CFO's primary mandate is capital stewardship, and the data reflects their concern about the uncertain duration of AI investments. The third risk, **impact of AI on third-party partners**, underscores concern over extended enterprise risk and supply chain financial liability. **Cyber/data**, the exposure to security threats, closely follows third-party risk concerns.
- **CIOs/CTOs** exhibit a hybrid profile, prioritizing **competitive pace** but immediately followed by **legal and regulatory challenges related to governing AI.** Technology leaders recognize that the pressure to deploy quickly heightens the exposure to risk. Their focus on **regulations** as a concern indicates the need to future-proof technology deployments against evolving compliance frameworks.

The CRO and CAE roles focus on systemic control matters.

- Interestingly, **CROs** and **CAEs** rank **integration** as their top concern, recognizing that a poorly integrated system falls short of realizing the expected value. CROs' subsequent concerns are **competitive pace** and **cyber/data**, highlighting a triple threat: a rush to implement, poor organizational integration and the resulting exposure to security threats. CAEs are also concerned with **cyber/data** and, to no surprise, governance.

> Executive perception of AI risk is heavily modulated by functional accountability, resulting in distinct risk profiles across the C-suite.

Table 6: Top three AI risk issues — by industry group

Risk	AD	CPS	EU	FS	GOVT	HC	MD	NFPHE	TMT
Risks related to data required for AI use and cybersecurity exposure	21%	39%	32%	24%	27%	41%	31%	41%	38%
Integrating AI with our existing technologies and/or business processes and/or workforce	15%	42%	42%	24%	16%	38%	34%	44%	42%
Equipping our workforce to realize AI's value proposition	23%	38%	37%	22%	19%	33%	33%	34%	44%
Inability to deploy AI at a competitive pace	29%	29%	29%	30%	28%	24%	30%	42%	29%
Significant AI investments with uncertain returns	29%	18%	19%	27%	17%	20%	23%	19%	18%
Impact of AI deployments on third-party partners	27%	11%	8%	24%	19%	11%	12%	10%	5%
Challenges posed by laws and regulations governing AI	20%	12%	20%	23%	29%	18%	18%	15%	14%
AI-driven declines in employee morale and resistance to change	20%	9%	8%	18%	28%	13%	15%	7%	10%

Percentages reflect frequency with which each area was selected among the top three. Top three areas for each industry group are highlighted in blue (ties included).

AI risk perception is sharply defined by the regulatory, trust and business model characteristics of each industry group. In industries where data sensitivity and public trust are paramount, **data and security** often dominate the risk agenda. In industries focused on high-volume transactions, product development and supply chain efficiencies, the **organizational agility** theme often emerges.

- Four industry groups — **Consumer Products and Services, Energy and Utilities, Healthcare,** and **Technology, Media and Telecommunications** — rank the same risks in their top three AI-related concerns: **integration, cyber/data** and **workforce**, with **integration** the top issue for three of the four groups.

- **Cyber/data** is a top three concern overall for the above four industry groups as well as **Financial Services** and **Manufacturing and Distribution**. This is a clear reflection of the catastrophic potential of a data breach or a cyber attack involving critical national infrastructure, sensitive operations or highly protected personally identifiable information. For these sectors, while AI is viewed as a *value creator*, it is also viewed as an *enabler of risk*.

- In addition to **cyber/data, Manufacturing and Distribution** ranks **workforce** and **competitive pace** as significant concerns. For the creators and primary users of AI in these companies, the focus is on fast, controlled and secure deployment through skilling employees expected to leverage AI-powered agents and tools.

- In addition to **cyber/data, Financial Services** reports **competitive pace, uncertain returns, integration** and **impact of AI on third-party partners.** This suggests that financial institutions have accepted the risks related to data required for AI use and cybersecurity exposure as a baseline cost of doing business and are now primarily focused on how quickly and effectively they can realize value by replacing human-driven processes with AI-optimized ones.

- Both **Aerospace and Defense** and **Government** rank **competitive pace** among their top three concerns. Aerospace and Defense also lists **uncertain returns** and **impact of AI on third-party partners** in their concerns, with Government listing **regulations** and AI's **impact on organizational culture**. These industries are heavily reliant on large, decentralized operational workforces (e.g., retail, factory floors, logistics) and recognize that the success of AI hinges on empowering, not alienating, their human capital through targeted upskilling and seamless system integration.

The **Not-for-Profit/Higher Education** sector leads with **integration,** followed by **competitive pace** and **cyber/data** as their top AI risk concerns. For mission-driven organizations that face ongoing challenges for talent and resources, AI integration with existing systems and deployment at a competitive pace are understandable concerns.

> In industries where data sensitivity and public trust are paramount, data and security often dominate the risk agenda. In industries focused on high-volume transactions, product development and supply chain efficiencies, the organizational agility theme often emerges.

Table 7: Top three AI risk issues — by geographic region

Risk	North America	Latin America	Europe	Middle East & Africa	India	Asia	Australia & New Zealand
Risks related to data required for AI use and cybersecurity exposure	34%	29%	26%	26%	44%	34%	22%
Integrating AI with our existing technologies and/or business processes and/or workforce	38%	30%	26%	34%	28%	29%	15%
Inability to deploy AI at a competitive pace	28%	38%	28%	31%	21%	30%	29%
Equipping our workforce to realize AI's value proposition	32%	32%	23%	25%	20%	43%	26%
Significant AI investments with uncertain returns	19%	17%	26%	25%	23%	17%	30%
Poor decision-making resulting from AI misuse or inaccuracies	22%	8%	23%	15%	29%	13%	29%
Embedding AI in our market offerings	16%	25%	15%	26%	15%	21%	25%
Lack of governance and accountability for AI deployments	24%	25%	22%	25%	19%	30%	22%

Percentages reflect frequency with which each area was selected among the top three. Top three areas for each region are highlighted in blue (ties included).

AI risk is also perceived through a regional, geographic lens, reflecting local economic development, regulatory environments, and political and labor market characteristics.

In **North America** and the **Middle East and Africa (MEA)**, the top priority is **integration**.

- **North America** reflects a sophisticated, rapidly adopting market where the focus has moved beyond *whether* to use **AI** to *how* to assimilate it into complex corporate structures and make its deployment effective and responsible via talent and security measures.
- **MEA** shows a focus on rapid **integration** combined with a high fear of being outpaced, suggesting these countries view **AI** as a critical enabler of immediate competitive growth and are willing to take on deployment risk to achieve it.

Europe and **Australia and New Zealand (ANZ)** show a distinct focus on the financial and strategic value of AI.

- **Europe** and **ANZ** both place **competitive pace** and **uncertain returns** high on their list. This is likely driven by a combination of high regulatory oversight (especially

in Europe) and a cultural focus on strategic, controlled investment, where the financial justification of technology is scrutinized rigorously. The recognition of the risk of **poor decision-making** in ANZ suggests a greater concern with the reliability and output quality of deployed AI systems.

India and **Asia** present a profile defined by large populations, rapid digital transformation and a high sensitivity to systemic failures.

- **India** is the only region to prioritize **cyber/data** and **poor decision-making** as its top two concerns. This unique pairing suggests a deep concern over the integrity and reliability of AI systems handling massive volumes of new digital data, where errors can have immediate, cascading effects across large-scale services.

Asia prioritizes **workforce**, recognizing that the scale of AI adoption demands an enormous and rapidly trained talent base. The combination of this region's top three issues underpins a struggle to train people rapidly and secure data while keeping up with the competitive pace of the region.

Additional subgroup analyses

For brevity, we have omitted tabulation of AI risk concerns for our two remaining subgroups: organization size and type.

The size and organizational maturity of the enterprise significantly shape the risk outlook, distinguishing between organizations focused on managing immense complexity and those focused on securing competitive viability.

The largest organizations are defined by complexity and scale. Their top AI risk concern is **cyber/data**. The sheer volume and sensitivity of data managed by these global giants make the risk related to AI use and cybersecurity exposure an exponentially increasing one, meaning the widespread impact of AI systems and their potential for errors and omissions can accumulate over time without a human in the loop. Their second and third concerns, **workforce** and **integration**, reflect the challenge of driving massive, systemic change across global divisions and legacy IT systems.

By contrast, **the smallest organizations** are driven by existential urgency. Their top concern is **competitive pace**. For smaller players, the failure to adopt AI quickly is seen as an immediate threat to market survival. Their focus then shifts to the practicalities of deployment — **cyber/data** and **integration** — as they lack the resource buffers of larger firms to absorb implementation failures. For the smallest firms, risk is rooted in their **limited AI agility** and **resource scarcity**.

> The sheer volume and sensitivity of data managed by these global giants make the risk related to AI use and cybersecurity exposure an exponentially increasing one.

We also examined variation in AI risk exposure based on organization type.

- **Public organizations** prioritize **workforce**, then **cyber/data** and **integration**. This is a balanced, operational profile reflecting the need to maximize ROI from publicly scrutinized investments by seamlessly integrating AI deployments with core business processes and upskilling employees to make the new business model work.

- **Private organizations (planning an IPO)** exhibit a unique, high-growth risk profile: **competitive pace, uncertain returns** and **embedding AI in market offerings**. This group is laser-focused on rapid validation of their business model for public markets. Their risks are predominantly **market-facing and financial**, prioritizing speed and demonstrable value over internal systemic concerns. Their focus on the market is particularly telling, indicating that AI is not just a tool but also a core, sellable feature of their valuation story.

- **Private organizations with no current plans for an IPO** identify the difficulty of integrating AI with existing technologies and business processes as the most problematic AI risk issue. They also have concerns with cyber-related risks associated with AI data needs and with their ability to deploy AI at a competitive pace.

- **Organizations owned in whole or part by a private equity firm** express the greatest concerns about the inability to deploy AI at a competitive pace, and risks related to data required for AI use and cybersecurity exposure. These challenges are understandable given the private equity market's focus on competitive positioning and growth, as well as on protecting the enterprise, including but not limited to its intellectual property.

- **Governmental and not-for-profit** organizations share a risk foundation of **integration and cyber/data**. These organizations, which often serve critical societal functions, are highly attuned to the risk of poor service delivery and the compromise of sensitive citizen/beneficiary data. Their risk profile is fundamentally about **mission continuity and public trust**.

> The size and organizational maturity of the enterprise significantly shape the risk outlook, distinguishing between organizations focused on managing immense complexity and those focused on securing competitive viability.

Summary

Our results show that AI risks are interconnected and require a broad, coordinated approach. The co-dominance of **cyber/data, integration** and **workforce** issues converge to a single potential failure point. Focusing only on data security without proper workforce training leaves systems unusable, while investing in integration without effective governance may facilitate speed and interconnectedness but can also breed uncontrolled risks.

Insights:

- **From a siloed to an integrated focus:** Given the theme emphasizing AI integration in our survey findings, organizations may find value in **shifting investments from sequential, siloed projects (cyber, HR, IT) to a more holistic approach**. For example, a cross-functional AI program office, reporting to a senior executive, could be empowered to evaluate opportunity and risk in the context of the three aforementioned core risks.
- **From deployment to realization:** The strong showing of **competitive pace** and **uncertain returns**, particularly among the CFO and private organizations, suggests a need to consider recalibrating the deployment narrative. The question is: Should the strategic calculus shift from **speed of deployment** to **speed of realization**?
- **From broad mandates to targeted outcomes:** Organizations can gain advantages by ensuring that each AI initiative is directly linked to clear, measurable business results associated with a proven financial benchmark, instead of following a wide-reaching technological mandate. The control functions (CRO and CAE) should participate in the initial idea phase, consistent with a **governance-for-value approach** in which control systems facilitate responsible and effective deployment, not simply restricting progress.
- **From prioritizing technology and systems to embracing the human component:** Concerns about core **workforce** issues and a related risk, **AI-driven morale declines and resistance to change** (a CHRO concern), highlight human capital's role in successful AI deployment. Employees should be trained not only to use AI, but also to assess its performance, spot errors, decide when to intervene and adapt their roles accordingly. AI should be supervised like human staff, with clear expectations, training to meet expectations, measuring and monitoring against expectations, and corrective actions taken to improve performance when necessary. Companies that prepare employees to work alongside and oversee AI agents are more likely to maximize the technology's potential.

The variance in industry-specific risk priorities necessitates the development of customized security frameworks. Our findings indicate that executive leadership recognizes that AI risk is an operational reality and competitive advantage will be achieved not by organizations deploying the greatest number of AI models, but by those offering solutions that are **safest, most integrated** and **highly trusted**. A unified strategy led by senior management is needed to achieve this focus.

05

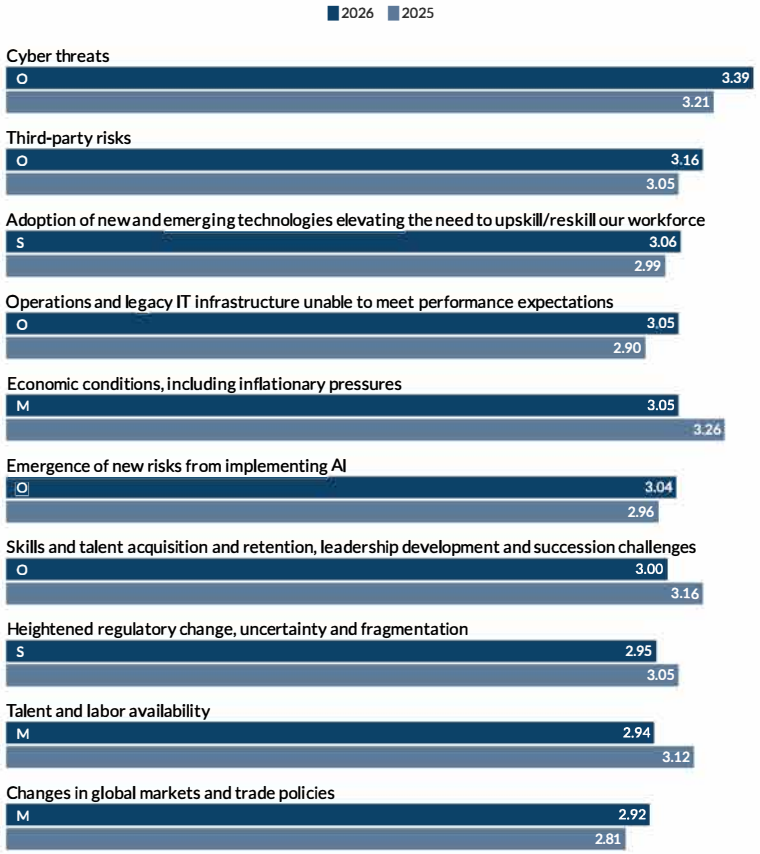
Navigating the near-term risk landscape

Relative to the prior year, the overall impression among the 1,540 respondents is that the magnitude and severity of the overall risk environment their organizations **will** face in executing their strategy and achieving their performance goals over the next two to three years is higher compared to last year. Using a 5-point Likert scale where 1=extremely low and 5=extremely high, the average risk score is 3.30 relative to 3.13 one year ago. This signals an overarching impression among respondents that the overall risk environment seems more challenging than views expressed in our prior year survey.

The top 10 near-term risk results from our study offer insights as to why the risk environment is slightly elevated. Figure 3 summarizes the rank-ordered list of top 10 risks over the next two to three years for the full sample of 1,540 C-suite executive and board member respondents, compared to the prior year. These risks, while dominated by operational risks, span macroeconomic, operational and strategic categories and are ranked based on their average Likert scores. The findings reveal a strong emphasis on operational vulnerabilities, talent challenges and the disruptive potential of emerging technologies.

Overall, 11 of the 28 risks rated by respondents are operational in nature, while nine are macroeconomic and eight are strategic.

Figure 3: Top 10 risks for the near-term



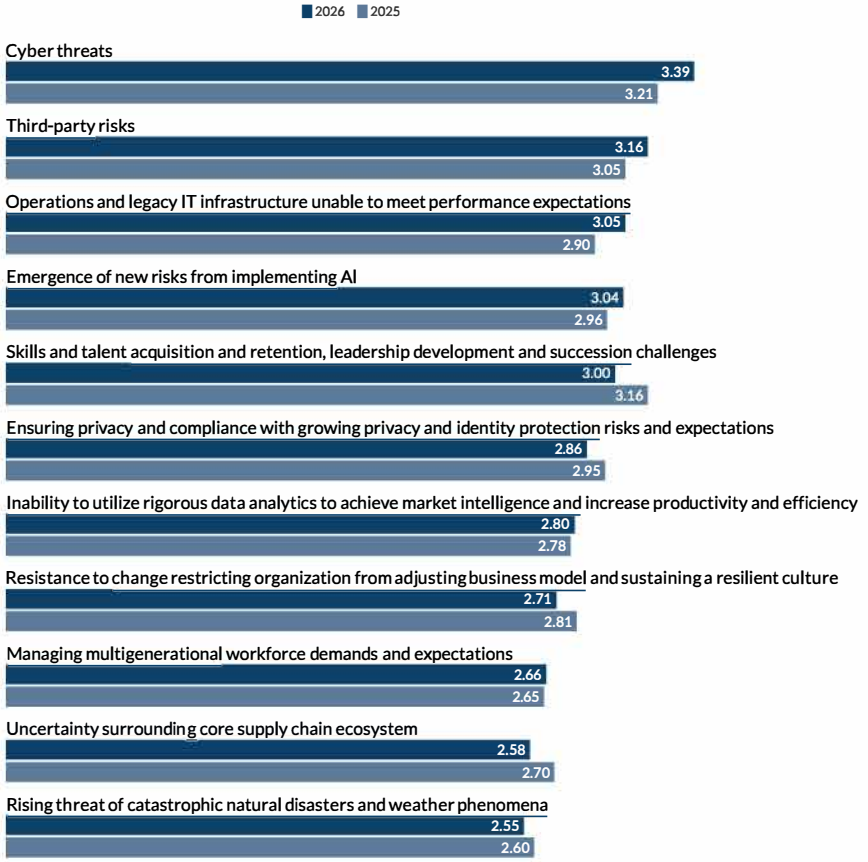
Dominance of operational risk concerns

Five of the top 10 near-term risks are operational in nature, signaling executive focus on **internal resilience and executional reliability**. These risks — cyber threats, third-party dependencies, legacy IT infrastructure, emerging IT and AI implementation challenges, and skills acquisition/retention — are deeply interconnected and reflect the pressure organizations face to deliver consistent performance in a world that is being disrupted digitally. Operational risks are no longer "back-office" concerns — they are front-and-center in strategic planning and execution. Operational risk management must now be integrated with enterprise strategy and aligned with technology-driven transformation goals.

Cyber threats are the top concern globally, reflecting a growing recognition that digital vulnerabilities are not just technical issues; they are existential threats. Executives are increasingly aware that cyber resilience must be embedded into enterprise strategy. Concern about cybersecurity was the number one risk concern for respondents across all sizes of organizations. Addressing evolving cybersecurity threats must be treated as a strategic imperative, with organizations needing to integrate cyber risk metrics into C-suite and boardroom performance dashboards.

Reliance on **third-party** external vendors and ecosystem partners introduces systemic vulnerabilities. Third-party risk spans cybersecurity, compliance, reputation and operational continuity. Executives are concerned about the lack of visibility into vendor practices, especially in multitiered supply chains and cloud-based services. Holistic third-party risk management frameworks, including continuous monitoring and scenario-based stress testing, are becoming more critical than ever. When considered together, **cyber threats** and **third-party risks** highlight the fragility of IT infrastructures and the need for robust governance across extended enterprises with a multiplicity of attack vectors.

Figure 4: Operational risks — near-term outlook



Legacy infrastructure and **AI implementation** risks underscore the tension between innovation and operational readiness. Operations and outdated legacy IT infrastructure systems and insufficient digital capabilities hinder innovation and competitiveness. Legacy infrastructure affects data integration, process efficiencies, customer experiences, time-to-market and the ability to pivot in the face of change. Prioritizing digital modernization along with clear ROI metrics will help ensure IT investments align with strategic goals and elevate digital capabilities across the enterprise. Of note, this issue is the highest elevated risk of this year's study, moving from the 13th-rated risk last year to the fourth-rated risk this year.

AI adoption is accelerating, but concerns about ethical dilemmas, regulatory uncertainty and operational disruption are growing. The rapid evolution of AI capabilities combined with the lack of governance frameworks makes the management of risk associated with AI difficult to identify, track and manage. Organizations may benefit from establishing cross-functional AI oversight committees to monitor and manage risks associated with AI deployments.

Talent challenges remain a critical concern, although the level of risk has abated slightly relative to views expressed in our last survey. **Attracting and retaining skills needed** and **developing leadership talent** are key concerns among executives surveyed, as they create challenges to building and sustaining the strong executive bench so critical to succession planning and long-term success. The decline from last year may reflect a number of factors — short-term hiring improvements and the effects of AI deployments, for example — but long-term concerns persist nonetheless. Talent-related risks reflect the **strategic importance of human capital** in sustaining competitive advantage and highlight the importance of integrating talent strategy with business strategy. Metrics on employee engagement and retention and the evolving leadership pipeline health will help senior management monitor emerging talent challenges.

Top macroeconomic concerns

Three of the top 10 near-term risks reflect macroeconomic concerns — economic conditions, labor availability and global trade policy shifts — that can disrupt strategic momentum. While these risks are somewhat outside the organization's control, their impact on cost structures, supply chains and market access is profound.

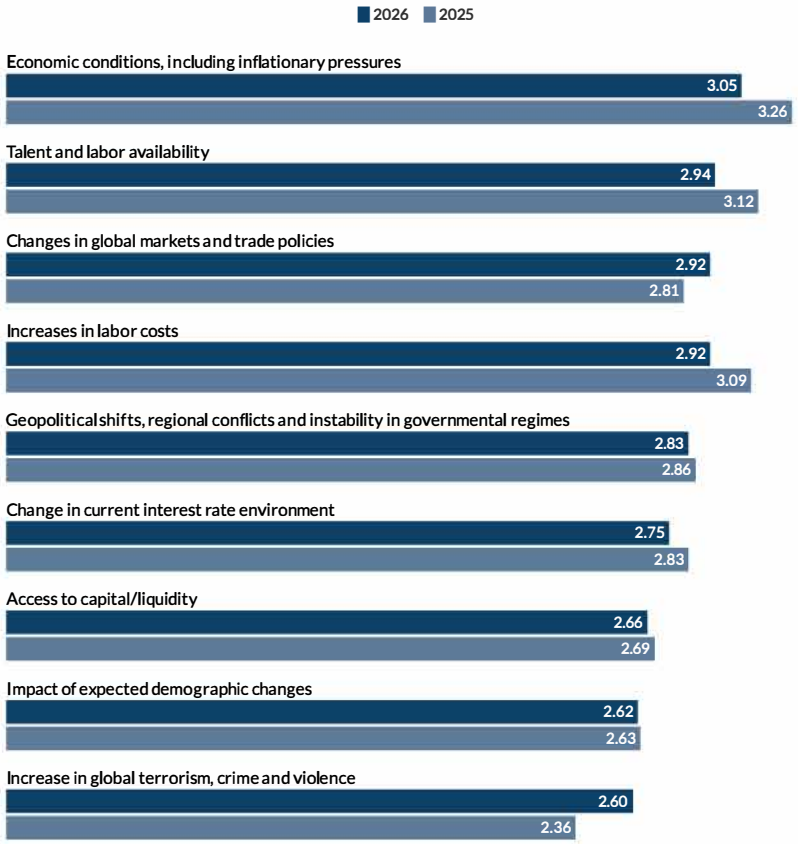
While economic uncertainty has declined somewhat relative to last year's survey, where this was the top-ranked risk, it continues to threaten margins, strategic investments and hiring decisions. Executives are navigating interest rate uncertainty, shifting consumer demand and geopolitical tensions. The slight decline in concern over inflation may suggest short-term stabilization, but executives remain cautious about long-term volatility. **Labor availability** and **global trade policies** are other factors impacting concerns over the economy.

The **availability of talent in the marketplace** is tied to demographic shifts, evolving immigration policy, workforce aging and shifts in needed skills in light of new AI and other digital capabilities — issues that require long-term strategic workforce planning. The decline in this risk may reflect some short-term improvements, but long-term uncertainty persists as the impact of AI on workforce requirements is causing companies to rethink hiring plans with reductions in some skills due to AI benefits coupled with a growing need for talent and new skills to leverage AI capabilities.

Geopolitical tensions and shifting trade alliances are heightening concerns about **global markets and trade policies**. Executives are focused on managing the effects of fluctuating tariff policies, border restrictions and regionalization of trade. Organizations that diversify their supply chains to nearshore and reshore as well as monitor geopolitical developments can improve their ability to pivot in response to frequent and unexpected geopolitical shifts. In today's global markets, organizations are searching for ways to ensure their global strategies are achievable and resilient.

Risk-adjusting strategy is **all** about being able to withstand external shocks. As organizations navigate the above challenges, it becomes increasingly important to leverage advanced analytics, scenario planning and stress testing to anticipate potential market opportunities and emerging risks. Prioritizing transparency in forecasting, enhancing financial planning and cost optimization, and fostering open communications across the organization help leaders pivot their strategies and maintain flexibility in capital deployment.

Figure 5: Macroeconomic risks — near-term outlook



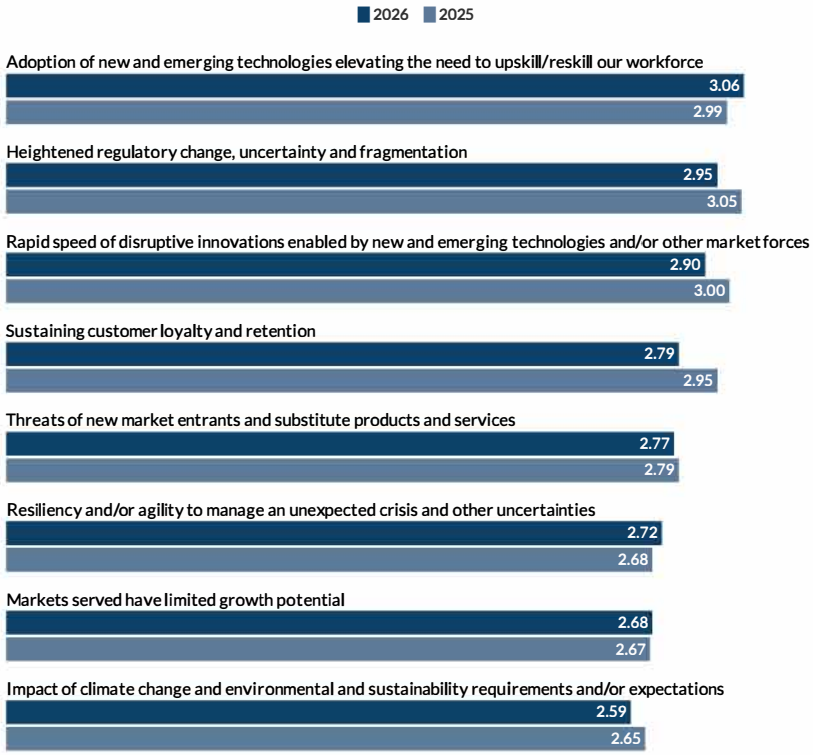
Top strategic risks

Though fewer in number among the top 10 near-term concerns, strategic risks — emerging technologies requiring workforce transformation and regulatory fragmentation — carry **high-impact potential**. These risks challenge the organization's ability to adapt, innovate and comply in a fast-changing environment. The **need to upskill/reskill** in response to emerging technologies is a strategic imperative, not just an HR issue. **Regulatory fragmentation** across jurisdictions increases complexity in designing and developing new innovation strategies and requires agile compliance approaches.

Respondents signaled an overarching concern that their organizations may struggle to **adopt new and emerging technologies** due to challenges they face in competing for the talent and skills needed to realize fully the value proposition used to justify investing in these promising capabilities. As the rapid pace of technological change outstrips workforce capabilities, a strategic talent gap arises, requiring organizations to train employees and align the culture with new capabilities. Generative AI, agentic AI and other forms of automation are reshaping job roles, workforce architecture and workflows. Organizations are recognizing that workforce transformation and talent readiness are core components of an effective digital strategy.

Regulatory change and complexity across jurisdictions increase operational burdens. Executives are concerned about fragmented landscapes in how data privacy, ESG, AI and other aspects of the business are regulated. Organizations should invest in regulatory intelligence to ensure compliance risk management is fully responsive to applicable laws and regulations and integrated into operations and operational and strategic decisions.

Figure 6: Strategic risks — near-term outlook



To provide insights about how different types of executives view near-term risks, we examined individual rankings of top risks across nine different positions. The table below highlights those risks that are ranked in the top five list of risks by position. The numbers (1 through 5) reflected in each column of the table indicate the relative rank within the top five for that risk by individuals in those positions.

Table 8: Top five near-term risks — by executive position*

Risks	Board	CEO	CFO	COO	CIO/CTO	CISO	CHRO	CRO	CAE
Cyber threats	1		1	1	1	1		1	1
Third-party risks			2	2	2	2		4	3
Emergence of new risks from implementing AI			4	5		3		5	4
Economic conditions, including inflationary pressures	4	5			5		4	3	
Skills and talent acquisition and retention, leadership development and succession challenges									5
Operations and legacy IT infrastructure unable to meet performance expectations			3	3	3	4			
Adoption of new and emerging technologies elevating the need to upskill/reskill our workforce		4	5		4	5			
Talent and labor availability	3	1					1		
Increases in labor costs	5	3					3		
Heightened regulatory change, uncertainty and fragmentation								2	2
Changes in global markets and trade policies				4					
Impact of expected demographic changes							5		
Managing multigenerational workforce demands and expectations							5		

Note: The number in each cell indicates the rank order of the top five risks by each executive position. Instances where the same rank is shown for more than one risk issue reflect ties.

* Does not include 3 roles (CSO, CDO, CLO) for which there were low numbers of responses, and does not include the OCS group. More extensive analyses across executive positions are available in a separate online appendix — visit www.protiviti.com or erm.ncsu.edu.

Across the board, **cyber threats** stand out as the most consistently ranked concern. This widespread prioritization underscores the almost universal recognition that cybersecurity is no longer a siloed IT issue but rather a strategic enterprise risk with implications for brand reputation, operational continuity and regulatory compliance. The fact that it tops the list for roles as diverse as the board, CIO/CTO and CRO suggests a shared understanding of its systemic nature and the need for cross-functional mitigation strategies.

Economic concerns also made it to the top five list of risks for the board and CEO along with several other members of the C-suite team. Uncertainties about inflation, government policies (including the evolving tariff landscape) and interest rates are triggering risk concerns across the executive team and board.

Talent-related risks — including labor availability, talent acquisition, upskilling and leadership development — also show strong representation, particularly among the CEO, CHRO and board. These concerns reflect the growing pressure to attract and retain mission-critical talent in a competitive and evolving labor market. Interestingly, CHROs rank "talent and labor availability" as their top concern, signaling the strategic importance of workforce planning in conjunction with digital transformation initiatives. The CEO's prioritization of both talent and labor availability and skills development further reinforces the strategic importance of human capital.

Differences in risk prioritization reveal how each role's functional lens shapes their risk perspective. For example, **regulatory change and fragmentation** is a top concern for the CRO and CAE — roles with responsibilities for compliance and governance support, oversight and assurance — while it does not appear in the top five for the CEO or COO. Similarly, **third-party risks** are more prominent for the CFO, CIO/CTO, CAE and COO, reflecting their respective focus on operational and financial exposure to vendors, service providers and other ecosystem partners.

Overall, the analysis reveals a **core set of shared concerns** — cybersecurity, talent and economic conditions — while also illustrating how **role-specific responsibilities** shape risk prioritization. This diversity of perspectives is valuable for enterprise risk management (ERM), as it ensures that risk oversight is both comprehensive and nuanced. Boards and executive teams should leverage these insights to foster cross-functional dialogue, align risk mitigation strategies and ensure that ERM reflects the full spectrum of leadership concerns.

Across the board, cyber threats stand out as the most consistently ranked concern. This widespread prioritization underscores the almost universal recognition that cybersecurity is no longer a siloed IT issue but rather a strategic enterprise risk with implications for brand reputation, operational continuity and regulatory compliance.

The following table summarizes the top five risks across the nine different industries we analyzed. Based on the comparative analysis of top five near-term risks across nine industry sectors, several key insights emerge that highlight both convergence and divergence in risk priorities.

Table 9: Top five near-term risks — by industry group*

Risks	AD	CPS	EU	FSI	GOVT	HC	MD	NFPHE	TMT
Cyber threats	1	1	5	1	1	1	2	4	1
Third-party risks	2	5	2	2	2	3	4		
Heightened regulatory change, uncertainty and fragmentation			4			2		1	
Economic conditions, including inflationary pressures		3		5	5		5	5	
Emergence of new risks from implementing AI		5		3	4				3
Increases in labor costs	4						3		
Operations and legacy IT infrastructure unable to meet performance expectations	3				3				5
Talent and labor availability						4		3	
Adoption of new and emerging technologies elevating the need to upskill/reskill our workforce				4		5			2
Rising threat of catastrophic natural disasters and weather phenomena			3						
Increase in global terrorism, crime and violence	5								
Impact of climate change and environmental and sustainability requirements and/or expectations			1						
Skills and talent acquisition and retention, leadership development and succession challenges								2	
Changes in global markets and trade policies							1		
Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces									4
Sustaining customer loyalty and retention		4							

* More extensive analyses across industry groups are available in a separate online appendix — visit www.protiviti.com or erm.ncsu.edu.

Cyber threats are the most universally recognized risk, ranked first in six of the nine industry groups. This widespread concern reflects the pervasive nature of digital vulnerabilities across sectors. The consistency of this ranking suggests that cybersecurity is now viewed as a foundational risk that transcends industry boundaries, driven by increasing digitalization, data dependency and growing sophistication of threat actors.

Third-party risks also show broad relevance, appearing in the top five for seven of the nine industries. This reflects the growing reliance on external vendors, cloud providers, online platforms, distribution channels and communications channels in the ecosystem that introduce operational and reputational vulnerabilities. Interestingly, industries with complex supply chains or regulatory oversight — such as **Manufacturing and Distribution** and **Financial Services** — rank this risk high, indicating heightened sensitivity to vendor performance and compliance.

Differences in risk prioritization reveal how industry-specific dynamics shape risk perception. For example, **Energy and Utilities** uniquely ranks **impact of climate change and sustainability requirements** and **threats of natural disaster** as top concerns, reflecting regulatory pressures and environmental exposure. Meanwhile, **Not-for-Profit/Higher Education** prioritizes **skill and talent acquisition** and **talent availability**, reflecting the connectivity of policy shifts in public funding and related workforce challenges.

Finally, **technology-driven risks** — such as AI implementation and workforce upskilling — are more prominent in **Technology, Media and Telecommunications, Financial Services,** and **Healthcare,** where innovation cycles are rapid and digital transformation is core to strategy. The TMT sector, in particular, ranks multiple technology-related risks in its top five, underscoring the pressure to stay ahead of the curve.

These findings suggest that while some risks are universal, others are deeply shaped by industry context, operational models and strategic priorities. Organizations that use these insights to tailor risk management strategies and opportunity pursuits to their sector's unique exposure remain vigilant to cross-industry threats.

While some risks are universal, others are deeply shaped by industry context, operational models and strategic priorities.

The following table summarizes the top five risks across the different geographic regions we analyzed.

Table 10: Top five near-term risks — by geographic region

Risks	North America	Latin America	Europe	Middle East & Africa	India	Asia	Australia & New Zealand
Cyber threats	1	1	1	2	1	4	
Third-party risks	2	4	2	5	2		5
Emergence of new risks from implementing AI	4	5		3		5	1
Adoption of new and emerging technologies elevating the need to upskill/reskill our workforce		3		4	3	2	3
Operations and legacy IT infrastructure unable to meet performance expectations				1		1	2
Economic conditions, including inflationary pressures	3	2					4
Skills and talent acquisition and retention, leadership development and succession challenges			5			3	
Increases in labor costs			4		4		
Talent and labor availability			3				
Ensuring privacy and compliance with growing privacy and identity protection risks and expectations					5		
Heightened regulatory change, uncertainty and fragmentation	5						

Note: The number in each cell indicates the rank order of the top five risks by each geographic region.

Based on the comparative analysis of the top five near-term risks across seven global regions, several important patterns and regional nuances emerge that offer valuable insights into how geography shapes risk perception and prioritization.

Cyber threats are the most universally recognized concern, ranking in the top five for six of the seven regions and occupying the top spot in North America, Latin America, Europe and India. As with the industry groupings we examined, this widespread prioritization reflects the global nature of cyber risk. Interestingly, Australia and New Zealand did not rank cyber threats in their top five, likely due to the respondents in that region being heavily concentrated in government (57%) and mining (26%), indicating a different prioritization of relative risks in those sectors.

As with the industry groupings, **third-party risks** also show broad concern, appearing in the top five for six regions. North America, Europe and India rank it as their second-highest risk, highlighting its strategic importance in these regions. The presence of this risk in Latin America, the Middle East and Africa, and Australia and New Zealand suggests that supply chain vulnerabilities and partner dependencies are a shared global challenge, though the intensity of concern varies.

Regional differences become more pronounced when examining risks tied to **technology adoption and workforce transformation**. Latin America, Asia, India, and Australia and New Zealand all rank the need to upskill/reskill in response to emerging technologies within their top three, suggesting a strong regional focus on digital capability building. In contrast, this risk does not appear in the top five for North America or Europe, which may reflect more mature digital capabilities. However, concerns about talent and labor availability are high in Europe.

Other notable divergences include the **emergence of AI-related risks**, which are ranked highest in Australia and New Zealand (the top risk) and appear in the top five for North America, Latin America, the Middle East and Africa, and Asia. This suggests global concern about unintended consequences of AI deployments, though the degree of that concern varies. Meanwhile, concerns regarding **economic conditions and inflationary pressures** are more prominent in the Americas and Australia and New Zealand.

Overall, while some risks — like cyber threats and third-party dependencies — are globally recognized, others reflect **regional distinctions** in viewing **economic uncertainties, technological maturity** and **regulatory environments**. These insights underscore the importance of tailoring ERM strategies to regional contexts while maintaining a global view on systemic risks.

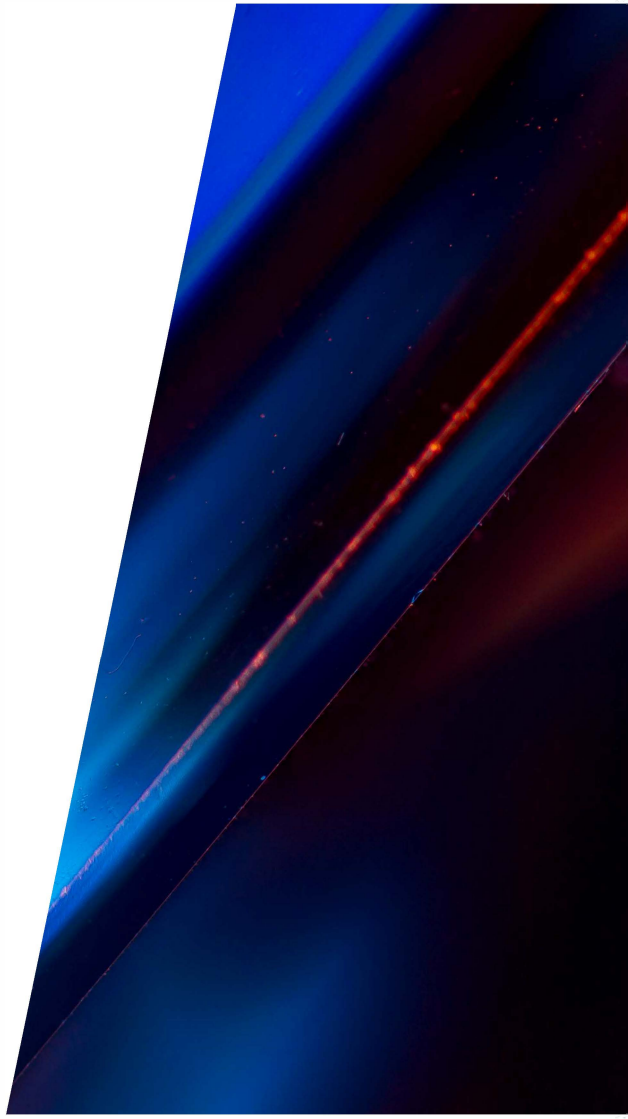
> While some risks — like cyber threats and third-party dependencies — are globally recognized, others reflect regional distinctions in viewing economic uncertainties, technological maturity and regulatory environments.

The following table summarizes the top five risks across the different categories of organizational size.

Table 11: Top five near-term risks — by organization size

Risks	Largest organizations	Medium-to-large organizations	Small-to-medium organizations	Smallest organizations
Cyber threats	1	1	1	1
Third-party risks	2	2	3	
Adoption of new and emerging technologies elevating the need to upskill/reskill our workforce	3		2	5
Emergence of new risks from implementing AI	5		4	4
Operations and legacy IT infrastructure unable to meet performance expectations	4	4	5	
Economic conditions, including inflationary pressures		3		2
Skills and talent acquisition and retention, leadership development and succession planning		5		3

Note: The number in each cell indicates the rank order of the top five risks by each group of organizations.



Based on the analysis of risk perceptions across four organizational size categories, several key insights emerge that highlight both shared concerns and distinct priorities shaped by scale and complexity.

Once again, **cyber threats** are the most universally recognized risk. Being ranked the top risk across all four size categories underscores the pervasive nature of cybersecurity concerns, regardless of organizational scale. Also, **third-party risks** are prominent among all categories except for the smallest organizations (in fact, the risk does not appear in their top five). Larger companies likely have more complex vendor networks and outsourcing arrangements, making them more vulnerable to disruptions or reputational damage stemming from external partners.

Our findings suggest that while some risks are universal, others are shaped by the structural realities of organization size, resource availability and strategic complexity.

For example, the results for **economic conditions and inflationary pressures** may reflect greater sensitivity to margin pressures and resource constraints among midsized and smaller entities. Similarly, the results for **skills and talent acquisition and retention** suggest that workforce challenges are particularly acute in medium-to-large and the smallest organizations, possibly due to competition for specialized talent or succession planning concerns.

Interestingly, **technology-related risks**, including the need to upskill for emerging technologies and the risks associated with AI implementations, are more widely recognized among the largest and smallest organizations. Large organizations are likely to face pressure to innovate at scale, while small organizations may be grappling with how to adopt new technologies without the benefit of deep internal expertise.

Being ranked the top risk across all four size categories underscores the pervasive nature of cybersecurity concerns, regardless of organizational scale.

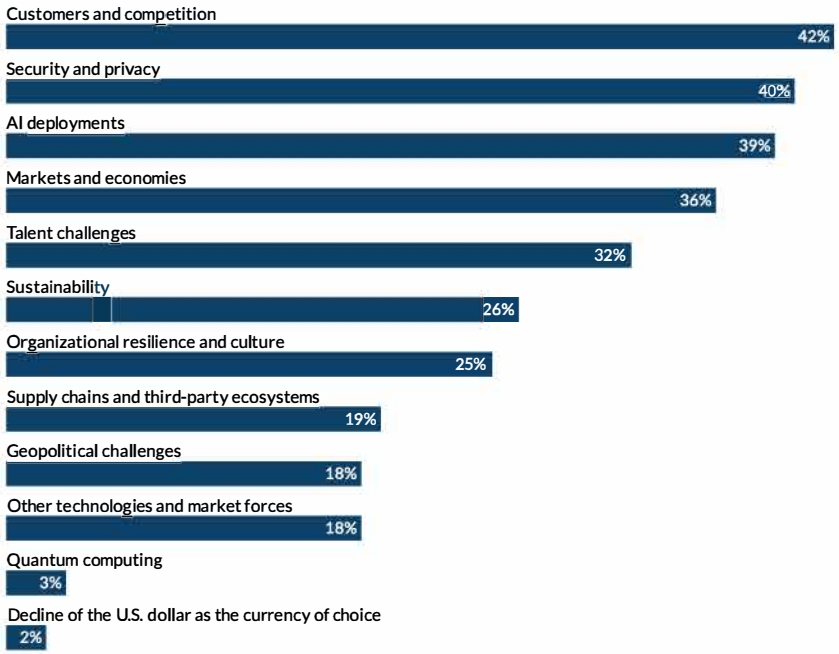
06

Managing long-term risks (next 10 years)

In addition to obtaining an understanding of near-term concerns, we also asked respondents to select from a list of 12 risk themes what they believe represent the top three risk areas their organizations are likely to consider most when evaluating strategies and making investments over the next 10 years. We formulated the risk themes considering the 28 specific risk areas we examined over the near-term to simplify the survey participants' long-term risk assessment.

Participants provided a rank-ordered list of their top three risk themes important to their organization over a 10-year time horizon. Figure 7 shows the risk themes listed in rank order based on the frequency that each risk theme was included in the respondents' top three choices. This list provides an indication of what our 1,540 respondents perceive to be their organization's most significant long-term risk concerns in light of their organization's business model and strategy.

Figure 7: Long-term risks



Percentages reflect frequency with which each area was selected among the top three.

Based on the rank-ordered list of long-term risk themes, here are several key insights that would be particularly valuable for boards and executive teams to monitor and discuss as they look out over the next decade:

- **Strategic focus on market positioning and trust:** The top four long-term concerns — customers and competition, security and privacy, AI deployment, and markets and economies — reflect a clear emphasis on maintaining competitive relevance and stakeholder trust in a rapidly evolving digital landscape. Executives are signaling that long-term strategy must prioritize customer experiences, data protection and responsible innovation. These themes are deeply interconnected with an emphasis on growth, market share and brand credibility.

- **Talent and technology as dual enablers — and risks:** Talent challenges combined with AI deployment both rank highly, suggesting that the workforce implications of emerging technologies are persistent long-term as well as near-term concerns. The dual focus on enabling tools and potential risks implies that long-term investments must include robust workforce development, responsible AI governance and cultural transformation to support innovation.

- **Broader systemic risks are rising — but unevenly prioritized long-term:** Themes like sustainability, organizational resilience, supply chains and geopolitical challenges reflect growing awareness of systemic disruptions — from climate change to global instability. However, their lower rankings suggest that while these risks are acknowledged, they may not yet be fully integrated into strategy setting and execution. Management and boards should consider whether these areas are underweighted in current risk frameworks, especially given their potential to reshape markets and supply chains long-term.

- **Emerging and peripheral risks require strategic foresight:** Risks such as quantum computing and the potential decline of the U.S. dollar are currently viewed as peripheral with their low prioritization. Nonetheless, forward-looking organizations should monitor these developments and consider scenario planning to ensure strategic agility as the question of their relevance and potential impact is clarified. If either of these developments become a reality, it will be too late for the unprepared.

These insights suggest that a long-term view of risk is truly strategic and must encompass market positioning, technological expansion, workforce transformation and systemic resilience so that new opportunities and emerging risks are not overlooked. This forward-thinking approach helps executive teams adapt more quickly to shifts in the external environment through better anticipation of market trends and technological advancements, challenging underlying strategic assumptions, formulating plausible as well as extreme scenarios, stress testing strategic alternatives, and making more informed decisions about resource allocation, capability building and prioritizing investments. Such vigilance is table stakes in the C-suite and boardroom.

Table 12: Top three long-term risks — by executive position*

	Board	CEO	CFO	COO	CIO/CTO	CISO	CHRO	CRO	CAE
AI deployments	36%	39%	36%	40%	49%	46%	38%	37%	33%
Markets and economies	43%	31%	38%	37%	33%	45%	33%	37%	36%
Customers and competition	47%	48%	37%	31%	30%	24%	37%	59%	60%
Security and privacy	32%	19%	45%	50%	50%	64%	42%	23%	25%
Talent challenges	36%	43%	33%	30%	23%	30%	33%	29%	30%
Sustainability	14%	14%	36%	33%	34%	30%	21%	15%	14%

Percentages reflect frequency with which each area was selected among the top three. The top three areas for each executive role are highlighted in blue (ties included).

* Does not include 3 roles (CSO, CDO, CLO) for which there were low numbers of responses, and does not include the OCS group.

Directors and most C-suite leaders share concerns about long-term AI deployment risks and potential impacts from shifting markets and economies. The same thing can be said regarding concerns related to customers and competition, with the exception of COOs, CIOs/CTOs and CISOs, who prioritize data, technology and market dynamics — in that order. Interestingly, CEOs and board members focus more on talent challenges than other members of the C-suite, recognizing the importance of talent to organizational success. Effective strategic oversight at the highest level requires a comprehensive approach to talent management to ensure the organization has the right people in place to execute its shared vision and address future challenges.

Table 13: Top three long-term risks — by industry group

	AD	CPS	EU	FSI	GOVT	HC	MD	NFPHE	TMT
Security and privacy	58%	28%	35%	47%	56%	37%	22%	29%	57%
AI deployments	41%	43%	20%	47%	30%	45%	29%	29%	53%
Markets and economies	37%	34%	37%	40%	39%	34%	39%	19%	32%
Customers and competition	25%	55%	29%	48%	21%	48%	45%	59%	30%
Sustainability	38%	19%	43%	19%	48%	12%	31%	15%	25%
Supply chains and third-party ecosystems	14%	30%	37%	8%	6%	15%	34%	10%	8%
Organizational resilience and culture	25%	24%	26%	25%	23%	29%	20%	49%	18%
Talent challenges	25%	30%	26%	33%	31%	32%	33%	41%	30%

Percentages reflect frequency with which each area was selected among the top three. The top three areas for each industry group are highlighted in blue.

Three industry groups place higher emphasis on sustainability matters:

- Many governments prioritize sustainability matters over commercial sectors due to their public accountability, regulatory authority, commitment to long-term stewardship and the need to address pressing global challenges. By leading the way, they can create a framework that encourages commercial sectors to adopt responsible sustainability practices.
- The Energy and Utility sector's elevated focus on sustainability is driven by responses from our 70 respondents representing non-U.S. companies due to the scale of their environmental impact, regulatory pressures, resource management challenges, stakeholder expectations and the essential nature of their services. By prioritizing sustainability, these companies not only comply with legal and societal demands but also secure the viability of their long-term market permission to operate.
- Companies in Aerospace and Defense are driven by regulatory compliance, market demands, technological advancements and the need to sustain long-term viability. Given the commercial airline sector's cross-border operations, a sustainability focus makes sense because of requirements across the globe.

Energy and Utility companies emphasize supply chains and third-party ecosystems to drive efficiencies due to the complexity of their operations that encompass various interconnected stages, including extraction, generation, transmission, distribution and retail. The integration of smart grid technologies and the Internet of Things necessitates collaboration with various technology providers and service partners. In addition, these companies are increasingly focused on sustainability and reducing their carbon footprints, which often involves working with suppliers and third parties that share similar goals and practices.

Table 14: Top three long-term risks — by geographic region

	North America	Latin America	Europe	Middle East & Africa	India	Asia	Australia & New Zealand
Security and privacy	38%	28%	45%	47%	50%	30%	51%
Customers and competition	45%	43%	36%	37%	49%	48%	30%
Markets and economies	36%	37%	31%	43%	37%	43%	43%
AI deployments	44%	41%	39%	37%	47%	33%	24%
Sustainability	16%	23%	34%	44%	23%	21%	54%
Talent challenges	28%	36%	27%	29%	20%	53%	36%

Percentages reflect frequency with which each area was selected among the top three. The top three areas for each geographic region are highlighted in blue.

Two regions place a higher priority on sustainability matters.

- **Middle East and Africa:** Many Middle Eastern countries struggle with water scarcity and desertification, while climate change brings extreme temperatures and unpredictable weather. Traditional reliance on oil exports calls for economic diversification as global energy demand shifts to renewables. Africa's large youth population is more environmentally conscious. Many nations in the Middle East and Africa region have joined international climate change agreements because of mutual interest in compelling developed economies to reduce carbon emissions.
- **Australia and New Zealand:** This year's concentration of the region's respondents in government and mining is the likely reason for the stronger emphasis on sustainability.

Asia places a higher priority on talent challenges, likely because of demographic trends (aging population). Other factors include economic growth priorities, competitive pressures for talent with Western economies and the need for innovation.

Table 15: Top three long-term risks — by organization size

	Largest organizations	Medium-to-large organizations	Small-to-medium organizations	Smallest organizations
Customers and competition	43%	40%	41%	47%
AI deployments	40%	40%	38%	41%
Security and privacy	41%	39%	45%	34%
Markets and economies	40%	35%	35%	36%
Talent challenges	27%	33%	31%	37%

Results across organization size are reasonably consistent. The largest organizations report a slightly stronger focus on markets and economies, and the smallest, to no surprise, recognize talent challenges as a top long-term risk.

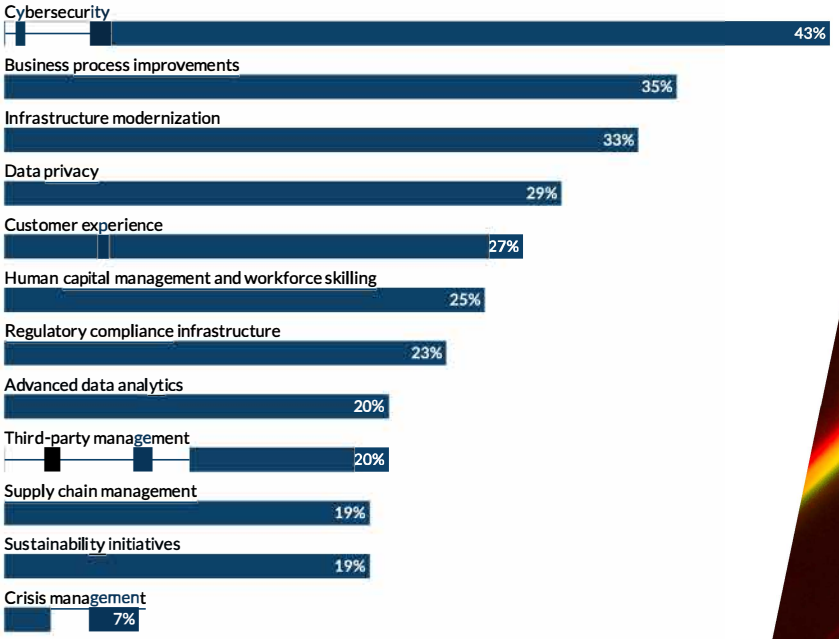
07

Strategic investment priorities

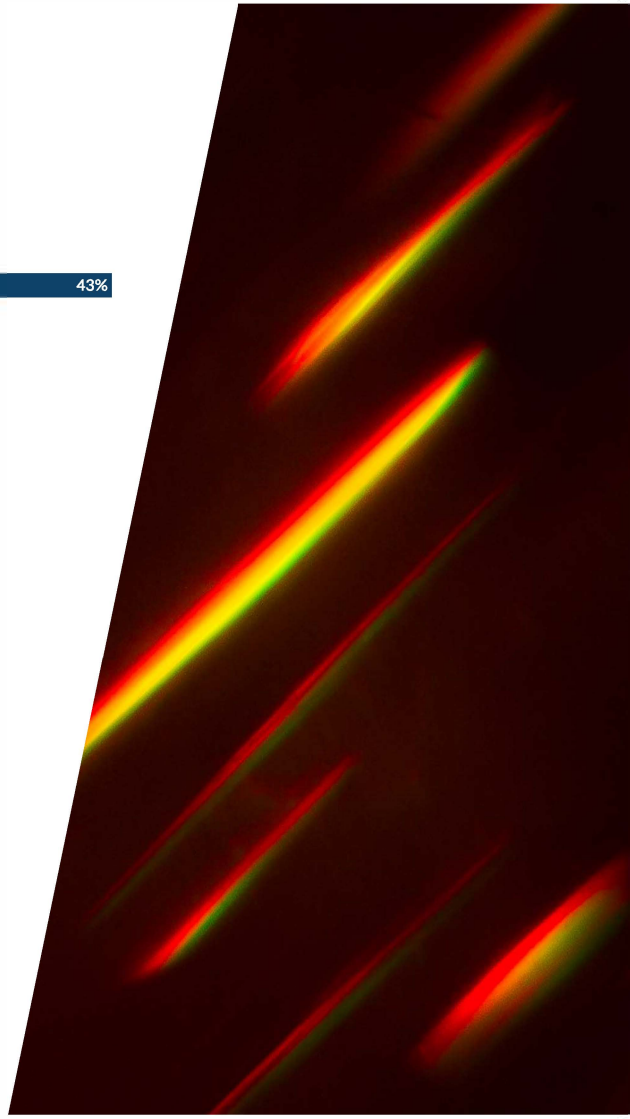
We asked respondents to identify the top three strategic investment priorities, in rank order, in which their organizations are likely to invest the most over the next two to three years given the opportunities and risks our report has highlighted. We provided a list of 12 investment areas that relate to some of the strategic and operational near-term risk issues our survey examined.

Figure 8 shows the number of times each investment area was included among the top three choices by the 1,540 respondents.

Figure 8: Top strategic investment priorities



Percentages reflect frequency with which each area was selected among the top three.



The consensus in the overall results confirms that leaders are focusing on **resilience, relevance** and **execution**. Capital is being dedicated to fixing the operational core, ensuring security compliance and building the necessary infrastructure to scale AI and other advanced digital capabilities. With **data privacy** and **customer experience** ranked fourth and fifth, respectively, the propensity to invest in all of these areas suggests that many leaders are thinking and acting digitally. The overall survey results define the baseline investment thesis, clustering the top priorities into a clear hierarchy of foundational needs, operational levers and growth engines.

As organizations adopt AI and connect more devices, the surface area for attacks expands exponentially, making **cybersecurity** the highest-priority non-discretionary area of spending. It is a **fiduciary obligation** and **brand protection** necessity. The high ranking of **data privacy** reinforces this defensive posture. With regulatory shifts like GDPR in the EU and CCPA in California, investment in privacy infrastructure is seen as inseparable from security, forming a comprehensive **digital defense layer**.

In tandem, **infrastructure modernization** is another investment priority. Legacy systems cannot support the computational demands of AI, the data volumes of modern operations or the speed required for competitive redeployment. Evolving the infrastructure is therefore the necessary antecedent investment that unlocks the value of cybersecurity (security-by-design), process automation and digital disruption.

The high prioritization of **business process improvements** confirms that investment focus is being directed to operational leverage. Process automation and enhanced decision-making offer the most direct path to realizing ROI from AI and automation tools. This investment is aimed squarely at **removing friction, accelerating cycles, lowering the cost-to-serve (reducing labor costs) and speeding up quality decision-making.**

While **human capital management and workforce skilling** ranks sixth overall, its high prioritization by roles such as the CHRO and in labor-intensive industries demonstrates it is the **critical bridge investment** and an essential indicator of strategic alignment. Organizations wisely recognize that defensive and infrastructural spending and process improvements are useless without the human capital to manage the new systems and drive the change. This spending acts as an **enabling investment** to ensure the benefits of technology investments are fully realized. Organizations that fail to align their investments with aggressive talent upskilling will risk turning capital expenditures into potentially high-risk, low-return assets.

As a top five priority, **customer experience** clearly demonstrates that even amid intense defensive spending, executives are dedicating budget to market differentiation and revenue growth. Improving customer experiences is the primary external-facing metric of the firm's overall digital maturity. That focus drives foundational investments channeled toward improving customer-facing processes and creating demonstrable customer value.

Table 16: Top three strategic investment priorities — by executive position*

	Board	CEO	CFO	COO	CIO/CTO	CISO	CHRO	CRO	CAE
Cybersecurity	32%	27%	39%	39%	42%	53%	25%	51%	51%
Business process improvements	48%	60%	21%	20%	32%	24%	46%	48%	51%
Customer experience	36%	42%	19%	15%	21%	17%	25%	33%	43%
Infrastructure modernization	32%	32%	32%	34%	30%	21%	37%	44%	33%
Data privacy	21%	10%	40%	42%	39%	54%	25%	7%	7%
Human capital management and workforce skilling	40%	50%	18%	19%	16%	15%	63%	23%	33%
Regulatory compliance infrastructure	12%	13%	30%	26%	32%	26%	8%	20%	17%

Percentages reflect frequency with which each area was selected among the top three. Top three areas for each executive role are highlighted in blue (ties included).

* Does not include 3 roles (CSO, CDO, CLO) for which there were low numbers of responses, and does not include the OCS group.

Strategic priorities diverge significantly when viewed through the lens of functional accountability, reflecting the primary duties and immediate pressures of each C-suite role.

The roles responsible for high-level strategy and overall outcomes — **board members and CEOs** — exhibit a strong focus on **business process improvements** and **human capital,** followed by **customer experience.**

- The **CEO** and **board** prioritize execution and impact. The focus is on how the organization operates and the capability of the team to deliver superior outcomes. They delegate the primary technical defense to the CFO and CIO/CTO, but demand results in operational excellence.

The executives responsible for protecting the balance sheet and ensuring operational stability have a distinctly defensive investment profile.

- The top investment priorities for **CFOs** and **COOs** are aligned: **data privacy, cybersecurity** and **infrastructure modernization.** This is a clear **"protect the fortress"** strategy. For the CFO, these are non-negotiable costs of fiduciary duty. For the COO, system stability and data integrity are prerequisites for reliable operations. The relative de-prioritization of growth-related spending (like customer experience) shows a current preference for operational integrity over immediate expansion.

- **CIOs/CTOs** and **CISOs** also prioritize **data privacy, cybersecurity** and **regulatory compliance.** This is a profile dominated by the **technical defense layer.** They recognize that the pressures of digital deployment necessitate a robust, compliant foundation to manage increasing complexity and fragmented regulatory oversight.
- **CROs and CAEs** focus on **cybersecurity** and **business process improvements.** The oversight and control functions are interested in the areas most critical for risk reduction and assurance: securing the system and ensuring the underlying processes and platforms are relevant, stable, reliable and resilient.
- The **CHRO** is the only executive to lead with **human capital management and skilling** as their top strategic investment priority, followed by **business process improvements** and **infrastructure modernization.** This is a sophisticated understanding of the value chain: The best investment is in employees, who will then optimize the processes with a strong focus on operational improvements.

Table 17: Top three strategic investment priorities — by industry group

	AD	CPS	EU	FSI	GOVT	HC	MD	NFPHE	TMT
Cybersecurity	42%	41%	33%	57%	36%	38%	30%	37%	55%
Infrastructure modernization	36%	24%	63%	25%	43%	29%	39%	44%	20%
Business process improvements	26%	33%	30%	40%	15%	42%	42%	54%	28%
Data privacy	48%	23%	9%	33%	50%	20%	12%	9%	52%
Customer experience	7%	42%	16%	37%	9%	31%	20%	49%	24%
Supply chain management	18%	36%	34%	4%	2%	13%	43%	0%	10%
Regulatory compliance infrastructure	30%	18%	37%	23%	35%	24%	16%	19%	19%
Sustainability initiatives	21%	14%	27%	11%	38%	16%	23%	9%	19%

Percentages reflect frequency with which each area was selected among the top three. The top three areas for each industry group are highlighted in blue.

An industry context defines the most pressing investment priority, shaped by the sector's regulatory environment, asset base and customer engagement model. Industries dealing with highly sensitive data or critical infrastructure place an existential premium on defense.

- **Financial Services** and **Technology, Media and Telecommunications:** Both include **cybersecurity, data privacy** and **business process improvements** in their top three strategic investment priorities. For Financial Services, this investment focus protects customer assets and system integrity. For Technology, Media and Telecommunications, it protects proprietary IP and product platforms.

- **Government:** The Government sector leads with **data privacy,** prioritizing the protection of citizen data and public trust over all other areas. This is followed by **infrastructure modernization** and **sustainability initiatives,** confirming the urgent need to replace legacy technology and manage cyber threats.

Sectors relying on vast physical assets and complex logistics prioritize the underlying platforms.

- **Manufacturing and Distribution** and **Energy and Utilities:** Both rank **infrastructure modernization** as a high priority. This is the prerequisite for deploying any smart factory, grid optimization or supply chain tracking technology. Without a modern infrastructure backbone, automation efforts are at risk of being stalled. Manufacturing and Distribution also includes **business process improvements** and **supply chain management,** focusing on efficiency and protecting operational technology systems. Energy and Utilities follows with **regulatory compliance infrastructure** and **supply chain management.**

Customer- and patient-centric industries focus their primary investment on improving the experience and delivery of services.

- **Consumer Products and Services:** Leads with **customer experience**, the clearest revenue driver. This is followed by **cybersecurity** to protect brand trust and **supply chain management** to ensure product availability. This investment focus is designed for **brand growth and fulfillment**.

- **Healthcare** and **Not-for-Profit/Higher Education:** Both prioritize **business process improvements** and **customer experience** as top investments. In these environments, this focus offers an effective strategy to combat administrative inefficiencies and optimize resource deployment. These are followed by **cybersecurity** for Healthcare and **infrastructure modernization** for Not-for-Profit/Higher Education, confirming a universal focus on streamlined service delivery.

Overall, our survey results identify three critical, interlocking insights for investment strategy over the next two to three years.

- **The inseparability of defense and transformation:** The data shows a unified, three-part digital foundation investment: cybersecurity, data privacy and infrastructure modernization. These three areas must be funded and executed as a single, coherent program, not as siloed departmental budgets. Failure in any one area — a cyber breach, a privacy violation, a system outage or an inability to innovate in a rapidly evolving marketplace — will neutralize gains made in process or customer experience improvements. Investment in this digital foundation is now the core enabler of transformation, not a separate cost center.

- **The bottleneck of talent skilling:** While human capital management and workforce skilling ranks sixth overall, it functions as a strategic bottleneck for the entire investment portfolio. Technology systems are being funded and processes are being reimagined as disruptive innovation continues, but the people required to operate and optimize the new systems and processes are a mid-tier priority. Organizations must prioritize human capital management in planning transformation initiatives. Skilling should be viewed as an expedited prerequisite for achieving ROI in process improvements and enhancing customer experiences. The true value of a large infrastructure investment is only realized when the workforce can fully utilize the new capabilities, demanding a proportional investment in human capital and workforce development to capture the expected value and returns.
- **The shift from project-based to platform investment:** The high ranking of infrastructure modernization (and its elevation as a near-term risk) suggests executives are recognizing the limits of tactical, project-based IT spending. The move to modern infrastructure (cloud, modular systems, centralized data platforms) is a commitment to a platform-based operating model. This platform approach facilitates continuous **business process improvements** and provides a robust engine for **advanced data analytics**, which, while a mid-tier investment priority, is the long-term engine for competitive differentiation. Executives must ensure their infrastructure modernization investments are guided not just by cost savings, but also by the ability to iterate and scale new AI-driven processes rapidly.

In summary, the most successful organizations over the next two to three years will be those that master the alignment between their defensive and offensive investments, secured by a dedicated and upskilled workforce.

> Organizations must prioritize human capital management in planning transformation initiatives. Skilling should be viewed as an expedited prerequisite for achieving ROI in process improvements and enhancing customer experiences.

Closing comments

The results of this year's survey of 1,540 board members and C-suite executives reveal optimism about growth opportunities despite economic, workforce and technological challenges. The findings emphasize that organizations must pursue strategic growth and business resilience together in today's complex, dynamic risk landscape.

The most successful organizations will be those that treat opportunity and risk as interdependent forces — embedding agility, foresight and cross-functional collaboration into the core of their strategic agenda. This report is intended to catalyze those conversations and support leaders in building organizations that thrive amid uncertainty and change.

For more detailed results from our survey based on executive role and industry, appendices are available at www.protiviti.com and erm.ncsu.edu.

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About NC State University's ERM Initiative

The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at NC State University provides thought leadership about ERM practices and their integration with strategy and corporate governance. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance, host executive workshops and educational training sessions, and issue research and thought papers on practical approaches to implementing more effective risk oversight techniques (erm.ncsu.edu).

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