

Creating a World Class Internal Audit Function

Reducing risk, identifying efficiencies and driving cost benefits

Internal Audit is about more than policing compliance. It is an opportunity for organizations to tighten their controls and challenge the status quo to reduce risk and identify potential efficiencies and cost benefits across the organization.

Indeed, organizations that are able to achieve a truly 'World Class' Internal Audit (IA) function enjoy a wide range of competitive benefits such as improvements in internal control environments and enhanced risk management processes, to external audit efficiencies and a more confident Board.

But to move from a 'capable' IA function to a 'World Class' one requires executives and IA leaders to create an optimum balance between positioning, people and processes. It involves a wide array of considerations that must be aligned to create a function that can effectively add value across the organization.

Based upon KPMG's work with multiple leading global internal audit organizations we have identified a number of key attributes that separate the truly World Class IA functions from the rest. These include:

Positioning: Many IA functions suffer from a negative perception due to their focus on compliance issues versus business issues (operational or strategic). To be effective, IA must focus on expanding the services provided in order to be viewed as a business partner and source of quality challenge across the enterprise. To achieve this, IA leaders should ask themselves how their department is viewed within the organization. Is IA engaged by business units as a valued and necessary business partner? Is IA included in strategic initiatives such as acquisitions, expansion into new products or geographies and major capital expansion projects?

Positioning

Attributes of a World Class IA function

- A holistic view of the organization, strategy and risks
- An ability to provide quality challenges
- An independent and objective perspective
- A regular presence in governance and control forums
- Relationships with external stakeholders (regulators and auditors)
- Strong relationships with leadership
- A role in governance structures

People: The strength and value of an internal audit function is often directly related to the skills, experience and capabilities of the expanded team. Extensive and diverse experience is key, as is the ability to identify and fill skill gaps through dynamic recruitment, quality training programs, and use of third parties to provide specific expertise. Effective internal audits require not just a keen eye for compliance, but also a firm understanding of how the IA function serves the business and adds value to the organization. Most importantly, the business must foster a culture where IA is encouraged to challenge, probe and continuously improve the controls of the business.

People

Attributes of a World Class IA function

- A diverse mix of skills and experience
- Appropriate experience to apply opinions and challenges on a broad array of topics
- A forward thinking staffing strategy
- Mechanisms to identify gaps in skills and competencies
- An ability to attract quality professionals
- A commitment to comprehensive training and development
- A culture of challenge, probing and continuous improvement

Processes: It is critical that the IA function be supported and empowered by the organization through robust and formal processes that align IA with the corporate strategy. What's more, these processes must be integrated across the organization to ensure that IA can execute a consistent mandate throughout the business. This will take not only a long-term risk-based audit plan, but also proper review and evaluation processes to embed continuous improvement into the culture of the IA function. World Class IA functions also leverage leading-edge IT tools to facilitate the entire audit process, from staffing and resourcing, documentation of testing and identification of potential issues, the development of clear, timely and impactful reports, to issue tracking and ultimate resolution.

Process

Attributes of a World Class IA function

- Maintains a clearly defined audit universe with appropriate granularity
- Develops a strategic long-term risk-based audit plan
- Constantly reviews audit processes to remain relevant
- Produces clear, timely and impactful reports that identify both root causes and consequences of issues
- Possess effective mechanisms for action tracking and issue escalation
- Solicits independent stakeholder feedback and reviews by governance bodies
- Demonstrates an ability to harness technology to facilitate the audit process

Getting it right

Clearly, companies that are able to evolve their IA functions to embody these World Class attributes will stand to gain significant competitive advantage over their peers. But for many organizations, catalyzing this transformation will require hard work, regular investment and clear insight into the gap between their current state and that of a World Class IA organization.

Those organizations that can get this right will often find that they are able to create a self-sustaining cycle where their World Class status attracts more high-quality individuals, greater support from senior management and wider acceptance and collaboration within the organization.

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