The importance of Soft Controls in internal audit

People are at the heart of every organisation, and it is the human factors that drive decision-making and organisational performance. It is necessary to consider the human factors that influence attitudes and behaviours (so called ‘soft controls’) to really understand what is happening within an organisation.

Soft controls, their presence and their absence, have a major impact on the operating effectiveness of hard controls (such as processes, policies and rules) and are usually the root causes of financial, operational and reputational risks.

We see that audit and assurance has a critical role in understanding and reporting on the human factors that impact on the processes, risks and the overall control environment.

Why the ‘soft stuff’ matters

- **Internal and external audit, management and the board have a role to play in ensuring good conduct across the organisation.**
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- **The discussion around corporate culture has increased around the globe, with regulators focused more and more on poor culture to detect early warning signs of broader organisational issues.**
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- **The IIA Standards requires internal audit to evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programs and activities.**
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- **Integrity has been found to be positively related to financial performance.**
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- **Over 90 percent of CEOs and CFOs believe that improving culture would improve the value of their company. Only 15 percent believe their culture is where it needs to be.**
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KPMG has developed a model that integrates a consideration of soft controls into our Audit and Assurance methodology to help us identify, measure, monitor and report on staff behaviours and its impact on the control environment. The model is based on extensive scientific research by Prof. Muel Kaptein, a Partner from KPMG Netherlands and global subject matter expert and has been in use in the Netherlands for over 10 years.

**How can Soft Controls be ‘audited’?**

KPMG’s Soft Controls model, developed by Prof. Muel Kaptein, KPMG Netherlands Partner
There are three pathways available in embedding soft controls within audit and assurance. Each pathway can be used independently or in combination with any of the other two. As each pathway is structured around our central model, the approach and output remains consistent and enables the identification of repetitive themes across time.

Benefits of the KPMG approach

Get answers to the ‘hard’ questions about ‘soft controls’

Considering soft controls in audit and assurance will enable management to understand what is ‘really’ going on in the business in a more structured and objective way than has been historically possible.

Uncover hidden behavioural drivers to key issues

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Challenge management insights

Soft controls can be used as a validation tool to:
- determine whether existing soft controls support desirable behaviour, despite significant gaps in the hard control environment or
- identify soft control issues despite structured hard controls being in place – increasing the risk of something going wrong.

Provide thematic analysis

Performing soft control analysis over time will show trends and themes to highlight where human factors may need strengthening and greater management focus.
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