KPMG

Enhancing the strategic value of Internal Audit

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Heeding the call

Chief Financial Officers and Audit Committee Chairmen (executive stakeholders) envisage a more strategic role for Internal Auditors than the auditors see for themselves, and it is up to Internal Auditors to take the initiative and broaden their responsibilities. If they aim to enhance their strategic value to the organization, they will find they are pushing on an open door. Indeed, if they do not do so, they risk becoming irrelevant.

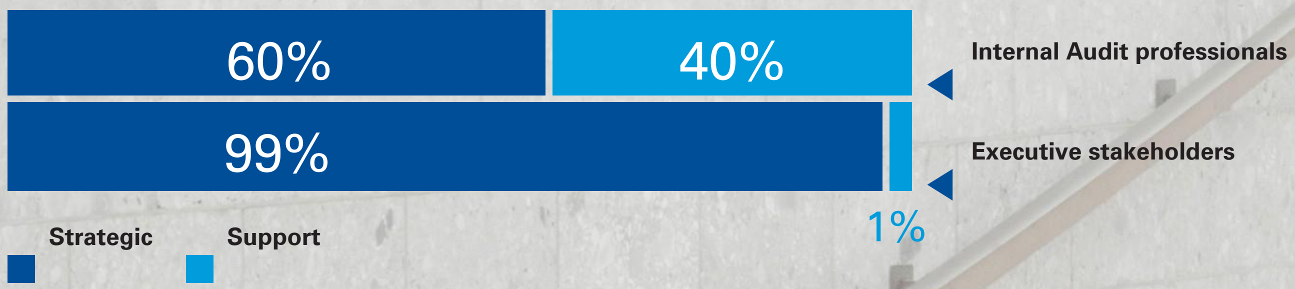
This is the main finding, based on a comparison of two separate surveys, each soliciting responses from different sets of companies around the world, conducted by KPMG International. The first survey was administered to 405 CFOs and Audit Committee chairmen. The second collected 134 responses from Internal Auditors.

In each survey, executives and Internal Auditors were asked identical questions about the role and responsibilities of Internal Audit (IA). Internal Audit's position in the organization has become increasingly important, as enterprises have striven to improve processes and controls, often to comply with a multitude of regulations. In fact, executive stakeholders are finding that IA can, and should, add strategic value, in addition to raising compliance standards.

When respondents were questioned whether IA is a strategic or a support function, more of both groups say it is strategic, but 99 percent of executive stakeholders say so, compared with only 60 percent of auditors. Normally one would expect Internal Auditors in larger numbers to say their role is strategic, but their responses indicate that a strategic role is more aspirational than actual. When Internal Auditors were asked how they would like to see the role of IA evolve, the most prevalent answer among Internal Audit respondents was to become a more strategic partner.

It therefore comes as no surprise that Internal Auditors do not believe they are strongly aligned with strategic initiatives. Less than half said they were involved in the strategic planning process, whereas 94 percent of the executive stakeholder respondents said Internal Auditors were involved. Of course, the phrase "strategic planning" could mean different things to different people, but this should even out over a sizeable sample. In the case of these surveys, there is a consistent disparity in the views of the two groups regarding the strategic role of IA.

Is Internal Audit best described as a "Strategic" or "Support" function for your organization?



Bridging the gap

It's fair to say that Internal Auditors and executive stakeholders do not see eye to eye on a range of issues. In fact, in almost all cases, Internal Auditors and executive stakeholders do not agree on the most important attributes of IA. The one exception is that, when asked to choose the skills needed to be an effective Internal Auditor, both sides agree that communication talents are important. This is significant: for Internal Auditors to play a more important role, they must become more influential. This requires strong communication skills, especially when discussing important matters with the Audit Committee, the Board of Directors and senior executives.

Respondents were asked to describe an insightful and valuable internal audit: Internal Auditors took a more general view, with 85 percent (by far the highest number) saying an internal audit, by definition, examines efficiency and effectiveness. The most prevalent response among executive stakeholders was more specific, with 82 percent saying a valuable audit is one that finds potential revenue enhancement, cost savings and/or smarter capital expenditures. This would suggest that executive stakeholders view “value” in more tangible terms.

The disparity in how the two groups view the strategic role of IA also affects the way each views the importance of auditor’s use of technology. Three quarters of Internal Auditors believe the greatest benefit of leveraging technology is to improve efficiency, with only one quarter believing the greatest benefit actually comes from the improvement in critical thinking and the ability to deliver deeper insights. Although executive stakeholders also view Internal Auditor’s use of technology as a means to increase the speed and efficiency of IA, they also view technology as a key enabler in improving the quality of IA’s work.

Despite auditors’ narrower view of the role of IA, it seems clear that IA is not satisfied to sit on its laurels. It wants to play a more strategic role. It knows that communication skills will help them become more influential within (and outside) the organization. In addition, Internal Audit professionals define audit quality as a commitment to continuous improvement and that training is the most important way to ensure audit quality.

No doubt about it, auditors are strivers. But have they developed the right positioning, people, and processes to fill the bigger role executive stakeholders expect them to play? How have they positioned the Internal Audit function to deliver value?

85%

of Internal Auditors describe an insightful and valuable Internal Audit as one providing insight into efficiency and effectiveness.

Which of the following characteristics best describe an insightful and valuable Internal Audit?

Three key implications

For Internal Auditors to meet (or exceed) these raised expectations, three important things need to happen. First, they must become more deeply involved in business matters, and not just in dealing with questions about processes, controls and compliance. They need to understand not only the risks of a course of action, but also the opportunities the business is seeking to capitalize on. Only then will they meet the expectations of the business executives who want IA to play a more strategic role.

Second, Internal Auditors need to do more to leverage technology, not just to help increase efficiency but also to improve the quality and depth of the insights being delivered to the business. Digital transformation of the enterprise is more than a series of buzzwords; organizations are changing dramatically, as they grasp the strategic implications of digitization and the use of data analytics. One important driver is that advanced technologies, such as machine learning and cognitive analytics, will enable companies to manage the upside as well as the downside of risk. Most compliance decisions will, in the near future, provide an opportunity not only to improve processes, but also to add value. IA must position itself at the point where risk and opportunity intersect.

Third, Internal Auditors need to view their activities through the lens of business value. How is Internal Audit positioned to deliver value? How are the insights gleaned from a deep analysis of processes and controls going to lead to opportunities for the organization to grow and become more competitive? How does Internal Audit's perspective on emerging risks inform the continual evolution of the internal control environment? These questions can only be answered through a constant interaction between IA and the business at every level. Both sides will learn from each other, so that business leaders have a keener understanding of risk, and audit executives more deeply appreciate the upside of risk.

This transformation is a chance for both IA and the organization it serves to achieve a higher level of performance. Based on the wide contrast in perception between Internal Auditors and executive stakeholders, this may seem unattainable now, but it doesn't have to remain so. Business executives clearly want Internal Auditors to play a more strategic role. It's up to IA to rise to the occasion.

Methodology

KPMG International conducted a survey of 134 members of the Institute of Internal Auditors, of whom 37 percent are Chief Audit Executives, 19 percent are Internal Audit Directors, 23 percent are Internal Audit Managers (including Senior Managers) and the remainder are Internal Audit staff and others.

Forty-nine percent are based in North America, 29 percent in the Middle East and Africa, eight percent in Europe, seven percent in Asia-Pacific and six percent in Latin America. Thirty-two percent are in financial services, 19 percent in the public sector, and the rest are in a range of industries, such as consumer products, life sciences and manufacturing. Half the respondents work at companies with annual revenue of US$1 billion or more.

Their responses were compared in this report with a survey that included identical questions, answered by 405 senior executives. Eighty-seven percent are Chief Financial Officers and 13 percent are Audit Committee Chairmen.

Fifty-seven percent are based in North America, four percent in the Middle East and Africa, 12 percent in Europe, 25 percent in Asia-Pacific and 3 percent in Latin America. With regard to sector, 20 percent are in financial services, 20 percent in manufacturing, and none are in the public sector. All the companies exceed US$1 billion in annual revenue.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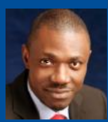
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