



2025 Internal Audit Hot Topics

Funds / Investment Management, Private Investing, & Real Estate

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2025 Investment Management Outlook

The investment management landscape in 2025 is expected to be shaped by significant shifts in market dynamics and investor preferences¹. Traditional asset managers will continue to face challenges such as fee compression and market volatility, **necessitating a modernization of their operating models. Embracing technology and data analytics will be crucial for these firms to drive unique insights and enhance productivity**, ensuring they remain competitive in an increasingly digital environment. Additionally, traditional asset managers will need to implement **robust risk management frameworks to mitigate operational and market risks**, leveraging automated controls to enhance efficiency and accuracy in their processes. The return of transactions and vehicle restructuring will be critical areas of focus, with firms evaluating build versus buy strategies for alternative investment platforms to optimize their offerings.

Private equity (PE) firms are poised to benefit from the ongoing decline in public equity listings and the high covariance of public equity returns, which will drive more capital towards private markets. The demand for private debt and equity is projected to grow, with significant capital raises anticipated in these sectors. However, **PE firms will need to navigate increased regulatory scrutiny and the need for greater transparency and reporting standards** to maintain their competitive edge. Implementing effective risk assessment and control mechanisms will be essential to manage the complexities of private market investments and maintain compliance with evolving regulatory requirements. A focus on operational efficiencies and the strategic use of artificial intelligence (AI) will be key to optimizing investment processes and enhancing overall performance.

Real estate investment firms are expected to see growth driven by the demand for alternative investments and the need for diversification in investment portfolios. The aging population and the lack of retirement savings will further fuel the demand for real estate as a stable income-generating asset class. To capitalize on these opportunities, real estate firms will need to **embrace technology and data analytics to enhance decision-making and operational efficiency**, optimizing property footprints in alignment with future work strategies. Implementing robust controls and risk management practices will be crucial to mitigate risks associated with real estate investments, including market fluctuations and operational challenges. The focus on distribution productivity and the strategic use of AI to anticipate market trends and optimize asset management will be essential.

Overall, the investment management industry in 2025 will be characterized by a **continued shift towards passive investing, increased demand for PE and debt, and a growing interest in real estate**. Firms that effectively invest in growth, modernize their operating models, and institute financial discipline will be the winners in this evolving landscape. Embracing technology and data analytics will be crucial to driving competitive advantage and fostering long-term success. Furthermore, **implementing comprehensive risk management frameworks and robust controls will be essential to navigate the complexities of the investment landscape and maintain regulatory compliance**. The strategic use of AI, focus on operational efficiencies, and the evaluation of build versus buy strategies for alternative investment platforms will be critical to achieving sustainable growth and competitive advantage. Within these domains, and other emerging and persisting risk areas, internal audit functions can be utilized as a trusted advisor, evaluating risk mitigation and providing actionable insights. This relationship can enable firms to safeguard operations and proactively adapt to market changes, promoting resilience and sustained growth.

¹For additional insight on trends and challenges impacting the investment management industry, and an overall industry outlook, refer to the [2025 investment management outlook](#), October 2024



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Generative Artificial Intelligence (Gen AI)

Gen AI presents important opportunities for the industry, potentially driving innovation and unlocking value. However, AI introduces significant risks, including **data bias** and **fairness** issues, as models are trained on large datasets that may contain historical biases. Additionally, the technology's ability to produce "**hallucinations**" and ambiguity around content attribution and copyright raises concerns about reliability and plagiarism. The **evolving regulatory environment** further complicates the landscape, requiring firms to anticipate and comply with emerging regulations. Future developments will focus on improving governance frameworks to address these risks effectively, ensuring transparency, accountability, privacy, and security in generative AI applications.

Internal Audit's role should focus on governance structures, risk management frameworks, model development processes, data readiness and quality, privacy and security, and compliance with regulatory standards.



Regulatory Compliance and Change Management

The regulatory landscape is marked by stringent enforcement and uncertainty, with a steady **influx of new and re-proposed regulations**. Firms should remain vigilant about evolving regulatory changes, data privacy laws, and reporting standards requirements. In the US, firms must navigate the Securities & Exchange Commission's (SEC) Marketing Rule, Financial Crimes Enforcement Network's anti-money laundering rule, among others. Internationally, firms must prepare for the Digital Operational Resiliency Act, the Financial Conduct Authority's Sustainability Disclosure Requirements, Singapore's Corporate Service Providers and Companies and Limited Liability Partnerships (Miscellaneous Amendments) Bills, etc.

By evaluating the business's understanding of regulatory changes, assessing the adequacy of programs to address new requirements, and verifying the existence of a centralized and scalable approach to regulatory change management, Internal Audit can help identify gaps, enhance processes, and promote a culture of proactive compliance.



Risk Management for Sophisticated Investments

The growing popularity of advanced investment vehicles—including exchange-traded funds (ETFs), digital assets, impact investments, and the expansion of private equity firms into retail and wealth management channels—demands **tailored and robust risk management and counterparty risk management strategies**. These sophisticated products and emerging sectors bring unique challenges related to operational complexity, liquidity, volatility, valuation, and regulatory compliance.

To effectively address these challenges, Internal Audit should assess the risks associated with the unique characteristics of each investment vehicle. Further, Internal Audit should understand and evaluate management's approach to mitigating these risks, determining whether appropriate controls are in place, and continuously monitoring for potential issues or changes to processes.



Crisis Management Amidst Uncertainty

A crisis management program is a strategic framework designed to prepare an organization to effectively respond to and manage unexpected and disruptive events. These programs focus on the immediate response to, mitigation of, and recovery from a specific crisis or emergency (e.g., natural disasters, cyber-attacks, financial crime, reputational damage, significant data breach). Additionally, current geopolitical conditions, such as political instability, global conflict, and socio-economic shifts, introduce **operational challenges and uncertainty, underscoring the criticality of effective crisis management**, scenario planning, and proactive risk management approaches.

Internal Audit's role may involve assessing the effectiveness of crisis management programs against leading practices including areas such as governance and ownership, playbooks, scenario planning and testing, impact assessments, resource management, training and awareness, etc.



Advanced Technology Impacting Fraud Risk Management

With the advent of emerging technologies and increased automation, fraud risk management has evolved to include **sophisticated detection methods and real-time monitoring** capabilities. Advanced data analytics enables organizations to sift through vast amounts of data to identify patterns and anomalies indicative of fraudulent behavior, while **automation streamlines processes** and reduces human error by **continuously monitoring transactions** and flagging suspicious activities in real-time.

Internal Audit's role is to evaluate the effectiveness of advanced fraud detection methods and real-time monitoring capabilities, leveraging data analytics and automation to enhance fraud risk management and facilitate early detection and mitigation of fraudulent activities.



Diversification of Distribution Channels

Product distribution has become increasingly complex due to channel diversification, including digital platforms and global markets. Key risks include **regulatory compliance across borders and channels, suitability and packaging requirements** for different client segments, and the challenge of developing a **scalable distribution model**. Significant developments include heightened regulatory scrutiny on cross-border distribution and the use of advanced analytics to tailor product offerings.

Internal Audit should assess how strategic priorities are designed, aligned, communicated, and operationally executed across teams. Additionally, Internal Audit should evaluate the adequacy and effectiveness of distribution tools and technology platforms to ensure data is leveraged throughout the sales lifecycle.



Technology Resiliency and Disaster Recovery Planning

Technology resiliency is a critical capability for organizations to withstand, recover from, and adapt to adverse conditions, disruptions, or cyber threats. Ransomware events, remote work, cloud computing, and regulatory changes are key drivers that emphasize the importance of maintaining robust resiliency measures. **Modern IT infrastructures, sophisticated cyber attacks, and increased reliance on vendors add additional complexities**. Firms must adopt proactive measures (e.g., frequent testing, scenario planning, continuous monitoring) to safeguard against disruptions and promote rapid recovery.

Internal Audit plays a critical role in evaluating criticality assessments, disaster recovery (DR) plans, technical design requirements, and recovery objectives to determine the organization's confidence in recovering from a disruption.

Internal Audit Operational Trends

1. Role Throughout Regulatory Lifecycle

In the evolving regulatory landscape, Internal Audit serves as a **strategic partner in maintaining compliance throughout the regulatory lifecycle**. By providing early insights into compliance readiness, Internal Audit can **identify gaps and offer actionable recommendations**. Ongoing reviews ensure that controls and risk management procedures align with regulatory standards.

2. Use of AI and Digitization of Controls

Leveraging AI and digitizing controls can significantly enhance efficiency and effectiveness. **Advanced analytics and automated solutions can streamline internal audit processes, improve risk detection, and enable real-time monitoring**, elevating the overall control environment by providing deeper insights and more timely feedback to risk owners.

Persisting Risk Areas



Advanced Cyber Security Practices

Cybersecurity practices are advancing with a focus on **advanced threat detection, zero-trust architectures, and AI integration**. These strategies are essential in addressing the sophisticated nature of modern cyber threats, enabling **real-time data analysis, continuous verification of identities, and automation of security tasks, enhancing threat prediction and mitigation**. Key developments include quantum-resistant encryption and greater emphasis on third-party risk management. Compliance with stricter regulatory requirements, such as the SEC's cybersecurity incident disclosure rule, also remains top of mind and presents challenges.

Evaluating cybersecurity programs (e.g., governance, risk management, access control, security architecture & engineering, security operations, data protection), assessing compliance mechanisms, and providing assurance of robust defenses against sophisticated threats are key areas of focus for internal audit functions.



Volume and Complexity of Money Movement

Money movement activities in investment management are becoming increasingly sophisticated, involving **real-time transactions, cross-border transfers, and the integration of digital currencies**. Key risks associated with these activities include fraud, money laundering, operational errors, and compliance with Anti-Money Laundering (AML) regulations. Notable developments in this area include the adoption of emerging technologies for secure and transparent transactions, enhanced AML technologies, and stricter regulatory oversight on digital currency transactions.

Internal Audit functions should evaluate the robustness of money movement controls, compliance with regulatory requirements, effectiveness of fraud detection and prevention mechanisms, adoption of emerging technologies, and governance and oversight structures to determine how financial transactions are being safely and securely transmitted.



Data Management Enabling Advanced Technology

Data management, governance, and privacy measures remain paramount due to the increasing volume and complexity of data and the advent of **AI advancements**. Data management solutions are essential for AI, analytics, and automation, providing the **foundation for these technologies to function efficiently**. The rise of these technologies, along with digital transformation and system integration, has heightened the need for robust data governance frameworks to **promote data accuracy, integrity, and accessibility**. Further, regulatory scrutiny and stringent data privacy laws (e.g., General Data Protection Regulation, California Consumer Privacy Act, etc.) have made compliance a critical concern.

Internal Audit's role is to assess the effectiveness of data management, governance, and privacy measures, evaluating compliance with regulatory requirements and supporting the foundational integrity and efficiency of AI, analytics, and automation technologies.



Third Party Risk Management Modernization

Third-party risk management continues to play a key role due to the **growing reliance on external vendors and service providers**, coupled with the complexity of global supply chains. Key risks include data breaches, operational disruptions, regulatory non-compliance, and reputational damage. Significant developments include the use of advanced technologies (e.g., AI, robotic process automation, analytics) and real-time risk monitoring to enhance initial and ongoing due diligence. Further, organizations may need to revisit risk scoring and prioritization given the new and emerging threats.

Internal Audit's role may extend beyond traditional assurance to include enhancing third-party risk management through policy review, due diligence, continuous monitoring (e.g., new critical providers, risk acceptances, open remediation plan), risk mitigation, training, technology, governance, regulatory compliance, and continuous improvement.



Electronic Communications Compliance

Numerous firms have faced enforcement actions related to recordkeeping and electronic communications (eComms) failures, with **regulatory fines exceeding \$3.28 billion as of September 2024**. Regulators are urging firms to review and enhance their record preservation practices, including policies and procedures for reviewing, investigating, and disciplining violations, as well as self-reporting and remediating deficiencies before regulatory detection.

Internal Audit functions can assess eComms recordkeeping and monitoring programs to help organizations prepare for a potential regulatory exam or investigation. Focus areas may include governance, policies and procedures, surveillance practices (e.g., lexicons, sampling methodologies), training programs, lexicons, disciplinary frameworks, technology solutions, etc.



Navigation and Identification of Conflicts of Interest

Conflicts of interest can pose significant risks to both investment management firms and their clients. These risks can undermine the integrity of investment decisions, erode client trust, and lead to regulatory penalties. **Increased regulatory scrutiny** and the implementation of more **stringent disclosure requirements** has invoked renewed interest in establishing effective programs to manage conflicts. Key developments include the adoption of technology solutions to automate the monitoring of transactions and communications for potential conflicts.

The role of Internal Audit involves rigorously assessing related policies, segregation of duties, training and awareness programs, disclosures, compensation structures, and use of technology established to identify, disclose, and manage conflicts.



Changes in Investment Valuation

Investment valuation processes can be significantly impacted in challenging circumstances such as **market volatility, evolving interest rates, and use of complex financial instruments**, leading to potential inaccuracies and financial misstatements. Key risks include compliance issues, valuation discrepancies, and external economic impacts on asset values. Recent advancements emphasize the significance of **automation, predictive analytics, and artificial intelligence to improve valuation accuracy and transparency**.

Internal Audit assurance services can play a critical role by assessing valuation processes and controls, evaluating adherence to valuation principles and regulatory standards, appropriateness of supporting documentation and providing independent assurance on the effectiveness of valuation models and controls to mitigate risks.

Internal Audit Operational Trends

Global Internal Audit Standards™

As the new **Global Internal Audit Standards** take effect in January, it would be beneficial for Internal Audit functions to conduct a thorough review of these standards, **reconciling current practices to defined requirements**. By performing a gap analysis, Internal Audit functions can **formulate an action plan to update processes and controls to better align with the revised standards**.

Advisory Reviews

Advisory-based reviews enable Internal Audit to **proactively mitigate risks, assess control effectiveness, and provide real-time enhancement recommendations**. This **forward-looking approach** identifies potential issues and affords the opportunity to offer strategic insights, which is particularly useful during large-scale changes and major strategic initiatives.

Hot Topics | Contacts



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