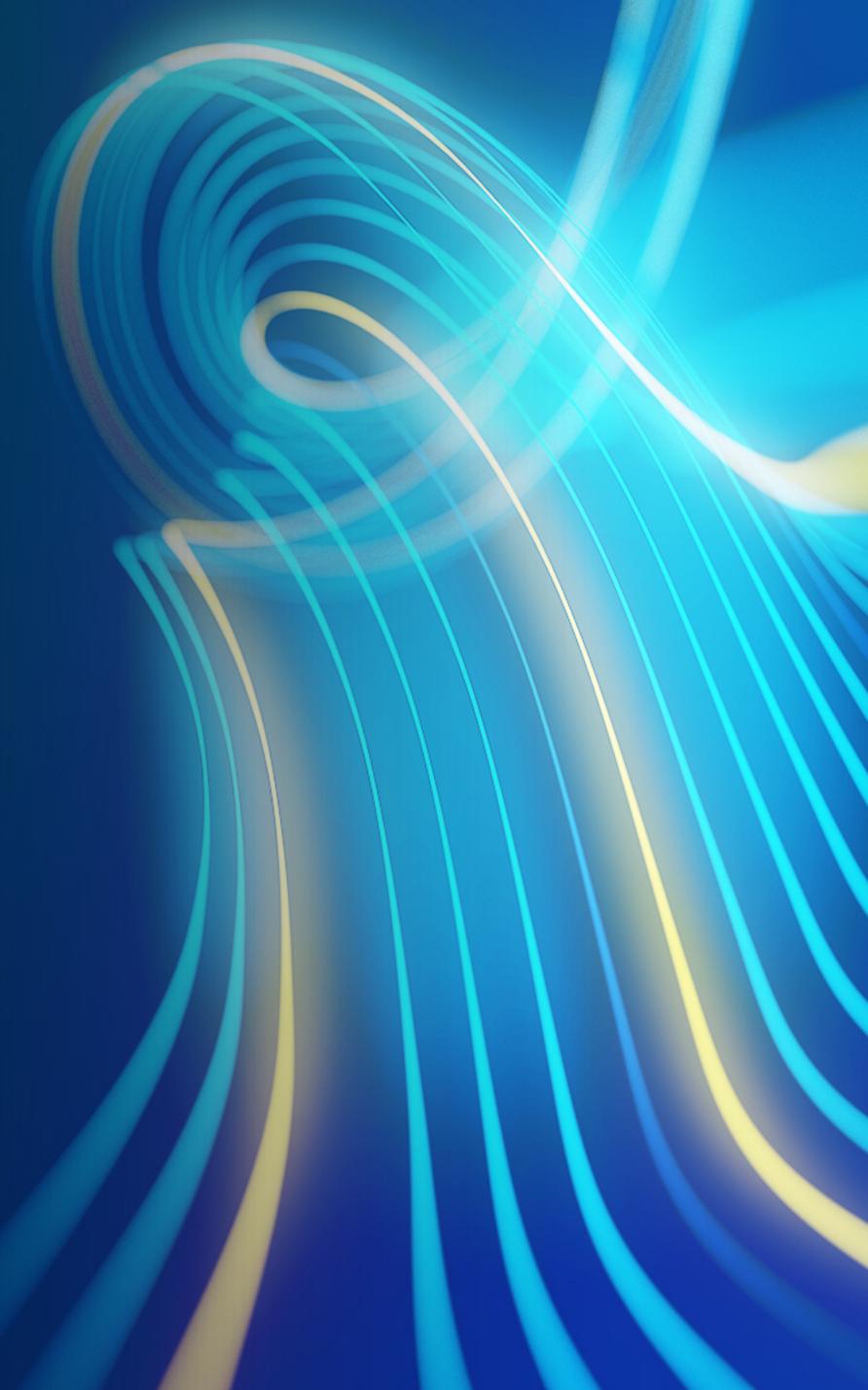




The future of Internal Audit

December 2021



Internal audit trusted, and disrupted

All these forces are driving extensive organizational transformation and, in turn, disrupting internal audit.





“Organizations have, as a result of sheer necessity, made decisions faster, collaborated better, adopted new technologies faster and even eradicated long-standing hierarchies and silos. But *the challenge now is to sustain those improvements over the long term. Defining a clear approach for the future of work will likely be critical*, with a focus not only on the digital technologies required, but also on strengthening internal trust, leading with empathy, re-inventing relationships with employees, managing diverse blended workforces and workplaces, supported by a clear purpose and values to help ensure that employees remain motivated.”¹

— *Nhlamu Dlomu, Global Head of People, KPMG International*

Source: KPMG 2020 CEO Outlook: COVID-19 Special Edition

Opportunities to shine

Rising to these demands requires new thinking and value proposition with a different lens on how the enterprise earns and maintains the trust of its stakeholders, changes in mindset, new capabilities, and new delivery models. Additionally, internal audit is compelled to work more efficiently, creating more value by providing actionable insights in less time with potentially limited resources.

To meet these raised expectations of stakeholders, internal audit should aim to be more dynamic, data-driven, and enabled by technology than ever before.

To meet raised expectations of stakeholders including



Audit committee

Executive team

Business line managers

Internal audit should become more



Dynamic



Data-driven



Tech-enabled

As it delivers a balance of



Enhanced assurance



Risk insights



Business improvement

The future Chief Audit Executive (CAE) Agenda

Leading organizations have developed an agenda to help deal with disruption across their internal audit functions

Stakeholder engagement and trust

Internal audit knows its top stakeholders and takes the time to foster a relationship of trust attuned to their needs

Digital acceleration

Leverage technology with organizational goals in mind, and use it to enable program and project level work

Data, analytics and insights

Enterprise data is available and used, and new data is curated by internal audit. This data is used to provide risk insights and enhanced assurance through broader audit coverage



Strategy and value management

Internal audit strategy considers a mix of enhanced assurance, risk insights and business improvements attuned to stakeholder needs. Strategically important and future-focused emerging risks are prioritized

New ways of working

Where services are delivered, the competencies that enable that delivery, and the way audit teams want to work has to be revisited to help retain the right talent

Operating model agility

Audit activities are responsive to disruption, flex with the business strategy throughout the year, and consider coordination with other lines of defense



Stakeholder engagement and trust

Internal audit (IA) knows its top stakeholders and takes the time to foster a relationship of trust attuned to their needs



Know your stakeholders

Internal audit knows its top stakeholders and invests the time needed to foster a relationship of trust attuned to their needs

- Internal stakeholders are IA's top priority, particularly the Board / AC and select executives and front office leaders
- IA supports these internal stakeholders and associates with second line functions to help the organization better meet its obligations to external stakeholders
- Relationships of trust are built through demonstrating IA's relevance; critical attributes of a trusted relationship are empathy, logic, and authenticity



Be a strategic advisor

Through having a relationship of trust, internal audit is included in high-level value-add conversations as a strategic risk advisor or problem solver

- IA routinely probes its internal stakeholders on arising initiatives and changes in their business
- As IA becomes aware of these initiatives, they serve as an advisor by participating in planning discussions and assessing the potential benefits of changing its plan as needed to provide consultative support or real-time assurance



Commit resources

To adequately act as a strategic risk advisor or problem solver, internal audit makes the resource commitment to address ad-hoc requests by the business

- The audit plan has built-in flexibility to take on project work for these ad-hoc requests
- Metrics around involvement in change initiatives, ad-hoc requests and points of impact (i.e. improvements implemented as a result of audit work) are monitored as KPIs



Strategy and value management

Internal audit strategy considers a mix of enhanced assurance, risk insights and business improvements attuned to stakeholder needs. Strategically important and future-focused emerging risks are prioritized.

Internal audit moves from being problem finders to also problem solvers.



Enhance and protect



Prioritizing risk



Value metrics



- Internal audit prioritizes strategically important and future-focused emerging risks (i.e.. business model transformation, ESG program) as at least an equal, if not largest portion of the audit plan
- When considering risk areas to prioritize for its plan, internal audit leverages on the work of other assurance functions where practical
- Internal audit metrics can demonstrate how the function delivers value through enhanced assurance, risk insights and business improvement

1. Capability				
	Baseline	Target	20##	
Routines – Develop 50 new data analytics routines	165	215	260	↑
Audit Apps – Develop data analytics audit apps for three (3) new business process / audit areas	8	11	13	↑
DA Initiative Involvement – Partner with the enterprise-wide DA initiative and become active members of the steering committee	0	1	0	↓

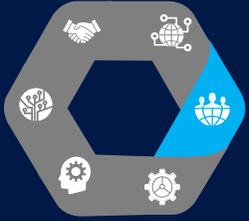
2. Approach				
	Baseline	Target	20##	
Usage – Execute data analytics techniques on 100% of projects	55%	100%	70%	↓
Budget/utilize data analytics for at least 15% of total project hours	17%	15%	16%	↑
Tools – Evaluate two (2) new data analytics tools and/or techniques (e.g., automation, predictive analytics) for IA consideration	0	2	2	↑

3. Skills				
	Baseline	Target	20##	
Lunch and Learns – Host at least two (2) data analytics lunch and learn sessions	0	2	2	↑
Training – Data analytics-related training completed by 25% of IA team members	0	25%	18%	↓
Experience – Data analytics techniques are leveraged and utilized on at least one project by 100% of IA team members	45%	100%	90%	↓

4. Insights				
	Baseline	Target	20##	
Insights – Deliver high-impact reportable data analytics insights/observations on 75% of projects	80%	75%	83%	↑
Management Requests – Generate two (2) new management requests as a result of data analytics impact delivered on projects	4	6	7	↑
Credentials – Develop one-page credentials highlighting data analytics success for 100% of projects	40%	100%	20%	↓

5. Understanding the Business				
	Baseline	Target	20##	
Systems – Analyze data from two (2) new key systems	5	7	8	↑
Policies – Analyze and develop data analytics related to three (3) new key policies / business requirements	6	9	11	↑
Controls – Develop data analytics routines related to five (5) key SOX and/or management controls	10	15	17	↑

6. CA and CM				
	Baseline	Target	20##	
Continuous Auditing – Execute 20 pre-built data analytics routines to facilitate continuous auditing and/or remediation testing	25	45	75	↑
Showcase – Host 3 meetings with business function leaders to showcase data analytics impact and continuous monitoring opportunities	3	6	6	↑
Continuous Monitoring – Enable at least one (1) business function to establish continuous monitoring controls	1	2	2	↑



New ways of working

Where services are delivered, the competencies that enable that delivery, and the way audit teams want to work should be revisited to retain the right talent.



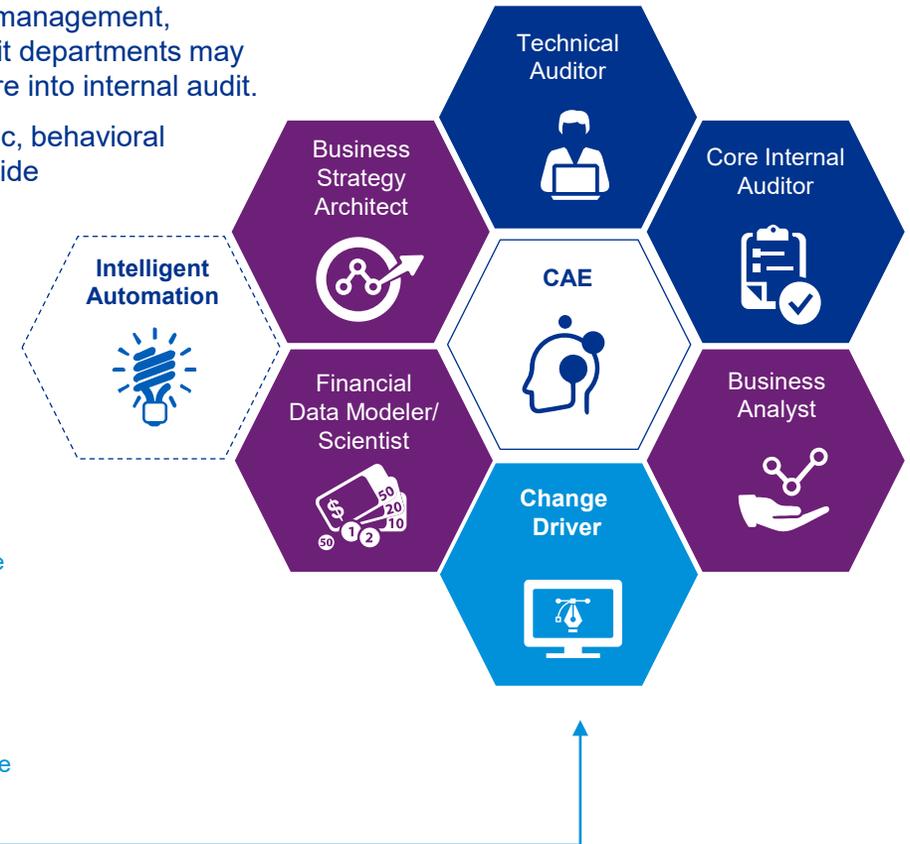
Critical talent base and skillset considerations



To move into a more strategic, advisory role to management, alongside its assurance objectives, internal audit departments may adapt the profile of the typical candidate they hire into internal audit.

Hiring profiles will likely include a mix of strategic, behavioral and data utilization and technology skills alongside internal audit technical skills.

- Critical thinking and problem-solving skillsets, including enterprise acumen and cultural and behavioral awareness, take priority over expected core audit skillsets
- Proficiency around technology and analytics are assumed to be within core audit skillsets through increased investment in a data-driven approach
- Re-skilling existing team members, bringing in new and temporary auditors, and adjusting to remote working are key enablers
- Tasks are performed through a mix of automation, rotational employees, temporary employees, subject matter professionals, core team members, strategic sourcing, and offshore / nearshore capabilities
- A **change driver** becomes a critical role for driving value and overall business performance.





Operating model agility

The internal audit operating model should leverage a more agile and dynamic approach to respond to the organization's changing risk landscape and deliver on its value promise, to protect and enhance organizational value.



Agile approaches with impactful reporting



While the degree of agility at the audit engagement level varies depending on where the overall organization falls in the agile adoption continuum, agile inspired approaches are gaining momentum across the entire internal audit life cycle.



Planning to introduce more agile style

10%



Planning to introduce a more data-driven approach

16%



Planning to introduce both agile and data-driven methodologies

19%



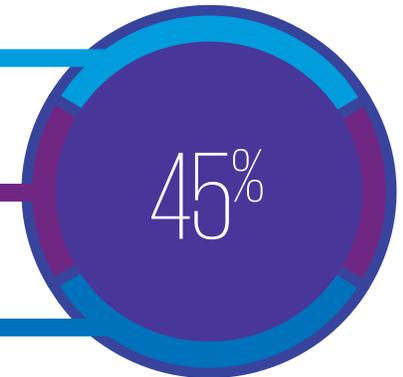
Already adopted at least a portion of this approach

26%



Sounds interesting, but haven't planned for any changes yet

30%



A recent KPMG survey found that 26 percent of internal audit functions had already adopted agile inspired or dynamic approaches in internal auditing and another 45 percent are planning to introduce more agile, and data-driven approaches.

KPMG Adapting agile to internal audit, February 2021



Data, analytics, and insights

Use of data analytics continues to be a powerful tool for the internal audit function to help assess risk and provide insights to assist management decision-making on process improvements and control effectiveness.



Enterprise data is leveraged for risk insights and action



- Data analytics and technology can enable internal audit risk assessment, planning and monitoring **by**:
- Aggregating relevant enterprise information
- Automating the flow of information into insights
- Video: [“Rethinking risk assessment and the IA Plan”](#)



Audit coverage is broader than ever before, with risk appetite in mind



- Data analytics and technology can support broader audit coverage and continuous auditing **by**:
- Offering visibility to trends across an entire population
- Allowing internal audit to target its approach more meaningfully
- Video: [“Continuous Risk Assessment”](#)

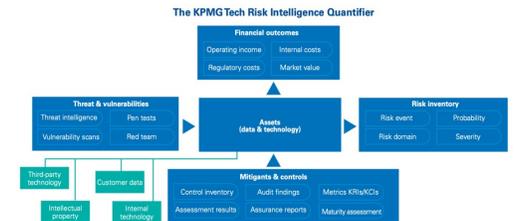
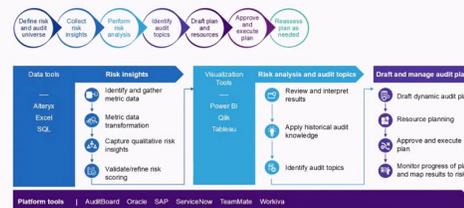


Data driven risk assessment enables smarter decision making



- Leverage risk to help make smarter business decisions with data-driven risk assessment, specific to technology risk domains
- Utilizing data science to better understand and make decisions about risk
- Whitepaper: [KPMG Tech Risk Intelligence tool](#)

Introducing technology in risk assessment and planning





Digital acceleration

“For a majority of U.S. CEOs, the pandemic has meant an acceleration in digital transformation by months or even years. The move to digitization has accelerated and the potential benefits are expected to be permanent. There is no going back.”

— Carl Carande, Vice Chair for Advisory at KPMG in the US.

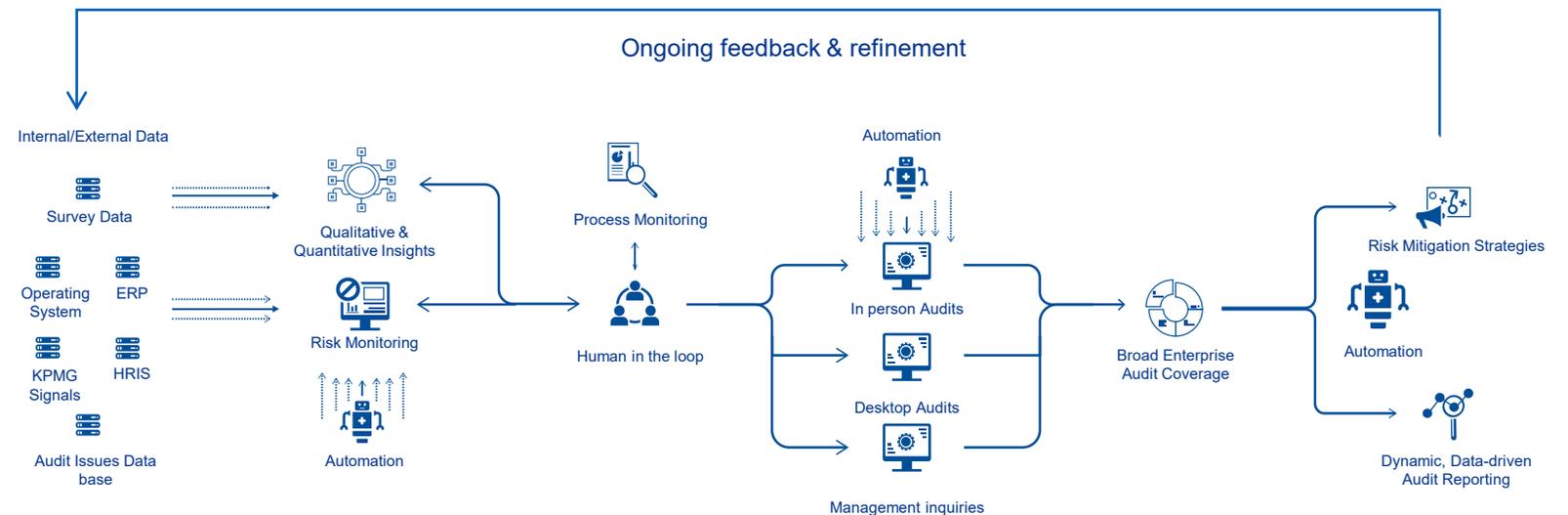


Strive to thrive amid disruption



- Internal audit technology is selected with organizational goals in mind to provide as much integration and synergy as possible
- Audit work is enabled via automation and technology at program and project levels
- Internal audit supports business objectives for digital acceleration through AI controls and assurance over digital initiatives and transformation

A glimpse into KPMG firms' digital internal audit story



Accelerating transformation

Actions to accelerate internal audit transformation

This piece provides internal audit departments with a vision of the future. But how do they make it real? What specific actions can be taken today to start or continue transforming internal audit?

We offer some tips for success based on our breadth of work transforming internal audit functions across industries and at varying stages in their transformation journeys.

- 1 Establish a strategic vision for internal audit
- 2 Collaborate with other lines of defense for synergies
- 3 Change the profile of delivery capabilities
- 4 Align data needs to internal audit's assurance objectives
- 5 Think big while starting small, focusing on a pilot concept

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To provide real-time value to the organization, internal audit should align its activities with the organization's vision. Get started by identifying the organization's current state and creating a vision for the function that meshes with the organization's path forward, key objectives, business risks, and uncertainty in its operating environment. Also consider assessing your current state against KPMG's proprietary well-established practices and maturity model to help determine where investment would be most valuable.

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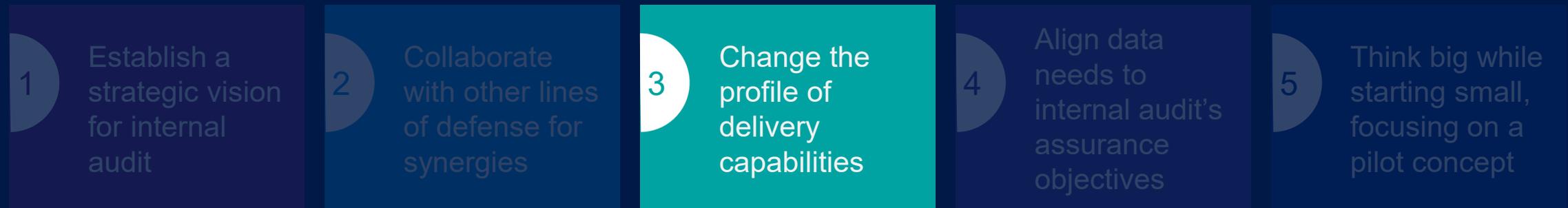


As part of risk assessment and audit planning, consider how other lines of defense are already aligned to aspects of the risk universe. Assess where internal audit can collaborate and consult on active risk mitigation needs as an alternative to waiting until the risk is managed to provide assurance support. This collaboration could include seeking to leverage the same tools for increased Governance, Risk, and Compliance (GRC) integration or co-investment in new digital capabilities.

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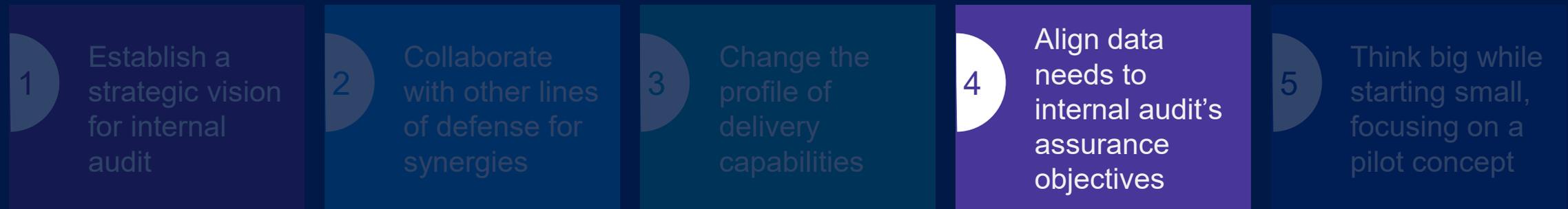


Technology skills, especially data analytics, will likely become critical to future audit work and are worth investing in. Internal audit professionals should also bring a deeper level of business know-how with a problem-solving mindset; they should understand the elements of individual business processes and how each tie back to the big picture from a risk perspective to address risks broadly across the business. These are the skill sets internal audit leaders should look to develop through training, retention protocols, re-skilling, rotational programs, and when filling future openings.

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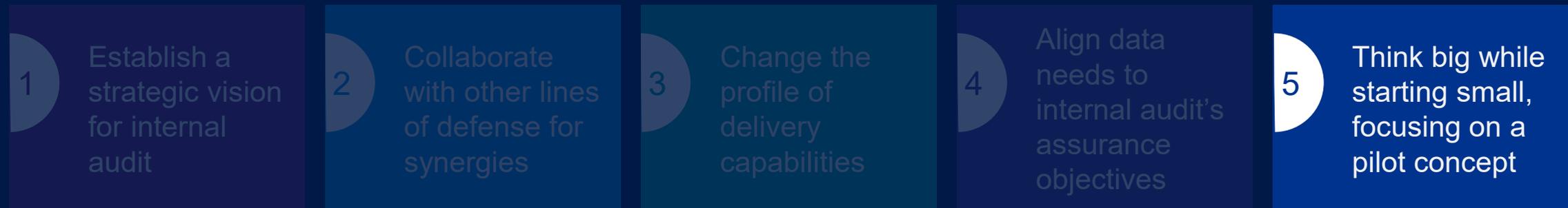


Embedding and curating data into the internal audit operating model is a required change, but there are challenges to address. The volume of data needed for testing and analysis within the data-driven audit function can become overwhelming. – and the curation of data and insights developed by audit are complex. Developing balance between a defined data governance approach that can drive enterprise value from audit, and the flexibility to shift data strategy as the business and external factors evolve, becomes the goal.

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With a future state vision set, transformation can occur incrementally, and narrowing the scope to a single pilot area can help prove the value in investing further. Select a single audit to expand the use of data analytics or introduce agile inspired approaches. Or, focus on better leveraging a specific technology to take advantage of its built-in capabilities. Even a refresh of reporting to be more succinct and focused can enhance value and save time. No matter where you are in your transformation journey, you should evaluate your investment plan to help ensure you are in a position to reach your transformation goals.



How KPMG professionals can help

KPMG's highly experienced and industry-focused internal audit professionals can drive meaningful insights. With deep technical skills, regulatory knowledge, and business acumen and empowered by data and technology, we help our clients innovate approaches to achieve their strategic objectives while aiming to effectively assess and manage business risk.

Achieving the future of internal audit capabilities requires a significant level of investment in skilled resources, methods, training, and technical infrastructure. With organizations being driven to do more with less, the internal audit function has become a prime candidate for meaningful transformation and strategic sourcing. KPMG firms' transformation and strategic sourcing service offerings are designed to assist organizations seeking to improve internal audit quality and oversight, increase value while helping to optimize costs, enhance risk and controls management, and focus on core competencies.

Relevant KPMG methodologies available to support your internal audit needs:

- Internal audit protocols and transformation services
- Internal audit outsourcing services
- Internal audit co-sourcing services
- IT internal audit and compliance services
- GRC technology services
- KPMG Ignition supporting digital IA

Contact us

For further information on how we can help your business prepare for the future of internal audit, please contact:



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