



A change imperative for internal audit

Intelligent automation

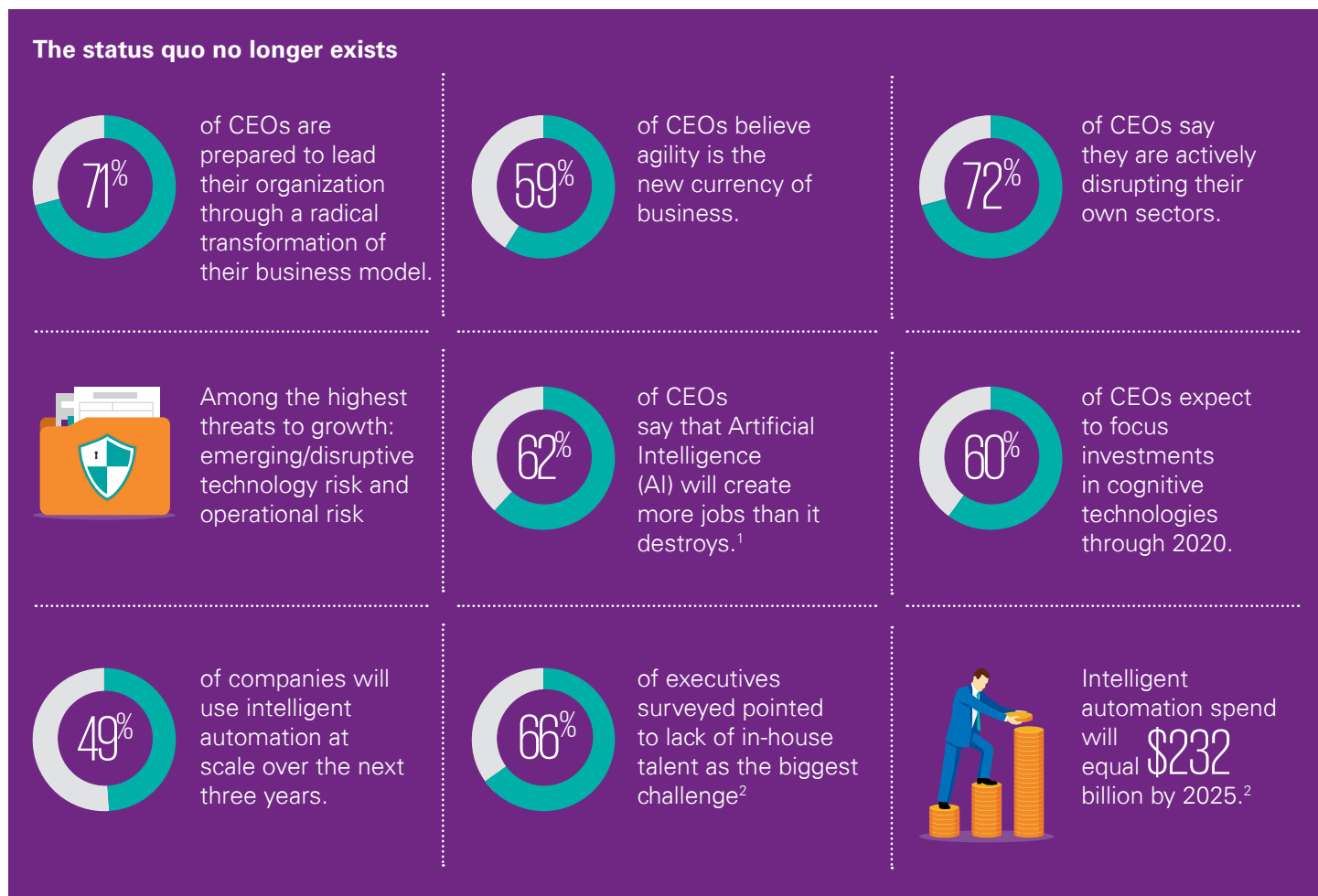


As businesses embrace the use of intelligent automation across their operations, internal audit functions will come under increasing pressure to also change. Just as intelligent automation can help an organization provide more efficient, responsive, and cost-effective products and services, it can be used to increase the quality, efficiency, and effectiveness of the internal audit function.

A new era for business

In today's business environment, the only constant is change. Customers are increasingly demanding tailored products and services, provided across a range of channels, and delivered at speeds once thought impossible. Traditional organizations are being forced to up their game as new market entrants turn business models on their heads and engage with customers using innovative technologies unhindered by legacy corporate cultures, systems, and processes.

While people within traditional companies may be conflicted over the use of technologies like intelligent automation to better meet their customers' needs, at a strategic level, most companies recognize that they must embrace change if they want to survive and thrive. As the status quo quickly becomes obsolete, so will organizations that cling to old ways of thinking and operating.



¹ KPMG. Growing pains: 2018 Global CEO Outlook

² KPMG survey on the impact of intelligent automation on business and operating models.

A new era for internal audit

What internal audit leaders—and other corporate executives—must understand is that intelligent automation isn't only helping to redefine how businesses operate, it is also placing increasing pressure on internal audit to change.

The roles and activities that internal audit functions perform today might not be relevant in the future as organizations transform increasingly complex business activities leveraging intelligent and other technology solutions. Few internal audit functions today are positioned for the task of providing assurance over the complex and data-rich operating environments expected to become more prevalent in the years ahead.

Internal audit is also increasingly under pressure to provide services beyond their traditional assurance scope, such as consultative services related to key areas of risk or predictive and proactive risk analytics. Scope changes are also coming at the systemic level.

In December 2018, the Institute of Internal Auditors (IIA) launched a review of the Three Lines of Defense—a model that has been used for 20 years to help define and manage governance, risk, and controls within organizations.³ It is expected that this review will strengthen the applicability of the Three Lines of Defense, including the potential to go beyond the defense arena in order to promote systems thinking, and emphasize the value of intelligent automation, predictive analytics/modeling, and real-time identification of anomalies. While it is still very early in the review process, it is expected that any changes that result will have a resonating impact on internal audit functions.

Creating a proactive internal audit function, enabled by intelligent automation

To remain relevant and effective, internal audit functions need to rethink their strategy and reevaluate what they do and how they do it in the context of a connected business environment—where many activities happen in real-time, risks are more diverse, and the amount of data is overwhelming. Current manual processes are becoming prohibitively time consuming and expensive for internal audit functions already facing cost and resource pressures.

Intelligent automation is a critical way for internal audit functions to up their game. If used effectively, it can reduce risks, enhance controls monitoring, increase assurance, create capacity or reduce costs, and increase the value internal audit provides to the business. It can also augment staff activities, providing them with more concrete data for

decision making and allowing them to focus on higher-value activities such as performing deeper dives into root causes for exceptions and anomalies.

Implementing intelligent automation, however, will be an uphill battle for many internal audit leaders. While intelligent automation technologies require careful planning and robust data sources—among a myriad of other requirements—the real challenge for most internal audit functions will be on the resource side. Entrenched cultures and processes will keep many from moving forward too quickly, and the need to acquire unique skill sets will force internal audit leaders to rethink their talent strategies.

Only **13 percent** of chief audit executives strongly agree that their internal audit functions are quick to adopt new technologies or processes, while just **32 percent** strongly agree that their internal audit functions challenge their own status quos.⁴

Asking the right questions

1

Is internal audit aware of the changes within your organization and aware of the implications of these changes?

2

What are the biggest challenges associated with fulfilling the mandate of your internal audit function today?

3

How open to change is your internal audit function?

4

What regulatory or systemic changes are occurring or contemplated that might affect your internal audit function in the future?

5

How could your internal audit function use intelligent automation to redefine what you do and how you do it?

Find out more

For more information on how to use intelligent automation in internal audit, visit KPMG's [intelligent automation and internal audit web page](#).

³ Institute of Internal Auditors. IIA Launches Global Review of "Three Lines of Defense"

⁴ Institute of Internal Auditors. 2018 North American Pulse of Internal Audit. The Internal Audit Transformation Imperative.

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