



Dynamic internal auditing

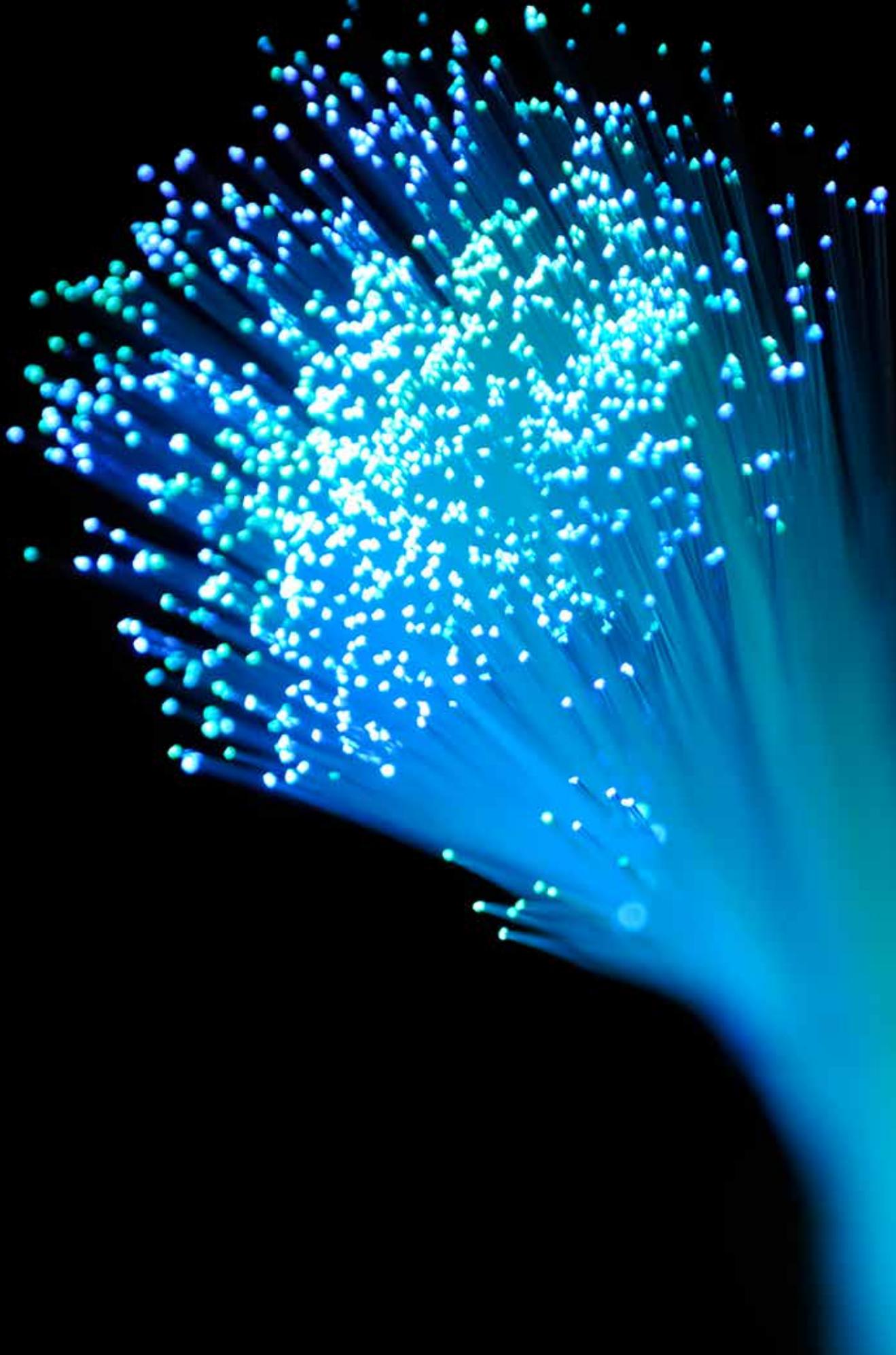
An approach to drive impact and insight by leveraging data-driven and agile thinking at a project level



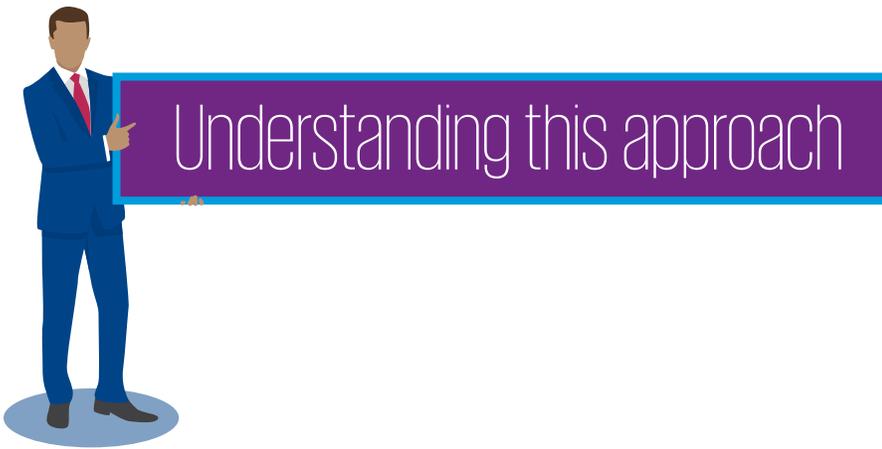
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Contents

Understanding this approach	3
New thinking for a new era	3
Adding value through insights and a higher-impact approach	3
Highlights of this approach	3
Overview of approach	4
Phase details	6
Initiate phase: Profile, acquire and discover, scope, plan	6
Perform phase: Analyze, validate, adjust	7
Deliver phase: Insights, solutions, actions	8
Drive phase: Support, monitor	9
Appendix I – Templates	10
Initiate	10
Perform	11
Deliver	12
Appendix II – Client credentials	13



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New thinking for a new era

Rapid technology change. Shifting regulations. Talent shortages. Businesses are being disrupted from many fronts, and the effects are trickling down to internal audit (IA) functions. The near future will add a new level of complexity for IA, presenting challenges to overcome and opportunities to shine.

This new era demands new thinking and approaches, new skills, and new capabilities. Given the scope and pace of change, traditional approaches to IA will soon prove incapable of providing the level of risk-related assurance and insight that business leaders need to protect and enhance organizational value.

For IA to effectively meet the raised expectations of stakeholders—including the audit committee, executive team, and business line managers—greater speed, agility, business alignment, and future-focus will be paramount.

Adding value through insights and a higher-impact approach

The right audit approach for this new era is one that helps companies identify areas with the largest potential for adding value to their business—or to help them focus on areas of greatest risk—by working proactively with management to define and identify higher impact audits. We define higher impact audits as those that provide insights to create tangible value through significant process improvement, taking cost out of the business/operations, or generating revenue.

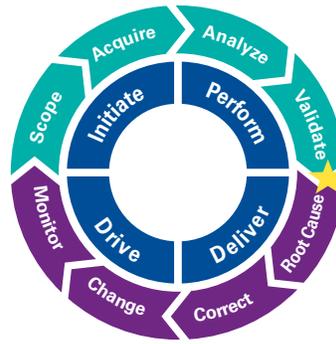
The keys to this approach include more than just proactive involvement of management but also a continued collaboration, along with tools that support a more iterative approach, so audit projects can adjust as needed to deliver as expected. Inherently, this becomes a more agile approach to audit.

Highlights of this approach

 <p>Initiate projects with a problem-solving mind-set</p>	 <p>Increase frequency and extent of business owner collaboration on results and impact</p>	 <p>Phase planned procedures with agility to change based on results</p>
 <p>Prioritize findings to evaluate solutions based on ROI</p>	 <p>Use alternative, succinct reporting that focuses on key issues and solutions</p>	 <p>Continue IA's involvement to support solutions and drive impact</p>



Overview of approach



Point of value to stakeholders

Traditional audits stop with delivering findings with superficial recommendations

Drive impact beyond assurance by using insights for analysis of the right change to solve the problem



Perform

- Iterative execution of procedures in phased sprints against hypothesis
- Continued collaboration with process owners on procedures and results
- Higher-frequency progress/achievement tracking
- Issue tracking for action planning and final reporting
- Scope and approach review for ongoing adjustment to plan and future sprints



- Nature of engagement (assurance or consulting services)
- Initiate involvement of process owners
- Data analysis, process, and risk assessment
- Hypothesis, objectives, and scope
- Timing
- Resources (partner with process owners)
- Approach (project plan with procedures)



Initiate

Initiate



- ### Differentiators and potential benefits
- Early data analysis in planning enables discovery-based risk profiling and prioritization.
 - A **shift in focus from problem finding to problem solving** at the onset leads to a more impact-oriented scope.
 - Management involvement in planning drives early buy-in and informed scoping.

- ### Differentiators and potential benefits
- Staging engagements in phases or sprints to achieve faster, tangible results
 - Process owner involvement to leverage cross-functional experience for insights and analysis
 - Frequent review of progress, results, and scope to **avoid wasted time and stay impact oriented**



Important decision points: In performing this analysis and identifying a problem, is there a good chance a cost-effective **solution** can be implemented to solve that problem? Will this scope still lead us to an impactful outcome or do results thus far suggest a change is needed? What **solutions** are possible to offer the **most** opportunity for impact?



- Identify opportunities for enhancements
- Consider possible solutions to address items of significance and develop action plans
- Communicate and disseminate final results and conclusion
- Deliver assurance opinion or deliver consulting services output

★

Deliver



Drive

- Communicate the acceptance of risks
- Correct any errors and omissions
- Support implementation of solutions
- Utilize monitoring system – follow up
- Survey for feedback and future engagement

Differentiators and potential benefits

- Utilization of learnings to evaluate possible solutions and provide actionable insights that can lead to improvements
- Prioritization and rationalization of **solutions over reiteration of problems demonstrates ROI** for IA work
- Minimized effort on lengthy reporting for maximized focus on impact

Differentiators and potential benefits

- Support implementation of solutions to help the business achieve results and enhance value
- Maintain a pulse on future risks and issues through continuous monitoring feedback to be more dynamic



Phase details



▶ **Initiate phase:** Profile, acquire and discover, scope, plan

Work with engagement stakeholders to understand risks, issues, areas of business underperformance, and/or opportunities within the related process, leveraging data insights as relevant. Consider and prioritize this information to establish scope and objectives for the engagement. Develop a plan for the nature and extent of procedures needed to accomplish established objectives. Confirm the plan with engagement stakeholders.

Engagements are any projects led by the group. A project is temporary in that it has a defined beginning and end in time and, therefore, has a defined scope and resources. A project is unique in that it is not a routine operation, but a specific set of operations designed to accomplish a singular goal. (Definition from *Project Management Institute*)

Assurance engagements involve an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Alternatively, **consulting** engagements involve advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. (Definitions from *The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing*)



Activities

1. Confirm the nature of the engagement (assurance versus consulting services)
2. Identify process owners and stakeholders
3. Through initial inquiry of the business process owner and discovery requests, understand how the process is currently managed and monitored and any existing performance measurement data
4. Facilitate process mapping/risk assessment and early data analysis for the business process
5. Involve process owners and stakeholders in the review of process and data for effectiveness, redundancies, areas of underperformance, possible fraud, and other risks/opportunities
6. Through review of process with its owners and stakeholders, develop a hypothesis and prioritize risks/opportunities, including any quick wins, to establish objectives, scope, and deliverables
7. Determine procedures for identifying, analyzing, and documenting information, utilizing data analytics as relevant
8. Determine resources needed, any specialists to call upon, and where to leverage involvement of process owners
9. Determine timing and use of a phased or sprint approach to organize procedures in sets of steps that each take about one to three weeks to perform before reassessing next steps and any scope change
10. Review and sign off on the engagement plan with audit management ([example in Appendix I](#))
11. Communicate and confirm the engagement plan with process owners and stakeholders
12. If not already in the annual plan, also communicate planned the engagement to the audit committee/board for approval

Deliverables

- **Engagement plan** document ([example in Appendix I](#))
 - Objectives and scope and supporting process map or risk assessment
 - Nature of engagement as assurance or consultative
 - Procedures to be performed and milestones
 - Schedule and timing of procedures and milestones
 - Resource allocation, e.g., project-specific – Responsible, Accountable, Consult, Inquire (RACI)
- Engagement **kickoff communication** (e.g., email or memo agreed by the stakeholders)

Perform phase: Analyze, validate, adjust

Conduct the agreed-upon data analysis and other procedures in sprints with the initial focus on quick wins. Involve process owners and other relevant stakeholders to evaluate results that meet agreed exception criteria as soon as identified.

Begin any root-cause analysis and consider interdependencies and implications. Monitor the engagement scope after each sprint phase and adjust as needed. Utilize frequent status updates with process owners and other stakeholders to manage milestones in preparation for final reporting.

Sprints are a phased way of executing planned procedures. After each set/sprint of procedures, scope and approach are reevaluated and adjusted as needed to enable maximum impact for effort of future sprints. This results in an iterative approach between performing and adjusting the plan.

A sprint is ideally one to three weeks long, and if plans suggest a sprint would be much longer, the need to break the sprint down is considered. These shorter sprints, versus a longer, traditional fieldwork phase, enable faster progress and results delivered back to the business.

Activities

1. Perform the first sprint of procedures identified in the engagement plan:
 - Use data analytics and visualization tools to enable full population analysis for deeper insights and results quantification
 - Leverage process owner involvement where possible in both performing and analyzing procedures (with IA oversight), for ongoing collaboration
2. Reference source of information, purpose, key inputs, and assumptions for procedures, along with steps to validate data used
3. Confirm results of each procedure or analytical activity, reperforming as necessary, and validate with process owners
4. Analyze root causes, interdependencies, and their impact, involving industry or process-level subject matter specialists for insights; prove or disprove hypothesis
5. Capture and review progress with team lead and project manager in an engagement snapshot tracker, then communicate to process owners and other stakeholders:
 - Track results in running engagement snapshot that can later be refined for reporting ([example in Appendix I](#))
 - Use internal “scrum” or short meetings on a daily or other frequent basis
6. After each sprint, evaluate potential scope and approach adjustment (e.g., deep dive or discontinue procedures) and communicate and update engagement plan accordingly:
 - Need for scope adjustment is based upon engagement impact and cost, and involves discussion with engagement stakeholders
7. After confirming the scope, complete the remaining agreed-upon procedures in sprints.

Note: Mindfully balance process owner collaboration with quality challenge from IA



Deliverables

- **Workpapers** with sufficient, relevant, reliable information utilized to support results and conclusions
- **Engagement snapshot** (examples in Appendix I) and **issues summary** to communicate status and support the final report
- **Engagement plan** updated to reflect the final set of procedures and their review, with any changes emerging during execution



▶ Deliver phase: Insights, solutions, actions

Summarize work completed during the perform phase, complete root-cause analysis, and evaluate solutions that make the most sense. Utilize insights to develop actionable plans focused on bringing impact to the business. Leverage concise reporting that emphasizes outcomes and next steps to communicate final results to all stakeholders, including senior management and audit committee. Agree on next steps.



Activities

1. Consolidate results from the Perform phase to support conclusions and final deliverable (consulting engagement) or opinion (assurance engagement)
2. Summarize any opportunities for enhancements and issues
3. Evaluate solutions available to address opportunities and/or issues of highest significance and impact to the business, considering their cost/benefit:
 - Knowledge of which issues are of highest significance is dependent upon the involvement of business process owners during the Initiate and Perform phases, especially analysis of results
 - Involve industry or process-level subject matter specialists for insights
4. Assess which key risk indicators within the process or subject matter scope can be monitored going forward to improve risk sensing and faster response capabilities
5. Prepare a highly summarized final report or deliverable to convey outcomes and proposed next steps (examples in Appendix I)
6. Communicate final results to stakeholders
7. Agree on next steps to drive impact through agreed solutions to be implemented and any continued support to be provided by IA



Deliverables

- **Communication of results** and engagement closing (e.g., report on a page, email, meeting agenda)
 - For assurance engagements: Conclusions reached, applicable recommendations and/or action plans, and opinion regarding the entity, operation, function, process, system, or other subject matter
 - For consulting engagements: Consultative advice or agreed product output and any conclusions, applicable recommendations, and/or action plans
- **Report on a page** (examples in Appendix I) or other highly summarized final report



▶ Drive phase: Support, monitor

Evaluate risks accepted by stakeholders after receiving communication of results and agreeing on next steps; communicate risk acceptance to appropriate parties. If identified, address any error or omission found in the final results and communicate the correction timely.

As next steps are implemented, provide support to process owners for a sustainable change process. Follow up and verify completion of agreed next steps.



Activities

1. Communicate risk acceptance to proper management through reporting, sign-off, or other channel used by the organization
2. Correct errors or omissions that would change the outcome of IA's findings or conclusion if identified at any point after report is delivered
3. Log engagement within the annual engagement summary for tracking agreed next steps
4. Support process owners in the implementation of next steps and any troubleshooting needed to achieve a sustainable change
5. Wherever possible, institute continuous monitoring based on key risk indicators identified during the course of the project
6. Follow up to verify completion of next steps
7. Engagement survey sent for feedback and future engagement interest



Deliverables

- **Risk acceptance communication**, e.g., email or memo, if applicable
- Annual **engagement summary log**
 - Add to running log of current year engagements
 - Document the type of follow-up: Support implementation of solution, inquiry on progress, retest, updated document, etc.
 - Set follow-up target date
 - Set follow-up completion date
- **Engagement survey** questionnaire, depending on size of engagement



Appendix I - Templates

Following are several sample templates intended for illustrative purposes. Each organization will have its own perspective on where standard templates would be beneficial and which attributes and elements to incorporate, based on its audit program.

Initiate

The following is an example of a template to use for the **engagement plan** with RACI to convey agreed objectives, scope, phases of procedures and milestones, timing, and resource roles and responsibilities.

For illustrative purposes only, as each organization considers what makes sense in its environment.

Engagement name			
Engagement scope and objective(s)			
Internal Audit point(s) of contact			
Business process point(s) of contact			
Engagement phases and activities	Teammate(s)	Timing	Status
<i>Initiate</i>			
Schedule and conduct engagement onset conversation with business process management			
Collect and review any existing process documentation and performance management data			
Develop process map draft for review and discussion with business process owners			
Review process map with business process owners and identify known risks, controls, and issues to assess scope of engagement			
Complete engagement plan and confirm approach with engagement stakeholders			
<i>Perform Phase I</i>			
Data analytics procedures to be described			
Evidence review procedures to be described			
Inquiry based procedures to be described			
<i>Perform Phase II</i>			
Data analytics procedures to be described			
Evidence review procedures to be described			
Other procedures to be described			
<i>Deliver</i>			
Prioritize all findings for further analysis			
Solution brainstorm and research			
Identify KRIs and develop monitoring dashboard as appropriate			
Summarize final results and proposed solutions for reporting			
Communicate final results and outcomes and confirm agreed next steps			
<i>Drive</i>			
Log project completion for monitoring and follow-up on next steps			
To be updated with agreed next steps			

Perform

The following is an example of a template to use for the **engagement snapshot** and as a running status report and log of findings throughout the course of the project and ultimately use for final reporting.

For illustrative purposes only, as each organization considers what makes sense in its environment.

Process ABC Analysis

Rating/ Status R Y G

Project Objective/ Hypothesis

Click to add text

Weekly Milestones & Status

	1	2	3	4	5	6	7	8	9
Kick-off Meeting	■								
Discovery & Scoping	■	■							
Confirm Project Plan			■	■	■	■			
Perform Phase I • Airline spend • Hotel spend				■	■	■			
Perform Phase II • Non-travel spend • Volume rebates						■	■	■	
Preliminary Results				■	■	■	■	■	
Deliver Final Report									■

Legend: ■ On track ■ Minor setback ■ Delayed

Recent Accomplishments & Learnings

- Use this section to describe what occurred since last update
- Hosted initiation meeting with XXX on XX/XX, agreed to initial focus on XXXX
- Reviewed XX data, identified anomalies in XX for further analysis
- Adjusted scope to reduce work on XX and add analysis of XX

Recent Obstacles

- Being honest and quick to address obstacles is critical to keeping the project on track and impact oriented
- For any obstacle, be able to offer a solution

Process ABC Analysis

Project Impact [Repurpose as desired]

Annual savings of XX identified or other summary of positive impact resulting from project

Findings	Resolution	Status/Timing
Describe results from each sprint/phase or area of analysis. Only include those of significance at executive level. Minor findings solely go in issue log.	Describe either what did or what will be done in response Include any monitoring of KRIs/ dashboards developed in appendix	Acknowledge anything already addressed or in progress.

Deliver

The following is an example of a template to use for the **report on a page** to distill down to the “so whats” for the engagement and avoid time spent on reporting that stakeholders are either not interested in or can get in other channels such as at the engagement onset or through status reporting.

For illustrative purposes only; each organization considers what makes sense in its environment.

Internal audit snapshot: [Add audit name here]					
Month Year (e.g. July 2018)					
Scope of work			What we looked at:		
			What we did:		
Priority observations					
Management actions and due dates					
Additional insights of interest					





Appendix II - Client credentials

<p>\$5B domestic retailer</p>	<ul style="list-style-type: none"> — New leadership required every department to articulate its ROI — IA had been heavily focused on SOX and had to move beyond compliance to stay relevant — Data-driven project approach was found to offer the most likely impact — Representative projects: <ul style="list-style-type: none"> – Machine learning video analysis – SKU-level inventory adjustment analysis – Employee turnover analysis against shrink results
<p>\$1B domestic consumer services</p>	<ul style="list-style-type: none"> — Growing, potential IPO candidate with first-time audit, risk, and compliance function — Audit function engaged in a wide variety of nontraditional projects and needed a simple but effective approach — Representative projects: <ul style="list-style-type: none"> – Employee discount program analysis – Corporate card spend and compliance
<p>\$6B multinational industrial manufacturer</p>	<ul style="list-style-type: none"> — Executive leadership tasked chief audit executive with achieving more audit coverage and greater visibility over its 20-plus plant locations — IA traditionally performed one to two site audits per year, selected primarily on stakeholder feedback obtained during the annual risk assessment — A continuous risk assessment (CRA) project was undertaken across all plant locations to achieve: <ul style="list-style-type: none"> – Timely risk and performance insights – Dynamic audit planning – Remote/desktop auditing with quarterly reports
<p>\$4B domestic construction materials producer</p>	<ul style="list-style-type: none"> — Rapid growth environment due to acquisition activity — IA emphasis on a higher-impact approach, with more frequent risk assessments and optimization of resource allocation — Representative projects: <ul style="list-style-type: none"> – Dynamic site risk assessment dashboarding and monitoring – Incident hotline management and reporting

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