



# Tapping into internal audit's holistic view of risk

KPMG Board Leadership Centre



When COVID-19 began to disrupt businesses across the globe last year, internal auditors shifted their focus to the critical risks posed by the virus, identifying and reviewing management's assessment of those risks as well as related remediation plans and controls. Audit committee members surveyed by KPMG's Audit Committee Institute last summer said that, by and large, that shift was successful and internal audit plans proved flexible. Today, internal auditors face a similarly difficult challenge: identifying emerging risks that are critical to the company's operations, strategy and reputation while ensuring that their audit plans are risk based, flexible and dynamic in light of COVID-19 developments, the recession and other macro trends.

From an internal audit perspective, assessing critical risks and strategic opportunities in this environment will require:

- a solid understanding of both the business strategy and operations at all levels of the organisation and the expectations of the company's key stakeholders;
- an ongoing assessment process; and
- integration and collaboration among internal audit, second-line functions, and functional and business unit leaders.

In addition, internal audit should ask the following key questions to help frame and focus its work:

- What's changed in the operating model?
- What risks are posed by the company's digital transformation and its sourcing, outsourcing and sales distribution channels?
- Is the company sensitive to early warning signs regarding safety, product quality, and compliance?
- What longer-term impact will accelerating megatrends have on the new business and risk environment?

As internal auditors adjust their audit plans, seven emerging risks should be front and centre.

## Cybersecurity and data governance

Cybersecurity remains a top risk, given the shifts to remote work, digital transformation, online customer engagement and growing sophistication of cyber attackers. The recent SolarWinds cyberattack has increased concerns about the risks posed by third party vendors.

Among the questions internal audit should be asking: does the company's data governance framework make clear how and what data is being collected, stored, managed, used and accessed – and who makes decisions regarding these issues? Are monitoring and response plans focussed on limiting day-one impacts when a breach occurs?

## Culture, ethics and compliance

COVID-19 has increased the reputational costs of a ethics or compliance failure, particularly given the changed control environment, increased fraud risk, and the pressure on management to meet financial targets.

## Evolving COVID-19 risks

Leaders must grapple with reopening their businesses, managing remote workforces, accelerating digital transformation, building more resilient supply chains, and strengthening connections with customers.

Navigating this uncertain environment will require a sharp focus on people, liquidity, operational risks, and contingencies while maintaining sight of the overall strategy.

## Accelerating megatrends

From climate risk to cyber threats, scenario planning will be critical as we adjust to the new normal. And internal audit needs a seat at the table.

## Environmental, social and governance (ESG)

COVID-19 is accelerating shifts in how stakeholders view corporate performance and companies oversee and disclose ESG risks. Internal audit should understand ESG strategy to provide assurance and advise on controls.

## Human capital management

Issues related to COVID-19 and social unrest have amplified the importance of human capital management to a company's performance and reputation, driving demand for better disclosure of how the board oversees human capital and talent development programmes and their link to strategy.

## Regulatory enforcement

Consider the risks posed by increased regulatory enforcement going forward. Tax reform, [audit and corporate governance reform,] trade policy, climate-related regulation, and other changes will require internal audit's coordination with the enterprise response.

## Crisis readiness

Is the company prepared for the next major crisis? Can the lessons of 2020 help build a more resilient enterprise that can quickly respond to growth opportunities and adversity?

Given the unprecedented complexity and uncertainties ahead, it has never been more important for internal audit – as the audit committee's eyes and ears – to help paint a holistic picture of the company's vulnerabilities and opportunities. That will require details and data, but the big picture is vital.

*This article was authored by Stephen Dabney (Audit Committee Institute, KPMG in the US) and Michael A. Smith (internal audit innovation and solution leader, KPMG in the US) and originally appeared in the March/April 2021 issue of NACD Directorship magazine.*

## Contact us



**Katie Clinton**  
Head of Internal Audit, Risk & Compliance Services  
**T:** +44 (0)20 7311 3212  
**E:** [katie.clinton@kpmg.co.uk](mailto:katie.clinton@kpmg.co.uk)



**Timothy Copnell**  
Audit Committee Institute  
**T:** +44 (0)20 7694 8082  
**E:** [tim.copnell@kpmg.co.uk](mailto:tim.copnell@kpmg.co.uk)

---

## The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at [www.kpmg.com/uk/blc](http://www.kpmg.com/uk/blc).

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

