



Internal Audit: Key risk areas 2021

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Internal Audit functions around the world are continuing to expand their impact and influence within their organisations through the delivery of advisory services as well as assurance around the most important risks to the organisation.

Starting with the planning and scoping of the annual Internal Audit plan, the key question posed to every internal auditor leader will be:

“ Are you aware of the risks concerning Internal Audit today and in the near future? ”

Therefore, we have identified and compiled some areas of focus related to risks which the Internal Audit function should consider as they develop the Internal Audit plan and prioritise audit topics for the new year.

Key risks for 2021

Without a question, the COVID-19 pandemic and a series of unprecedented natural disasters and civil unrests have defined a new business normal for years to come. These developments are accompanied by emerging risks that Internal Audit should take into consideration in its annual plan without neglecting key established risks. We believe the following risk areas will take the centre stage in 2021.



RISK

Business resilience



Risk management frameworks, business continuity structures and crisis communications plans should be well-integrated within the organisation to ensure business resilience. Crisis management and planning may need to be updated in anticipation of multiple waves of the coronavirus, as well as other possible pandemics that may follow a similarly rapid contagion path.

- ✓ **Internal Audit** can evaluate whether the business has assessed how well it is coping with the crisis and whether the business continuity or crisis response plans are fit for purpose, are followed and whether they require updating. Internal Audit should also seek evidence of the governance around crisis decision-making and the integrity of data and information reported to crisis committees.

RISK

Talent pipeline



Accelerated digital transformation and new ways of working are leading to more flexible working arrangements and a completely different workforce structure. Businesses should be able to forecast their talent needs based on future business requirements, and desired skillsets and mindsets.

- ✓ **Internal Audit** should look for evidence that the business understands and is forecasting the skills, competencies and attitudes that are required to secure its market position and long-term strategic relevance.
- ✓ **Internal Audit** should identify key human resource risks and assess current talent strategies. They should examine if the organisation observes fair employment, and has hiring and staff development practices that are open, merit-based and non-discriminatory.

RISK

Fraud and the exploitation of operational disruption



Risk profiles and fraud risk, in particular, will change significantly post-COVID-19. The control framework and monitoring of potential criminal activity may have weakened due to reduced headcounts and remote working, creating gaps in fraud detection and opportunities for malicious customers and staff. Short-term liquidity risk could have lead to a higher fraud risk as a result of cost cutting in the control environment to reduce monitoring activities.

- ✓ **Internal Audit** can gain insights into the business's fraud risks by identifying the effects of recent operation disruptions. Internal Audit should identify potential fraud risks, during every audit, and evaluate if the established controls that prevent and flag out fraudulent behaviour are still in place and operating effectively.

RISK

Climate change: the next crisis



Increasingly, Internal Audit is recognising the challenges and risks companies face in achieving their sustainability goals and minimising their contribution to climate change.

- ✓ **Internal Audit** can help to assess how prepared their companies are for the climate crisis and what actions they are taking to ensure they turn this to their advantage rather than contribute to the climate crisis.
- ✓ **Internal Audit** can examine this area at an operational level too, given its deep view into the processes that are related to and impacted by sustainability, from materials sourcing to transport and logistics and waste management.

RISK

Third-party management: supply chain disruption and vendor solvency



Third-party risk management, especially contract management, remains important as organisations outsource their business functions to third-party vendors. The pandemic has disrupted supply chain and business service set-up, altering the nature of relationships with third parties. Vendor insolvencies have the potential to cause massive disruption. Few companies had accounted for risk of outsourcing to overseas territories and the impact of a global pandemic lockdown.

- ✓ **Internal Audit** should take a holistic view towards third-party risk management, beyond contract management. Has the organisation enhanced its third party risk management processes and protocols for in-scope third party intermediaries (new and existing) as a result of COVID-19?
- ✓ **Internal Audit** can assess whether the business has paid sufficient attention to the need to remodel supply chains and outsourcing strategies to improve its operational resiliency.

RISK

Culture and behaviour and Soft Controls



Companies with a clear purpose and an explicit set of values are more successful. However, the ability for firms to build, embed and monitor their cultures is harder in a remote/hybrid working environment. Remote employees risk losing their sense of connectivity and team. New ways of working will also heighten conduct risks.

- ✓ **Internal Audit** should continue to conduct soft control audits to provide assurance over the current culture in the organisation and its impact on the effectiveness of the controls set in place.

RISK

Cyber security and data privacy in the expanded work environment



Rapid wide-scale shift to homeworking arrangements has increased the vulnerability of organisations to cyber attacks. There is also greater potential for controls and safety measures to be circumvented when unsupervised employees overlook or ignore them to save time. Technological advancements has also increased sophistication and frequency of cyber security attacks and fraud.

- ✓ **Internal Audit** can assess the extent to which easing of controls has increased the risk of data leakage or security breaches. Processes should adhere to the Personal Data Protection Act 2012 and if a breach happens, whether there are protocols and measures in place to respond accordingly.
- ✓ **Internal Audit** should assess the organisation's understanding and awareness of cyber security risks and work alongside the business to identify possible mitigation strategies and achieve assurance that these risks are adequately managed.
- ✓ **Internal Audit** should assess if inter-connected and higher-risk vendors and customers who could amplify cyber security and data protection risks have been identified. Possible mitigation strategies to these risks should be in place to ensure that cyber risks are adequately managed.



RISK

Regulatory driven risk



Regulatory compliance is driven by ensuring compliance with a number of regulations, both domestically and abroad. Organisations, regardless of industry, are being inundated with new regulatory requirements. These new regulations place growing pressure on executive management and add complexity to the organisational governance and control structure.

- ✓ **Internal Audit** needs to have a strong understanding of the existing regulatory landscape in which the organisation operates in order to assess compliance with relevant regulatory laws and regulations.
- ✓ **Internal Audit** can make use of bench-marking and good practice examples to assess the organisation's compliance to legislation requirements and ensure long-term compliance.

RISK

Digitalisation and Intelligent automation



Artificial intelligence, algorithms, cognitive computing and robotic process automation are among the top technologies that will continue to have a significant impact on the way we conduct business in the future. As digitalisation continues to disrupt operations, business processes and business models, it ultimately brings new risks and challenges in this digital age.

- ✓ **Internal Audit** can review and voice out their concerns, if any, in relation to governance, risk management and controls of new digitalisation and intelligent automation initiatives. By working alongside other lines of defences, Internal Audit can help formulate an organisation-wide digital transformation strategy that is robust and well-governed.

RISK

Data management and data & analytics



Data collection and management is expanding rapidly. Technological advances provide businesses with the opportunity to enhance productivity and to make smart business decisions. The adoption of data & analytics becomes crucial and it is essential that organisations identify the possibilities and risks of integrating these technological capabilities into their business operations and strategies. There should also be a data ethics framework that is embedded across the organisation, providing principles for how data is collected and used.

- ✓ **Internal Audit** should assist the organisation with the creation and implementation of data analytics tools and dashboard reporting that is aligned with business needs. Internal Audit plays an important role in developing system-generated exception reporting and automated controls in order to monitor key risk areas.
- ✓ **Internal Audit** should assess the organisation's controls over data integrity and ethics as well as the confidentiality of such data. From a function perspective, Internal Audit should consider how it can tap on the advances of the organisation to digitalise its own function.





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