Internal Audit of the Innovation Management System
In this rapidly changing and dynamic world, innovation has become a core competency for organizations. The ability to innovate is crucial if your organization wants to be able to adapt to constantly changing market conditions and trends and remain fully aligned to customers’ needs. Becoming obsolete is a significant strategic risk that organizations can mitigate by implementing a wide ranging innovation management approach. A sound innovation process helps organizations stay ahead of the game and embed innovation in all layers of their organization.

However, investing heavily in innovation initiatives comes with its own risk of failure. Organizations may be trying to develop too many initiatives simultaneously and not be able to achieve the intended objectives. It is imperative that organizations understand where investments could be allocated most effectively, return on investments and know when to pull the plug on unsuccessful innovation projects. Therefore, a need to assess these risks and implement or amend controls to effectively mitigate them is prompted.

Furthermore, organizations are increasingly entering into partnerships with businesses and startups with the aim of accelerating their innovation initiatives. However, third-party relationships also increase exposure of organizations to new risks and potential compliance failures that may result in fines, lawsuits or reputational damage. For instance, partnering with start-up companies that may not have a sophisticated risk management system increases third party risks.

Therefore, the Board of Directors and its Audit Committee should expect their Internal Audit function to provide meaningful insights and unbiased opinions on the organization’s innovation process, in order to add value and improve the organization’s operations. Ensuring that the organization is well-equipped to respond to a changing environment, emerging competitors and game changers such as the economy 4.0 should be one of the top concerns of the Chief Audit Executive and by extension the entire C-level. The Internal Audit function should not only be able to respond to the risks provoked by these changes, but must also be able to assess whether the business is undertaking its innovation initiatives in the best possible manner.

Hence, the innovation process should be part of the risk based internal audit plan of organizations of which innovation is an important element of their strategy. By conducting an internal audit of the innovation process, the internal audit function can assess whether senior management invests in new products and services, technologies, business models and organizational approaches that are robust and create value as well as provide insights into potential improvement points.

Why conduct an internal audit of the innovation process?

Protect and enhance business value: Internal Audit’s activities not only provide assurance but also deliver insights into the business, which may be leveraged to improve the business processes or gain a competitive advantage.

Enhance operational efficiency: Internal Audit can provide an insight whether the innovation process impedes initiating and executing expensive (and potentially unhelpful) innovation strategies and programs. Having an effective innovation management process in place helps avoiding wasting time, money and frustrating company employees.

Third party risk: Internal Audit provides independent reasonable assurance on whether the deployed Third Party Risk Management Program controls are designed properly and are operating as designed, as related the services performed by the innovation partner.

Support the organizational strategy: Each organization needs to define its innovation strategy that is directly linked with its business strategy. By enabling companies to meet their innovation objectives, Internal Audit can help an organization keep on track and see its strategy succeed.

KPMG’s Innovation Internal Audit

Although innovation has become a business process commonly implemented by organizations over the past years, yet we noted that no comprehensive audit program with regard to the innovation process existed up to now. We therefore gathered a multidisciplinary team of KPMG professionals with expertise in internal audit as well as innovation management to develop our Innovation internal audit work program. The audit program is based on the Innovation Maturity Model developed by KPMG Innovation Advisory and in line with the ISO 56000:2020 standard for Innovation Management. In addition, our internal audits are carried out in accordance with the KPMG audit methodology, which takes into account the international internal audit standards as prescribed by the Institute of Internal Auditors (IIA).
The KPMG Difference

KPMG has profound experience and a tested methodology to deliver solutions across the spectrum of internal audit as well as innovation advisory services. We differentiate ourselves through the following:

Expertise. Our team of subject matter professionals, with expertise in internal audit as well as innovation management, has the skills and knowledge to provide innovation internal audit services that meet varied needs across a wide range of industries.

Flexible methodology. KPMG’s Internal Audit methodology is flexible and can be tailored to each company’s specific needs.

Multidisciplinarity. We have access to a wide range of competencies within KPMG. Our experienced and highly qualified core team can always appeal to appropriate Subject Matter Professionals within the KPMG network as needed. In addition, KPMG can serve as a one-stop-shop and support organizations with the implementation of possible points of improvement brought forward by the Internal Audit.