



Seeking value through Internal Audit

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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.

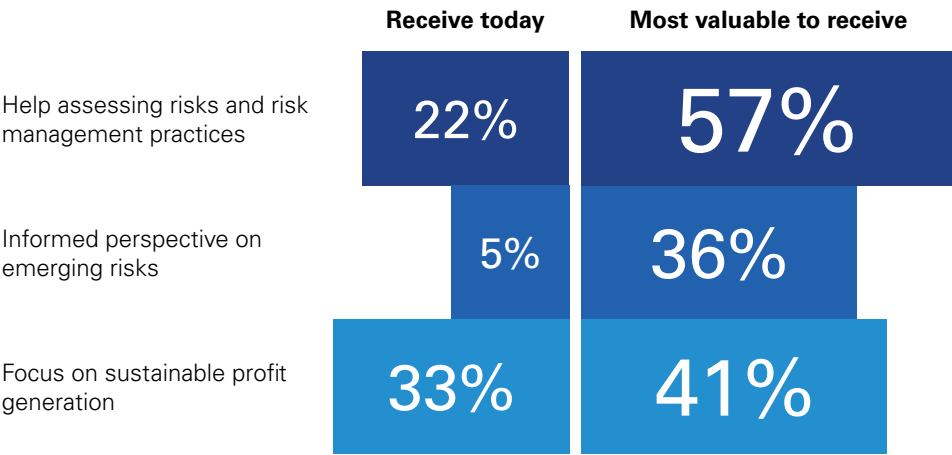
Making value real

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?

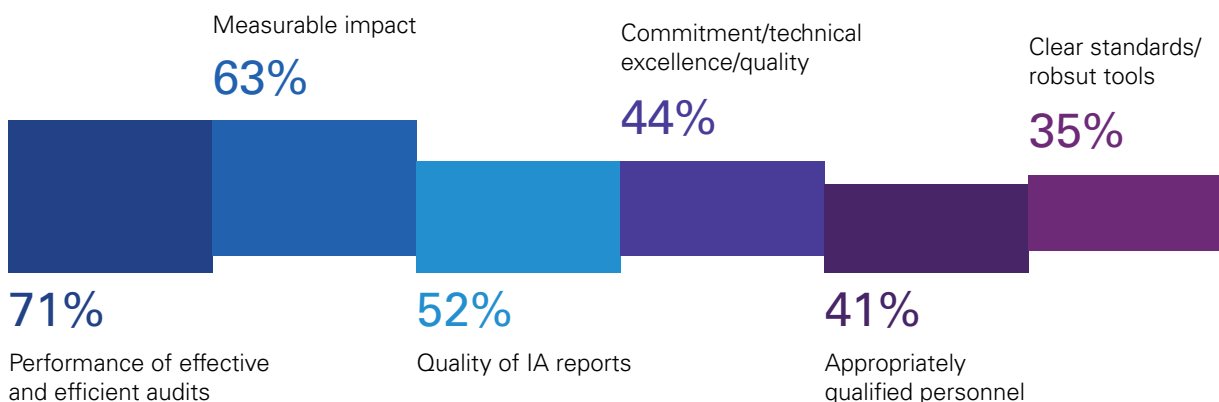


Source: Seeking value through Internal Audit, KPMG International, 2016

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?



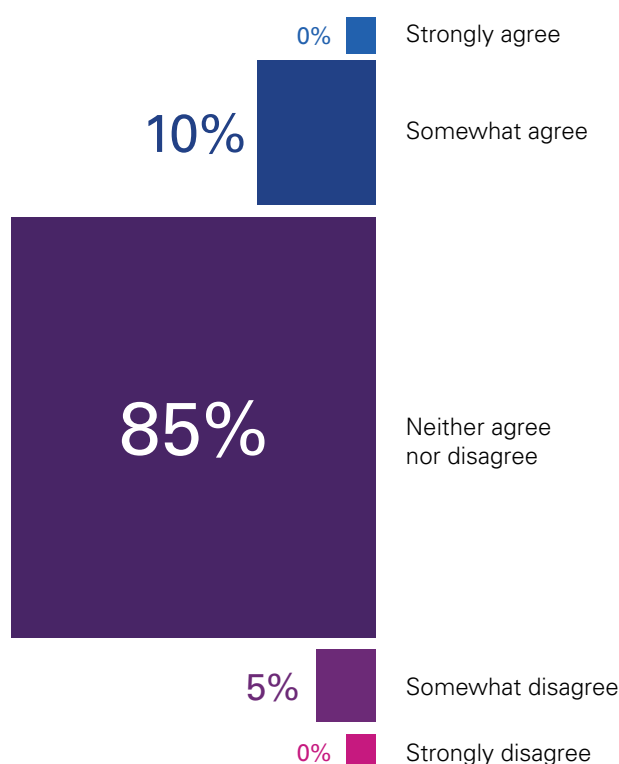
Source: Seeking value through Internal Audit, KPMG International, 2016

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?

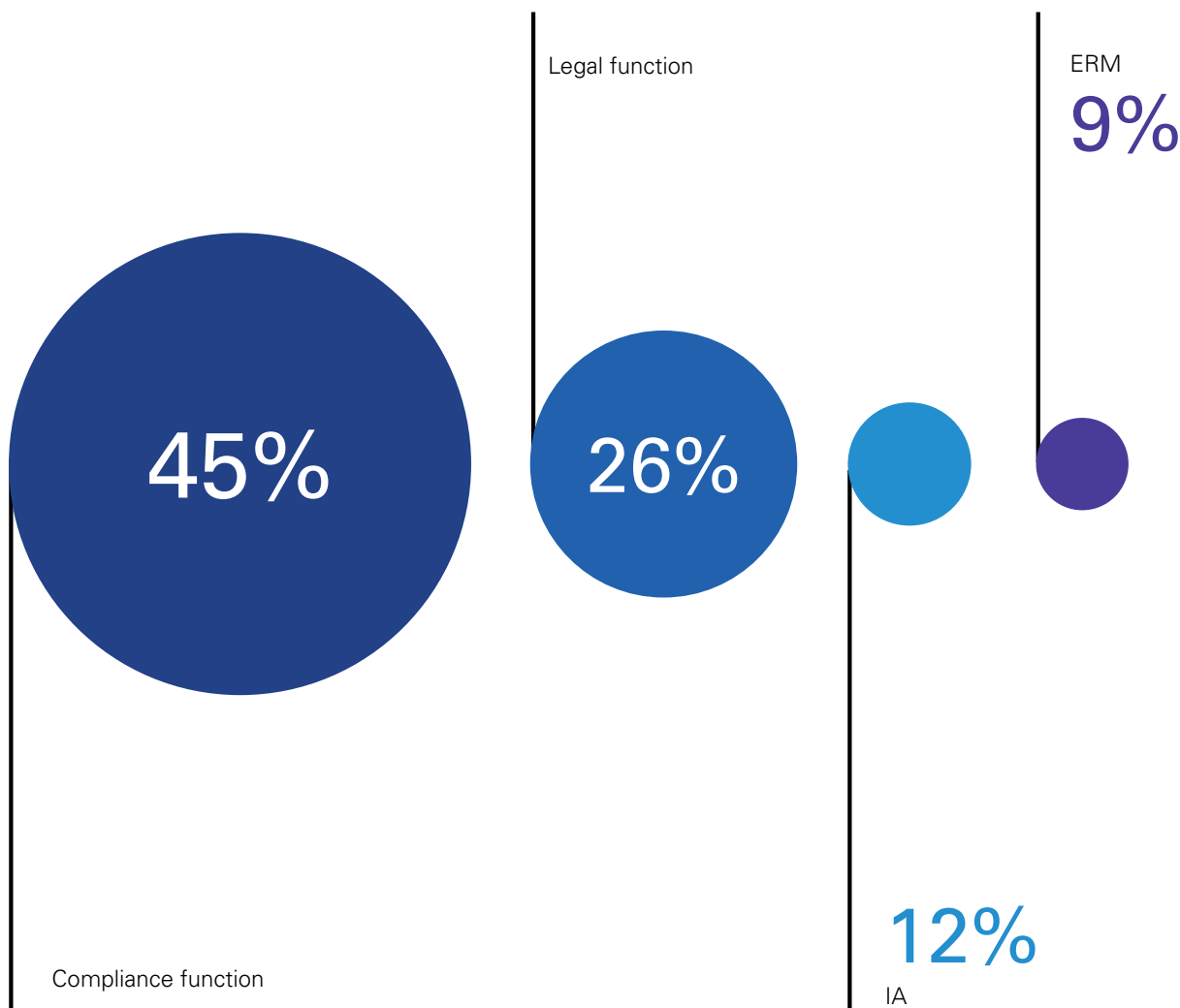


Source: Seeking value through Internal Audit, KPMG International, 2016

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

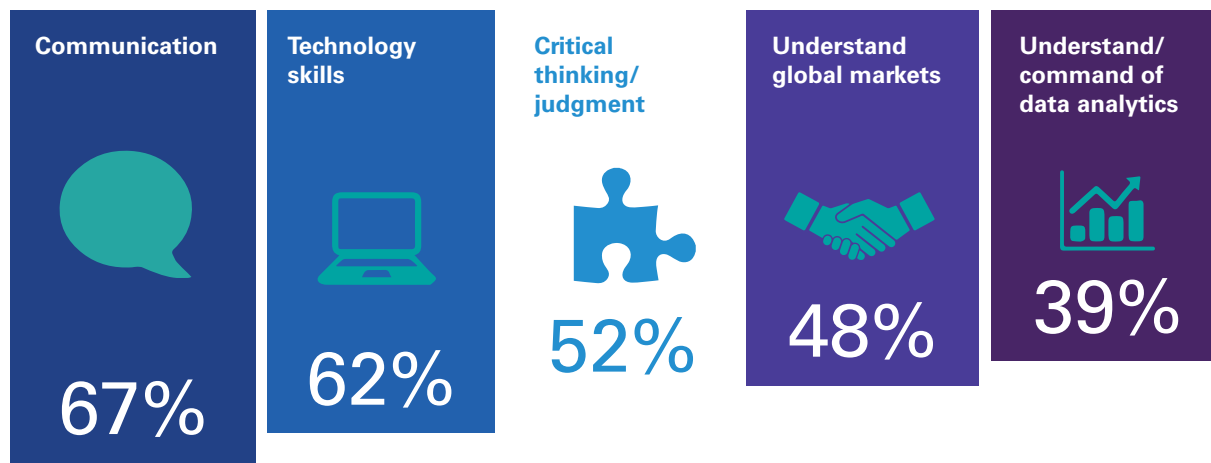
assurance providers to deliver Combined Assurance. This collaboration highlights an even greater need for efficiency and effectiveness; this is where technology comes into play.

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

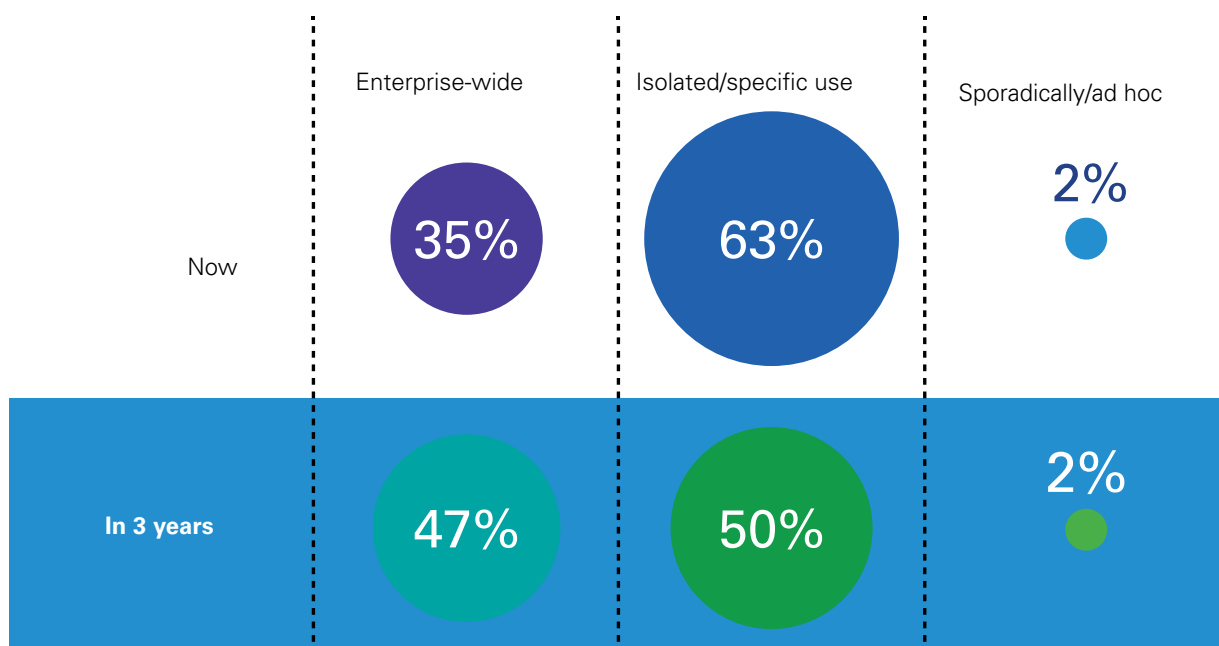


Source: Seeking value through Internal Audit, KPMG International, 2016

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.

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