



# Is your Internal Audit Function making the right impact?

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In the complex environment in which we operate today, Internal Audit functions are facing increasing demands from senior management to add value, and greater regulatory scrutiny on assurance activities they perform. Making sure that the audits performed are of a high quality is key to ensuring that the function remains relevant to the needs of the business. This requires IA functions to proactively assess the adequacy and quality of their audit work, as well as the conclusions drawn.

## How are Heads of Internal Audit in Hong Kong responding?

Heads of Internal Audit in Hong Kong often define three key quality assurance objectives:

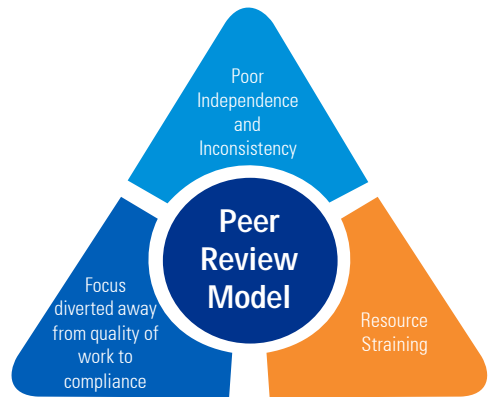
- **Assure the quality of work undertaken and adequacy of conclusions drawn;**
- **assess compliance with internal methodologies; and**
- **drive continuous improvement.**

Achieving these three objectives requires the establishment of a quality assurance function that is staffed by suitable senior professionals who are experienced in internal audit leading practices and are proficient in the technical aspects of all subject matter areas requiring quality assurance. This requires significant investment and buy-in from business leaders, which can be challenging.

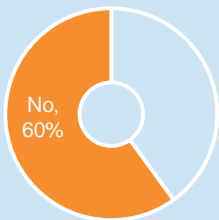
In Hong Kong, we see that access to such experienced resources or the approval of a dedicated headcount to focus solely on quality assurance is often limited. Instead, we find that Heads of Internal Audit often deploy a 'peer

review' model, where auditors perform quality assurance on each other's work. Such reviews are often performed against a pre-defined checklist or questionnaire that specifies the minimum expectations for all audit activities undertaken.

While a peer review model helps overcome some of the cost and headcount restrictions, we find that it poses a number of challenges for Heads of Internal Audit:



Do you have a quality assurance programme?



**Hong Kong Market Snapshot:** 60% of Internal Audit functions do not have a quality assurance programme, which makes it challenging to provide the business with assurance that is comprehensive in its quality and coverage, and that drives continuous improvement within the function.

(Source: 'An evolving internal audit landscape', survey by KPMG and IIA, 2017)

### Institute of Internal Auditors (IIA) Standards and Requirements

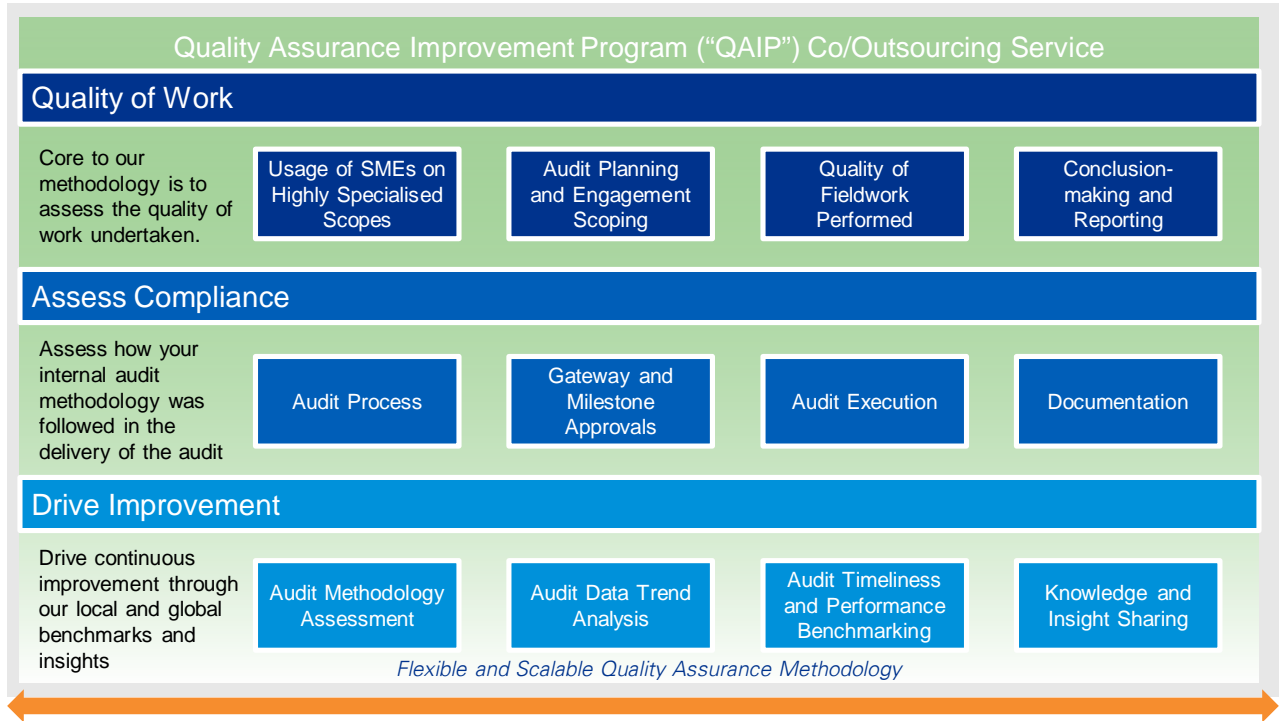
The professional standards for internal auditing, as defined by the IIA, sets out the principles and requirements for developing and maintaining a quality assurance and improvement programme that covers all aspects of internal audit activity.

(IIA standard reference: 1300)



# How KPMG can help

Based on our experience working with leading internal audit functions in Hong Kong, we have developed a flexible, cost effective and scalable quality assurance methodology. Our approach brings not just senior internal audit professionals, but also subject matter experts from across our consulting, audit and tax functions, to provide views on the adequacy of audit coverage and quality of work. Our methodology addresses three key objectives for quality assurance:



The output is a report detailing results of each audit quality assured, and a summary of key messages and learnings across each of the three objectives noted above to help drive improvement on future audits performed.

## Case studies

### 'Cold Review' Quality Assurance



**Client Challenge:** This leading audit function in the financial services sector had an established quality assurance function. However, the function lacked comprehensive subject matter expertise to challenge all aspects of audit delivery.

**KPMG Solution:** We conducted 'cold reviews' on 20% of audits delivered by the client. Applying the KPMG quality assurance methodology and including subject matter experts where required, we were able to effectively challenge audits completed and assess how the client's internal audit methodology was embedded across audits sampled. Using techniques such as data analysis and peer benchmarking, we were also able to identify some key recommendations, which in turn have helped improve the effectiveness and efficiency of the audit process.

### 'Hot Review' Quality Assurance



**Client Challenge:** This client in the technology sector lacked sufficient local regulatory knowledge and needed expert support to make sure their audits were covering the right risks, and were being delivered to an appropriate quality.

**KPMG Solution:** We provided the client with a 'hot review' model to perform on-the-job quality assurance. At the planning phase, we reviewed the client's audit scope, risk and control matrices, and test plans to determine whether all regulatory provisions had been adequately covered. Prior to issuing a draft report, we reviewed the client's fieldwork working papers to assess the depth and quality of audit work. This approach has provided the client with an independent assessment over the adequacy and coverage of its internal audits.

## Contact us for more information

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