



# Internal audit reimagined

**Insights for a fast-changing profession**

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# New thinking for a new era

**Rapid technology change. Shifting regulations. Talent shortages. Emerging risks. Unprecedented changes in business models. Businesses are being disrupted from many fronts, and the effects are permeating to internal audit functions. The next three to five years will add significant complexity to the business of internal audit, presenting both new challenges to overcome and opportunities to shine.**

**This new era demands new thinking, new skills, new capabilities, and even new delivery models. Given the scope and pace of change, traditional approaches to internal audit will soon prove incapable of providing the level of risk assurance and actionable insight business leaders need to protect and enhance organizational value.**

**For internal audit to effectively meet the raised expectations of stakeholders—including the audit committee, executive team, and business line managers—greater speed, agility, business alignment, and focus on the future will be paramount. Therefore, internal audit will need to become more data enabled, dynamic, and driven than ever before.**

**Read the following pages to examine what's ahead for internal audit departments and gain practical advice for building next-generation internal audit functions.**



# Disruption on all fronts

**Much has been written about the massive disruption of businesses today. Relentless technology innovation, a shifting regulatory landscape, a talent shortage, and emerging business models are creating massive complexity for internal audit.**

# Technology change



Companies are operating in a marketplace under siege. Powerful “platform” companies are introducing potentially revolutionary business models in nearly every industry. Nimble and innovative technology-driven upstarts are pressuring traditional organizations to raise their game. And, changing consumer preferences and demographics are redefining how customers interact with companies—and what they expect from their experiences.

These market shifts are converging to make organizations of all shapes and sizes more digital than ever before.

**Business operations, from the front office to the back, increasingly rely on emerging technology innovations such as intelligent automation, artificial intelligence, machine learning, robotics, predictive analytics, and blockchain to serve customers faster, smarter, and more effectively.**

Such innovations have the potential to drive significant business value and give organizations a critical competitive edge. But, they also reshape the enterprise risk landscape, making internal audit’s job far more complex. There will be new processes to audit. There will be new risks to watch out for. There will be new regulations at play. There will be new changes to navigate. And, there will be new corners to see around.

Internal audit must skillfully balance its role of enabling change to drive business value with effective assessment of new and critical risks. Internal audit functions that not only support but also enable organizations to effect risk-adjusted strategies will emerge as true contributors to business value. An old adage is especially relevant in the fast-paced and dynamic environment we see today: The better the brakes are, the faster we can drive the car.

For example, organizations that enhance operational processes through automation may also need to make critical changes to the control environment in order to monitor and manage the associated risks, such as business disruption due to bot failure. Meanwhile, as businesses increase their use of data, digitization, and analytics, they may need new checks in place to ensure they adequately protect sensitive data, guard against fraud or misuse, and remain compliant with wide-ranging privacy rules.



## Regulatory change

The evolving regulatory landscape is also an ever-present challenge. Although U.S. corporations are currently grappling with the effects of a deregulatory policy agenda intended to loosen some federal oversight rules, the regulatory burden remains.

Businesses are still expected to strengthen core risk management and governance practices, particularly in the areas of cybersecurity, data privacy, and third-party risk management. Other regulatory challenges relate to conduct and culture, business risk management, fraud and misconduct, strategic risk and disruption, value protection, data and analytics, capital and liquidity, and geopolitical uncertainty.

In areas of evolving regulatory change, internal audit must reexamine the effectiveness of risk assessment and testing processes it relies on to evaluate compliance. The audit committee also increasingly calls on internal audit to provide recommendations on necessary updates to controls, risk management, and governance processes in light of new regulations, along with increased coordination with other internal assurance functions.

Internal audit in the future will be significantly impacted by evolving models that organizations employ to integrate assurance functions, including their respective roles, structure, interdependencies, reporting, and value propositions to the business. Internal audit functions are poised to take a leadership role in this evolution by leveraging core competencies and organizational DNA that make internal audit a natural fit, including, producing timely and meaningful risk insights, identifying breakdowns and root causes, and driving forward-looking analyses. Internal audit will be key not only for providing validation and risk assurance but also for assessing and enhancing business performance and playing a role in converting these insights into meaningful action and change.





## Talent gap

Many internal audit departments are also dealing with a talent shortage.

Today's strong U.S. economy, featuring low unemployment levels, is one factor. In October 2018, U.S. unemployment levels dipped to 3.7 percent, leaving hiring managers struggling to fill positions.<sup>1</sup>

But the bigger factor is how internal audit work is changing—and the required skill sets along with it.

Increasingly, internal auditors are participating more in strategic business initiatives and providing more opinions on risk management and compliance functions, both of which demand specialized knowledge. People with the ability to effectively interact with the business are increasingly hard to find. At the same time, rapid shifts in technology—and the increased rate of technology adoption across businesses—are requiring internal auditors to take on emerging technology skills such as data mining and analytics.

In addition, business operations—including risk management, compliance, and governance processes—continue to grow more complex. There is a greater need than ever for an independent review, which means internal audit may simply need more capable hands on deck (or better ways of doing their work) to achieve its goals.

Other factors are also contributing to the skills challenge facing internal audit groups. Not only is the workforce increasingly young and inexperienced, but the best people may not stay long in the role. In a recent KPMG survey, 50 percent of IT audit and compliance professionals who described a skill deficiency in their departments attributed it to difficulties in recruiting and retraining staff.<sup>2</sup>

Creating a culture that's attractive to the new generation of business professionals is an ongoing challenge, and it might require nontraditional talent management approaches. For example, our recent survey shows that work-life balance is a critically important factor in team engagement, even more than compensation. Further, variety of project experience and professional development are essential for driving excitement at work.

In the face of disruptive forces and increasing speed of change, executive stakeholders are less concerned today with maintaining traditional structures and are laser-focused on driving results. With focused resolve to deploy more effective ways to get the job done and enhance results, business leaders and audit committees are exploring new models and non traditional ways to deploy the right expertise at the right time. Not only is internal audit not an exception to these trends, it's a primary candidate for restructuring. Providing effective and efficient assurance is table stakes and contribution to increased business impact and speed to value is increasingly sought after. Regardless of whether the talent is built organically, borrowed, bought or shared, the expectation is bottom line results and traditional internal audit department models are being tested and transformed.

<sup>1</sup> U.S. Added 250,000 Jobs in October; Unemployment at 3.7% (The New York Times, Nov. 2, 2018)

<sup>2</sup> KPMG IT Audit practice survey of approximately 100 IT audit and compliance professionals attending a national conference in 2018

# Envisioning next-generation internal audit functions

**Business disruption—and the resulting competitive pressures—are forcing internal audit departments to transform how they work and where they focus. What will spell success in three to five years' time? Read our predictions.**

Speed and flexibility will reign supreme



**Change is relentless in business, with technology change the most forceful of all.**

But as the business evolves, the audit committee and chief finance officer need to know that the control environment continues to be well managed.

To stay current, internal audit must continually advance its approach. Successful internal audit functions of the future will be relevant and agile—able to change their approach and focus quickly and on a timely basis—in line with current business needs. In fact, the annual audit plan may become a thing of the past.



## Internal audit will put new technology to work

The digitization of business processes is driving a similar digitization of internal audit itself. For internal audit leaders, it's not just about evaluating risk management and controls processes that now involve more technology. It's about embracing many of those same technologies to enable better, smarter audits.

Now and in the near future, internal audit leaders will also look to hire more tech-savvy audit professionals. As technology, data and automation play an ever-greater role in the daily work of the internal audit function, people must become more comfortable using (or working alongside) modern technologies, such as data and analytics (D&A) and artificial intelligence, while being highly adept at navigating the organization and its culture. Balancing functional capabilities with deep technical skills including emerging technologies and increased demand for business-minded professionals with executive presence will be a challenge and an opportunity.

## Automation will increase audit efficiency, effectiveness

Already positively impacting all kinds of business operations, intelligent automation is one technology that will prove critical to improving the efficiency and effectiveness of internal audit—especially in the area of control performance.

Control activities, including monitoring and testing, are typically a significant operational expense for businesses. But now it's possible to automate these once manual, labor-intensive processes with "bots" and other forms of intelligent automation.

By supplementing team activities with intelligent automation, internal auditors can save time, money, and improve bottom-line results. Throughout the enterprise, research suggests that strategically leveraging intelligent automation to create new business and operating models can yield up to 10x dividends.<sup>3</sup>

<sup>3</sup> KPMG survey on the impact of intelligent automation on business and operating models (KPMG LLP, 2018)



## Related reading

**Internal audit plays a critical role in achieving intelligent automation goals and managing associated risks.**

**KPMG's four-part insight series explores key opportunities for internal audit within intelligent automation activities.**

**Access the series at <https://advisory.kpmg.us/articles/2018/series-internal-audit-intelligent-automation.html>.**



## Data & analytics will advance how organizations assess risk

D&A is poised to become an exceptionally powerful tool for the internal audit function.

D&A tools allow internal audit to provide data-driven insights to assist management decision making on process improvements and control effectiveness. They derive insights from vast volumes of information, drawn from across the enterprise and external sources too, at super-fast speeds—far faster than a single person or even a team of people. In this way, embedding D&A technologies into audit procedures will help internal audit provide better overall coverage. They'll reduce how much auditors rely on supposition and judgement drawn from limited samples of data in their evaluations, thereby increasing accuracy, relevance, and meaningful results.

Conceptually, internal auditors could one day gain the ability to audit 100 percent of what is happening.

D&A tools also improve internal audit's ability to quantify results to management. Dashboards and visualizations bring key findings to the forefront in a way that's quick and easy to explain, explore, drill down, and ultimately act on. By compiling a single view of data and insights from across the audit universe, internal audit will significantly increase reporting value.

Finally, capabilities in predictive analytics support and enhance continuous, real-time auditing. With predictive analytics, internal audit will be able to assess and help manage risks outside of the normal, cyclical audit cycle. Rather, internal audit (in collaboration with other risk management and compliance groups) will be able to pinpoint anomalies in the data that may point to potential problems down the road—and may even prevent them. These insights will help auditors identify the highest risk areas and improve audit focus. As a result, audit planning can become far more dynamic, relevant, and effective.

## Internal auditors will take on more strategic roles

Today, checklist-like testing of processes and controls are too simplistic for the complexities of the current business environment. Increasingly, tomorrow's internal auditors will be expected to deliver independent insights and analysis beyond an audit report.

As such, internal auditors will increase their knowledge of the business processes they are evaluating so they can both help functions address deficiencies and make more strategic recommendations for improving how the organization manages risk. Mastering the ins and outs of the technicalities of internal audit will still be crucial, but practical business knowledge and experience is where internal audit will add real value.

To move into a more strategic, advisory role to management, some departments may adapt the profile

of the typical candidate they hire into internal audit. Some may introduce innovative training programs such as cross-skilling and knowledge transfer between different business functions. Others may look to eliminate duplicate work and automate manual and routine tasks so auditors are freed up for higher-level thinking.

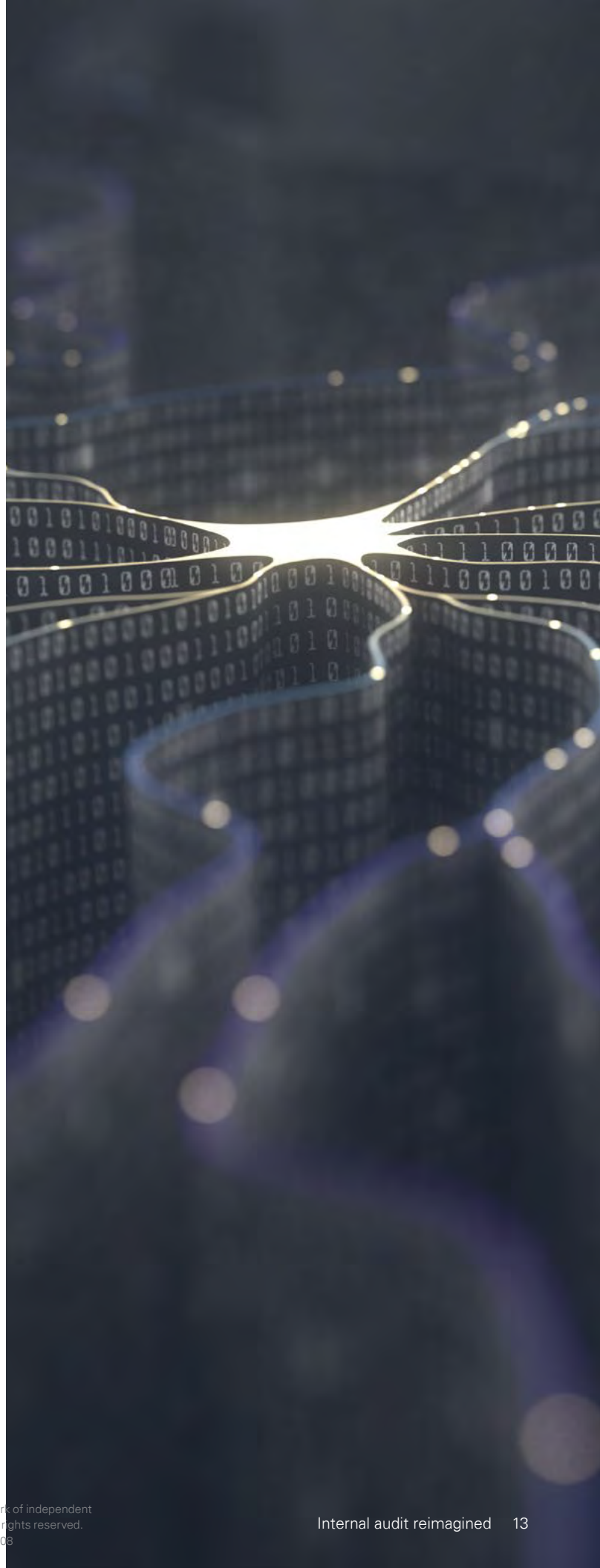
Internal audit will require an infusion of nontraditional thinking and hiring diverse profiles, such as business analysts. It will also need to employ strategies for layering its activities ranging from routine and repeatable to complex and bespoke. For starters, automation should be leveraged for assurance in areas of "routine" risk and control monitoring while deploying dynamic and agile-based approaches for higher order, more complex business problems.

## Quality of the audit work will still matter most

In the increasingly complex risk environment in which businesses operate, management will look to internal audit for assurance that things are working as intended—taking an increased role in independent testing on behalf of the second line of defense. That requires a big picture view of what the risks are (today and tomorrow) and how they are being managed. Piecing together individual audit findings won't necessarily provide the holistic view management needs to act.

As such, internal audit groups will change how they measure the effectiveness of the function. Increasing coverage and efficiency is great. But, traditional success metrics—the number of audits completed or the number of issues identified—will largely lose their meaning when inevitable changes in the business push audits not included in the audit plan to the top of the priority list.

Providing the business with a holistic view that controls are working and risks are being managed effectively comes down to audit quality—the quality of audit work that produces the end result, not just the end result itself. More often than not, that comes down to people, not machines.



# How to get started with internal audit transformation

**We've provided internal audit departments with a vision of the future in three to five years' time. But how do they make it real? What specific actions should they take today to get ahead of the massive disruption already impacting the business environment? Facing a vastly changed future, how do they prepare themselves to be effective risk analysts and advisors tomorrow?**

We offer some tips for success based on our breadth of work transforming internal audit functions across industries.



**Establish a strategic vision for internal audit:** Businesses constantly evolve and change and their strategy and objectives shift with it. To provide real-time value to the organization, internal audit must align its activities with the organization's vision. Get started by creating a vision for the function that meshes with the organization's path forward, key objectives, business risks, and uncertainty in its operating environment.



**Raise internal audit's stature:** As internal audit becomes an increasingly critical player in organizational governance, focus, attention, and expectations on the function will continue to increase. For internal audit to meet its evolving responsibilities, it will need a seat at the table. By demonstrating a deep understanding of organizational needs and delivering greater value with deeper, more relevant and more timely projects and critical activities, it's likely to get it.



**Change the profile of its delivery capabilities:** Technology skills, especially data analytics, will become critical to future audit work. Internal audit professionals must also have deep business know-how, they must understand the ins and outs of individual business processes and how each ties back to the big picture from a risk perspective in order to tackle risks broadly across the business. These are the skill sets internal audit leaders should look for to fill roles in the next-generation internal audit function. Those roles may be sourced differently than what companies have historically used. Bought, built, or borrowed, the function's ability to deliver is ultimately what it will be measured on.



**Align data needs to internal audit's assurance objectives:** As internal audit groups embed intelligent automation and data analytics into their operating models, audits may run continuously and coverage may be complete. This is a positive change, but there are challenges. The volume of data needed for testing and analysis within the data-driven audit function can become overwhelming. Develop a plan for obtaining and managing the source data that drives the audit plan forward but remain flexible enough to shift data management strategy as the business—and the audit plan—evolves.



# What's next for internal audit?

## Now

Cyclical and regulatory compliance audits take priority, SOX often demands disproportionate attention and time.

Annual audit plan quickly becomes irrelevant as the business changes.

Audit work is primarily manual.

Audits are based on small, random samples.

Lengthy, written reporting on findings

Most internal audit professionals have audit expertise only.

Audit frequency is quarterly at best.

Internal audit is often left out of strategic discussions.

## Then



Internal audit prioritizes future-focused emerging risk reviews and higher-impact operational reviews that drive value to the business.



Audit plan is responsive to disruption and flexes to meet shifting strategic demands.



Majority of audit work is enabled via data, analytics, and automation, then transitioned to management.



100 percent audit coverage



Concise, visualized reporting on impact



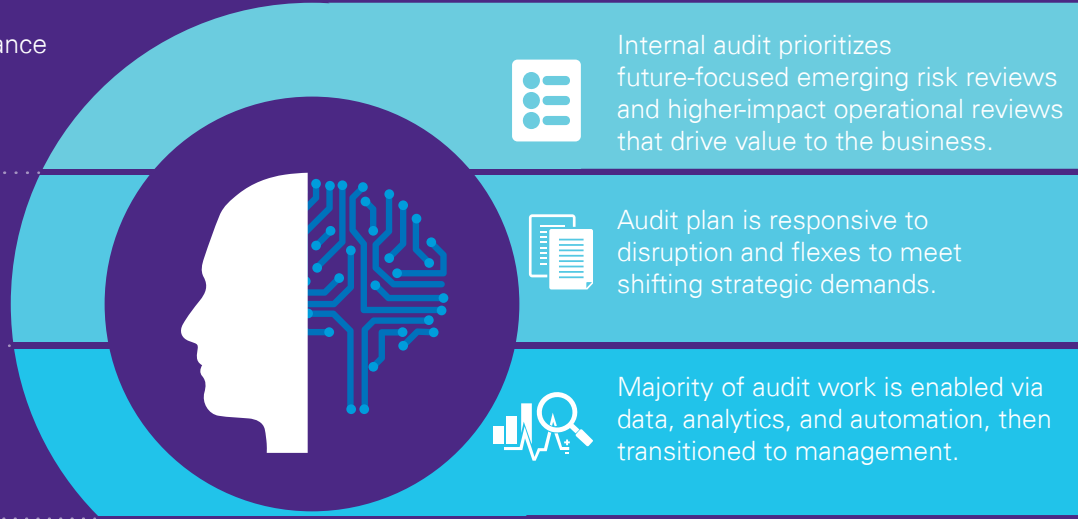
The internal audit team possesses a mix of business, audit, technology, and data analytics skills.



Continuous, real-time auditing is a reality.



Internal audit is included in high-level conversations with the board and C-suite.



# How KPMG can help

**KPMG's highly experienced and industry-focused internal audit professionals drive meaningful insights by leveraging business and data analysis. With deep technical skills, regulatory knowledge, and business acumen and empowered by technology that employs intelligent automation, we help our clients innovate approaches to achieve their strategic objectives while effectively assessing and managing business risk.**

Achieving effective internal audit capabilities requires a significant level of investment in skilled resources, methods, training, and technical infrastructure. With organizations being driven to do more with less, the internal audit function has become a prime candidate for strategic sourcing. Our strategic sourcing service offering is designed to assist organizations seeking to improve internal audit quality and oversight, increase value while optimizing costs, enhance risk and controls management, and focus on core competencies.



**Internal audit outsourcing services:** We advise companies on identifying critical business risks, implementing effective controls and compliance processes, identifying better practices, reducing the cost of operations, and realizing profit improvement opportunities. KPMG leverages progressive and innovative approaches to deliver cost-efficient assurance and tangible business improvement results, such as Dynamic Risk Assessments, industry-specific audit offerings, automation governance approaches and enablers, and data-driven auditing.



**Internal audit cosourcing services:** Cosourcing can provide the opportunity to tap into specific skill sets, industry knowledge and global resources on an as-needed basis. We can provide the specific skills needed on demand—achieving a level of flexibility that can be critical in effectively dealing with a range of operational issues.



**IT internal audit and compliance services:** As IT becomes more complex, we help organizations transform their IT audit and compliance capabilities so they can understand, prioritize, and manage their IT risks and drive value into the business. Leveraging industry leading technology and innovative approaches to service delivery, we serve organizations in all aspects of IT audit and compliance monitoring, testing, control, and responsibilities. Clients turn to us for specialized knowledge and assistance in enhancing their IT audit capabilities, creating a more robust IT compliance function, and designing and executing their SOX program.

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