

Finding one's bearing to navigate towards success

Global Internal Audit Study
China Report



Executive Summary (1/3)

Navigating China's complex regulatory environment can be challenging, especially with recent developments and global megatrends. To mitigate risks and seize opportunities, businesses must equip themselves with the right tools. Internal Audit (IA) serves as a reliable compass, enabling organisations to confidently navigate risks. In this study, we will explore how Chinese organisations have adapted their use of IA to their unique business environment, leveraging talent acquisition and technology investment to maximise the benefits of IA and achieve success.

PwC's IA Maturity Continuum, introduced in prior IA studies, provides a model for IA and its stakeholders to assess their current maturity level and define their desired evolution based on their mandate and vision. Our survey reveals that while most organisations categorise their IA maturity as a 'Problem Finder,' 'Assurance Provider,' or 'Problem Solver,' an increasing number of organisations aspire to develop their IA functions as a 'Trusted Advisor' within the next three years. This entails providing proactive advice on strategic risks and initiatives, leveraging technology confidently to support this role.

Regardless of maturity level, IA's role in providing assurance and confidence remains fundamental. However, the key differentiator between success and failure, value and irrelevance, lies in how effectively IA professionals understand their stakeholders' needs, shed light on emerging risks, and overcome barriers to integrate the right technology and capabilities across the organisation.

As the Chinese business environment continues to evolve in response to global trends, Chinese companies recognise the importance of adapting their IA strategies to thrive and prosper. Agility in IA approaches is now more critical than ever. Chinese organisations often face more frequent external changes, talent-related issues, geopolitical factors, and technological advancements. Despite these evolving changes, Chinese respondents report that their IA is slightly less effective than the global average in addressing these risks. This indicates a lack of adequate resources available to IA departments, further compounded by the regular introduction of new regulatory measures.



Executive Summary (2/3)

Driven by the challenges posed by a fast-moving regulatory environment, Chinese CEOs prioritise aligning IA department priorities with national policies to maximise compliance and mitigate risks. Our study reveals that Chinese C-level executives generally have more interactions with their IA departments compared to their global counterparts. However, there is a notable exception with Audit Committee chairs, who interact with IA departments to a lesser extent in China compared to the global average. This may primarily be attributable to the fact that the country's corporate governance and control system is still developing, particularly in sectors outside of the banking, financial services and insurance industry. To address the risk assessment capability gaps this may incur, Chinese IA teams should seek more frequent interactions with their companies' Audit Committee and Chief Compliance Officers.

By involving stakeholders from across the organisational hierarchy, Chinese businesses can exercise operational control in areas where oversight by first- and second-line functions may be lacking. Chinese respondents indicate that their companies have fewer second-line functions, especially in financial control, legal, compliance, internal control, and ESG. They also report less alignment between IA and first- and second-line functions in addressing risks compared to their global counterparts. However, China demonstrates stronger capabilities in quality management and inspection functions, thanks to long-term investments prompted by new regulatory measures.

Chinese companies stand out for their tendency to address IA needs through internal development and innovative approaches. While they develop IA teams internally more frequently, they also utilise external co-sourcing and alternative resource models such as delivery centres. This approach seems to be paying off, as Chinese respondents express higher confidence in meeting their organisations' talent needs in IA compared to their global counterparts. However, challenges in recruiting IA talents in China include limited career opportunities, unsatisfactory compensation packages, and low internal perception. Despite Chinese companies investing more in technology than the global average, a lack of tech investment is often cited as an obstacle.



Executive Summary (3/3)

Chinese respondents exhibit a higher willingness to invest in various governance tech tools, including risk management, IA management, and monitoring tools. They also invest more in workforce upskilling and cooperative projects with first and second-line functions compared to the global average. These investments have resulted in higher effectiveness, efficiency, and scope for Chinese IA departments. Moreover, Chinese IA departments are more inclined to innovate in their reporting and provide strategic insights for organisational transformation, which is crucial in a rapidly shifting environment.

Just as CEOs recognise the need to keep their strategies and business models viable, IA must continually evolve and remain relevant. Our survey confirms that high-performing IA functions drive broader business outcomes and deliver more value than ever before. Executives agree that high-performing IA functions lead to stronger governance and risk awareness, as well as more robust and efficient internal controls.

IA is a tool that Chinese companies have harnessed to navigate the ocean of risks. As global megatrends and an ever-shifting national environment make these waters more turbulent, it is vital for Chinese companies to arm themselves with every available tool to steer clear of uncertainty and chart a course towards success.





Key Findings

Key Findings

	Findings	Why this is new	What it means for IA
1	China's rapidly shifting ecosystem generates risks necessitating adaptability	Much like global megatrends reshaping the risk landscape across the world, China's own talent, regulatory, and geopolitical landscape present their own challenges.	IA plays a key role in helping businesses to manoeuvre through the challenges and opportunities presented by an ever-changing Chinese landscape.
2	Greater IA involvement expected in strategic areas to remain relevant in China	Stakeholders at all levels of Chinese companies engage in high quality and frequent conversations with their IA departments.	IA requires deep and meaningful engagement with a multitude of stakeholders in order to efficiently detect and address risks.
3	IA can be a unifying force	Deficiencies in first and second line functions to cover critical areas in China are an opportunity for IA to shine as a complementary risk management asset.	IA needs to present itself as an unique complementary tool for improving risk management at an operational level.
4	Chinese companies innovate to secure IA talent	By hiring internally and seeking new channels for recruitment, Chinese businesses ensure that they can procure new IA talent.	IA can attract new Chinese talent by harnessing new recruitment processes and offering better career perspectives.
5	Tech is at the core of Chinese IA investment	Chinese companies have been able to leverage tech to great effects in their IA processes thanks to ambitious investments.	IA must continue to leverage technology to provide both insight and generate efficiency, transforming data to enable risk management decisions.

1

China's rapidly
shifting ecosystem
generates risks
necessitating
adaptability



Strong external factors are shaping risk management in China.

Chinese businesses utilise IA to a greater extent in addressing challenges in response to the external environment. Most notably, Chinese respondents are more likely to have addressed external changes and talent-related issues with their IA. Additionally, only a minority said that they would not address geopolitical risks. Both Chinese and global respondents place cybersecurity as their top issue.

95%

of Chinese companies have addressed or plan to address **external changes** with their IA vs 82% globally.

96%

of Chinese companies have addressed or plan to address **talent issues** with their IA vs 86% globally.

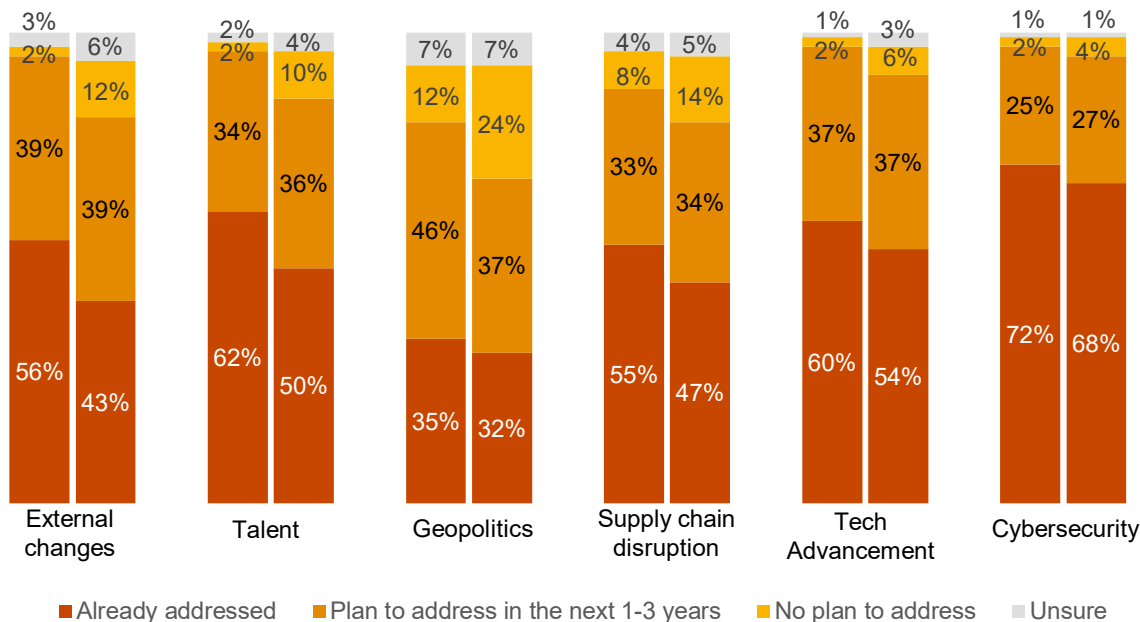
81%

of Chinese companies have addressed or plan to address **geopolitical risks** with their IA vs 69% globally.

88%

of Chinese companies have addressed or plan to address supply chain disruptions with their IA vs 81% globally.

Which, if any, of the following risks and challenges have been addressed in your organisation's internal audit plan? (left: China, right: Global)



Despite looking into a wider array of external changes in their IA process, a lower proportion of Chinese respondents have indicated that their IA was “very effective” at raising significant risks as compared to global respondents

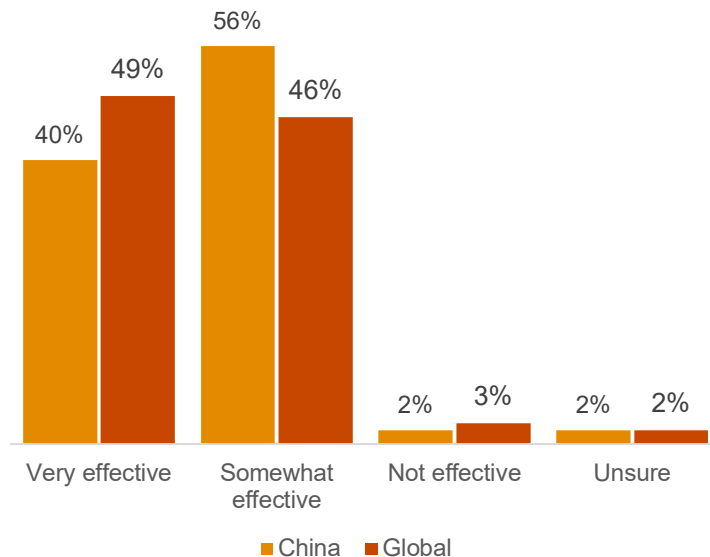
40%

of Chinese respondents reported that their IA team was very effective at raising risks and challenges for their businesses as compared to 49% of global respondents.

56%

of Chinese respondents declared that their IA team was somewhat effective at raising risks and challenges for their businesses as compared to 46% of global respondents.

How effective is your Internal Audit team at raising significant risks and challenges that the business has not yet considered?



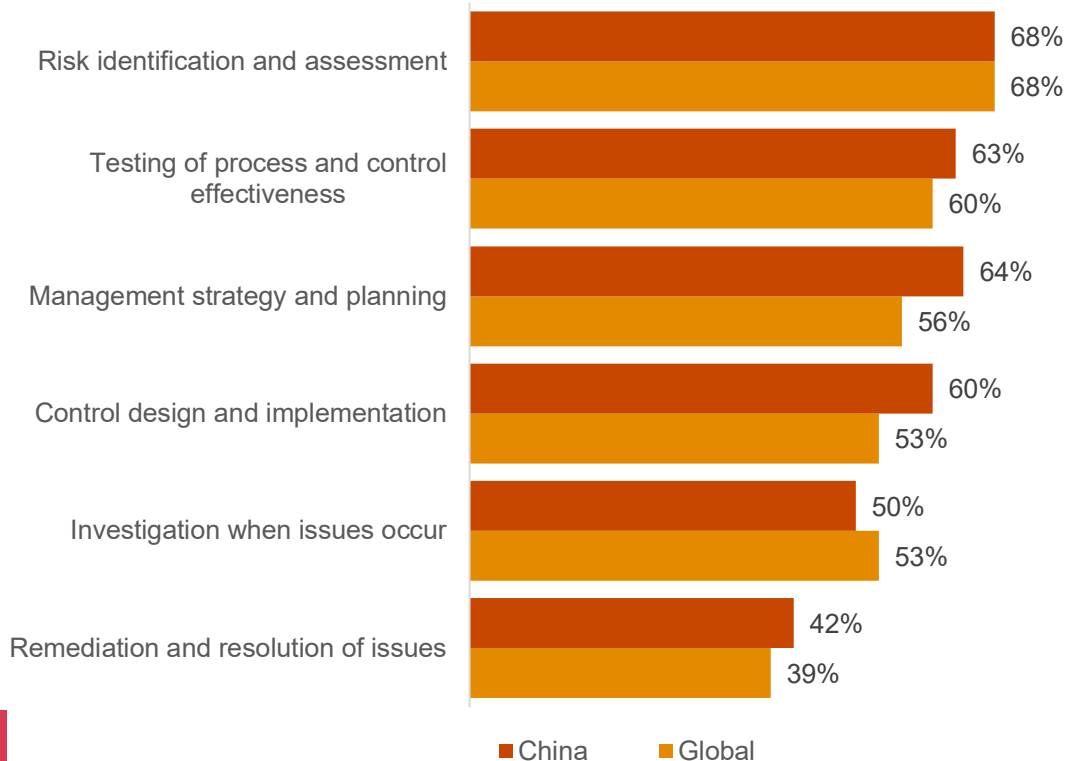
Potential reasons for IA not being as effective in raising significant risks within Chinese companies:

- For large organisations featuring a vast network of stakeholders and operational platforms, it can be difficult to ensure a full coverage with limited resources at the IA department's disposal.
- Combined with an increasingly strict regulatory environment, limitations in capabilities can create bottlenecks in IA may lead to loss of efficiency and effectiveness.

IA processes need to be versatile to remain effective at addressing risk.

Similar to global respondents, Chinese business leaders demand more strategic engagement with IA early and proactively with 68% wanting IA to be involved during the risk identification and assessment stage and 64% seeking IA involvement in management strategy and planning stage. Only 42% plan to involve IA at the remediation and resolution stage. This may be attributable to the recognition of IA's value and potential in the early stages of corporate resilience plans.

Thinking of the key risks and challenges in your organisation, at which stage(s) would you ideally like Internal Audit to get involved?



2

Greater IA involvement
needed in strategic
areas to remain
relevant in China



Better conversations with management in China

While Chinese stakeholders seem only slightly more involved in quality and frequent IA conversations than the global average, the degree of involvement of some stakeholders vary noticeably from the global norm. Chinese CCOs and Audit Committee chairs are, for example, substantially less involved with IA while CHROs are more involved.

52% of Audit Committee Chairs

in China have good and frequent interactions with the IA management vs 62% globally.

58% of Chief Risk Officers

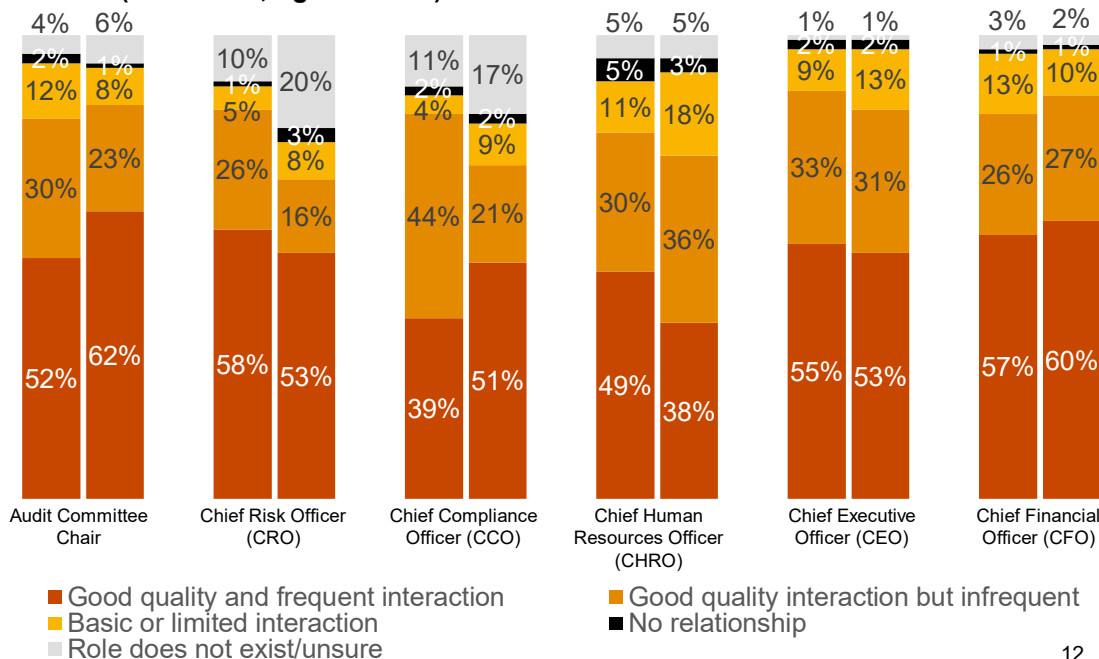
in China have good and frequent interactions with the IA management vs 53% globally.

49% of Chief HR Officers

in China have a good and frequent interaction with IA management vs 38% globally

While Audit Committee chairs understandably hold a leading position on IA matters, they are not the most involved stakeholders in IA conversations in China: CEOs, CROs, CCOs, and CFOs all scoring marginally better in good frequent and infrequent IA interactions on average in relation to addressing risks.

How would you describe the quality (e.g. depth, frequency, openness) of Internal Audit's conversations with the following stakeholders in relation to addressing risk? (left: China, right: Global)

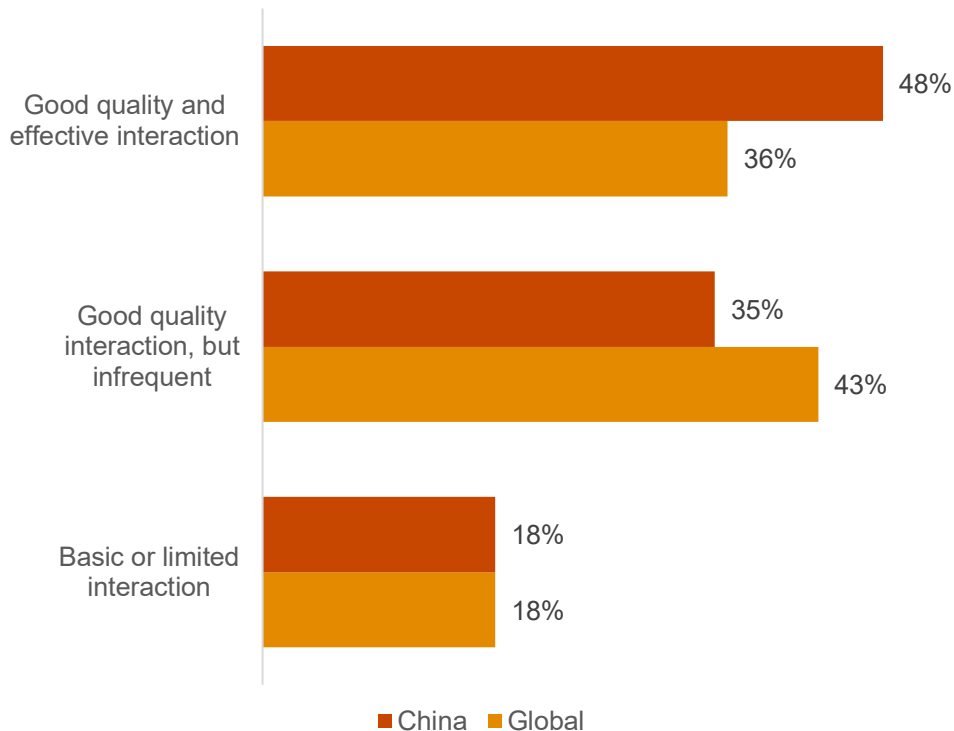


Audit committee deficiencies may impact IA effectiveness at addressing risk

Chinese stakeholders have a substantially more involved relationship with their IA leaders for addressing risks. Despite this higher level of involvement, IA in China is comparatively less effective than the Global average at addressing risks overall as highlighted previously (refer to page 9). This denotes potential room for improvement for the IA process in China.

This paradox could be attributable to the fact that the country's corporate governance and control system is still developing, especially in sectors outside of the banking, financial services and insurance industry.

Which of the following best describe the quality (e.g. depth, frequency, openness) of your conversations with your Internal Audit leader (e.g. Chief Audit Executive, Head of Internal Audit) in relation to addressing risks.



3

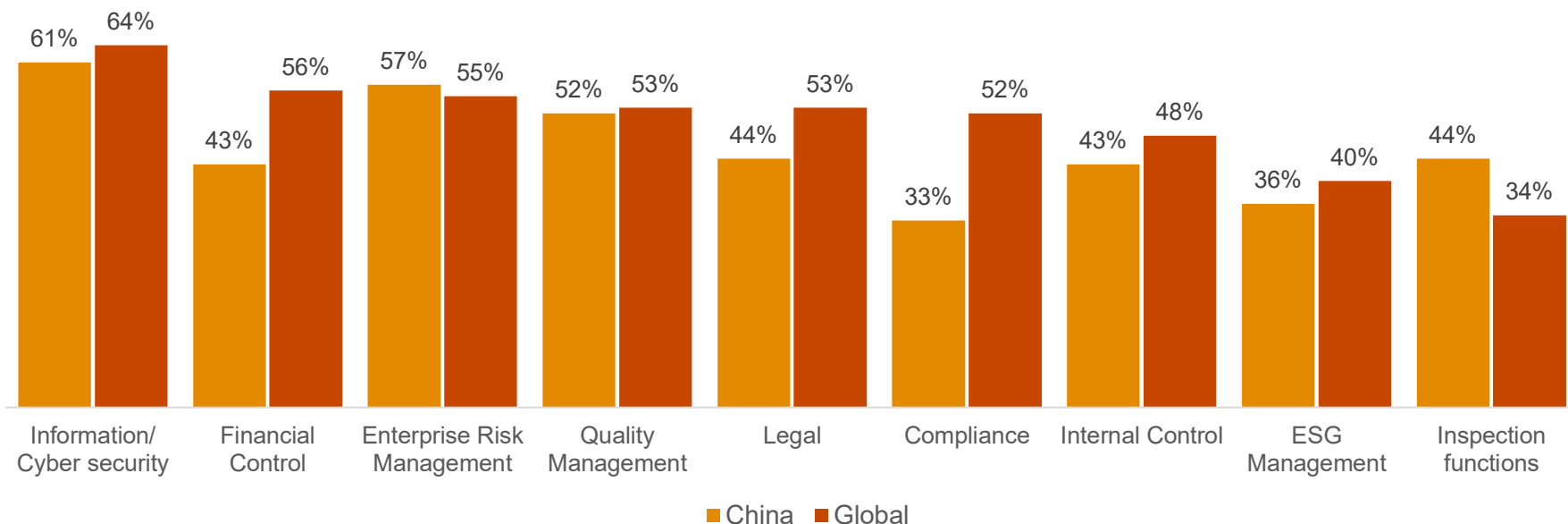
IA can be a unifying
force



Deficiencies in first- and second-line functions warrant a need for re-alignment

Chinese businesses are grappling with a critical lack of second line functions compared to their global counterparts. Most notably, compliance, financial control, and legal are the most concerning aspects. However, Chinese businesses score better in inspection functions on average than their global counterparts.

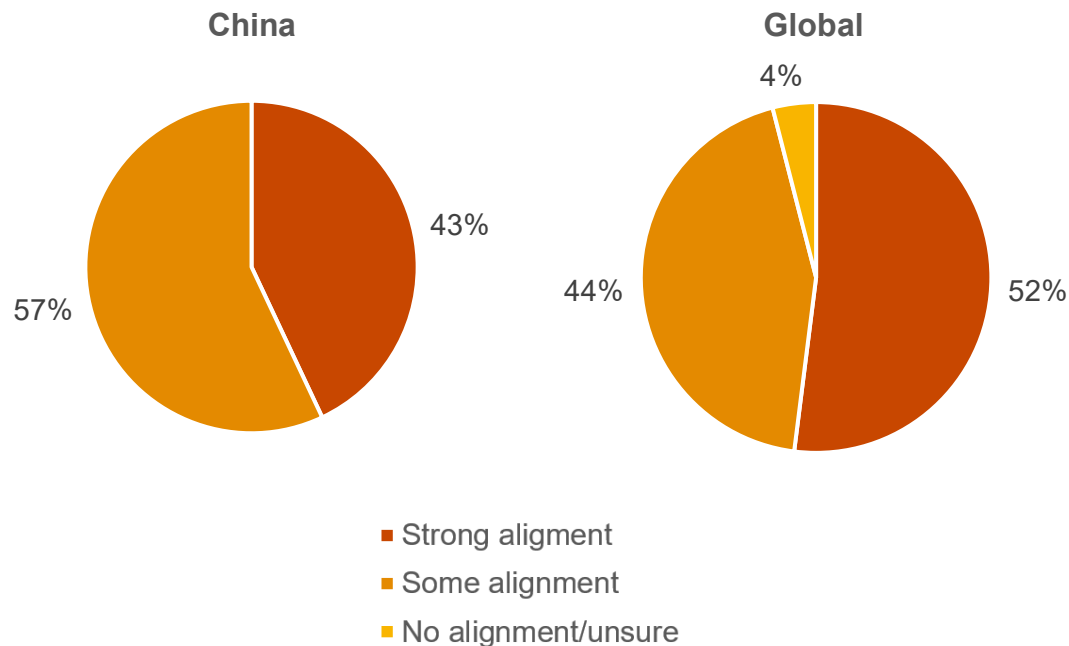
Which of the following second line functions exist in your company?



Deficiencies in first- and second-line functions warrant a need for re-alignment

On average, Chinese businesses report a lower level of alignment between their IA and first- and second-line functions compared to the global average in addressing risks and solving problems. The result indicates that China's first, second, and third lines are yet to be fully aligned and working in collaboration with each other to confront risks.

To what extent do you think Internal Audit currently aligns with the first and second line functions in your organisation to address risk and solve business problems together?



Government policies have pushed for better inspection and quality management

Information / cyber security is an area in which both the Chinese and global respondents have reported a significant increase in strength and capabilities. Chinese businesses have reported a faster increase compared to their global counterparts in terms of quality management and inspection functions.

It is also worth noting that although about the same number of companies proportionally report an increase in cyber security and ESG management capabilities in China and globally, this increase in capabilities is noticeably slower in China on average.

China

83%

Increase in quality management

↑ 9% more

84%

Increase in inspection functions capabilities

↑ 15% more

83%

Increase in ESG management.

↓ 2% less

World

74%

Increase in quality management

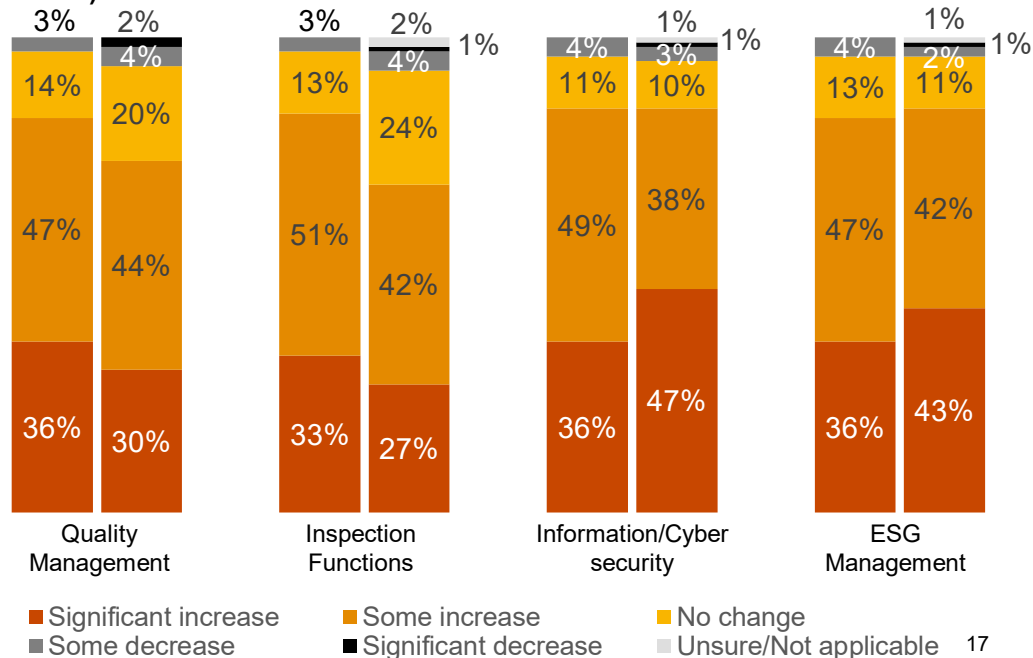
69%

Increase in inspection functions capabilities

85%

Increase in ESG management.

Over the last 3 years, to what extent have you seen a change in the overall strength and capabilities of these second line functions? (left: China, right: Global)



4

Chinese companies innovate to secure IA talent



Chinese companies procure IA talent internally and through delivery centres

Chinese respondents are more likely to recruit internally to provide their IA department with the talent it needs. They tend to value professional scepticism more, rating IA's ability to challenge constructively as one of the top attributes of IA. They also leverage “other resources models” to a much larger extent as compared to the global average, with greater reliance on various types of outsourcing.

60%

of Chinese respondents report that they plan to source talent for their IA department through **internal hiring**, compared to 50% of global respondents.

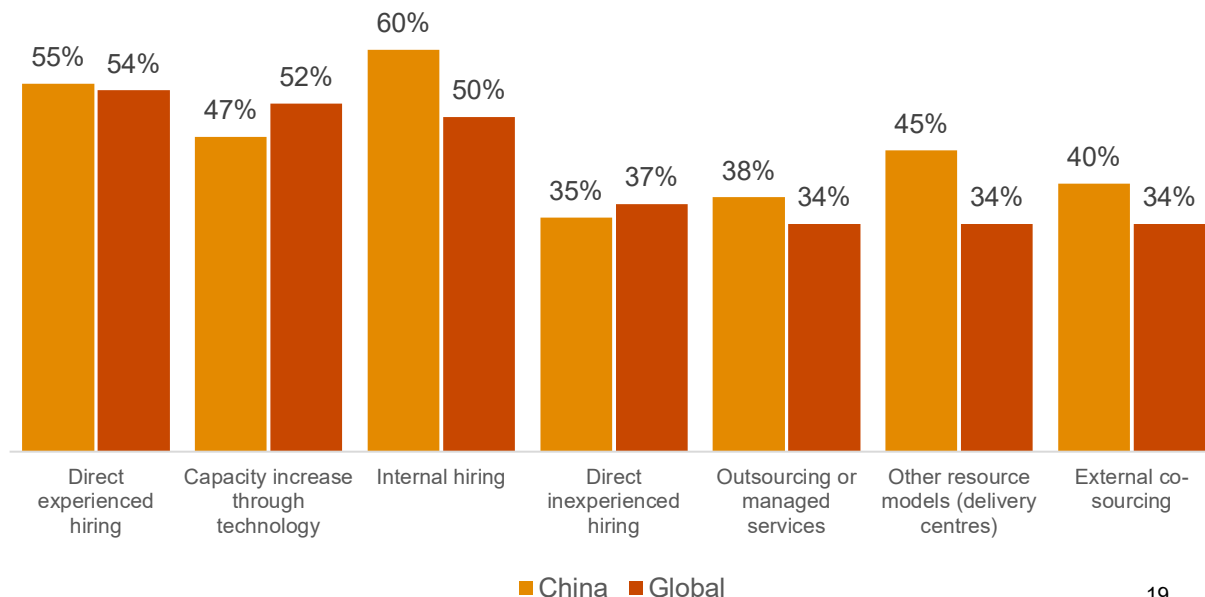
45%

of Chinese respondents report that they plan to source talent for their IA department through **other resource models**, compared to 34% of global respondents.

40%

of Chinese respondents report that they plan to source talent for their IA department through **external co-sourcing**, compared to 34% of global respondents.

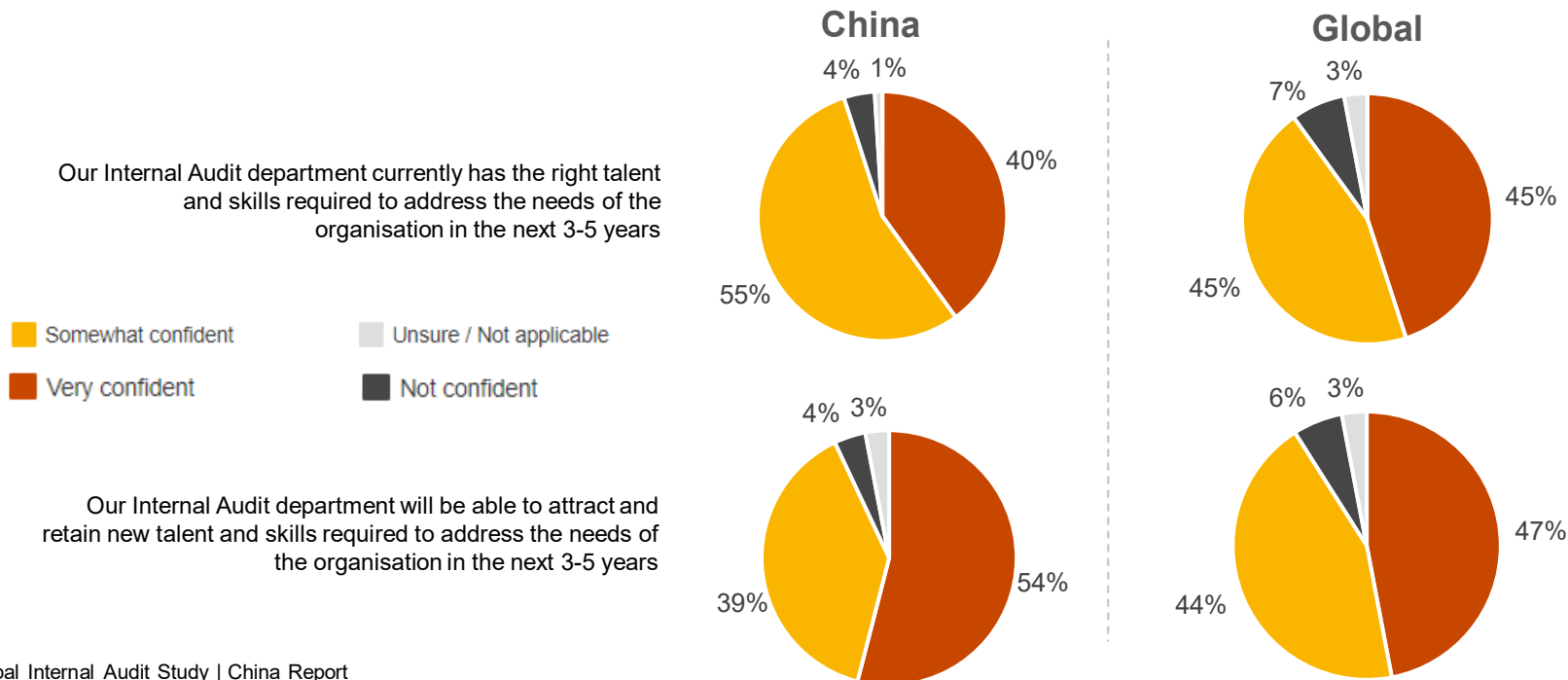
Which of the following is your organisation planning to use to source the talent and skills your Internal Audit team requires?



Despite businesses' assurance, IA recruitment still faces headwinds in China

Chinese businesses are more confident than the global average that they will be able to attract new talent to meet their IA needs in the future.

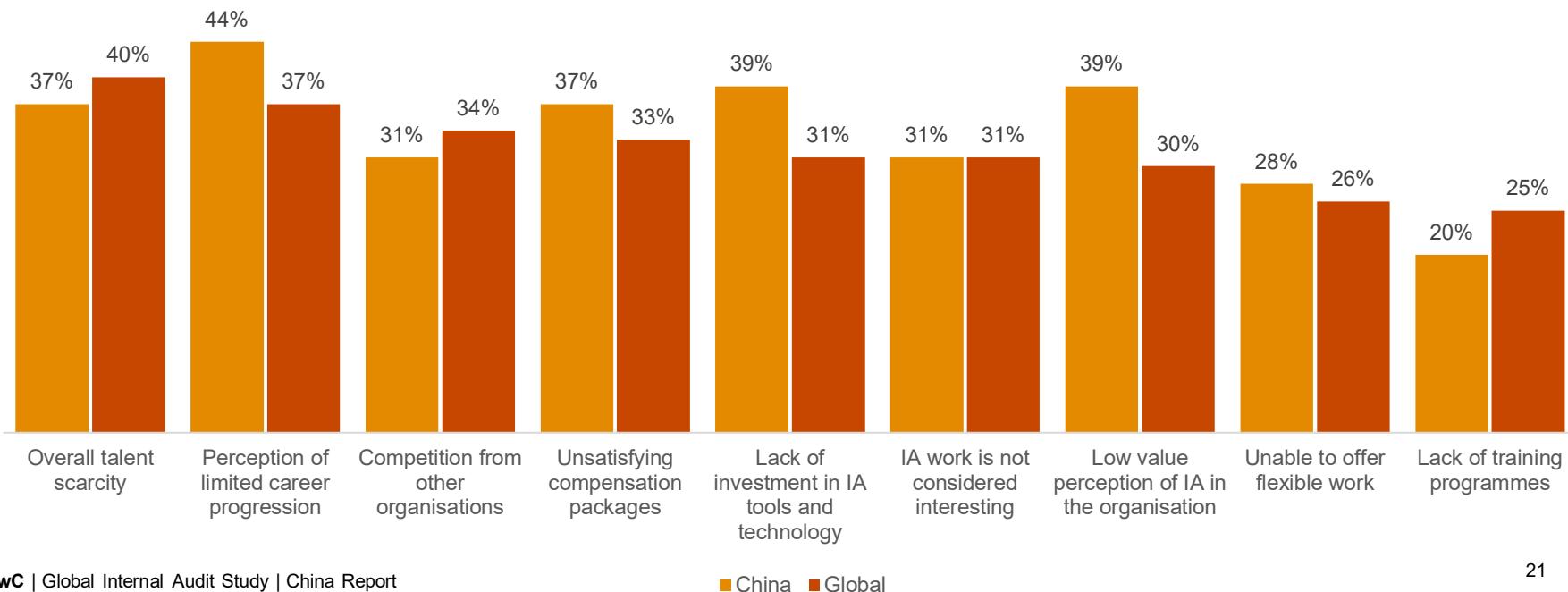
Considering the needs of your organisation in the next 3-5 years, and the risks it might face, please describe your level of confidence with regard to talent and skills in Internal Audit.



Despite businesses' assurance, IA recruitment still faces headwinds in China

Perceptions of limited career development and low value within the organisation for IA are stronger in China than on a global basis. Lack of funding and investment in IA technology is also a greater concern for IA recruits despite higher-than-average investments in this domain in China.

What do you consider to be the main barriers to being able to attract and retain the right talent and skills into your Internal Audit department



5

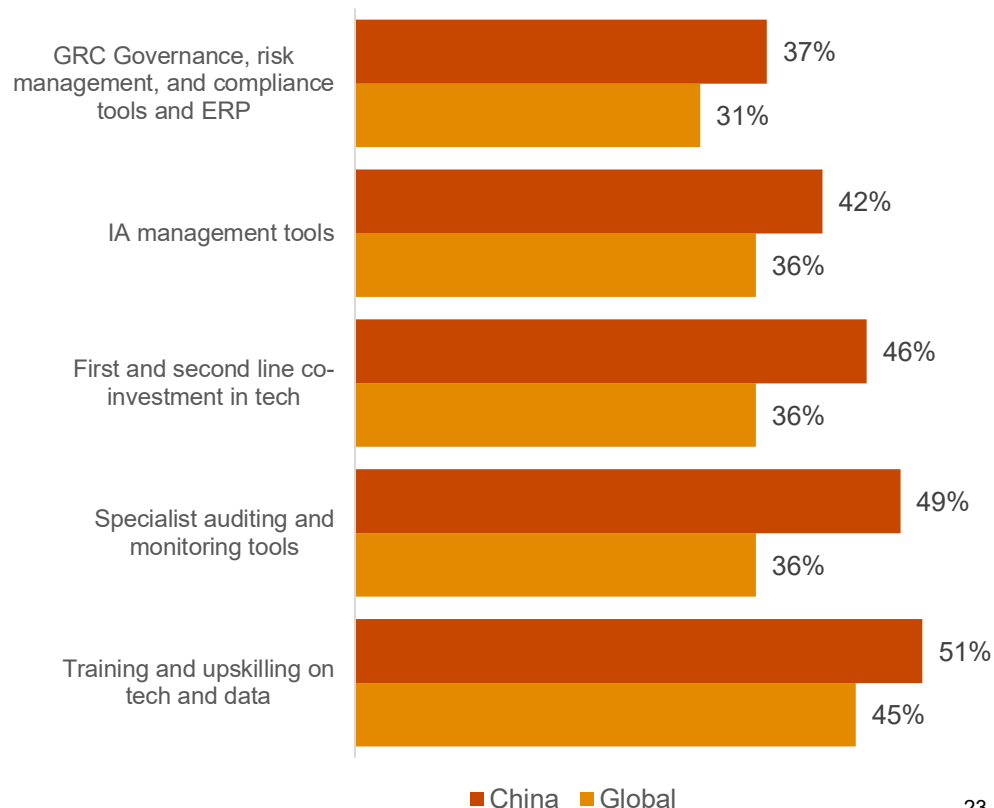
Tech is at the core of Chinese IA investment



Chinese businesses' IA tech investment strategy generates greater ROI

We can observe a stronger will on Chinese businesses' part to invest in auditing tools and shared infrastructures on a short to medium term basis. This includes specialist and monitoring tools as well as compliance and management tools. Co-investments with first and second line are also more common in China while with all these tech investments, there is also a stronger need for tech training and upskilling in China.

Which, if any, of the following technology and data capabilities does your Internal Audit department plan to invest during the next 1-3 years?



Chinese businesses' IA tech investment strategy generates greater ROI

Chinese respondents also highlighted that their IA departments are using technology in greater capacity than the global average across all areas. IA performance management tools are more widely used in China and are subject to more investment.

Key figures

94%

Of Chinese respondents report that their IA team is using tech techniques for **continuous monitoring** against 85% of global respondents.

95%

Of Chinese respondents report that their IA team is using tech techniques for **IA testing individual audit execution** against 89% of global respondents.

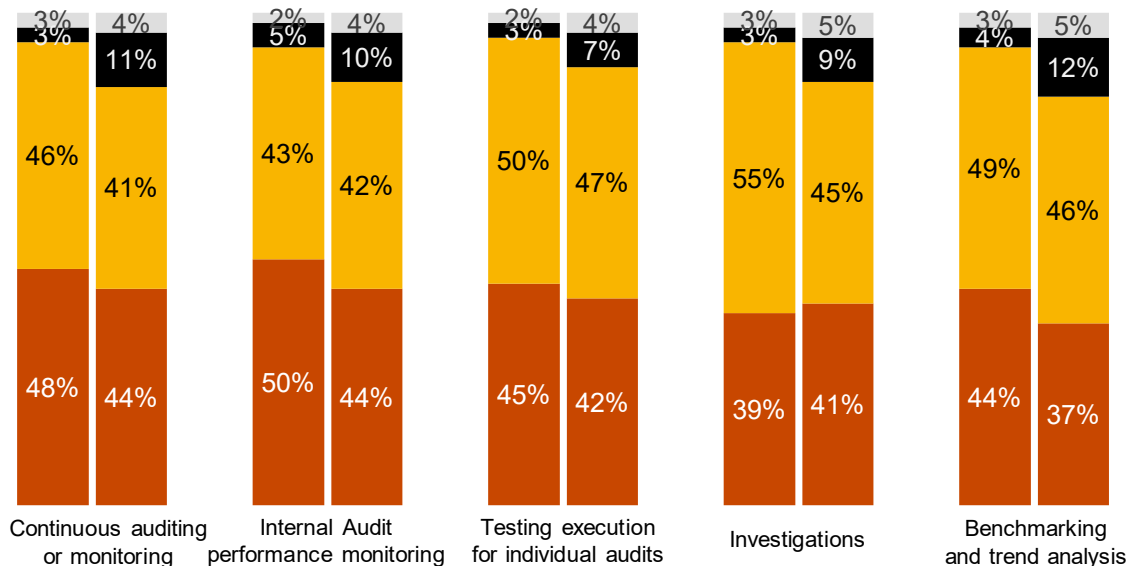
94%

Of Chinese respondents report that their IA team is using tech techniques for **investigations** against 86% of global respondents.

93%

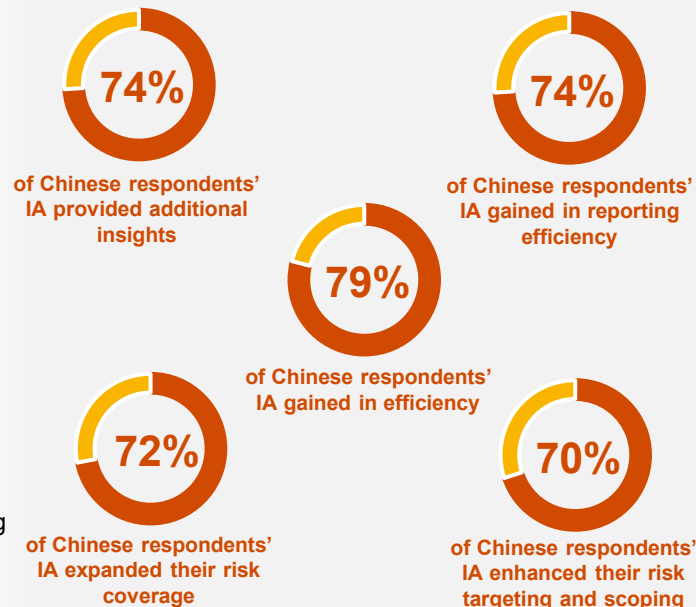
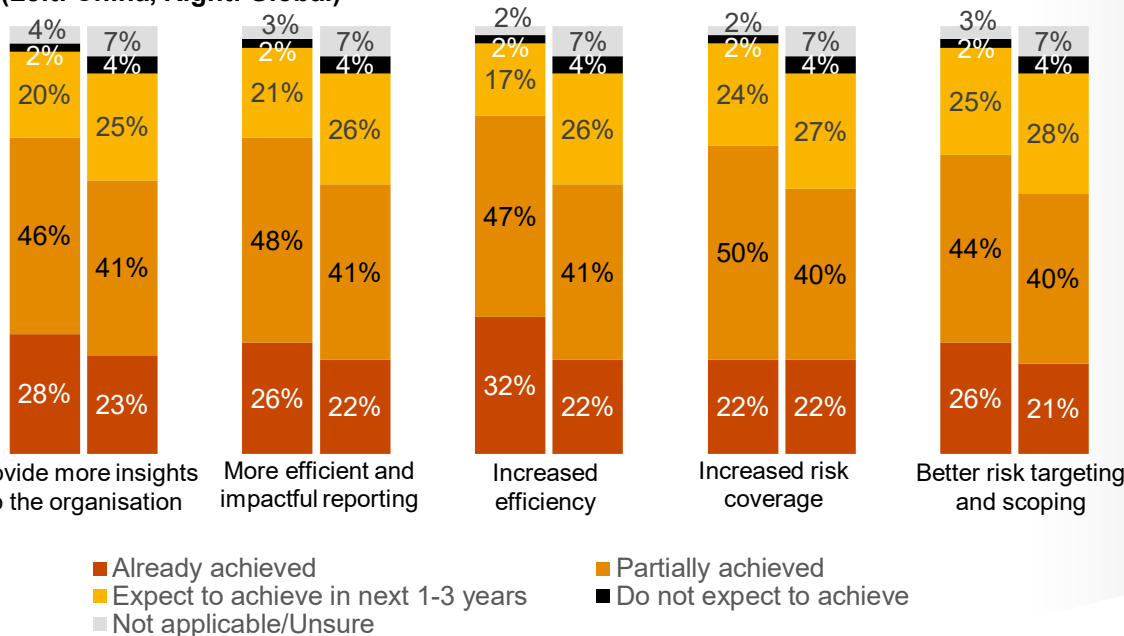
Of Chinese respondents report that their IA team is using tech techniques for **benchmarking and trend analysis** against 83% of global respondents.

To what extent is your Internal Audit department using technology and data techniques (such as analytics, automation) to increase efficiency and effectiveness in the following areas? (Left: China, Right: Global)



Not only do Chinese respondents invest and use more technology and data for IA purposes, they are also reporting slightly better than average results when it comes to achievements enabled by their technology and data investments.

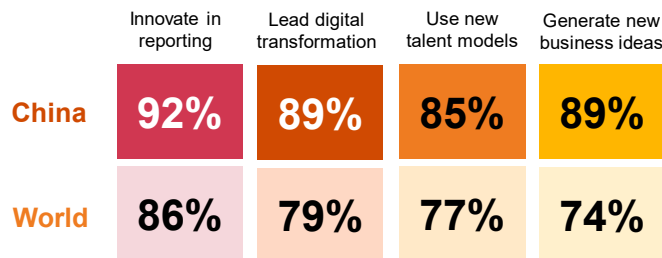
Which, if any, of the following outcomes have been achieved as a result of Internal Audit's investment in technology and data over the last 12 months?
(Left: China, Right: Global)



Chinese IA departments show signs of transforming and being more innovative in their role

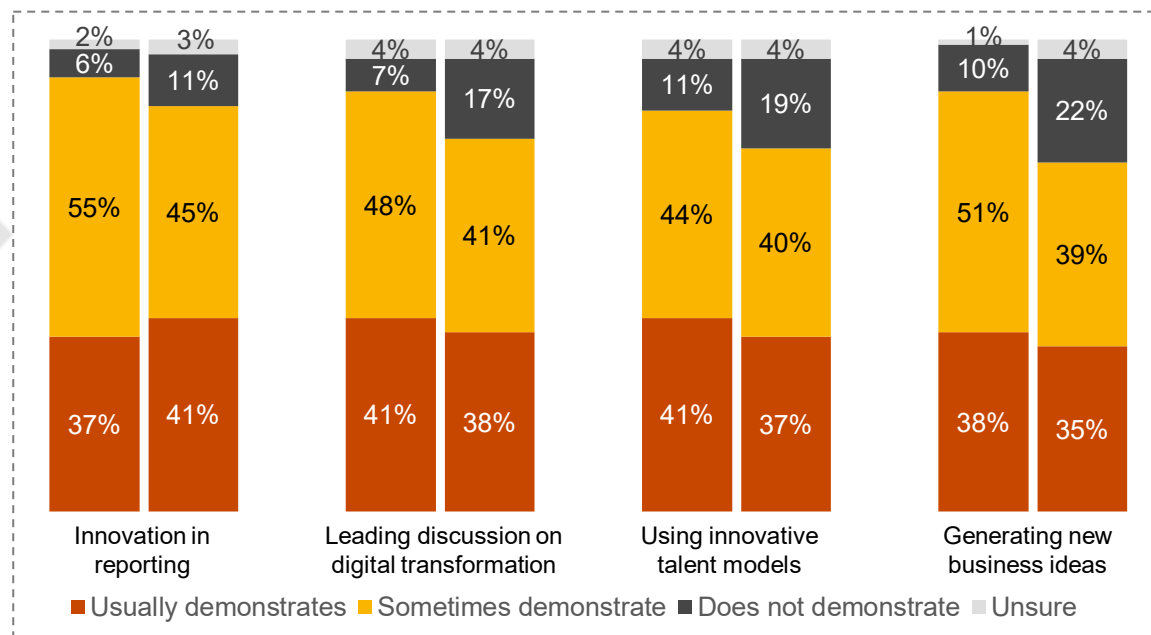
Overall, Chinese IA departments tend to be more innovative than their global counterparts in demonstrating initiative to lead discussions on digital transformation, using innovative talent models, and generating new business ideas.

Respondents declared their IA department at least sometimes demonstrated the following behaviours



- The percentage of respondents to report contribution in transformative strategic shifts and to innovate is an encouraging departure from previous models.
- IA as a governance tool in China has been traditionally used to meet external requirements and comply to regulations.
- This shift offers opportunities for businesses to develop new risk prevention capabilities.

To what extent is your Internal Audit department demonstrating the following behaviours? (left: China, right: Global)



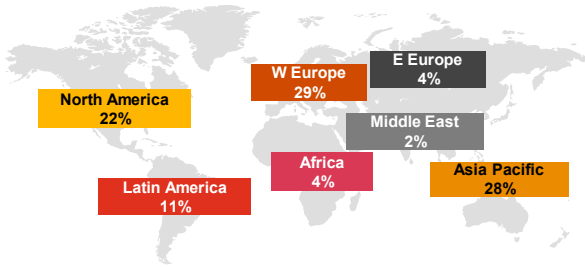


Demographics

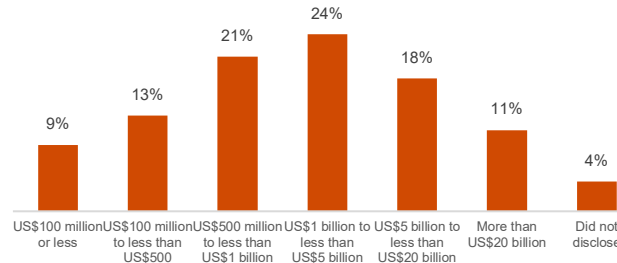
Global Internal Audit Study 2023: Global data

4,680 total responses across over 50 countries and territories

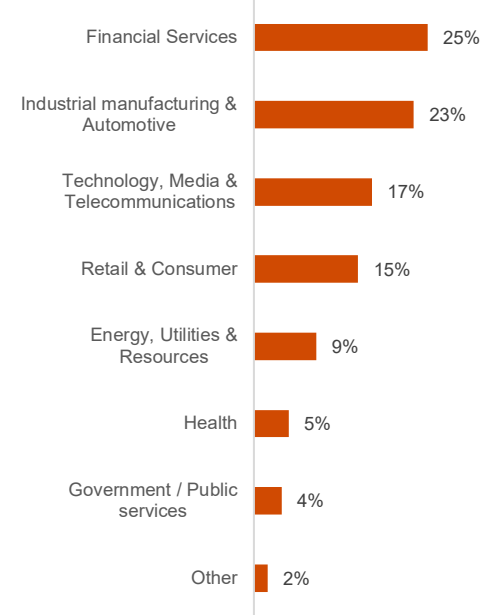
Respondents by countries



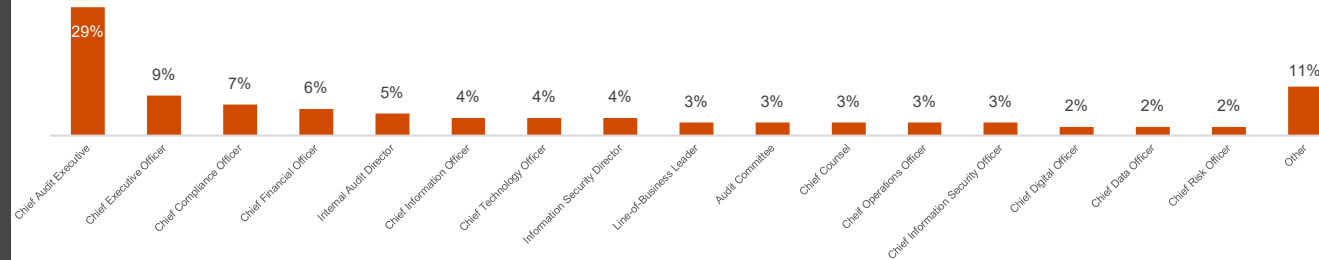
Current revenue



Industries



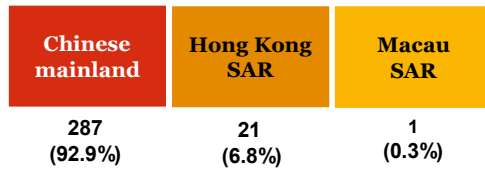
Job titles



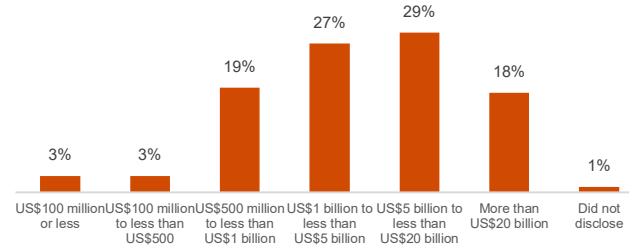
Global Internal Audit Study 2023: China data

309 total responses in China

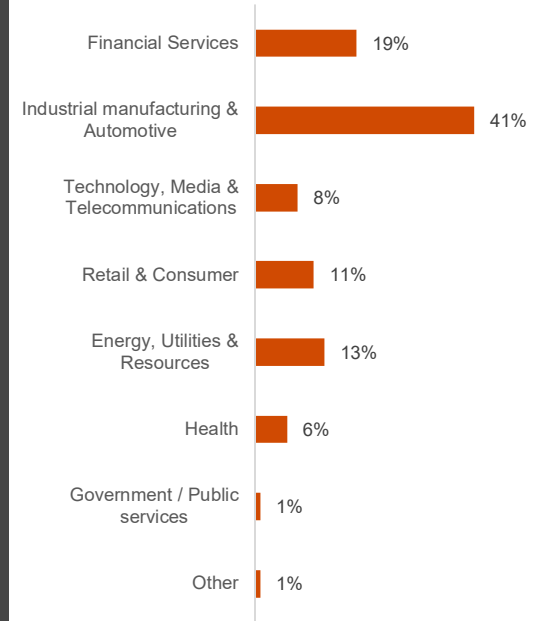
Respondents by territories



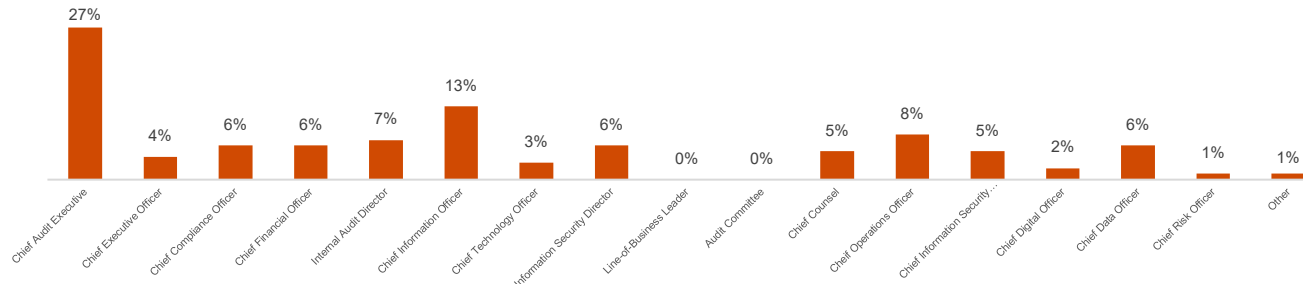
Current revenue



Industries



Job titles



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