Internal audit — Trusted and disrupted

The vital role of internal audit in building stakeholder trust

KPMG International

Introduction

Economic, political and social unrest, and a global climate crisis have placed unprecedented disruption and pressures on organizations looking to navigate a rapidly changing environment.

Shifting regulations, data as an asset, dynamic customer behavior and employee expectations of continued flexibility in a more virtual workplace add to the headache. In the face of these concerns, however, CEOs are confident in the growth prospects of their companies and the global economy in general.*

The organizations that are expected to thrive are those with a clear (and bullish) strategy for growth and who embrace digital transformation to drive agility, flexibility and speed.

This way of thinking demands an internal audit (IA) function that can evolve as fast as, and are aligned to, the evolving nature of their organization. Faced with new business models and increasing complexity, IA should adapt to provide the protection and value their organization requires.

Risk and regulatory functions are at the heart of successful transformation. Whether you're digitizing a single part of the organization, connecting the business around your customers, or rethinking the entire business model, you need these functions to assess what could go wrong, how to mitigate it, and how to create stakeholder trust at every turn.

When you address risk and regulation in a disciplined way, through the eyes of all stakeholders, it doesn't hold you back — it gives you the freedom to go fast. You can confidently create new technologies, markets, and customer experiences, because you've built trust into your systems and processes; people want to do business with, and work for, organizations they trust.

Building trust enhances enterprise value and secures stakeholders' confidence. It also fosters growth and innovation, can improve performance, and helps you manage change.

To thrive in today's complex business environments and keep pace with rapid transformation in the digital era, you should have a dynamic approach to risk and regulation.

The way we see it, trust is the ultimate business enabler, and your IA function helps create it.

* Source: KPMG Global CEO survey 2021

Executive summary

In 2019, KPMG published our latest insights into the challenges facing organizations, and the impact this was having upon the IA function. The time was defined by rapid changes in technology, shifting regulations, the emergence of new risks, talent shortages and unprecedented changes in business models; in short, business was going through significant disruption and looking to digital transformation as the ultimate solution.

Sound familiar?

Fast forward to today's fast-evolving market and digital transformation is no longer a distant aspiration. It is the new reality, as companies face pressure to grow, while also increasing agility, managing risk, and building resilience for whatever tomorrow holds.

In this game, trust is the coveted ticket to play. When you earn the trust of your stakeholders — from customers and regulators to employees, suppliers, investors, and the communities where you operate — it gives you the permission to innovate boldly, grow responsibly, and create a new future.

Organizations that have successfully navigated the challenges of recent times are optimistic for the times ahead; our recent CEO outlook survey found leaders optimistic about the growth prospects of their company and the global economy in general. The challenge is expected to be in ensuring their culture adapts in line with their operational goals.

> Organizations have, as a result of sheer necessity, **made decisions faster**, **collaborated better**, **adopted new technologies faster**.
>
> The challenge now is to sustain those improvements over the long term. Defining a **clear strategy** for the future of work will likely be critical, with a focus on **strengthening internal trust**.
>
> — **Nhlamu Dlomu**, Global Head of People, KPMG International

CEOs in our 2021 outlook survey expect aggressive growth and are looking to expand their business and organizations in any way they can, with a focus on strategic alliances, mergers and acquisitions, and an increasing investment in digital technologies.

With this aggressive growth stance, and a determination to instill new levels of digital agility, IA will likley face new cyber and data security challenges; their ability to meet the changing expectations of their executive team, audit committee and business line managers should expect to be key to successful transformation.
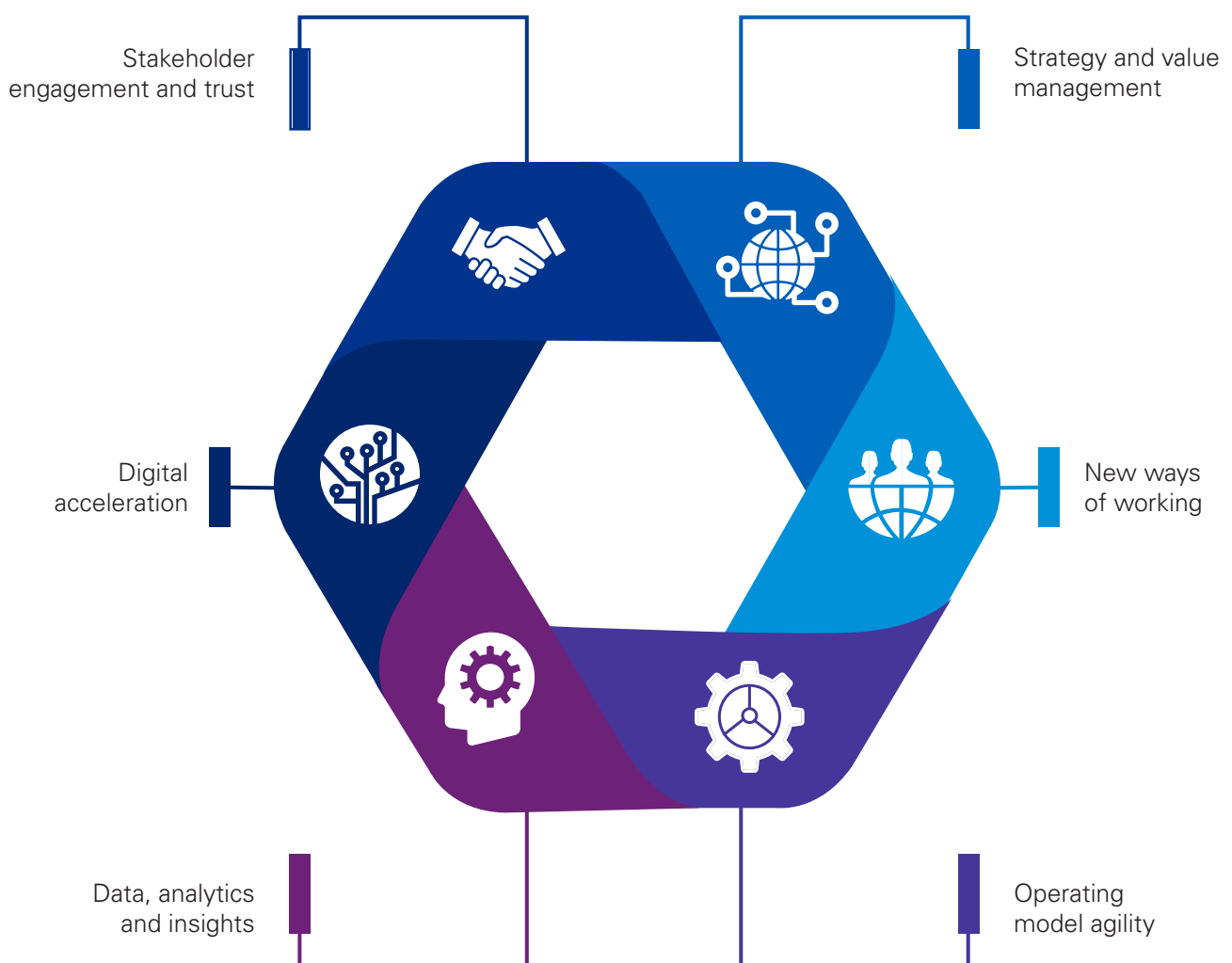
While being tasked with working more efficiently, creating more value in less time, with potentially limited resources, IA should skillfully balance its role of enabling change to drive business value with effective assessment of these new and critical risks. As technology, data, and automation play an ever-greater role in the daily work of the IA function, the shape of the audit workforce should evolve to integrate more tech-savvy audit professionals.

For IA leaders, it's not just about evaluating risk management and controls processes that should involve more technology; it's about embracing many of those same technologies to enable better, smarter audits. Rising to these demands requires new thinking, new skills and new capabilities. IA should expect to become more data enabled, dynamic and driven than ever before.

The future Chief Audit Executive (CAE) agenda

Leading organizations have developed an agenda to help deal with disruption across their IA functions. This agenda includes the following six areas:

Stakeholder engagement and trust

Strategy and value management

Digital acceleration

New ways of working

Data, analytics and insights

Operating model agility

KPMG's point of view on the future of IA provides organizations with ways to harness these six key areas effectively to help propel the business forward.
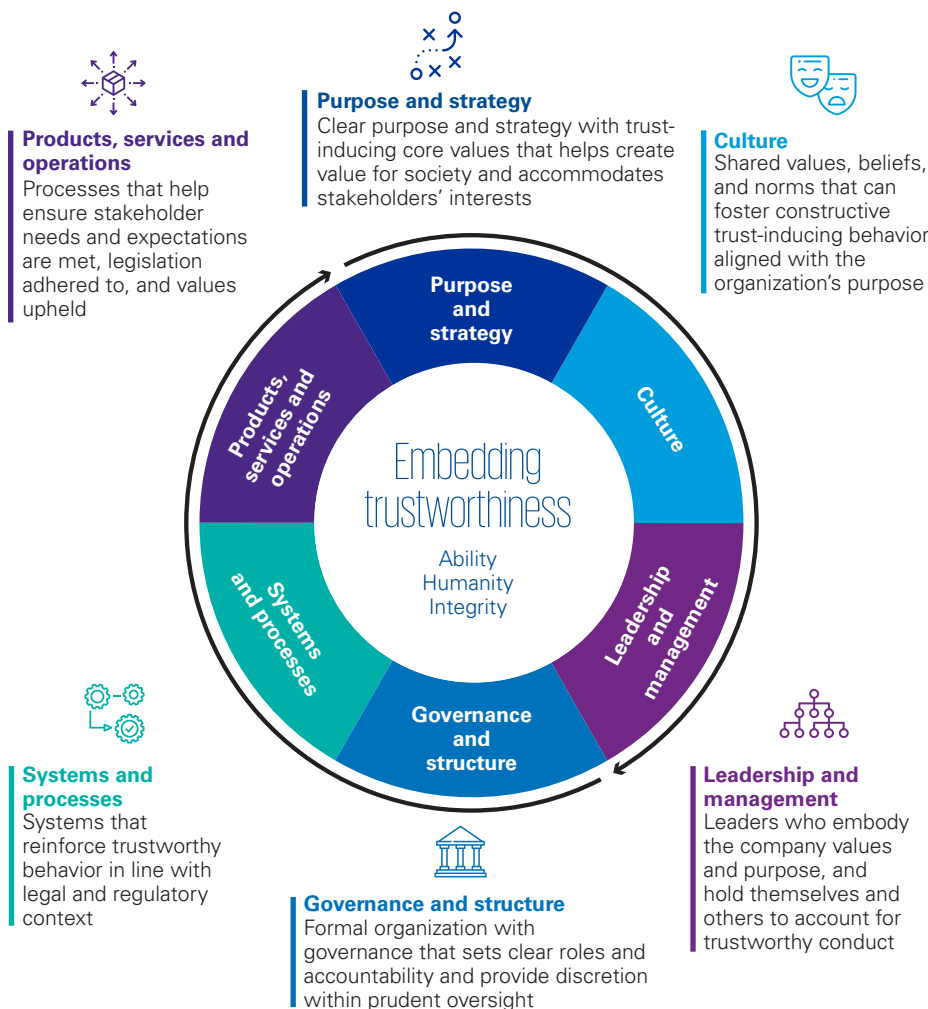
Stakeholder engagement and trust

As enterprises evolve, risk monitoring should be an ongoing process, working in lockstep with transformation initiatives and receiving an appropriate level of attention. Organizations should go beyond reactive defense and passive compliance to actively anticipate risks and opportunities, and detect system failures before it's too late.

That's how you inspire stakeholder trust and create a successful future that's also sustainable.

Six elements of trust

To earn and sustain the trust of your stakeholders, embed trustworthiness throughout your business. KPMG Australia, in conjunction with the University of Queensland Business School, identified six critical elements of trust:

Products, services and operations
Processes that help ensure stakeholder needs and expectations are met, legislation adhered to, and values upheld

Purpose and strategy
Clear purpose and strategy with trust-inducing core values that helps create value for society and accommodates stakeholders' interests

Culture
Shared values, beliefs, and norms that can foster constructive trust-inducing behavior aligned with the organization's purpose

Systems and processes
Systems that reinforce trustworthy behavior in line with legal and regulatory context

Governance and structure
Formal organization with governance that sets clear roles and accountability and provide discretion within prudent oversight

Leadership and management
Leaders who embody the company values and purpose, and hold themselves and others to account for trustworthy conduct

Circle diagram:
Purpose and strategy · Culture · Leadership and management · Governance and structure · Systems and processes · Products, services and operations

Embedding trustworthiness
Ability
Humanity
Integrity

The Trusted Imperative

In most sectors, organizations have a real opportunity to define a different future through digital transformation, and stakeholder trust is an indispensable ingredient. At KPMG, we understand how you feel about the opportunities and challenges because we've met them in our own transformation. We know firsthand the importance of creating and retaining stakeholder trust. Our business depends on it.

Meeting you wherever you are on the journey, we combine deep business, industry, and technical knowledge to bake risk and regulatory discipline into your digital transformation. So whether you're optimizing a single function or connecting the entire enterprise, you can inspire stakeholder trust. As a leading business enabler, trust is your ticket to responsible growth, bold innovation, confident decision-making, and sustainable advances in performance.

Source: "Trustworthy by design", KPMG Australia and the University of Queensland Business School, 2019

Permeating all aspects of the agenda, the IA function should know, and fully understand, the requirements of its top stakeholders — and **invest the time needed to foster a relationship of trust attuned to their needs**.

- Internal stakeholders are IA's top priority, particularly the board/audit committee and select executives and leaders.

- IA should support these internal stakeholders and associates with functions to help the organization better meet its obligations to external stakeholders.

- The critical attributes of a relationship of trust are ability, humanity, and integrity. Trusted relationships can be built through demonstrating IA's relevance to each stakeholder and the organization as a whole.

Through developing relationships built on trust, IA can be influential in executive conversations as a strategic risk adviser or problem solver.

- Effective IA functions should routinely probe its internal stakeholders on arising initiatives and changes in business processes and offer relevant insights to further their risk discussions.

- As IA becomes aware of — and integrates themselves into — these initiatives, they can serve as a trusted adviser, bringing the right insights to planning discussions and providing consultative support or real-time assurance.

To effectively act as a strategic risk adviser, or problem solver, IA should commit the necessary resources to address ad hoc requests by the business.

- The audit plan should have built-in flexibility to take on project work for these ad hoc requests.

- IA resources are accessible to provide the right subject matter knowledge for the risk topics added to the plan.

- Metrics around involvement in change initiatives, ad hoc requests and points of impact (i.e. improvements implemented as a result of audit work) should be monitored as KPIs.

Strategy and value management
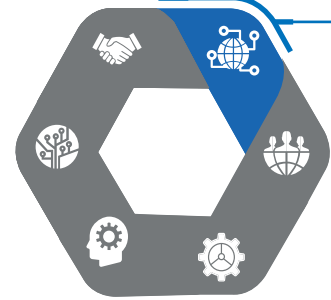
IA strategy should consider a mix of enhanced assurance, risk insights and business improvements — all attuned to known stakeholder needs.
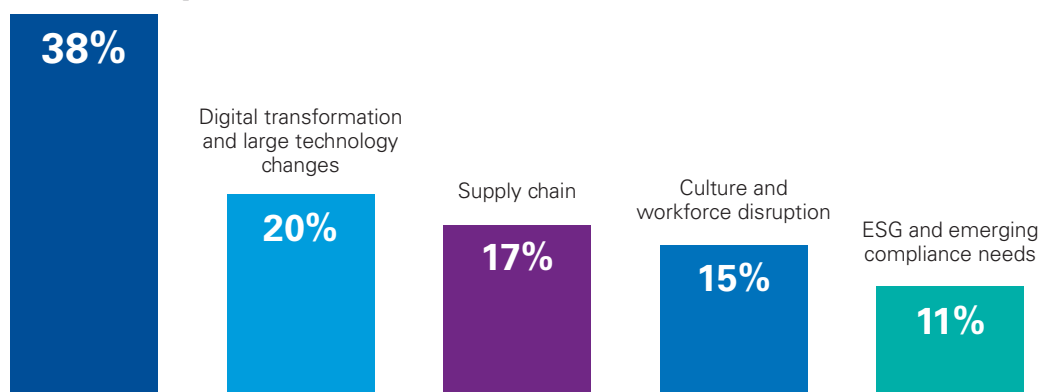
The audit plan should be a reflection of the initiatives arising from the organization's overall business strategy. Strategically important and future-focused emerging risks (digital transformation, cyber security, ESG programs, data security) should be prioritized, as IA moves from being problem finders to also problem solvers. Data and technology related risks specifically trend at the top of these emerging risks that IA functions are seeing rise in importance for their organization and for IA involvement.

When considering risk areas to prioritize for its plan, IA should leverage the work of other assurance functions wherever practical.

Which emerging risk is most impacting your organization?

Cyber and data security
38%

Digital transformation and large technology changes
20%

Supply chain
17%

Culture and workforce disruption
15%

ESG and emerging compliance needs
11%

Source: KPMG LLP webcast, "C-Suite Perspectives | Spotlight on CFOs and Internal Audit," November 30, 2021

IA metrics should demonstrate how the function delivers value through clearly presented details of the value delivered through enhanced assurance, risk insights and business improvement.

## Where is there most interest in use of KPIs to measure IA value?
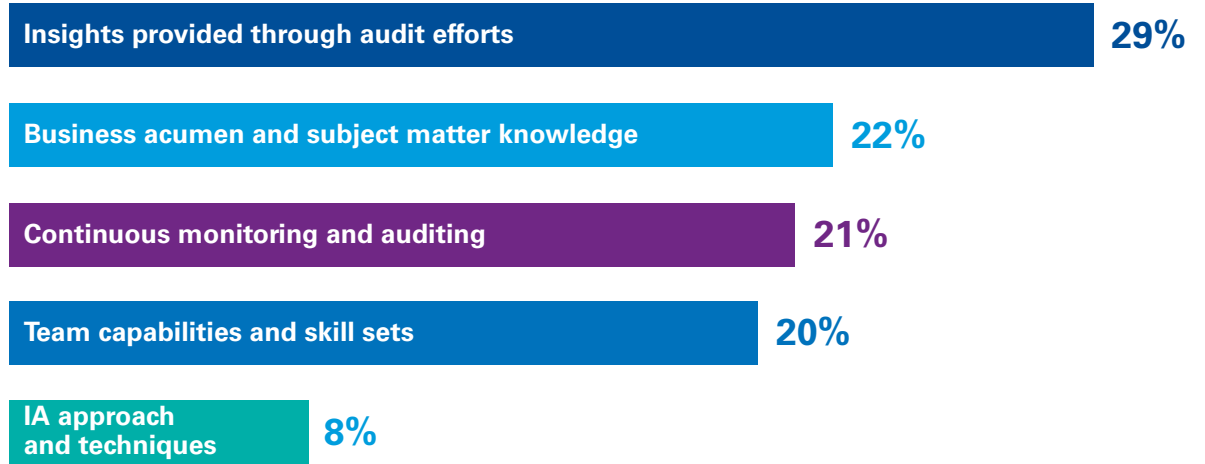
Insights provided through audit efforts	**29%**
Business acumen and subject matter knowledge	**22%**
Continuous monitoring and auditing	**21%**
Team capabilities and skill sets	**20%**
IA approach and techniques	**8%**

Source: KPMG LLP webcast, "C-Suite Perspectives | Spotlight on CFOs and Internal Audit," November 30, 2021

As IA increases its role in these strategically important areas, conveying the insights provided through these efforts is key to demonstrating that value.

New ways of working
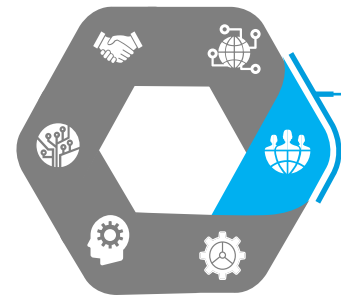
To move into a more strategic, advisory role to management, IA departments should adapt the profile of the typical candidate they hire. As the organization pushes forward with digital transformation, and new technologies are adopted, hiring profiles should evolve to include a mix of strategic, behavioral, data utilization and technology skills — alongside traditional IA skills.

While adapting the type of talent within the department, IA is also reconsidering the model and tools available to execute on its agenda. This means offering more variation in working models with remote work and flexible hours. This also means looking at emerging technologies that enable IA to approach activities differently, such as the use of drones or automation to perform work in alternative ways.

What skills do you think are most important for an IA role?

43%
Business knowledge and acumen

23%
Technology and data enabled delivery

15%
Collaboration and change management

7%
Innovation

6%
Talent development and mentoring

6%
Audit 101: Effective challenge
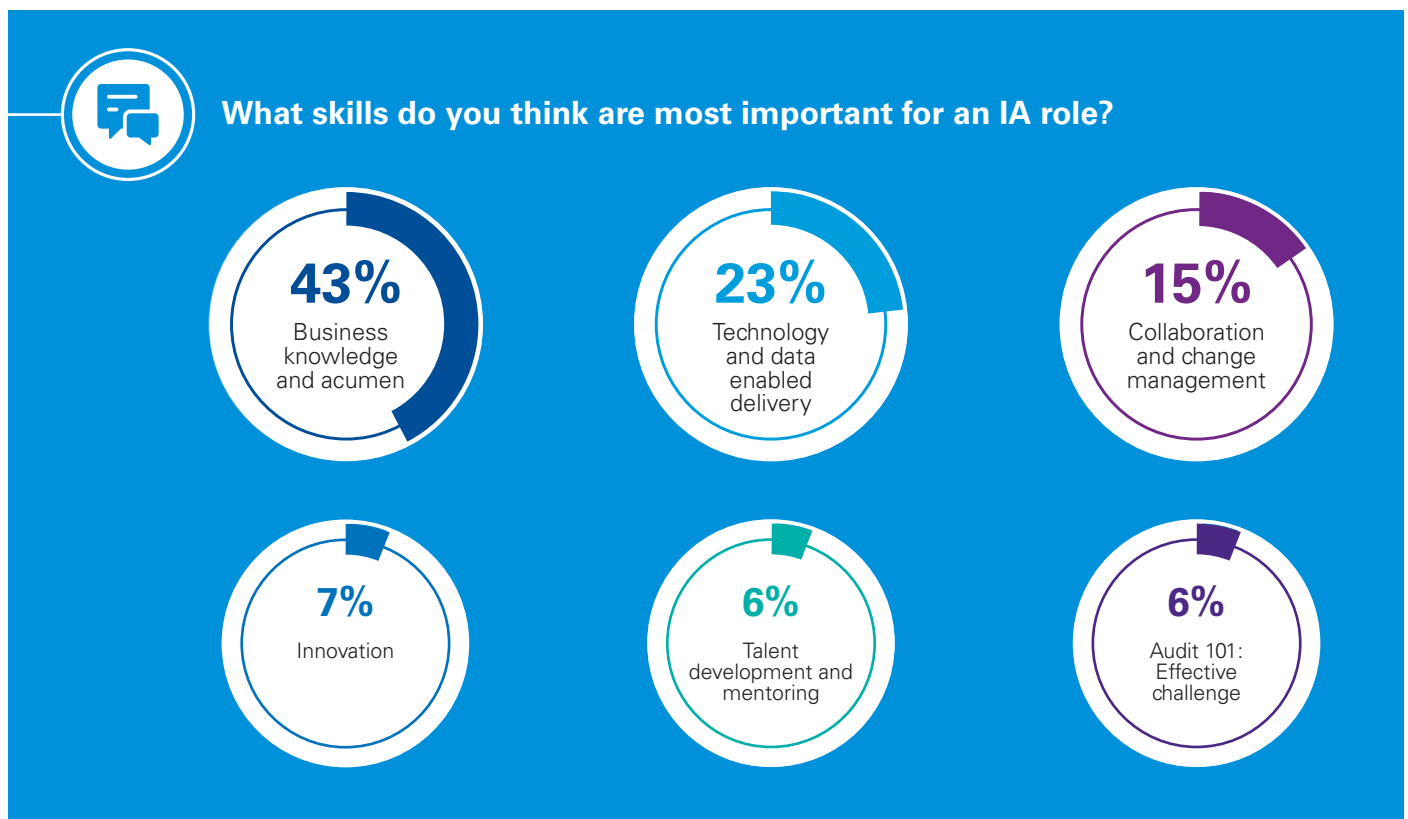
Source: KPMG LLP webcast, Chief Audit Executive | Economic Outlook for 2022, December 2, 2021

Critical thinking and problem-solving skillsets, including enterprise acumen and cultural and behavioral awareness, should take priority over expected core audit skill sets.

Proficiency around technology and analytics should be sought as core audit skill sets.

Reskilling existing team members, bringing in new and temporary auditors, and adjusting to remote working should be key enablers.

Tasks should be performed through a mix of core team members, rotational (and temporary) employees, subject matter professionals, strategic sourcing, automation, and offshore/ nearshore capabilities.

Change drivers bring objective knowledge and understanding of functions across the organization, with an ability to analyze threats and opportunities to inform the strategic direction of the business. They have become a critical role for driving value and overall business performance.

Operating model agility
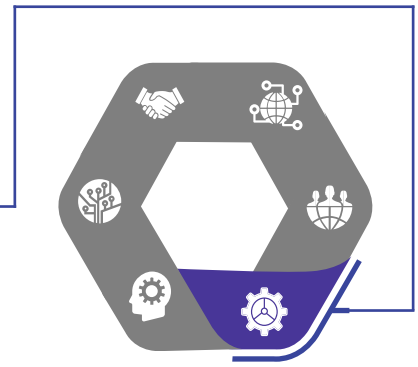
The IA operating model should leverage a more agile and dynamic approach to respond to the organization's changing risk landscape and deliver on its value promise, to protect and enhance organizational value.

While the degree of agility at the audit engagement level varies depending on where the overall organization falls in the Agile adoption continuum, Agile-inspired approaches are clearly maintaining their momentum in IA.

A recent KPMG survey found that **26 percent** of IA functions had already adopted Agile-inspired or dynamic approaches to internal auditing, while a further **45 percent** are planning to introduce more Agile, and data-driven concepts.

Source: KPMG LLP webcast, "C-Suite Perspectives | Spotlight on CFOs and Internal Audit," November 30, 2021

To what extent is your IA function interested in, or adopting, a more dynamic approach?

Planning to introduce an Agile style	10%
Planning to introduce a more data-driven approach	16%
Planning to introduce both Agile and data-driven approaches	19%
Already adopted at least a portion of this approach	26%
Sounds interesting, but haven't planned for any changes yet	30%

45%
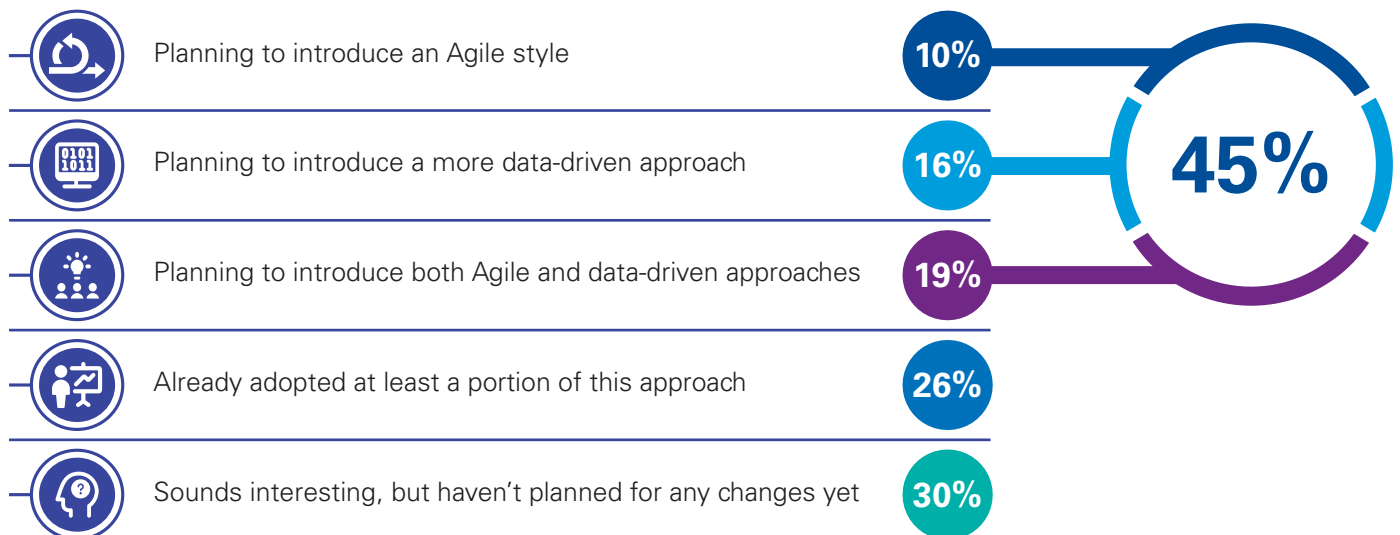
Source: "Adapting to agile internal audit", KPMG LLP, March 2021

Data, analytics, and insights

Use of data analytics continues to be a powerful tool for the IA function to assess risk and provide insights to assist management decision-making on process improvements and the effectiveness of controls.
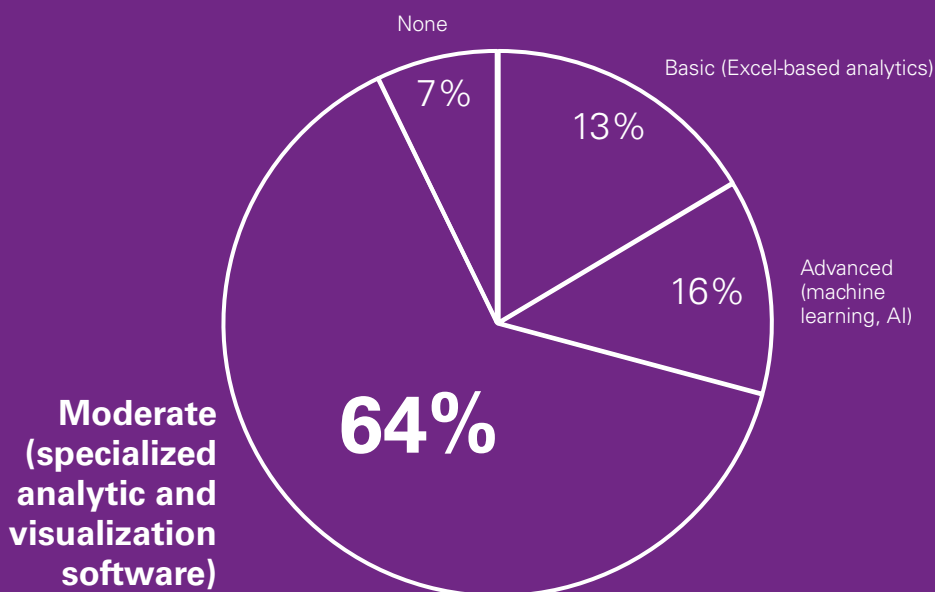
- Enterprise data should be leveraged to provide real insight into the risks facing the organization, with deep analytics leveraged to inform IA risk assessment, planning and monitoring.

- Data analytics and technology should support broader audit coverage and continuous auditing by offering visibility to trends across an entire population.

- Data-driven risk assessments and data science should be utilized to enable smarter, more informed business decisions.

What level of technology and analytics skills are you looking for an IA to have?

- None 7%
- Basic (Excel-based analytics) 13%
- Advanced (machine learning, AI) 16%
- Moderate (specialized analytic and visualization software) **64%**

There is a clear trend that **risk assessment** is a reason of investment for expanded use of data analytics; already, **51% of functions** are using some degree of **quantitative data inputs** in their process.

Source: "Evolving risk assessment and internal audit planning", KPMG LLP, December 2020

Source: KPMG LLP webcast, Chief Audit Executive | Economic Outlook for 2022, December 2, 2021

Digital
acceleration
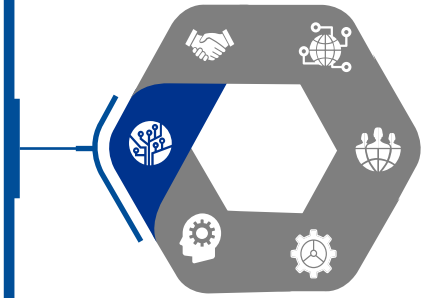
> " For a majority of U.S. CEOs, the pandemic has meant an acceleration in digital transformation by months or even years. 'The move to digitization has accelerated and the expected benefits will likely be permanent. **There is no going back**.
>
> — **Carl Carande**, Vice Chair for Advisory, KPMG in the US

IA is finding itself in the midst of unprecedented digital acceleration and a need to digitize itself. A **modern technology architecture** is the foundation of a digitized IA function.

The evolving CAE agenda clearly demonstrates the need for a truly digital IA process, grounded in intelligent workflow, and including data-enabled risk assessment, process mining, and Agile-inspired audit execution.

A methodology that focuses and builds on quick wins is required — a common architectural reference model that demonstrates critical components, including common off-the-shelf tools and technologies to support the needs of the modern IA practice.

Those IA functions who have recognized the critical need for digitization are collaborating with the broader business to leverage new cloud technologies already present within the organization, to accelerate the pace of change and fast-track their ability to do more insightful and impactful work.

To fully harness digital acceleration and support the needs of the modern organization, IA should fully understand and facilitate the evolving CAE agenda:

Understand the opportunities for digital enhancement of current IA processes

Discover tools and technology to meet new stakeholder expectations

Identify incremental changes in current processes to enhance IA delivery.

Powered Enterprise | Internal Audit

The power of insight-driven IA

Speed up auditing and reporting — and elevate trust with KPMG Powered Enterprise | Internal Audit

What if IA could be less reactive and more attuned to emerging risk?

Turn your IA into a problem-solving powerhouse.

Many IA functions are stuck finding issues after the fact. KPMG Powered Enterprise | Internal Audit (Powered Internal Audit) can help your organization turn the focus away from manual tasks and towards new insights that identify how your business can improve.

We bring our years of business and technology experience to help IA departments rethink how they define their strategy, operate as a function, prioritize work, and use data, analytics and automation to provide value beyond standard assurance.

By taking advantage of preconfigured, customizable tools, organizations can quickly build roadmaps toward continuous, real-time auditing and concise, visualized reporting. And by using a future-focused approach, they can build a program that is responsive to disruption, flexes with the overall business strategy, orchestrates talent development, and becomes a trusted, integral part of leadership decision-making.

Expected benefits and outcomes

- Impactful risk management contributions
- Clarity in findings and action plans
- Improved estimation of impact
- Improved use of audit resources
- Faster report creation times
- Shorter audit completion time

Are you ready to evolve? Learn more about the difference Powered Internal Audit can make at:
home.kpmg.com/poweredinternalaudit

Accelerating IA transformation

Having discussed how the CAE agenda is shaping the IA function of leading organizations, the question most asked is how to make this a reality. Having already established the increased complexity and demands placed upon IA, the hardest part is often knowing where to start.

Below, KPMG offers our insight on the crucial steps required to start (or continue) on the road to transformation. Based on our breadth of work transforming IA functions across industries, and at varying stages in their transformation journeys, the following are the common attributes shared by organizations who have enjoyed success.

Establish a strategic vision for IA

To provide real-time value to the organization, IA should align its activities with the organization's vision. Get started by identifying the organization's current state and creating a vision for the function that meshes with the organization's path forward, key objectives, and business risks, taking into account any uncertainty in its operating environment. Also consider assessing your current state against the KPMG leading practices and maturity model to help determine where investment would be most valuable.
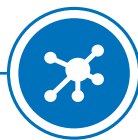
Collaborate with other lines of defense for synergies

As part of risk assessment and audit planning, consider how other lines of defense are already aligned to aspects of the risk universe. Assess where IA can collaborate and consult on active risk mitigation needs, as an alternative to waiting until the risk is managed, to provide assurance support. This collaboration could include seeking to leverage the same tools for increased Governance, Risk, and Compliance (GRC) integration or coinvestment in new digital capabilities.

Change the profile of delivery capabilities

Technology skills, especially data analytics, will likely become critical to future audit work and are worth investing in. IA professionals should also bring a deeper level of business know-how with a problem-solving mindset; they should understand the elements of individual business processes and how each tie back to the big picture, from a risk perspective, to address risks broadly across the business. These are the skill sets IA leaders should look to develop through training, retention protocols, reskilling, and rotational programs, and when filling future openings.

Align data and technology needs to IA's assurance objectives

Embedding and curating data into the IA operating model is a required change, but there are challenges to address. The volume of data needed for testing and analysis within the data-driven audit function can become overwhelming and the curation of data and insights developed by audit are complex. This highlights the importance for a technology strategy for IA to bring the tools needed to support objectives. Assessing enterprise technologies available is an important step in building this strategy and considering how to tap into data and tools already in place for the organization.

Think big while starting small, focusing on a pilot concept

With a future-state vision set, transformation can occur incrementally, and narrowing the scope to a single pilot area can help prove the value in investing further. Select a single audit to expand the use of data analytics or introduce Agile-inspired approaches. Or, focus on better leveraging a specific technology to take advantage of its built-in capabilities. Even a refresh of reporting to be more succinct and focused can enhance value and save time. No matter where you are in your transformation journey, you should evaluate your investment plan to help ensure you are able to reach your transformation goals.

Learn how KPMG practitioners helped an organization transform IA to establish trust

About the organization

A leader in business market intelligence and technology

Industry: Technology, media and telecommunications

Project: IA transformation and cosource

Project at a glance

Transform IA to strengthen stakeholder trust and promote a more meaningful risk dialogue.

KPMG in the US brought a combination of industry and audit knowledge across key geographies within the U.S., U.K., and European Union. This included an Agile and data-driven approach, to help the organization establish greater trust with its IA function through enhanced visibility to risk and assurance.

Challenges

This leader in business market intelligence and technology wanted to rebrand and transform its IA function. This transformation would help the organization better understand the risks across its systems, processes, and procedures to better cover the intricacies of its business through enhanced assurance.

While the company had an existing program in place to audit its internal operations, it wanted to bring more agility and innovation into its approach. It wanted to work with a new global, co-sourced provider who brought a balanced knowledge of the standards, risks, and controls its sector should adhere to, alongside innovative thinking and a problem-solving mindset. And it needed to embark upon this transformation during the pandemic, in a fully remote environment.

KPMG in the US initiatives

In March 2020, KPMG practitioners onboarded and immediately embraced the culture and bespoke systems in place to help the company work towards its goals to transform IA. KPMG practitioners helped:

- Restructure processes for IA and senior leadership to transition to a new communication and reporting strategy.

- Use agile concepts, including scrum, to connect with audit stakeholders and manage projects more efficiently.

- Add technology, data analytics, and new ways of working and learning to help IA adapt its approach to the company's culture.

- Integration of the company's small in-house IA group with KPMG subject matter professionals to collaborate.

- Bring relevant, industry-specific solutions using transparency, leading practices, and quality as cornerstones.

Successful outcomes

Working with KPMG in the US, this organization redefined the brand and value of IA within the business.

- More meaningful dialogue about risk and risk responses; IA's stakeholders gained a stronger sense of trust with the IA process.

- Clarity into the value IA provides in understanding risk and how it should be managed.

- More agility in ways of working and meeting stakeholder needs by streamlining internal practices.

- Improved audit insights through concise, empirical data to help make decisions informed by data analytics and visualization.

- Improved transparency into audit results through closer collaboration with audit stakeholders, earlier communication and more impact-oriented and timely reporting.

Conclusion

CEOs are increasingly confident that the global economy is coming back strong. This confidence has put leadership in an aggressive growth stance — determined to expand their organizations in any way they can.

Investments in innovative technologies and processes are seen as enablers for new levels of digital agility, driving organizations towards their intended growth.

While this confidence brings renewed optimism, it also brings significant challenges to the IA function as they strive to keep pace with ever-changing and increasingly complex stakeholder requirements.

Following the agenda of successful organizations and leveraging the lessons we have learnt transforming audit functions across industries, you can take a step in the right direction on your transformation journey.

To learn more about how KPMG can help, visit home.kpmg/FutureofInternalAudit or get in touch:
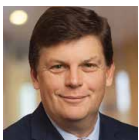
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