

Auditing in the new normal - challenges of auditing amid the pandemic and how the team has adapted to functioning in the new normal

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KPMG Phoomchai Business Advisory Limited



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The new norm

There are new questions as to how internal audit should focus in light of the COVID-19 impact on the organization:

How relevant is the current audit plan and what parts of it require recalibration ?

How does Internal Audit keep pace with the speed of changes occurring in the business, including changes in the control environment ?

How does the department pivot to help the organization address new business risks?

How does an internal audit team better use technology and data to gain insight?

01

Challenge to auditing

Challenge to auditing

Review of incumbent working papers when taking over a new engagement

Changes to the planned audit approach

Communicating with those charged with governance

Audit evidence

Compliance with laws and regulations

Restrictions to group audits

Internal controls

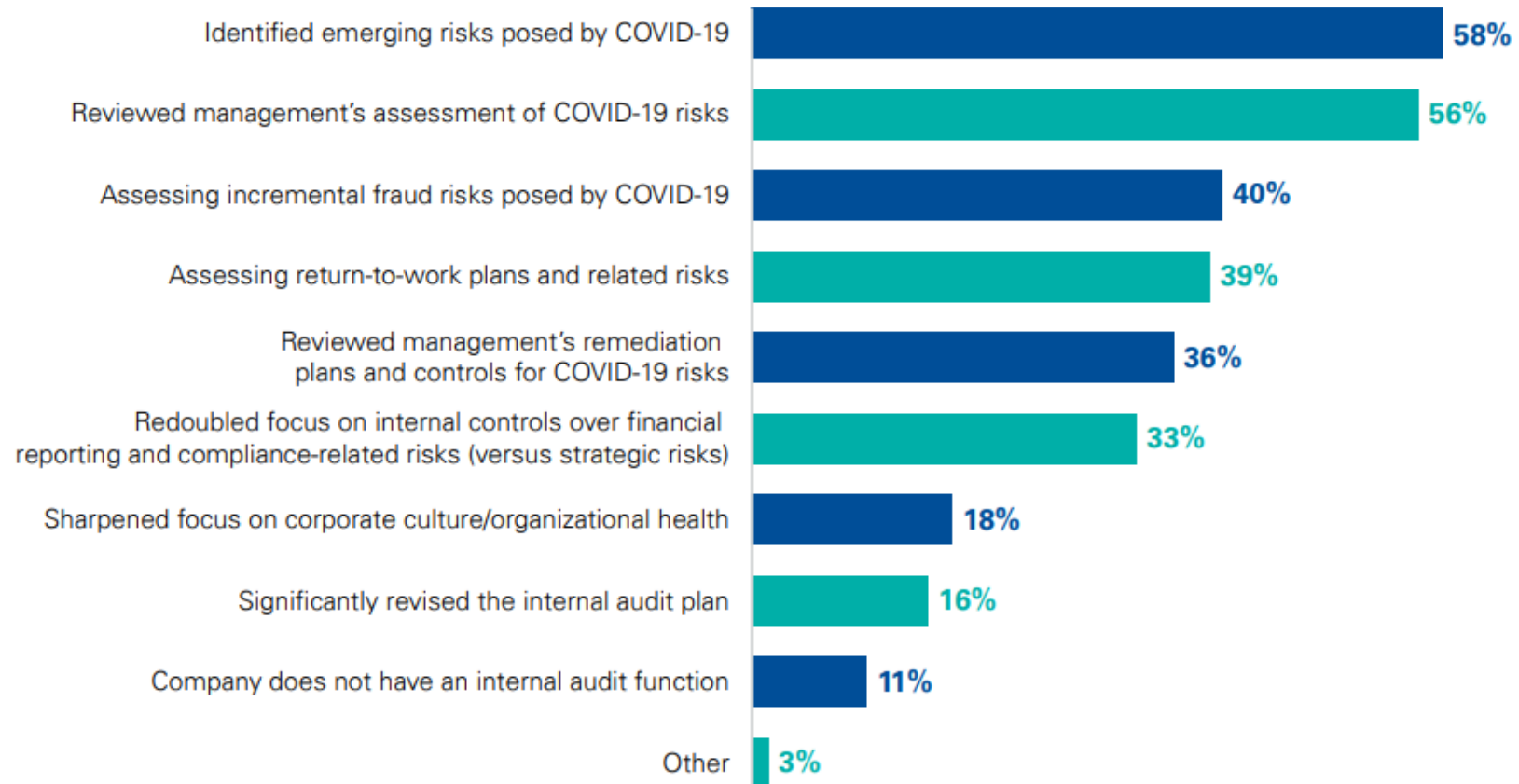
Companies are reassessing, enhancing, or establishing internal controls due to COVID-19-related disruption to business operations.

In which areas has COVID-19-related disruption to business operations caused the company to reassess, enhance, or establish new internal controls? (Select all that apply.)



Internal audit

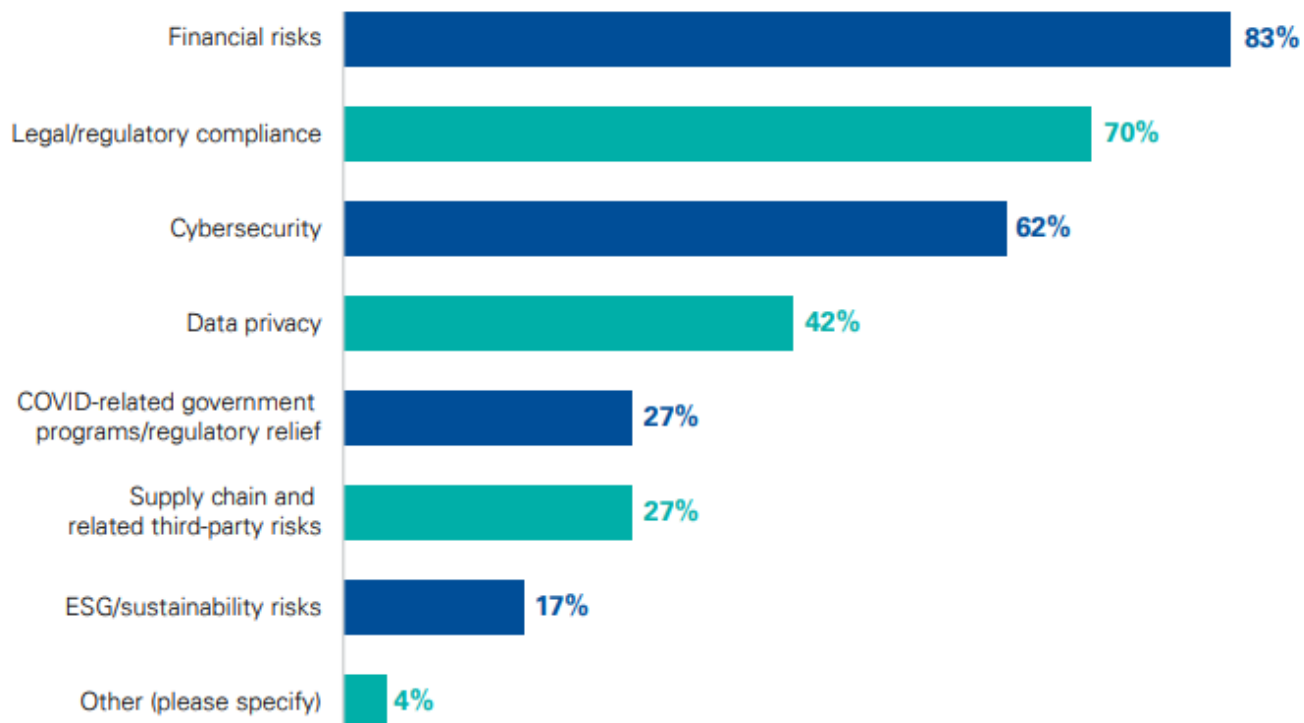
In which ways has your company's internal audit function adjusted its focus and activities in response to COVID-19?
(Select all that apply.)



COVID-related risk oversight responsibilities

COVID-19 has prompted many audit committees to reassess the scope of their workload/agendas and risk oversight responsibilities.

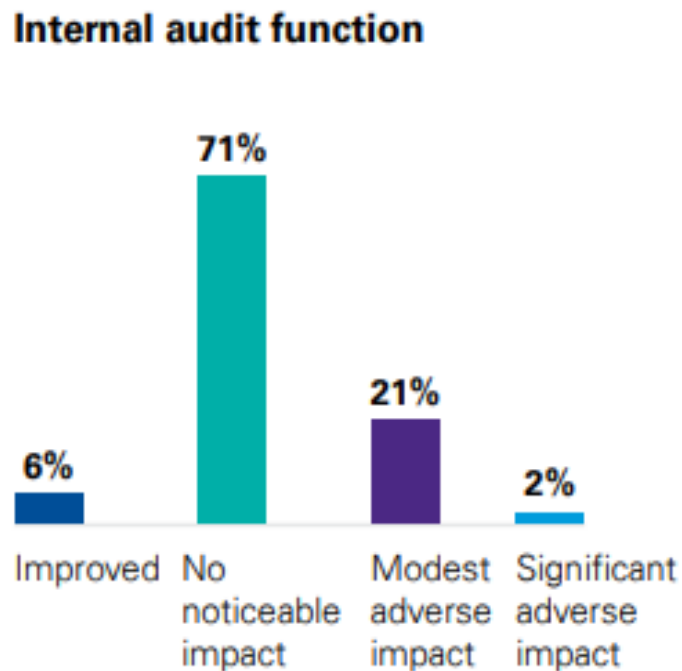
In addition to financial reporting and related controls risks, for which COVID-19-related risks does your audit committee have substantial oversight responsibilities? (Select all that apply.)



Efficiency and effectiveness

Audit committee members say the remote work environment necessitated by COVID-19 has had little impact on the efficiency and effectiveness of their interactions with management and auditors.

How has the remote work environment necessitated by COVID-19 impacted the efficiency and effectiveness of your audit committee’s interactions with the Internal audit function?



02

The future of Internal Audit

Internal audit trusted, and disrupted

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

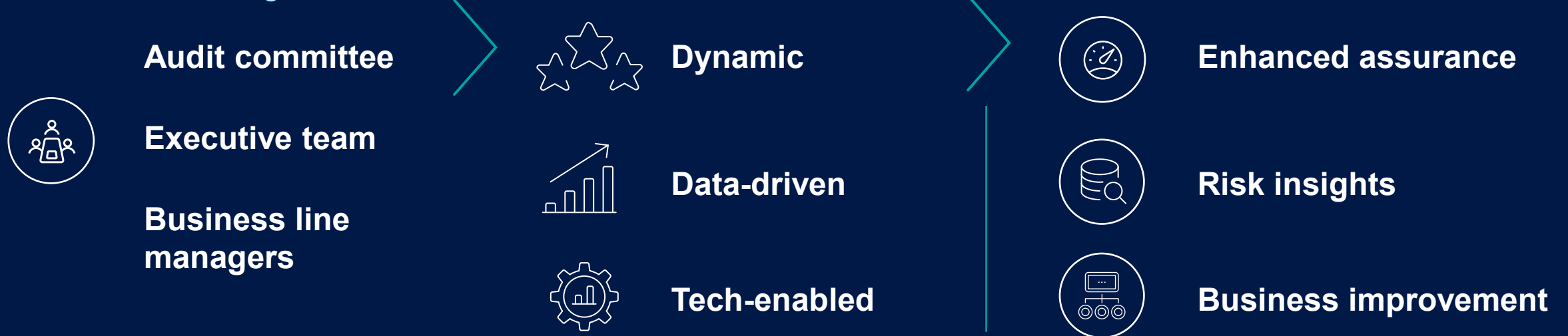


Opportunities to shine

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



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

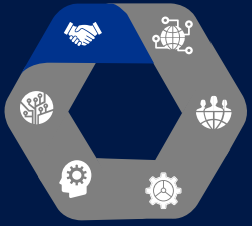
Internal audit strategy considers a mix of enhanced assurance, risk insights and business improvements attuned to stakeholder needs. Strategically important and future-focused emerging risks are prioritized

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	↓

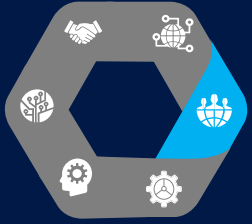
2. Approach				
	Baseline	Target	20##	
Usage – Execute data analytics techniques on 100% of projects	55%	100%	70%	↓
Budget/utilize data analytics for at least 15% of total project hours	17%	15%	16%	↑
Tools – Evaluate two (2) new data analytics tools and/or techniques (e.g., automation, predictive analytics)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



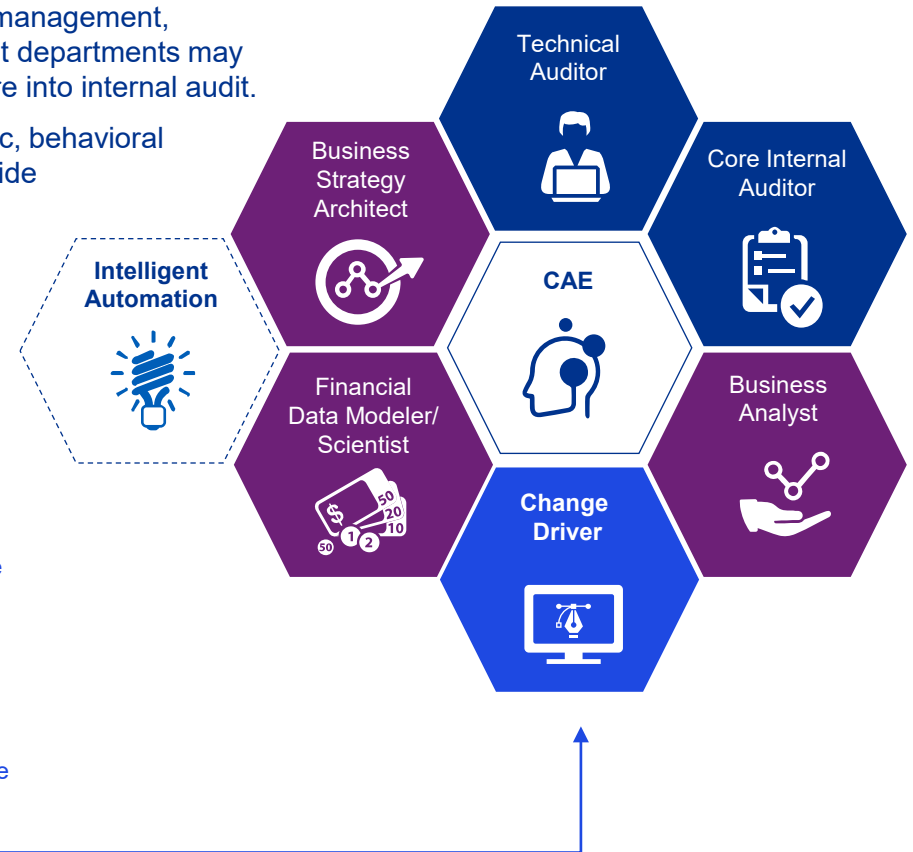
Critical talent base and skillset considerations

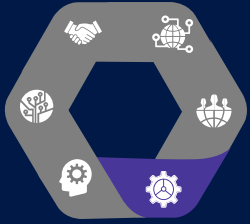


To move into a more strategic, advisory role to management, alongside its assurance objectives, internal audit departments may adapt the profile of the typical candidate they hire into internal audit.

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%



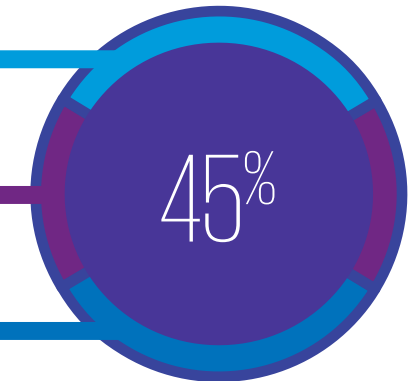
Already adopted at least a portion of this approach

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”](#)

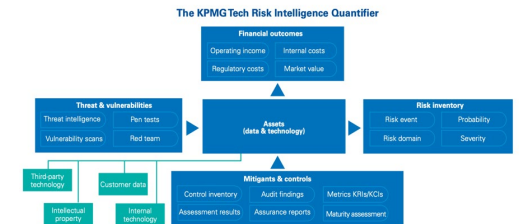
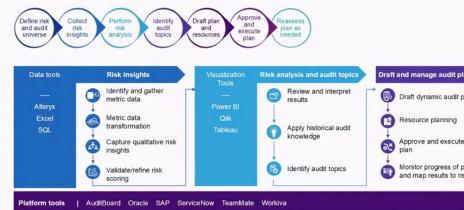


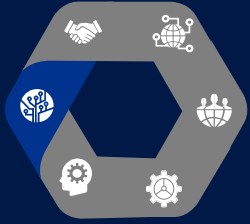
Data driven risk assessment enables smarter decision making



- 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.

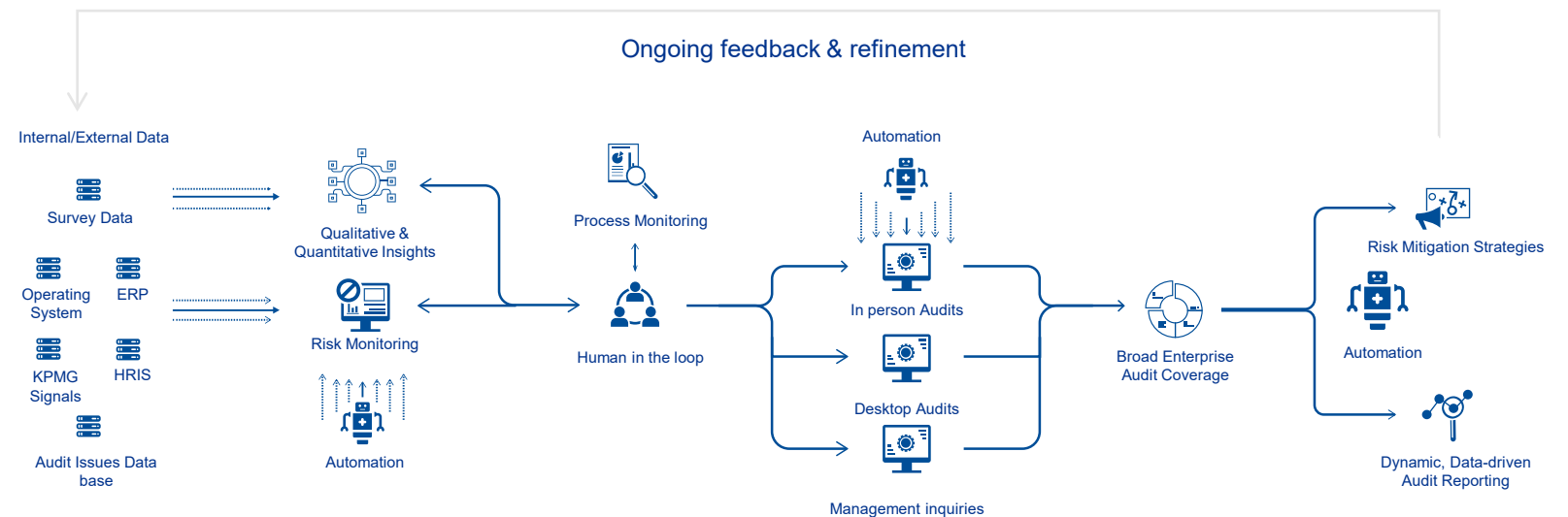


Strive to thrive amid disruption



- 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



03

Continuous Risk Assessment (CRA)

The new norm

There are new questions as to how internal audit should focus in light of the COVID-19 impact on the organization:

How relevant is the current audit plan and what parts of it require recalibration ?

How does Internal Audit keep pace with the speed of changes occurring in the business, including changes in the control environment?

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CRA
**Continuous Risk
Assessment.**

What is CRA (Continuous Risk Assessment) ?



The current opportunities to use a simplified CRA approach to address risks created by COVID-19 is not dependent on whether you have performed a data-driven risk assessment similar to CRA in the past.



04

Global IT Internal Audit Outlook

Key insights from our survey

As organizations transform, at ever increasing speeds, new risks continue to emerge. Technological advances in artificial intelligence, cloud security, data privacy and cyber security; increasing use of automation tools like process mining and robotic process automation, and growing compliance, regulatory and fraud risks have increased the boundaries of Internal Audit and expanded the roles of technology auditors. Fresh, hybrid working models have progressed at pace during the pandemic and are here to stay. These new ways of working, however, introduce more complex IT risks, especially for cyber security and operational resilience, which can severely impact operations, revenue and brands. The IT Internal Audit function must keep abreast of these changes and continue to work with the board and senior management as a trusted partner, to assure them that they are effectively controlling all known and emerging risks.



Aligning capabilities to transformation

Skills gap and need for specialist experience was cited as one of the biggest challenges by the respondents. Technology Internal Audit is growing in stature and is investing in a range of capabilities including cyber, cloud security, data privacy and advanced analytics.

47%

of respondents state that co-sourcing remains the dominant delivery model to access specialist skills

Only
33%

of respondents rate their preparedness for auditing technology associated risks as 'good' or 'excellent'

Adapting to an evolving risk landscape

Cyber risk and operational resilience are the key focus areas of technology internal audit teams today. With the enhanced risk landscape, the priority is to build resiliency through the use of technologies and agile auditing techniques, in responding swiftly to address new and emerging threats.



Key insights from our survey



Increasing influence at board level

With the exponential rise in technology risks and the shift to tech-centric business models, the Boards and Audit committees have high expectations from Technology Internal Audit.

Auditors are increasingly prioritizing audit quality, adopting multiple approaches to monitor their effectiveness to enable enhanced reporting to the boards.

Only

37%

say their team exceeds or significantly exceeds expectations of the board and senior management

60%

of survey respondents cited they have a high degree of maturity in their technology capabilities

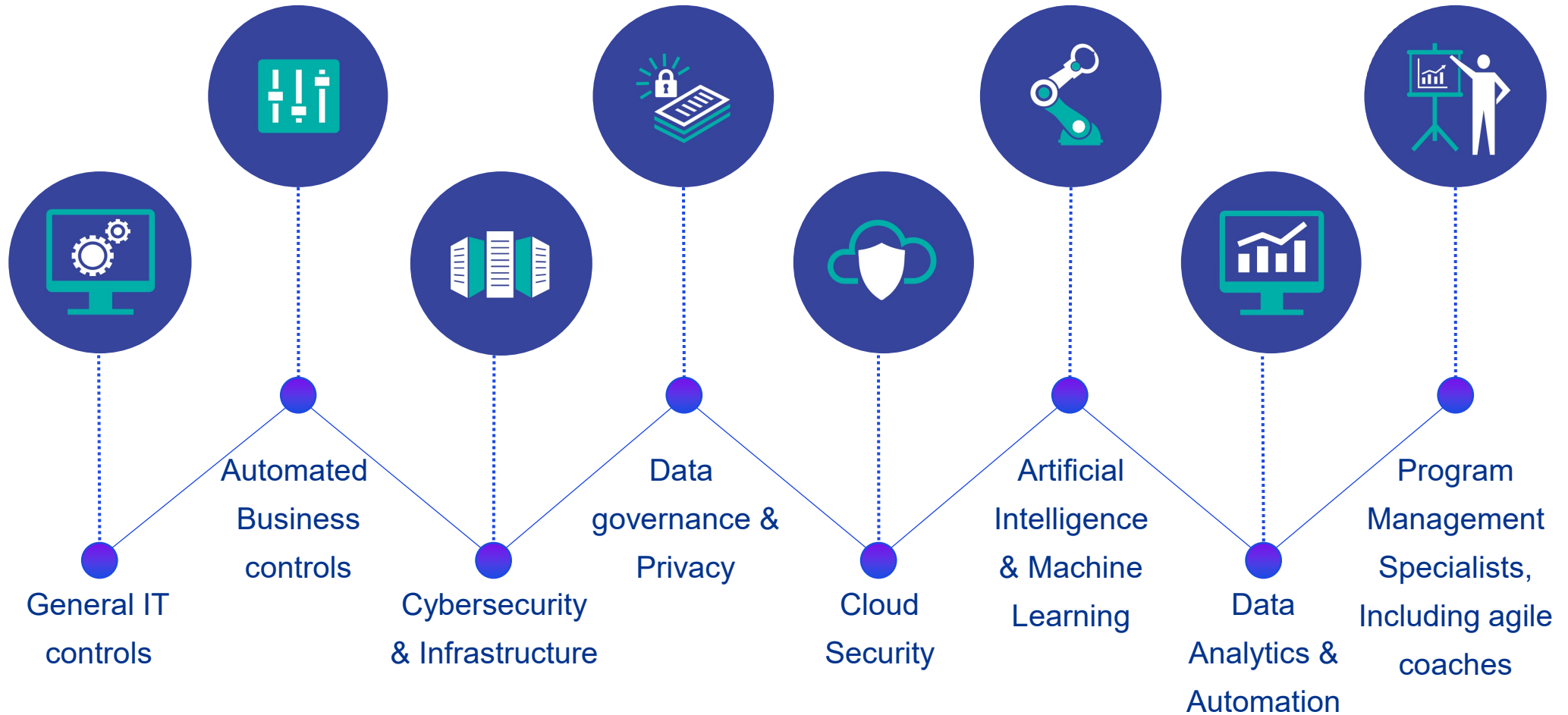
Embracing digital technologies

Data and Technology are improving the performance of the Internal Audit teams, with increased funding made available for new technology investments.

Technologies such as RPA, AI & ML continue to be aspirational for Internal Audit teams and are yet to see extensive usage.



Aligning capabilities to transformation :Capabilities of today's Technology Internal Audit

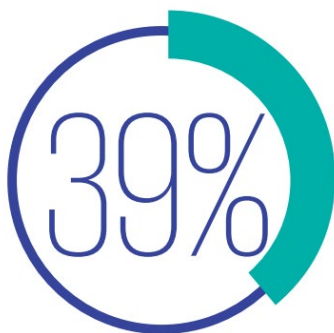


Source : Agile, Resilient & Transformative – Global IT Internal Audit Outlook, KPMG International, 2021

Co-sourcing remains popular



Remote Audit delivery is gaining popularity with Internal Audit leaders, as they are increasingly opting to execute their audits out of more strategic or cost efficient locations.



of respondents stated that the need for an audit specialist with a subject matter expertise is the main driver for using third parties in executing Technology Internal Audits



Investing in skills of the future



85%

of the respondents stated they will be investing in Artificial Intelligence (AI) & Machine learning (ML) specialists in the near future



55%

of the respondents stated they will be investing in Cloud Security skills this year



73%

of the respondents said they had and will continue to hire cyber security professionals

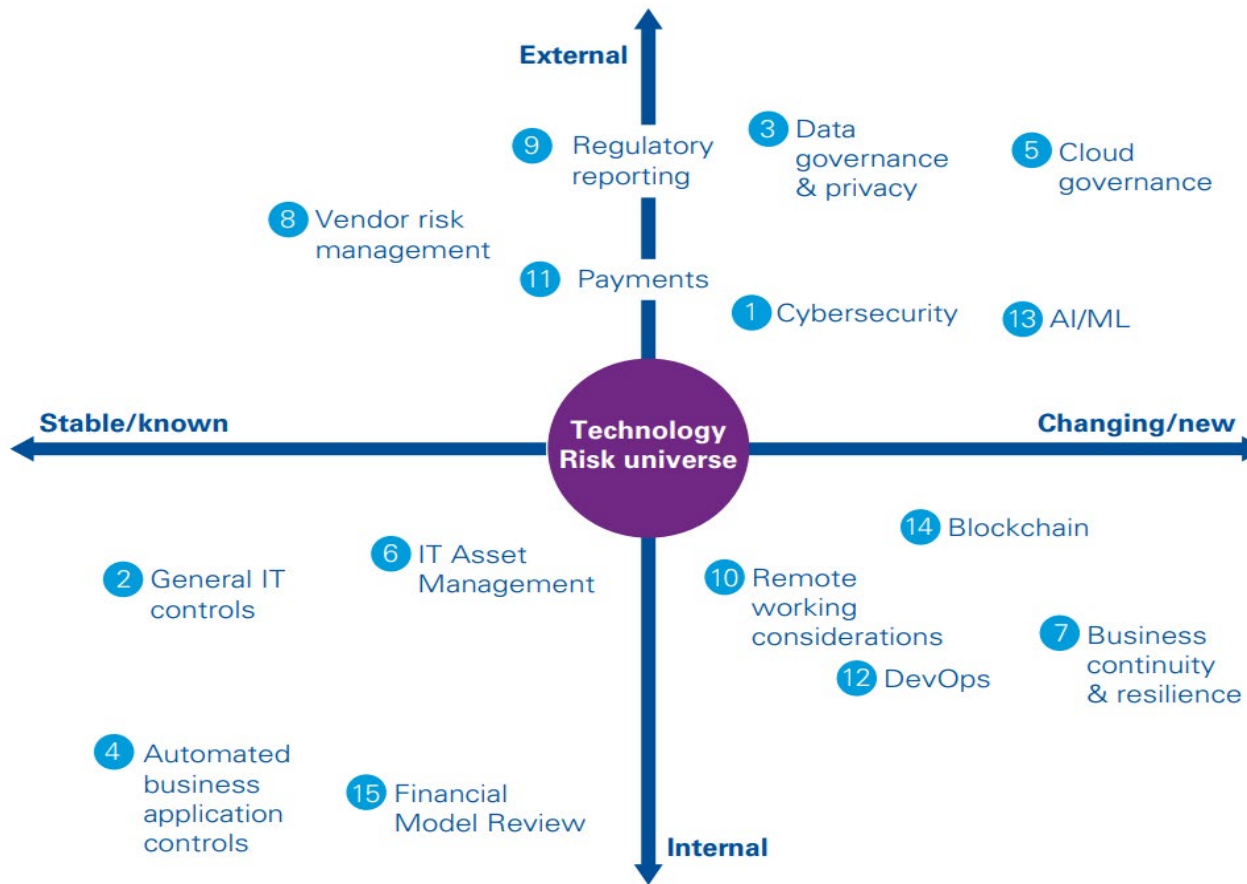


74%

of the respondents said they will continue to invest in data privacy specialists

Adapting to an evolving risk landscape

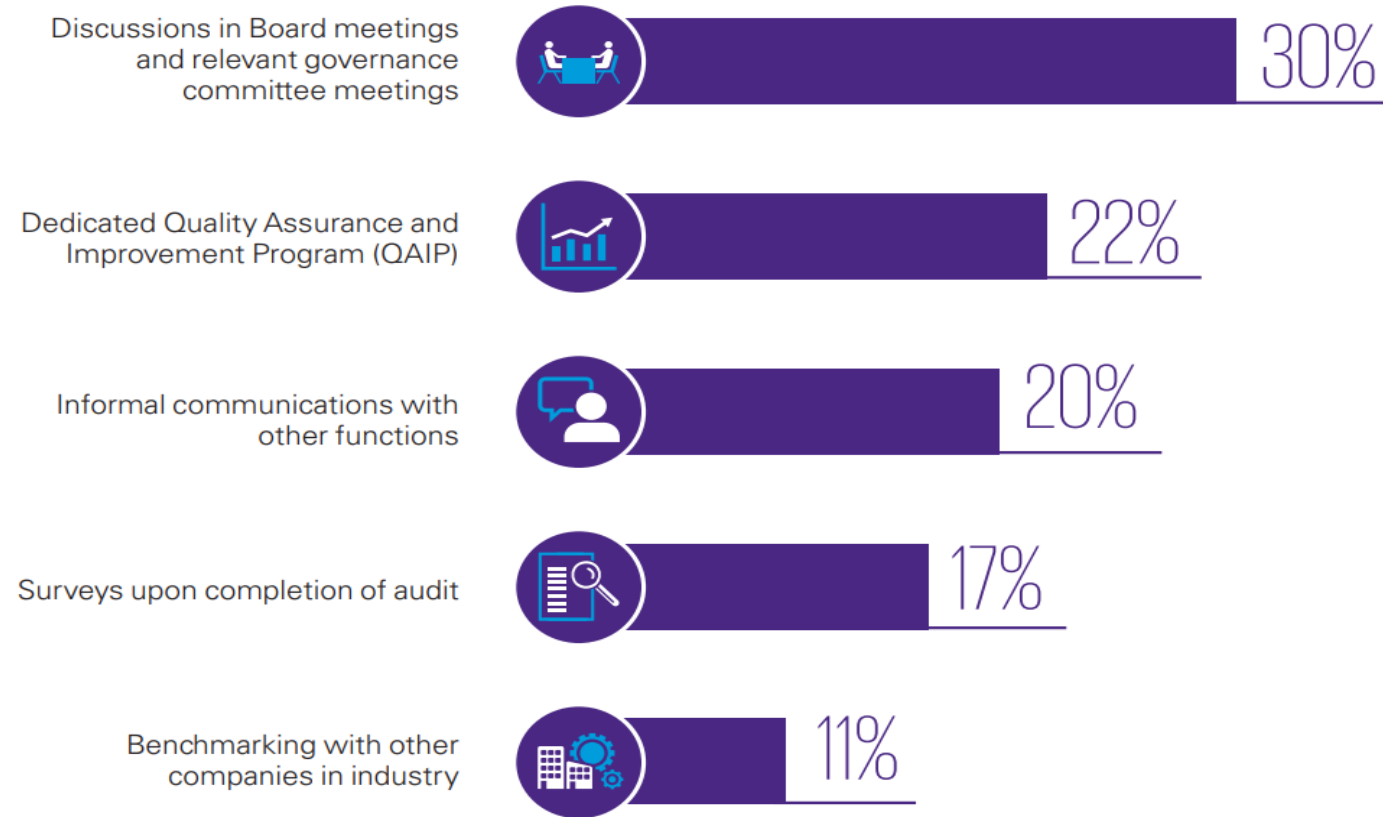
Key Areas of Focus – Technology Internal Audit



Source : Agile, Resilient & Transformative – Global IT Internal Audit Outlook, KPMG International, 2021



Increasing influence at board level : Mode of measuring quality and effectiveness of technology audits



Source : Agile, Resilient & Transformative – Global IT Internal Audit Outlook, KPMG International, 2021

Embracing digital technologies : Top ranked tools and technologies



1. Data analytics and visualization tools



2. Workflow and collaboration tools



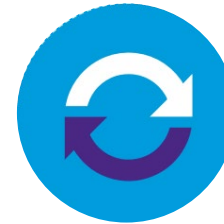
3. Continuous audit assistance tools



4. GRC (Governance, Risk & Compliance) tools



5. RPA & other automation technologies



6. Process Mining

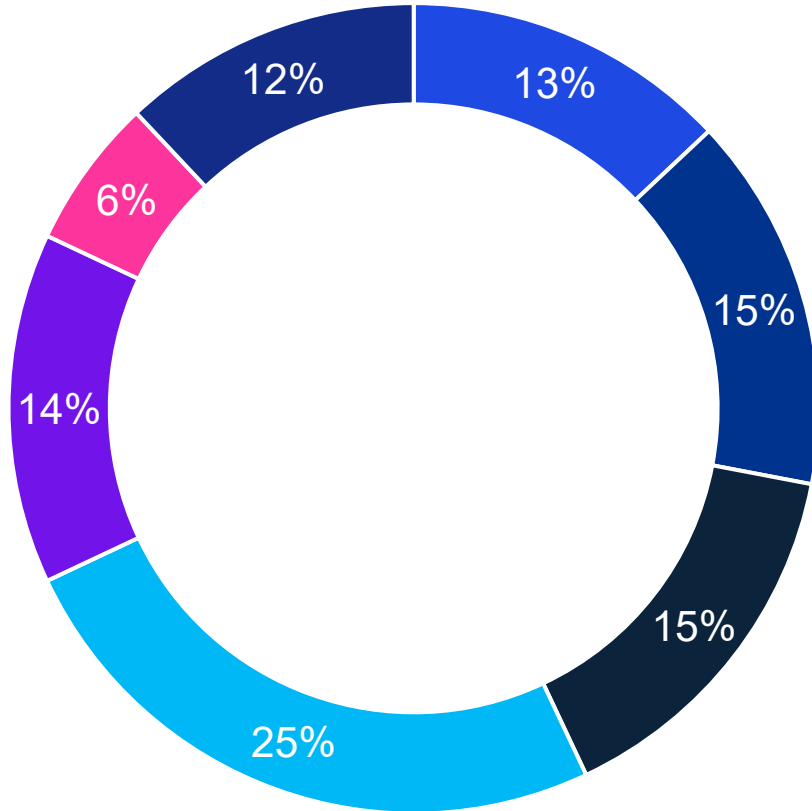


7. AI & ML solutions



8. Others

Demonstrating audit value



- Continuous Monitoring
- Risk Assessment
- Planning (including resource allocation)
- Audit Execution and Fieldwork
- Documentation and workpaper management
- Quality Checks
- Reporting

Source : Agile, Resilient & Transformative – Global IT Internal Audit Outlook, KPMG International, 2021



Key Takeaway

01

The uncertain trajectory of COVID-19 and the economy-coupled with the extensive use of forward-looking information in financial statements and SEC filings- have made disclosures regarding the current and potential effects of COVID-19 a top area of focus.

02

Companies are reassessing, enhancing, or establishing new internal controls due to COVID-19-related disruption to business operations.

03

Internal auditors are adjusting their audit plans and activities.

04

Audit committee members expect some environmental, social, and governance (ESG) issues to get significantly more attention from the board as a result of COVID-19 and recent protests against systemic racism.

05

COVID-19 has prompted many audit committees to reassess the scope of their workload/agendas and risk oversight responsibilities.

06

Audit committee members say the remote work environment necessitated by COVID-19 has had little impact on the efficiency and effectiveness of their interactions with management and auditors.

Q&A





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