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# Enhancing the strategic value of INTERNAL AUDIT

Major organisations across the globe are attuned to the urgent need to transform their business and operating models in light of evolving customer behaviours, uncertain and challenging economic conditions, disruptive technologies, regulatory policies and globalisation. It is clear that organisations are seeking an approach to internal audit that goes beyond reviewing past activities. Instead, they want internal audits that are insightful, forward-looking and go beyond preserving value to creating value on an organisation-wide level.

Emerging markets, new product entrants, challenging cost structures and evolving regulations are categories of risks in which we are seeing significant strategic responses by management to monitor these risks. The resulting initiatives require internal audit teams to be more broad-based and adopt a holistic approach to their planning and execution methodology in order to be effective business partners.

It is an imperative for Internal Audit to transform continuously. The Internal Audit function must evolve over time using the latest innovations, thereby showcasing its ability to stay ahead of the times. This transformation will become relevant when the Internal Audit is assessed on an annual basis and indicate to the governance bodies that they are able to meet the ever changing needs of the

organisation. Internal Audit must integrate its approach to deliver real results. The greatest business needs for Internal Audit to respond to in the insurance environment currently are: Cyber security, Data & Analytics and Regulatory Change.

## **Internal Audit of the Future**

KPMG surveyed 450 Chief Financial Officers and Audit Committee Chairpersons, who as executive stakeholders, envisage a more strategic role for Internal Auditors than what the auditors see for themselves. It is up to Internal Auditors to take the initiative and broaden their responsibilities. If they aim to enhance their strategic value to the organisation, they will find that they are pushing on an open door. Indeed, if they do not do so, they risk becoming irrelevant.

For Internal Auditors to meet (or exceed) these expectations, three important things need to happen. Firstly, they must become more deeply involved in business matters and not just in dealing with questions about processes, controls and compliance. They need to understand not only the risks of a course of action, but also the opportunities the business is seeking to capitalise on. Only then will they meet the expectations of the business executives who want Internal Audit to play a more strategic role.

Secondly, Internal Auditors need to do more to leverage technology, not just to help increase efficiency, but also to improve the quality and depth of the insights being delivered to the business. Digital transformation of the enterprise is more than a series of buzzwords and organisations grappling with the strategic implications of digitisation and the use of data analytics. One important driver is that advanced technologies, such as machine learning and cognitive analytics, will enable companies to manage the upside as well as the downside of risk. Most compliance decisions will, in the near future, provide an opportunity not only to improve processes, but also to add value. Internal Audit must position itself at the point where risk and opportunity intersect.

Thirdly, Internal Auditors need to view their activities through the lens of business value. How is Internal Audit positioned to deliver value? How are the insights gleaned from a deep analysis of processes and controls going to lead to opportunities or the organisation to grow and become more competitive? How does Internal Audit's perspective on emerging risks inform the continual evolution of the regulatory and internal control environment? These questions can only be answered through constant interaction between Internal Audit and the business at every level. Both sides will learn from each other, so that business leaders have a keener understanding of risk and audit executives can deeply appreciate the upside of risk.

This transformation is an opportunity for both Internal Audit and the organisation it serves to achieve a higher level of performance and to bridge the gap between Internal Auditors and Executive Stakeholders.

### Embracing Technology

It is 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 Internal Audit is conducted is no exception. In fact, a fully integrated, automated Internal Audit platform would transform and progress the way that audits are conducted. A solid technology platform with the propensity for advancement, enterprise-wide data and analytics and a progressive feedback mechanism would make for a distinctly efficient and effective Internal Audit function.

The potential for adding real value through technology is enormous, especially if Internal Audit were able to integrate a higher percentage of data analytic procedures into their 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.

### Enhancing Internal Audit

In transforming the Internal Audit function in the Insurance industry, it's crucial to have access to the correct skills to review the risk areas identified. The requirements of BN158 Governance and Risk Management Framework, places the responsibility on the Internal Audit function to review the effectiveness of the Risk Management, Compliance and Actuarial control functions. Each of these can best be reviewed by a specialist in each specific area. By doing this, Internal Audit ensures that the most value is derived from the review. In addition, the review of the implementation of the policies prescribed by BN158 and further Prudential Governance Standards, also requires the specialist skills of actuaries, treasury and various IT specialists e.g. cyber, disaster recovery and big data is high on the potential risk list.

Top 5 skills required for Internal Audit professionals

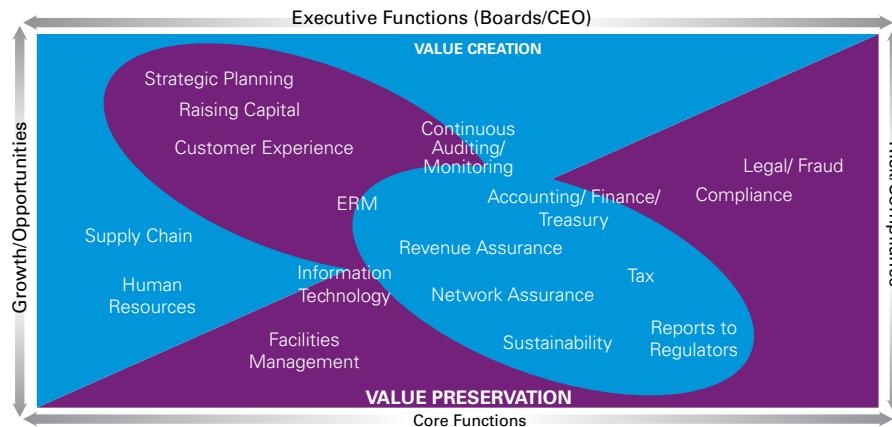
- Critical thinking / judgement
- Technology skills
- Understand / Command of data analytics
- Actuarial and technical skills
- Understand global and local markets

### The changing role of Internal Audit

Internal Audit functions within leading organisations are moving beyond the traditional role of focusing on compliance to becoming increasingly involved in protecting the organisation against risk and improving control systems.



Internal Audit is now expanding to also focus on activities that help the organisation create business value (see below).



The Internal Audit function can be geared to achieve the above by co-sourcing or outsourcing non-core functions.

In the current business environment where cost, efficiency and flexibility are paramount, the marketplace has a way of quickly identifying those businesses that have strayed too far from their core competencies. Internal Audit and other critical non-core functions have become highly sophisticated and by co-sourcing or outsourcing this function the organisation can have access to more specialists and transform to a world-class Internal Audit function.

Resourcing an Internal Audit function can follow one of the three models – each presenting its own degree of “ownership” and fixed and variable costs:

- Outsourced:** The entire function (or significant components of it) is contracted to an outsourcing provider. Costs are variable.
- Co-sourced:** An outsourcing provider is contracted to assist the in-house team with specific IA projects. Costs are partially fixed and partially variable.
- In-house:** The IA function is developed and maintained by the organisation. All costs are fixed.

There are numerous benefits to sourcing Internal Audit, some of which are listed below:

- A service provider can offer Internal Audit functions the ability to be scalable and flexible to adapt to business needs.
- Sourcing Internal Audit functions enables the organisation to free up capital and resources for core activities and critical strategic business priorities.
- Gain access to leading Internal Audit methodologies.
- Enhance independence.

### Combined Assurance

Combined Assurance, which is better referred to as Integrated Assurance, has been given a lot of airtime in the King III and IV Reports and in many Boardrooms in the last couple of years. This is the one process, which is followed by the organisation which can help internal audit to transform itself into a more relevant assurance provider. The combined assurance framework calls for all assurance providers to plan their assurance together and in conjunction with management, after setting the level of assurance desired expected by the Board as an outcome of the framework.

Traditionally, an Integrated Assurance Plan consists of “three levels or layers of defence” wherein the assurance on the risk management and related controls for the company is reported. The three layers of defence are management, corporate functions and Independent assurance providers. The relationship between the levels is depicted below:



The Integrated Assurance framework is to be used for the purposes of planning and recording the outcome of assurance provided by management, corporate functions or internal and external assurance providers across business processes associated with identified business risks and exposures. The framework should be read in conjunction with the company Strategy, Enterprise Risk Management Framework, Internal Audit Methodology and Risk Appetite and Tolerance Framework. The framework aims to provide a consistent and integrated approach to:

- Identifying strategic value drivers
- Establishing a Risk Universe
- Risk profiling
- Assurance scope
- Integrated Assurance planning and conclusion.

By combining the efforts of all the lines of defence, it is possible to change the focus of internal audit and reducing any possibility of duplication by the various assurance providers. This leaves internal audit with time to focus on other areas indicated by the Integrated Assurance plan where there had not previously been internal audit focus.

### Journey to Success

There are currently several new initiatives that the Internal Audit function can harness to transform the way in which it audits the organisation. The most important of these is the implementation of an Integrated Assurance process.

The integrated assurance process is essential to the Internal Audit to ensure that they have a coordinated approach to giving assurance. Putting the process in place is part of the journey to success for the Internal Audit. This journey will need to consider a number of areas where changes will need to be implemented. The change will be achieved by reviewing the internal audit function over a period of time.

The areas of review are set out below to indicate how the revitalisation will be achieved.

- Internal audit strategy; including long and short term objectives and target operating model.

- Governance; establish the protocols and KPIs as well as the compliance to new regulations e.g. Prudential Governance standards.
- Three year plan; focus on new areas in the Integrated Assurance plan.
- Resourcing; consider the co-sourcing of highly-skilled audits.
- Consider the emerging risks in the industry and how they will be addressed in the Integrated Assurance plan.
- Tools; consideration to the updating of tools used e.g. data analytics and electronic working papers.
- Control frameworks; development of libraries.
- Integrated assurance; implementation of plans.
- Control self-assessment and continuous auditing plans.

By re-energising the processes above and revitalising the performance, there will be a new relationship with management and the Internal Audit function will become a value adding activity, built on trust. This transformation process cannot be taken lightly and will need to be facilitated through specialists in some cases.

### Conclusion

Competing in a rapidly changing world, companies must grapple with emerging challenges seemingly every day: cyber threats, changing regulatory environments, emerging and potentially disruptive technologies, business performance risk and more. In this increasingly complex environment, Internal Audit has a crucial role to play to help the organisation in managing risks associated with these diverse business trends. An impactful Internal Audit function will stay current with business issues as they emerge so that it can also help monitor related risks and their potential effects on the organisation. To provide the greatest value, Internal Audit must find opportunities to challenge the status quo to reduce risk, improve controls and identify potential efficiencies and cost benefits across the organisation.