

Internal Audit: Key thematic areas to consider in 2023

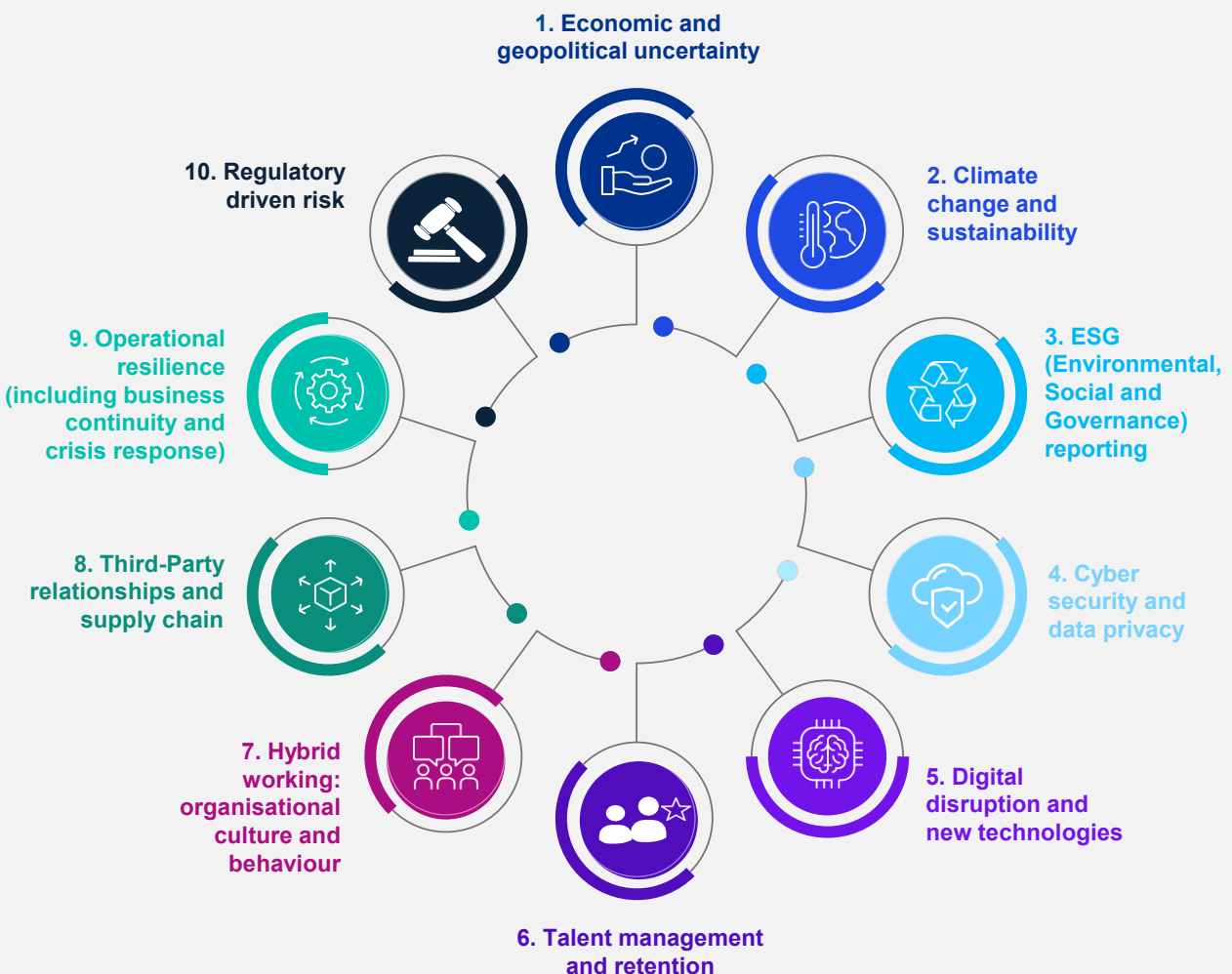
Internal Audit: Key thematic areas to consider in 2023

Internal Audit functions must remain agile when developing their 2023 audit plans as their organisations face evolving challenges.

Most organisations continue to suffer supply chain uncertainties, recruitment and retention issues, and a hybrid working environment in its infancy. Inflation and geopolitical uncertainties will impact all organisations into 2023.

The risk landscape has shifted over the past year. To support Heads of Internal Audit, we have identified and compiled the key thematic areas and related risks which Internal Audit functions should consider in developing their Internal Audit plans for 2023. The thematic areas below include both emerging and established risks which Internal Audit should consider when preparing its agile annual Internal Audit plan.

While the below is not an exhaustive list of thematic areas, these can serve as a starting point from which the Internal Audit function can leverage when assessing the organisation's risk profile and control environment throughout 2023. We have provided further information on each thematic area overleaf.



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01. Economic and geopolitical uncertainty

Recent ongoing global developments are creating new day-to-day risks for Irish based organisations. The strength of recovery in the global economy, the war in Ukraine and fragmentation in trade regimes have all contributed to generating significant inflationary pressures. The unprecedented increase in gas, oil and other commodity prices has resulted in a continued rise in inflation and conversely a decline in purchasing power of households. The European Central Bank (ECB) has begun a cycle of interest rate rises in response.

The role of Internal Audit

Internal Audit need to consider how both the first and second lines of defence in their organisation are identifying, assessing and addressing these risks, which should include some form of scenario planning for adverse outcomes.

Internal Audit should also be involved in reviewing key risk areas across the organisation, including the following: long-term strategies as they look to manage these financial and operational risks; third-party suppliers exposed to economic shifts; capital planning and management processes; and the process for compliance with the current international sanctions regime.



02. Climate change and sustainability

Stakeholders increasingly expect organisations to meet the needs of the present without compromising the ability of future generations to meet their own needs. Recent years has shown the direct consequences of climate change on the global population and conversely organisations. The challenges and risks that organisations face in achieving their sustainability goals and minimising their contribution to climate change will increase over the coming years. Investors, regulators, customers and employees are increasingly expecting organisations to consider sustainability in every facet of their business.

The role of Internal Audit

Internal Audit increasingly recognises the challenge and risks organisations face in achieving their sustainability goals and minimising their contribution to climate change and the impact of climate change on their organisation.

Internal Audit can assist by understanding how prepared their organisation is for the climate crisis and the current activities being undertaken to assess risks and opportunities for the organisation. Internal Audit can also examine this area at an operational level, given its knowledge of processes that relate to and are impacted by sustainability, from materials sourcing, to transport and logistics and waste management.



ESG (Environmental, Social and Governance) reporting

The European Union Corporate Sustainability Reporting Directive (CSRD) represents the biggest single transformation in corporate reporting in the last 25 years. In a change akin to the introduction of a whole new set of accounting standards, the CSRD proposes profound changes to corporate reporting requirements, and will be fundamental in supporting the Commission's stated objective of directing capital flows towards sustainable activities across the EU. From 2024 onwards, under the CSRD, organisations will start reporting according to the mandatory EU sustainability reporting standards. Organisations need to define their ESG disclosures and metrics and identify the data to be captured in order to comply with new European and local ESG regulations in a timely manner.

The role of Internal Audit

Internal Audit should provide advisory support on the readiness of the organisations for CSRD. Organisations will be required to build appropriate governance and control frameworks to support this new non-financial reporting regime. This will include the acquisition, aggregation, quantification and reporting of ESG metrics in a manner that will be subject to external assurance by statutory auditors. Internal Audit can play a key role in advising on readiness but also in performing assurance procedures over the reporting control environment.

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04. Cyber security and data privacy

Hybrid working, the age of big data and the speed at which organisations are adopting new technologies, such as cloud-based platforms has increased data privacy and cyber security risks including ransomware attacks. Organisations should increase their scrutiny of IT security and increase workforce awareness of cyber security.

Regulators continue to increase their oversight of data privacy and protection. The European Union General Data Protection Regulation (GDPR), in force since May 2018, should not be overlooked by organisations and should remain a key focus to prevent large penalties and reputational risks.

The role of Internal Audit

Internal Audit should assess the existing controls to mitigate cyber security risks and consider applying the NIST Cyber Security Framework: Identify, Protect, Detect, Respond and Recover. Example reviews could include Cyber Security governance, Cyber Security Attack Paths, Post COVID-19 New Ways of Working Review, Data Security practices, Incident Response and Recovery strategies.

Internal Audit should also assess the Data Privacy and Protection controls in place including data storage and the type of data collected, used, stored, secured, retained and disposed of in the organisation. This should include an assessment of management's approach to both structured and unstructured data discovery.



05. Digital disruption and new technologies

Organisations will continue their digitalisation journey into 2023, building on the digital transformation seen in 2022. However, this also means navigating the risks associated with disruptive technologies, such as smart contracts, cryptocurrency, Artificial Intelligence (AI), Predictive Analytics, Cognitive Computing and Robotic Process Automation. As organisations undergo digital

transformation and more of their assets become digital, the threat of cybercrime and risks around data privacy are growing.

The role of Internal Audit

Internal Audit can add value by assessing the change management process and recommending enhancements to ensure that governance, risk and control matters are appropriately considered across the change life cycle. In addition, Internal Audit can play a significant role, whilst maintaining independence, advising on governance and control matters relating to the digital transformation strategy.



06. Talent management and retention

Attracting, retaining, and managing skilled talent will be a concern facing most Irish organisations for the foreseeable future. Since the emergence of COVID-19, the employment landscape has changed significantly. Many employers that paused hiring during the peak of the pandemic are now competing to recruit and retain top talent, albeit the market may just be showing some signs of cooling off. High employee turnover rates are causing disruptions for many organisations, with increased levels of competition to secure talent. The cost of living and availability of suitable housing in Ireland is having an impact on organisations ability to recruit talent from abroad.

The role of Internal Audit

Internal Audit should assess their organisation's approach to workforce planning and future skill demand, talent acquisition, and talent retention strategies.

Additionally, Internal Audit should evaluate how management is monitoring and seeking to improve employee wellbeing.

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07. Hybrid working: organisational culture and behaviour

The significant increase in the number of people working from home at the same time and for extended periods of time accentuates the challenge of maintaining a core culture in an organisation. Organisations are now making a conscious effort and committing significant resources to maintain their culture and connectivity of staff.

Ultimately, it is people's behaviours that influence decisions, the performance of the organisation and the effectiveness of the controls in place with the old adage 'culture eats controls for breakfast'.

The role of Internal Audit

Internal Audit should continue to conduct soft control audits to provide assurance over the current culture in the organisation and its impact on the effectiveness of the controls set in place. This can be completed through either standalone culture audits or by including culture elements across all audits, to show how the everyday life of the organisation and the behaviour of its staff reflect the adopted values.



08. Third-party relationships and supply chain

Organisations are increasingly reliant on third-party suppliers to deliver business-critical products and services to their customers. Vendor insolvencies have the potential to cause massive disruption and few organisations accounted for the risk of outsourcing to overseas territories and the impact this had during COVID-19.

Supply chain risks are currently heightened with significant pressure on global and domestic supply chains, from production delays and labour shortages to shipping disruptions and increased commodity pricing. This is expected to continue through 2023.

The role of Internal Audit

Internal Audit should take a holistic view towards third party risk management, going beyond contract management to assess whether their organisation has a clear strategy and a robust framework to support third party risk management.

Internal Audit can assess whether management has given sufficient consideration to the need to remodel supply chains and outsourcing strategies to improve their organisation's operational resilience.



09. Operational Resilience (including business continuity and crisis response)

An operationally resilient organisation is able to recover its critical or important business services from a significant unplanned disruption, while minimising impact and protecting its customers. Since COVID-19, most organisations understand the need for an up-to-date Disaster Recovery (DR) and Business Continuity Plan (BCP) in order to respond to other unforeseen disasters.

Many organisations will also have to comply with the Digital Operational Resilience Act (DORA) once the legislation is finalised and passed into law in Ireland.

The role of Internal Audit

Internal Audit should assess the quality of the overall operational resilience and crisis management system, by ensuring that key threats have been identified and appropriate response plans are in place and tested. Internal Audit should review whether the DR and BCP are fit for purpose and whether emerging risks and evolving key threats are considered.

Internal Audit should also seek evidence of the crisis decision-making governance and the integrity of information reported to crisis committees.

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10. Regulatory driven risk

Organisations, regardless of the industry they operate in, are being inundated with new regulatory requirements with which they must comply. These new regulations place growing pressure on executive management and add complexity to the organisational governance and control structure.

The role of Internal Audit

Internal Audit needs to have a strong understanding of the existing regulatory landscape in which the organisation operates in order to assess compliance with relevant regulatory laws and regulation.

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