



# Seeking value through Internal Audit



***The future of Internal Audit through the lens of stakeholder needs:***

*KPMG and Forbes recently surveyed more than 400 Chief Financial Officers and Audit Committee chairs on a host of issues regarding the performance, focus, value, and future of Internal Audit functions at their organizations.*

*The findings call attention to a 'value gap' between what Audit Committee Chairs and CFOs identify as priorities and what they are receiving from their IA functions.*

What makes an Internal Audit function worth a company's while? It's that matter of value. An effective Internal Audit function can not only magnify what the company already knows, but present new findings, offer new perspectives, and provide new ways of gleaning such insights.

## Making value real

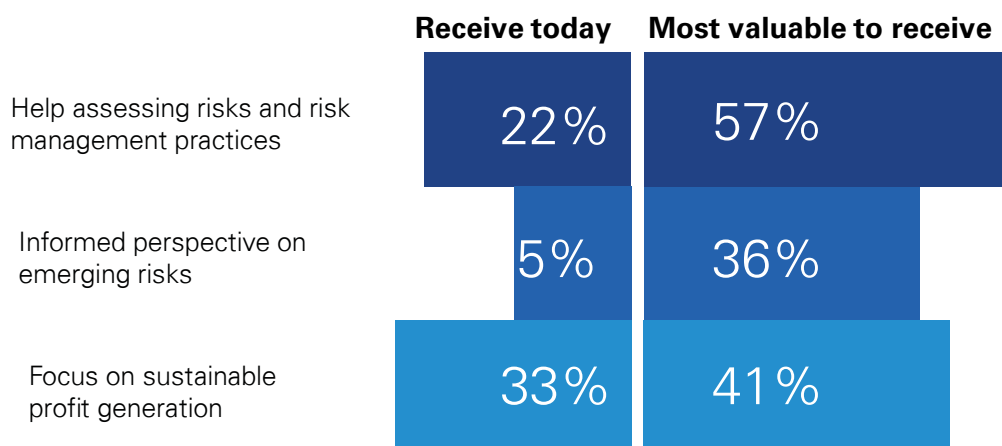
The subject of value is one that is widely mentioned throughout business topics and arenas, but is often discussed in abstract. "Added value" seems to be the common denominator of desired outcomes in many surveys of this kind, but rarely results in measurable impact. The challenge, therefore, is to make value real.

To determine how that may be done, particularly as a function of Internal Audit (IA), it's worthwhile to examine what IA functions are providing companies versus what a company would find valuable. The biggest gaps in the findings were related to risk and sustainable profit generation.

A surprisingly low percentage of those polled currently receive — as a component of their IA function — informed perspectives on risk, but

when asked what insights they would most like to start receiving, these insights into risk ranked highest.

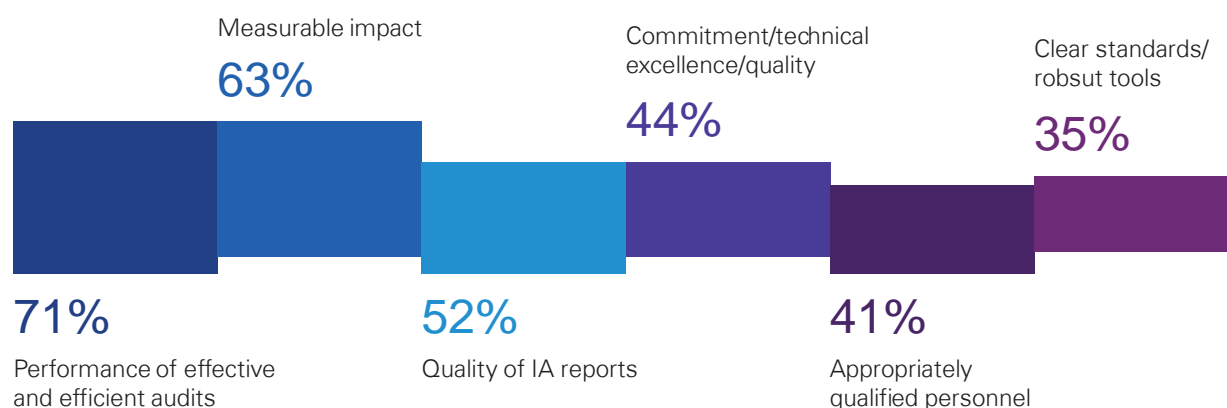
## What insights do companies receive from their IA today; what insights would be of most value?



Source: Seeking value through Internal Audit, KPMG International, 2016

It is also quite clear that while companies want measurable impact from their Internal Audit functions — particularly around risk and potential revenue enhancement — this is not their primary concern. The most important factor is effectiveness and efficiency. This means that, while there is a call for measurable impact through a greater focus on risk, it should not come at the cost of reducing audit effectiveness and efficiency.

## How important are the following to CFOs and Audit Committee Chairs?



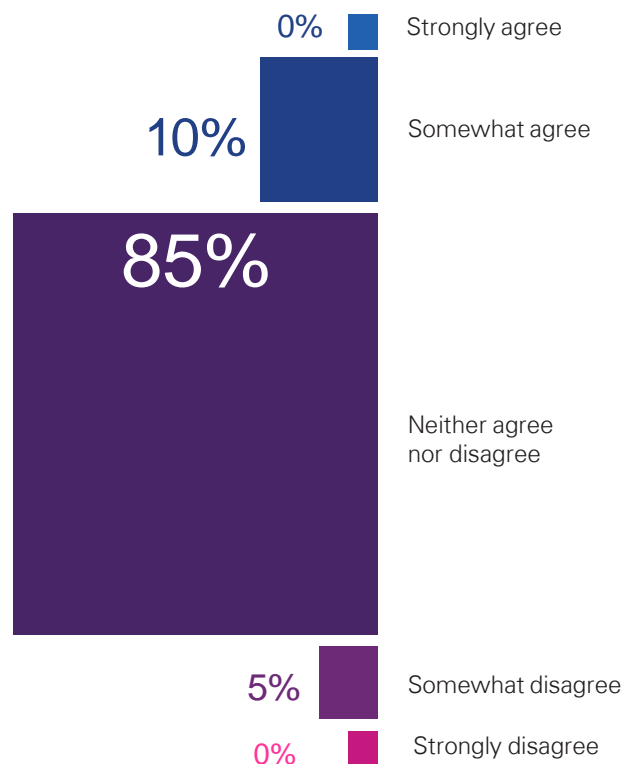
Source: Seeking value through Internal Audit, KPMG International, 2016

## Taking a new approach to risk

If risk is a prominent area of concern and effective and efficient audits are of the most importance, surely then the answer to making value real lies somewhere in informing the risk assessment, supporting risk management and providing insights in a way that optimizes the effectiveness and efficiency of how IA as a whole is delivered.

In general, ground-level risk assessment as a function of IA is agreed to be, at best, adequate. The job gets done. But, when it comes to more comprehensive detection and response to emerging risks, only one in ten respondents believe that this is addressed satisfactorily. Again, this leaves an opportunity for additional value. Internal Audit needs to be more proactive in identifying and mitigating risk, not just assessing the controls already in place.

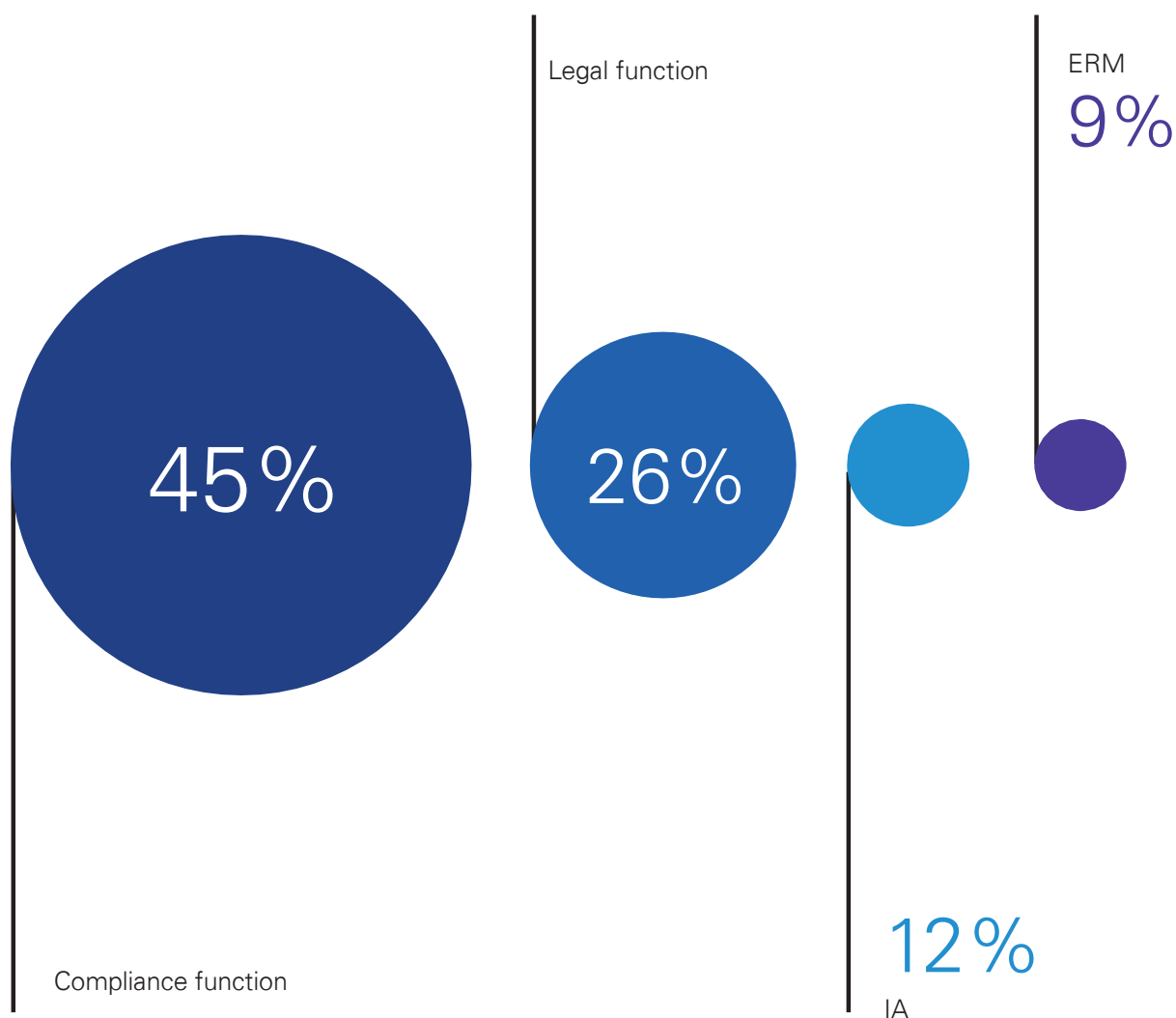
### How strongly do companies agree or disagree that their IA function adequately identifies and responds to their emerging risks?



Source: Seeking value through Internal Audit, KPMG International, 2016

Nearly half of the companies in the survey track risk through a compliance function, half as many through their legal function and only 9 percent through an Enterprise-wide Risk Management Function. Stakeholder responses indicated that they care more about how IA was responding to risk, especially emerging risk, than what function was accountable for risk tracking.

### Where do companies address their enterprise-wide risk?



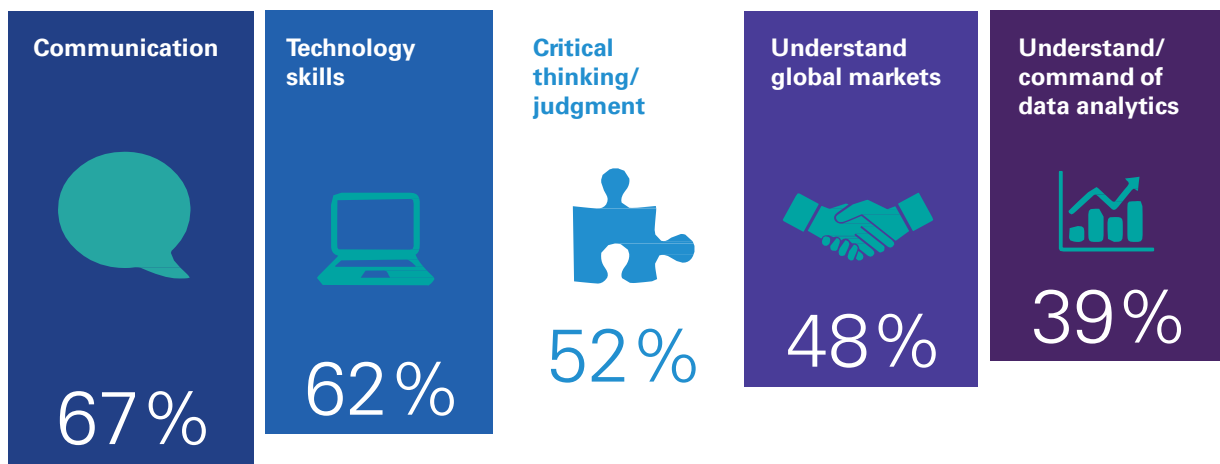
Source: Seeking value through Internal Audit, KPMG International, 2016

Stakeholders expect IA to be more proactive in responding to risk which presents a significant opportunity for IA to collaborate with Compliance, Legal, Risk Management as well as other assurance providers to deliver Combined Assurance. This collaboration highlights an even greater need for efficiency and effectiveness; this is where technology comes into play.

## Embracing technology

It's no longer useful to utter phrases like "technology is the future". If companies are not fully integrating technological advancements in every area of business, no degree of strategic prowess is going to make a measurable impact. How IA is conducted is no exception. In fact, a fully integrated, automated IA platform would transform and progress the way that audits are conducted.

### The Top 5 skills needed for IA professionals



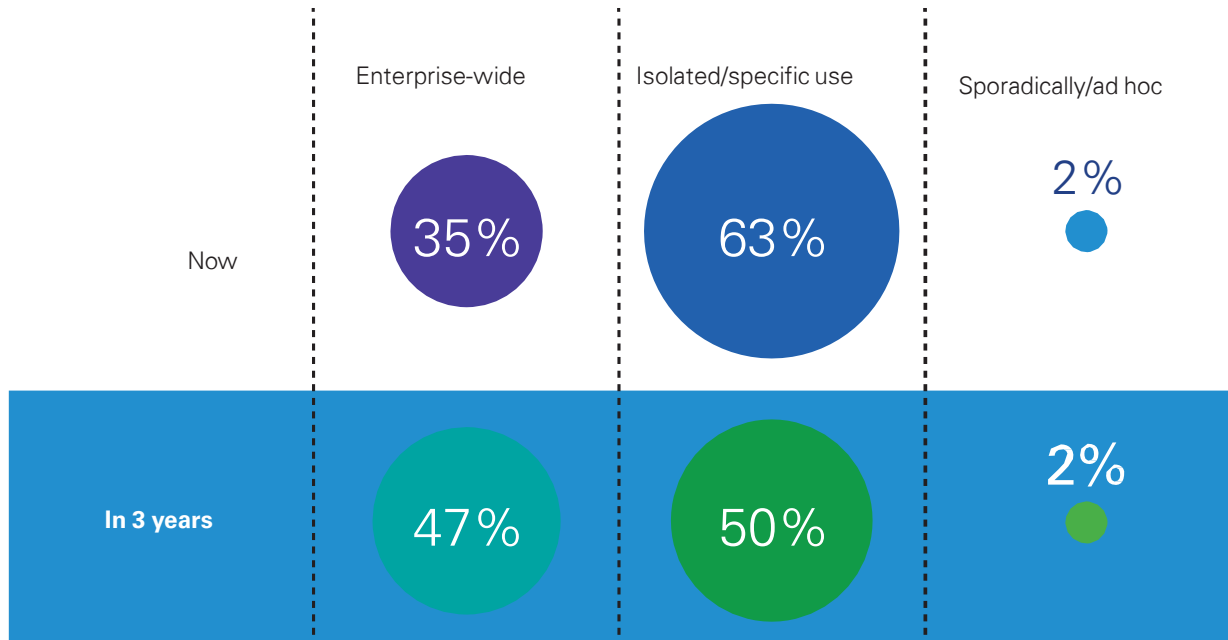
Source: Seeking value through Internal Audit, KPMG International, 2016

As for the existing desire for a move toward such a technology-enabled approach when asked about the key skills needed in IA, the survey reflected that technology (62 percent) is second only to communication (67 percent) in importance, while critical thinking and judgment came in third (52 percent).

It stands to reason, then, that a solid technology platform with the propensity for advanced, enterprise-wide data and analytics (D&A), and a progressive feedback mechanism would make for a distinctly efficient and effective internal audit function.

The potential for making value real through technology is enormous, especially if IA were able to integrate a higher percentage of data analytic procedures into their audit approach. An integrated approach to using data and analytics throughout the audit process (for example, analytics driven continuous auditing, dynamic audit planning, audit scoping and planning, audit execution and reporting) would provide greater insights and value.

## How do companies deploy data and analytics technology?



Source: Seeking value through Internal Audit, KPMG International, 2016

Currently, 63 percent of companies use data and analytics technology in isolated or specific instances only, or it exists within discrete functions. It is predicted that this statistic will drop to 50 percent in the next three years, while the use of enterprise-wide risk- focused D&A capabilities will jump from 35 percent to 47 percent.

KPMG believes that if IA were to operate through an integrated technology platform, the incorporation of risk assessment, D&A, knowledge and experience would advance the potential for IA to deliver significant added value, particularly in monitoring emerging risk, assessing risk coverage and facilitating data-driven decisions to provide actionable insights into the strategic drivers of the business that would optimize both business performance and risk mitigation.

This platform would provide dynamic, near-real time reporting that unlocks the intellectual capital of a business, exposes the root cause of problems and enables internal auditors to help deliver not only added value, but measurable value. This would go a long way toward enhancing the status of IA in businesses, going so far as to create a model that may, in time, become the standard.

The survey responses do not only identify a 'value gap,' they point to specific actions that would elevate the value of the IA function and create a new standard of delivery by:

- Providing actionable insights into the risks that matter and increase the focus on emerging risks.
- Embracing technology and the benefits of D&A to increase audit quality, improve the quality of audit evidence and facilitate the discovery of new insights.
- Leveraging an audit management platform that automates significant portions of IA service delivery and allows consistent and full execution of your IA methodology.

## Shanghai

**Li Fern Woo**

Partner  
Risk Consulting  
Tel: +86 21 2212 2603  
*lifern.woo@kpmg.com*

**Grace Chen**

Partner  
Risk Consulting  
Tel: +86 21 2212 2780  
*grace.xh.chen@kpmg.com*

**Frank Jiang**

Partner  
Risk Consulting  
Tel: +86 21 2212 3666  
*frank.f.jiang@kpmg.com*

**Michael Shen**

Director  
Risk Consulting  
Tel: +86 21 2212 3640  
*michael.shen@kpmg.com*

## Beijing

**Jessica Xu**

Partner  
Risk Consulting  
Tel: +86 10 8508 5952  
*jessica.xu@kpmg.com*

**Johnson Li**

Director  
Risk Consulting  
Tel: +86 10 8508 5975  
*johnson.li@kpmg.com*

**Shirly Wang**

Director  
Risk Consulting  
Tel: +86 10 8508 5113  
*shirly.wang@kpmg.com*

## Hong Kong

**Paul McSheaffrey**

Partner  
Risk Consulting  
Tel: +852 2978 8236  
*paul.mcsheaffrey@kpmg.com*

**Jeffrey Hau**

Director  
Risk Consulting  
Tel: +852 2685 7780  
*jeffrey.hau@kpmg.com*

**Jia Ning Song**

Director  
Risk Consulting  
Tel: +852 2978 8101  
*jianing.n.song@kpmg.com*

**Alva Lee**

Director  
Risk Consulting  
Tel: +852 2143 8764  
*alva.lee@kpmg.com*

## Shenzhen

**Kelvin Leung**

Partner  
Risk Consulting  
Tel: +86 755 2547 3338  
*kelvin.oc.leung@kpmg.com*

**Daisy Du**

Director  
Risk Consulting  
Tel: +86 755 2547 1168  
*daisy.du@kpmg.com*

[kpmg.com/cn](http://kpmg.com/cn)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Huazhen LLP, a People's Republic of China partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.



## Mainland China

---

### Beijing

8th Floor, KPMG Tower, Oriental Plaza  
1 East Chang An Avenue  
Beijing 100738, China  
Tel : +86 (10) 8508 5000  
Fax : +86 (10) 8518 5111

### Beijing Zhongguancun

Room 603, Flat B, China Electronic Plaza  
No.3 Danling Street  
Beijing 100080, China  
Tel : +86 (10) 5875 2555  
Fax : +86 (10) 5875 2558

### Chengdu

17th Floor, Office Tower 1, IFS  
No. 1, Section 3 Hongxing Road  
Chengdu, 610021, China  
Tel : +86 (28) 8673 3888  
Fax : +86 (28) 8673 3838

### Chongqing

Unit 1507, 15th Floor Metropolitan Tower  
68 Zourong Road,  
Chongqing 400010, China  
Tel : +86 (23) 6383 6318  
Fax : +86 (23) 6383 6313

### Foshan

8th Floor, One AIA Financial Center  
1 East Denghu Road  
Foshan 528200, China  
Tel : +86 (757) 8163 0163  
Fax : +86 (757) 8163 0168

### Fuzhou

Unit 1203A, 12th Floor  
Sino International Plaza, 137 Wusi Road  
Fuzhou 350003, China  
Tel : +86 (591) 8833 1000  
Fax : +86 (591) 8833 1188

### Guangzhou

38th Floor, Teem Tower  
208 Tianhe Road  
Guangzhou 510620, China  
Tel : +86 (20) 3813 8000  
Fax : +86 (20) 3813 7000

### Hangzhou

8th Floor, West Tower, Julong Building  
9 Hangda Road  
Hangzhou 310007, China  
Tel : +86 (571) 2803 8000  
Fax : +86 (571) 2803 8111

### Nanjing

46th Floor, Zhujiang No. 1 Plaza  
1 Zhujiang Road  
Nanjing 210008, China  
Tel : +86 (25) 8691 2888  
Fax : +86 (25) 8691 2828

### Qingdao

4th Floor, Inter Royal Building  
15 Donghai West Road  
Qingdao 266071, China  
Tel : +86 (532) 8907 1688  
Fax : +86 (532) 8907 1689

### Shanghai

50th Floor, Plaza 66  
1266 Nanjing West Road  
Shanghai 200040, China  
Tel : +86 (21) 2212 2888  
Fax : +86 (21) 6288 1889

### Shenyang

19th Floor, Tower A, Fortune Plaza  
61 Beizhan Road  
Shenyang 110013, China  
Tel : +86 (24) 3128 3888  
Fax : +86 (24) 3128 3899

### Shenzhen

9th Floor, China Resources Building  
5001 Shennan East Road  
Shenzhen 518001, China  
Tel : +86 (755) 2547 1000  
Fax : +86 (755) 8266 8930

### Tianjin

Unit 06, 40th Floor, Office Tower  
Tianjin World Financial Center  
2 Dagou North Road  
Tianjin 300020, China  
Tel : +86 (22) 2329 6238  
Fax : +86 (22) 2329 6233

### Xiamen

12th Floor, International Plaza  
8 Lujiang Road  
Xiamen 361001, China  
Tel : +86 (592) 2150 888  
Fax : +86 (592) 2150 999

## Hong Kong SAR and Macau SAR

---

### Hong Kong

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
  
23rd Floor, Hysan Place  
500 Hennessy Road  
Causeway Bay, Hong Kong

Tel : +852 2522 6022  
Fax : +852 2845 2588

### Macau

24th Floor, B&C, Bank of China Building  
Avenida Doutor Mario Soares  
Macau  
Tel : +853 2878 1092  
Fax : +853 2878 1096