



Internal audit -Trusted and disrupted

The vital role of internal audit in
building stakeholder trust

KPMG Ireland - October 2022



Introduction

Economic, political and social unrest, rising inflation and a global climate crisis have placed unprecedented disruption and pressures on organisations 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 challenges.

The organisations that are expected to thrive in this rapidly changing environment 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 organisation. Faced with new business models and increasing complexity, IA should adapt to provide the protection and value their organisation requires.

Risk and regulatory functions are at the heart of successful transformation. Whether you're digitizing a single part of the organisation, 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 organisations 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. KPMG Ireland, as your trusted IA provider, has the right people and tools to enable your business to thrive in this rapidly changing environment.

Executive summary

In 2019, KPMG published our insights into the challenges facing organisations, 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, businesses on the global stage and at home in Ireland were 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.

Organisations that have successfully navigated the challenges of recent times are optimistic for the times ahead. With this optimism and a determination to instill new levels of digital agility, IA will likely 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. 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. While being tasked with working more efficiently, creating more value in less time, with potentially limited resources.

At KPMG Ireland, we know 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. KPMG Ireland has the dynamic IA team to enable change in your organisation and to drive business value with effective assessment of these new and critical risks.

The future Head of Internal Audit agenda

Leading organisations have developed an agenda to help deal with disruption across their IA functions.

This agenda includes the following six areas:



01. Stakeholder engagement and trust



02. Strategy and value management



03. New ways of working



04. Operating model agility



05. Data, analytics and insights

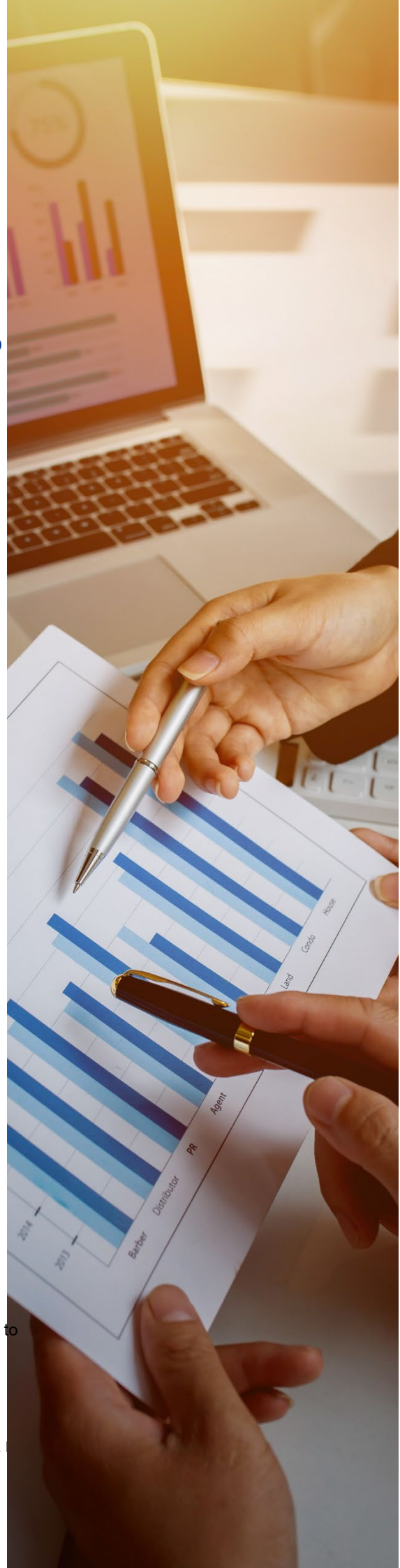


06. Digital acceleration

KPMG Ireland's point of view on the future of IA provides organisations with ways to harness these six key areas effectively to help propel the business forward.



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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.

Organisations 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.

Systems and processes

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

Governance and structure

Formal organisation with governance that sets clear roles and accountability and provide discretion within prudent oversight

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 organisation's purpose.

Leadership and management

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



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

The Trusted Imperative

In most sectors, organisations have a real opportunity to define a different future through digital transformation, and stakeholder trust is an indispensable ingredient. At KPMG Ireland, 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 optimising 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.

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 executives and leaders.
- IA should support these internal stakeholders and associates with functions to help the organisation 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 organisation 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 reflect the initiatives arising from the organisation's overall business strategy. Strategically important and future-focused emerging risks (digital transformation, cyber security, ESG programs, data security) should be prioritised, 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 organisation and for IA involvement.

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

Which emerging risk is most impacting your organisation?

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

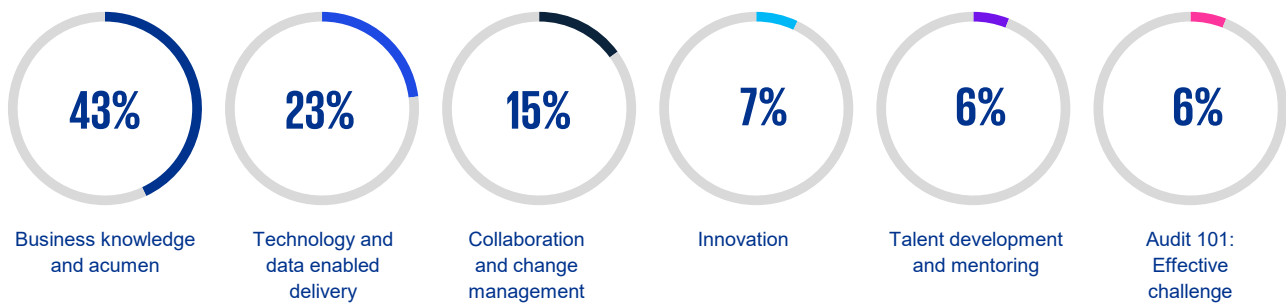
As IA increases its role in these strategically important areas, conveying the insights provided through these efforts is key to demonstrating that value.

New ways of working

To move into a more strategic, advisory role to management, IA functions should adapt the profile of the typical candidate they hire. As the organisation pushes forward with digital transformation, and new technologies are adopted, hiring profiles should evolve to include a mix of strategic, behavioral, data utilisation 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?



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

	<p>Critical thinking and problem-solving skillsets, including enterprise acumen and cultural and behavioral awareness, should take priority over expected core audit skill sets.</p>		<p>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.</p>
	<p>Proficiency around technology and analytics should be sought as core audit skill sets.</p>		<p>Change drivers bring objective knowledge and understanding of functions across the organisation, with an ability to analyse threats and opportunities to inform the strategic direction of the business. They have become a critical role for driving value and overall business performance.</p>
	<p>Reskilling existing team members, bringing in new and temporary auditors, and adjusting to remote working should be key enablers.</p>		

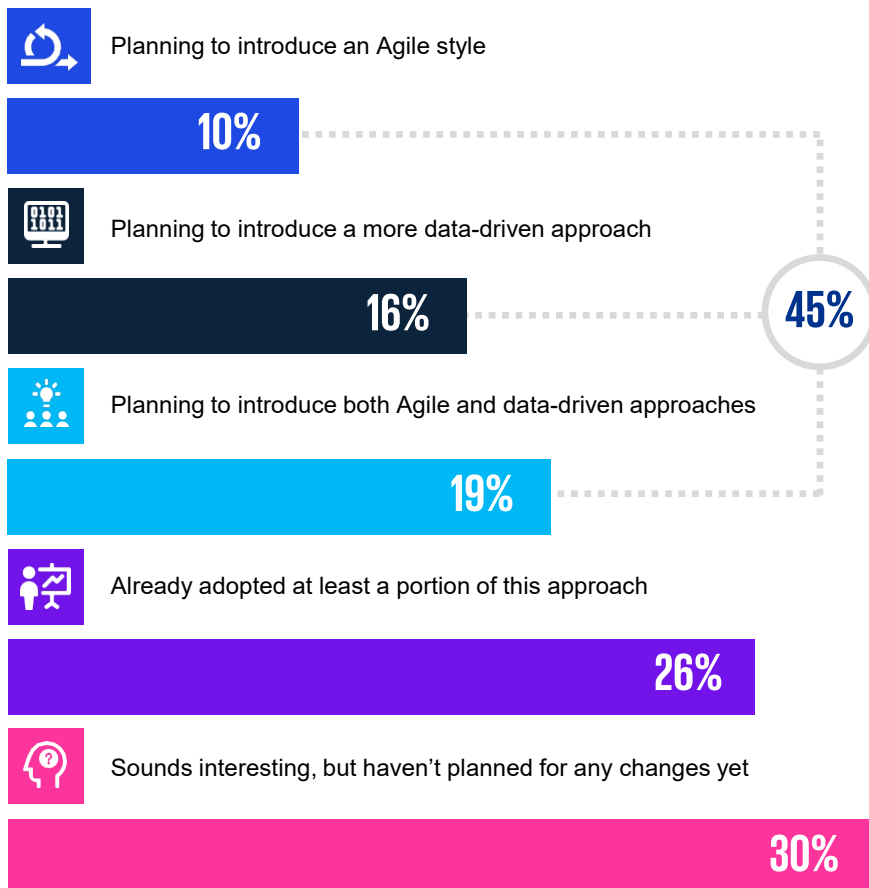
Operating model agility

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

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

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

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



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 organisation, 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 utilised to enable smarter, more informed business decisions.

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

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

Moderate (specialised analytic and visualisation software)



Advanced (machine learning, AI)



Basic (Excel-based analytics)



None



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

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.

Digital acceleration

The pandemic has meant an acceleration in digital transformation by months or even years. 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 Head of Internal Audit 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 recognised the critical need for digitization are collaborating with the broader business to leverage new cloud technologies already present within the organisation, 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 organisation, IA should fully understand and facilitate the evolving Head of Internal Audit agenda:

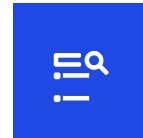
Understand the opportunities for digital enhancement of current IA processes



Discover tools and technology to meet new stakeholder expectations



Identify incremental changes in current processes to enhance IA delivery.



KPMG Ireland, as your trusted IA provider, can support your Head of Internal Audit at this time of digital acceleration.

Accelerating IA transformation

Having discussed how the Head of Internal Audit's agenda is shaping the IA function of leading organisations, 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 Ireland 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 organisations who have enjoyed success.



Establish a strategic vision for IA

To provide real-time value to the organisation, IA should align its activities with the organisation's vision. Get started by identifying the organisation's current state and creating a vision for the function that meshes with the organisation'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 Ireland 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 defence 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 co-investment 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 organisation.



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.

Conclusion

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

Organisations that have successfully navigated the challenges of recent times are optimistic for the times ahead. While these organisations are optimistic, 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 organisations 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 [Internal Audit - KPMG Ireland \(home.kpmg\)](https://home.kpmg) or get in touch:



Patrick Farrell
Risk Consulting Partner
KPMG Ireland
e. patrick.farrell@kpmg.ie



Colm Laird
Risk Consulting Director
KPMG Ireland
e. colm.laird@kpmg.ie



Ciara Murphy
Risk Consulting Associate Director
KPMG Ireland
e. ciara.c.murphy@kpmg.ie



Valerie O'Connell
Risk Consulting Associate Director
KPMG Ireland
e. valerie.oconnell@kpmg.ie

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