



Internal Audit: key thematic areas to consider in 2024

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Key thematic areas to consider in 2024: overview

Internal Audit functions must remain agile when developing their 2024 audit plans as their organizations face evolving challenges.

The uncertainty and disruption that was seen across the global business landscape last year continues to intensify pressure on the risk and control environment. Most organizations continue to suffer from supply chain uncertainties, impacts of inflation and geopolitical uncertainties.

To support Heads of Internal Audit, we have identified and compiled the key thematic areas and related risks that Internal Audit functions should

consider in developing their Internal Audit plans for 2024. The thematic areas below include both emerging and established risks that 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 organization's risk profile and control environment throughout 2024. We have provided further information on each thematic area overleaf.

External pressures

Economic & geopolitical uncertainty



Environmental,
Social and Governance

Third-party
relations & supply chain

Operational challenges

Profitability, inflation and liquidity



Talent
management and retention

Operational
resilience

Technology

Cybersecurity



Data privacy and governance

Digital disruption and emerging technology



Regulatory-driven risk

Key thematic areas to consider in 2024: external pressures

Recent years have been described as the age of the 'polycrisis'.

The term, coined by the World Economic Forum (WEF), describes the interaction between the COVID-19 pandemic, the war in Ukraine, and the energy, cost-of-living and climate crises. The elevated levels of economic, geopolitical, and environmental uncertainty are creating new risks,

threats and opportunities at an unprecedented rate and impacting the Dutch economy in many ways, including disruptions in supply chains, EU monetary policy adjustments and stakeholder expectations. This means that organizations' risk management processes and functions need to be more prognostic and dynamic than ever before in order to navigate these challenges. Below we have included the three main areas of focus:

Economic & geopolitical uncertainty

The global economy has been experiencing unprecedented levels of volatility in recent years, primarily driven by geopolitical issues. The ongoing wars in Ukraine and Gaza, and fragmentation in trade regimes have all contributed to generating significant inflationary pressures. These events have maintained the higher prices of gas, oil and other commodities, which has resulted in sticky inflation and subsequent cost of living in 2023. In response, central banks in the EU, UK and US raised interest rates to their highest level in recent times. Whilst inflation is stabilizing and forecast to drop as a result of the tightening monetary policy, macroeconomic challenges are expected to impact 2024. Organizations must persist in employing long-term strategies to effectively navigate the challenges and manage the risks.

The role of Internal Audit

Internal Audit needs to consider how both the first and second lines of defense in their organization are managing the increased risks and impact on operations associated with the geopolitical factors. Internal Audit should be involved in the evaluation of critical risk areas of the organization. This should include the examination of the following aspects: long-term strategies aimed at mitigating financial and operational risks, third-party suppliers vulnerable to economic fluctuations, capital planning and management procedures.



Environmental, Social and Governance

ESG is now integral for long-term financial success. The introduction of the Corporate Sustainability Reporting Directive ("CSRD") has been the biggest transformation in corporate reporting in the last 25 years. As such, compliance is requiring transformational changes in business activities so that organizations can define their ESG disclosures and metrics. However, an ESG risk and reporting program should not be implemented in isolation. Organizations should recognize the value creation potential by connecting ESG efforts with long-term strategic goals, whereby committing to a bigger vision that encourages transformation to drive sustainability and resilience.

The role of Internal Audit

Internal Audit should review CSRD reporting in 2024 where the organization is required to be compliant by 1 January 2024 and prepare a CSRD readiness assessment where the implementation date is later, by providing advice and assurance over the governance and control frameworks for nonfinancial reporting, as well as the review of processes for acquisition, aggregation, quantification and reporting of ESG metrics. Internal Audit can also advise on broader risk management capabilities to align ESG risks, strategies, and organizational objectives to ESG initiatives, such as the UN Sustainability Goals and the European Green Deal.



Third-party relations & supply chain

The COVID-19 pandemic and the wars in Ukraine and Gaza have created volatile macroeconomic conditions and exerted great strain on global supply chains. Whilst the impacts of these events are easing, they, along with other pressures such as extreme weather and inflation, highlight the need for robust risk management in outsourcing relationships, emphasizing the imperative to diversify supplier portfolios and avoid undue dependence on a single source. In addition, given the evolving regulatory landscape and increasing stakeholder expectations, organizations are compelled to assess the transparency, ethics, and ESG implications inherent in their collaborations with third parties that support their operational activities. Consequently, many organizations have realigned their supply chain objectives from a focus on cost and efficiency to prioritizing flexibility and continuity. We expect to see this continued focus on resilience and sustainability of supply chains.

The role of Internal Audit

Internal Audit should go beyond contract management and assess the maturity and resilience of supply chains, as well as providing advice on the suitability of the supply chain operating model, and determine if sufficient consideration has been given to the risks associated with current macroeconomic and geopolitical conditions.



Key thematic areas to consider in 2024: operational challenges

Given the current business landscape, operational excellence is critical to success in 2024.

In light of the current external pressures, organizations must ensure that they are able to efficiently adapt, capitalize on new opportunities and emerge stronger, regardless of the nature of the disruption. As previously discussed, external environmental factors highlight the importance of attaining and sustaining operational

excellence in a continuously evolving business landscape. The convergence of new technologies, the impact of the “polycrisis,” and shifts in employee and consumer expectations have created a dynamic environment necessitating agility and adaptability. This involves enhancing internal processes, minimizing waste and optimizing productivity. Attaining operational excellence will allow organizations to effectively respond to external challenges. Below we have outlined three main areas of focus:

Profitability, inflation and liquidity

In recent years, the world has experienced some of the most significant rises in inflation and interest rates since the early 2000s. The macroeconomic volatility of 2023 has imposed substantial financial pressures on organizations, and these effects are expected to persist into 2024. This heightened risk to corporate assets and cash flows not only jeopardizes long-term financial performance but also exacerbates the challenges posed by an already exceptionally uncertain operational and risk environment.

The role of Internal Audit

Organizations should pay particular attention to the additional pressure on their finance teams in light of the macroeconomic conditions. Internal Audit should perform reviews over investment/financing decisions supply chain and procurement. Internal Audit should evaluate how management are identifying, assessing and addressing inflation and interest rate risk, which should include some form of scenario analysis for adverse outcomes.



Operational resilience

The existing economic, geopolitical, and environmental conditions have confronted organizations with a changing landscape, presenting new threats and opportunities. These developments have highlighted the importance of robust and resilient systems that are able to adapt and respond to disruption. Organizations are demonstrating an increased focus on resilience by investing in people, processes, data and technology. This shift in focus is crucial to ensure preparedness for disruption, to not only survive but thrive through the challenges. Organizations must consider the risks associated with enterprise resilience as well as maintain a Disaster Recovery (DR) and Business Continuity Plan (BCP).

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 (DR and BCP) are in place and fit for purpose, and whether emerging risks and evolving key threats are considered. Internal Audit should also ensure that organizations understand the impact of disruption, help determine what would be intolerable and the cost/benefit of mitigating/resilience measures.



Talent management and retention

Central to the success of any organization is the ability to attract, retain, nurture, and efficiently deploy the right talent. Organizations are grappling with a number of challenges in this area including culture, hybrid working, talent acquisition and well-being. To maintain competitiveness, HR leaders must remain well informed about the latest trends in talent management. As we look ahead to 2024, these trends reveal a notable shift towards more employee-centric approaches such as employee experience, employee engagement, prioritizing mental health, enhancing work-life balance, promoting positive career growth, and more.

The role of Internal Audit

Internal Audit should assess the organization's approach to workforce planning and future skill demand, talent acquisition, and talent retention strategies. Internal Audit must understand the ramifications of employee departures and hiring freezes on the internal control landscape and how these factors may affect the organization. Additionally, Internal Audit should evaluate how management oversees and plans to enhance the employee-centric factors.



Key thematic areas to consider in 2024: technology

Technology is an integral part to the success of running an organisation.

Technology is constantly changing at a rapid pace and in 2023 we have seen an increase in the use of AI technology. Another major technological advancement in recent years is the integration of Cloud Computing which will continue to increase further in the future. The proliferation of digital business models and the growing

dependence on technology within organisations have given rise to the amounts of personal data being handled by organisations as part of their operations. This increases the risk of data privacy breaches and also increases the likelihood of cyber attacks. Organisations need to implement robust IT security to mitigate these risks. Below we have outlined three main areas of focus:

Cybersecurity

Cybersecurity will remain a top focus for organizations in 2024. This is due to the ever-growing volume of sensitive data moving across interconnected and integrated networks and the increasing reliance on digital technology to operate efficiently.

We have continued to see a rise in cyberattacks and data breaches in 2023, and these attacks can affect organizations of all sizes and industries. The attacks may result in high costs for organizations to fix the problem and repair the damage caused.

Organizations will need to implement robust IT security measures and increase awareness of cybersecurity risks to their workforce in order to resist the constant threat of cyberattacks.

The role of Internal Audit

Internal Audit should assess the existing controls to mitigate cybersecurity risks and ensure that the first and second line of defense are continuously monitoring cybersecurity controls.



Data privacy and governance

Customers, employees and regulatory bodies have all become more aware of their data privacy rights concerning personal information and the measures taken by organizations to safeguard such data. This heightened awareness amplifies the potential risks faced by organizations, necessitating their commitment to compliance with regulation such as the General Data Protection Regulation (GDPR).

Failure on the part of an organization to effectively manage and govern its data practices may result in reputational damage, and it could also lead to the imposition of financial penalties and sanctions.

The role of Internal Audit

Assess the Data Privacy and Protection controls in place in an organization and ensure it is clear why the organization has collected the data, where the data will be stored, whether it is secure, how long they plan on retaining this data and how it is disposed of in line with any regulation.

Ensure a comprehensive understanding of whether third parties have access to the organization's data and, if so, how this access is monitored and controlled.



Digital disruption and emerging technology

As mentioned above, there has been an increase in the use of AI technology. AI can be a major business enabler for an organization through automating repetitive tasks and processing complex data. Nevertheless, it is essential for organizations to be aware of the accompanying risks and to proactively address them, particularly by focusing on the ethical deployment of these emerging technologies within the organization.

Many organizations are now integrating Cloud Computing into the core strategies of their business. If used correctly with strong governance and management controls, it presents many benefits to organizations, such as cost reductions and better collaboration within an organization.

The role of Internal Audit

Internal Audit should assess the digital transformation strategy and can then provide advice on governance and control matters.

Understand how and why AI is being used by organizations and also what controls are in place to mitigate the risks that come with using AI.



Key thematic areas to consider in 2024: regulatory challenges

Regulatory-driven risk



There is constant and complex regulatory change in areas such as technology, disruption, ESG and data privacy for organizations, regardless of what industry they are operating in. The complexity and the pace of these regulatory changes put pressure on executive management, and they must adopt an agile approach to ensure compliance with new regulation.

The role of Internal Audit

In order to effectively evaluate an organization's compliance with regulation, the internal audit function must gain a comprehensive understanding of the existing regulatory landscape for the industry the organization currently operates in.

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