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INTERNAL AUDIT TODAY

MAGAZINE OF THE INSTITUTE OF INTERNAL AUDITORS, INDIA

IA THE AI WAY - ACT NOW

National Conference 2024 New Delhi

The Institute of Internal Auditors India

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CONTENTS

EDITORIALS

NATIONAL CONFERENCE 2024-HIGHLIGHTS

ARTICLES

CONTENTS

WOMEN'S SECTION

STUDENTS SECTION

OUT OF THE BOX

IIA INDIA UPDATES

FROM THE DESK OF THE EDITOR

SANDEEP BASU
Editor- Internal Audit Today

Dear Esteemed Readers,

Welcome to the special June 2024 edition of "Internal Audit Today," curated for the National Conference 2024. This year's conference, themed "IA the AI Way - Act Now," held in New Delhi on the 7th and 8th of June, 2024, was a remarkable success, bringing together thought leaders and professionals to explore the transformative potential of artificial intelligence in internal auditing.

The dynamic conference was a melting pot of ideas and innovations; our activity report captures its essence. We relive the moments that made this conference unforgettable through photographs and detailed coverage. From inspiring keynote speeches to interactive workshops, the conference underscored the urgent need to embrace AI in our profession.

In this special edition, we delve into diverse topics of professional interest, with contributions from some of the most respected voices in the field. Mr. P.R. Ramesh, in his article "Embracing the Future: The Evolution of Audit in a Tech-Driven World," provides a visionary perspective on how technology is reshaping the auditing landscape. Mr. Burzin Dubash, Sr. Vice President of IIA India, follows with his insights on "Embracing the Future: Internal Audit, The AI Way," emphasizing the integration of AI into internal audit practices.

Adding to the discourse on contemporary issues, Mr. Rajib Basu explores the concept of Sustainable Finance Taxonomy within the Indian context, shedding light on the evolving regulatory and financial environment. We also feature an insightful piece by CA Debashis Ghosh, Director at Singhi & Co and Secretary of IIA India, on "Strategic Management: Concepts and Ways to Sustainable Growth of the Organisation." His article provides strategic frameworks and practical advice for fostering sustainable growth in today's volatile business environment.

We have also republished a thought-provoking article by Dr. Rainer Lenz and Dr. David O'Regan, providing their insights on new internal audit standards. Additionally, Dr. Sanjoy Sen writes on "Moving Up a Level: The Outsourcing, Offshoring and Shared Service Centre Risks Challenging Internal Audit," addressing the complex challenges and risks associated with modern business practices.

In the Women's section. Ms. Julianne McGarry from BCU shares her "Musings on the Performance of Internal Audits and the Impact on the Auditee," offering a reflective analysis of audit effectiveness and stakeholder relations.

We are also excited to present Mr. Shubhashis Nath's article on "What Makes a 'Tall Leader' Stand Out Amongst 'Leaders'," which explores the distinguishing qualities of exceptional leadership. Sakshi Shree contributes with "Spiritual Techniques for Leaders to Stay Resilient and Productive," offering valuable strategies for maintaining resilience and productivity in leadership roles.

In our regular Student Section, we present articles from students specializing in Global Risk Management, discussing pertinent topics that reflect fresh perspectives and innovative thinking of the next generation of internal auditors.

Our IIA Updates section captures the vibrant community activities, including the celebration of Women's Day by the Bombay Chapter, the inauguration of the Kochi Audit Club, and the prestigious Internal Audit MasterClass programme. These events highlight the collaborative spirit and continuous learning ethos that define our profession.

We encourage you to share your feedback as you immerse yourself in this rich compilation of knowledge and experiences. Your insights are invaluable in shaping the future of "Internal Audit Today."

Happy Reading!

Warm Regards,

Sandeep Basu

Editor

Internal Audit Today

PRESIDENT'S COMMUNIQUE

SIDHESHWAR BHALLA

President, Institute of Internal Auditors, India

Dear members and colleagues,

With immense pleasure and pride, I welcome you to this special National Conference edition of "Internal Audit Today." The recently concluded National Conference of IIA India, held at the Holiday Inn, New Delhi, on the 7th and 8th of June 2024, marked a significant milestone for our community. Themed "IA the AI Way - Act Now," this conference could not have been more timely or relevant. Over two intensive days, we delved deeply into critical topics shaping the future of internal auditing.

Our sessions covered a wide range of subjects, such as integrating AI with Internal Auditing, ethical uses of AI, and balancing AI with human intelligence. The discussions were enlightening and paved the way for innovative thinking and practical applications in our profession. The enthusiastic participation and the high level of discourse reflected our collective commitment to staying ahead of the curve in this rapidly evolving landscape.

One of the key highlights of the conference was the IIA India Awards ceremony. This event celebrated the outstanding performances of various chapters and committees within our organization. ***A big congratulations to all the winners!*** Your dedication, hard work, and excellence set a high standard for all of us and inspire continued innovation and diligence in our field. The recognition of your efforts underscores the importance of collaboration, leadership, and excellence in driving the internal audit profession forward.

We are also thrilled to announce the inauguration of the Kochi Audit Club. This new chapter represents our ongoing efforts to expand our reach and strengthen our community across India. The Kochi Audit Club will serve as a hub for local professionals to network, share knowledge, and develop their skills, further fostering growth and collaboration within the internal audit profession.

In addition to the National Conference, IIA India recently hosted its first International Masterclass on "Auditing at the Speed of Risk." Held on the 20th and 21st of May 2024, as part of Internal Audit Awareness Month, this groundbreaking seminar was led by the esteemed Richard Chambers. The event attracted around 70 participants, including delegates from Sri Lanka and the Maldives. It provided an exceptional opportunity for internal audit professionals to equip themselves with essential strategies to navigate the rapidly evolving risk landscape. The insights and strategies shared during this masterclass were invaluable, reinforcing the importance of staying agile and informed in our roles.

This special edition of "Internal Audit Today" is enriched with articles from esteemed thought leaders from India and abroad. Contributions from Mr. P.R. Ramesh, Mr. Burzin Dubash, Dr. Rainer Lenz, Dr. David O'Regan, Mr. Shubhashish Nath, and many others provide a wealth of knowledge and insights. We hope these articles inspire and guide you in your professional journey. Our contributors' collective wisdom and expertise highlight the dynamic and multifaceted nature of internal auditing today.

As you read through this edition, we encourage you to share your feedback. Your insights are invaluable and help us continually improve and serve you better. We aim to provide relevant, insightful, and practical information to support your professional growth and success.

Thank you for your continued support and engagement. Together, we are shaping the future of internal auditing.

Warm Regards,

Sidheshwar Bhalla

President, IIA India

MESSAGE FROM THE CHAIRPERSON

ARIJIT ROY

Chairperson-Publication Committee

Dear IIA India members and professional friends,

Greetings from The Institute of Internal Auditors India!

I am immensely pleased to address you all on this occasion of the release of the June 2024 edition of Internal Audit Today. June 2024 was an exciting month for The Institute of Internal Auditors (IIA) India, with several mega events held nationwide.

Earlier this month, IIA India successfully held the National Conference in New Delhi on the theme "IA The AI Way – Act Now," which is the overarching theme for this edition. The two-day conference also marked the Golden Jubilee celebrations for IIA India.

Recently, the Calcutta Chapter held the flagship programme Joint Audit Conclave on the theme "Learn I Unlearn I Relearn – Redefining Internal Audit". The annual Conference of the Hyderabad Chapter is on the trending theme of "AI Insight: Transforming Internal Audit & Data Privacy." The Bombay Chapter held a two-day Annual Banking & Finance Conclave on the theme "Wash, Rinse, Repeat: Banking Crisis Again I What's Changed and What Can Internal Auditors Learn."

We, internal auditors, find ourselves at a crucial juncture of our professional journey, where adoption and innovation are imperative. The dynamic landscape of modern business, coupled with emerging paradigms, necessitates a proactive and forward-thinking approach from internal auditors. In acknowledging the profound impact of technology on the profession, we recognize the need to leverage it for greater efficiency and foresight in our audits. It is essential for today's internal auditors to understand the ever-evolving landscape of technologies in the areas of Artificial Intelligence (AI) like Machine Learning (ML), Deep Learning (DL), Natural Language Processing (NLP), Large Language Models (LLM) as well as nuances of Cyber Security and Data Privacy.

Undoubtedly, technology will keep elevating existing processes and systems, including internal auditing. Automation will streamline work, improve resource allocation, and free up Internal Audit Activities to focus on the things that require real human attention. However, it is evident that Artificial Intelligence cannot replace human judgement. It does not have to be about humans versus machines … both can collaborate and work together to achieve the most effective and efficient outcomes.

The IIA remains steadfast in its commitment to staying at the forefront of the evolving professional landscape by rolling out the Global Internal Audit Standards. The institute is in the final stages of a ground breaking initiative called "Internal Audit: Vision 2035", which aims to envision the future state of the Internal Audit profession and outline the steps necessary to make that future a reality.

In light of the above, the current edition of "Internal Audit Today" is being published with profound thoughts by leading influencers of our profession. I sincerely appreciate the doyens of our profession, dignitaries, and budding professionals for taking valuable time out to contribute to this endeavour.

I would like to earnestly thank the President of IIA India for his gracious patronage, members of the editorial team behind "Internal Audit Today," and all the members of the Publications Committee for their unwavering commitment and relentless efforts put in this exciting journey of advancing the Internal Audit profession.

We earnestly thank all our readers for their kind patronage and request to share valued inputs through feedback, suggestions, comments, and article contributions. Please feel free to contact us at publications@iiaindia.co.in.

With warm regards,

Arijit Roy

Chairperson-Publication Committee

The Institute of Internal Auditors, India

The Institute of Internal Auditors, India, Publication Committee

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NABANITA SADHU
Deputy Editor- Internal Audit Today

IA the AI Way : Act Now: Insights from IIA India's Golden Jubilee National Conference

The much-awaited National Conference of the Institute of Internal Auditors (IIA) India, commemorating the Golden Jubilee of the premier institute in India, was held on June 7th & 8th, 2024, at the Holiday Inn, Aerocity, New Delhi. The landmark event brought together professionals, thought leaders, and experts across the Auditing spectrum and the corporate world, focusing on its theme "IA the AI Way – Act Now."

The conference, organized by the Delhi Branch of IIA India, set the stage for two days of insightful discussions on various key issues pertaining to the theme, immense knowledge-sharing and networking.

In the true spirit of the Indian culture, the two-day mega event was inaugurated with a traditional lamp-lighting ceremony symbolizing the illumination of knowledge and wisdom. With a lovely Saraswati Vandana invoking the blessings of the Goddess of learning, key IIA India dignitaries and eminent personalities in the field of Internal Auditing came together to light the lamp and enlighten their path of the conference.

Sana Baqai, Vice-President of IIA India, Delhi Branch and Chairperson of the Conference Committee, warmly welcomed the illustrious gathering of 400+ delegates in the jam-packed house to the National Conference and the Golden Jubilee celebrations. Talking about the theme of the conference, she said it was imperative for the Internal Audit community to gear up and meet the challenges posed by the emergence of Artificial Intelligence and adapt to the ever-changing landscape with gusto.

In his opening remarks, Sidheshwar Bhalla, President of IIA India, spoke about IIA India's long and challenging journey. He related how, in 1974, a few like-minded professionals got together to start IIA India and how it now ranks amongst the top 10 globally, with 6,000 members in more than 18 locations in the country. The IIA India President reiterated that gender diversity was one of the areas of focus of the professional organization that aims to nurture future leadership. Appreciating the digital publication of IIA India, Internal Audit Today, he said it had received global recognition for showcasing impeccable articles and disseminating knowledge amongst its readers. He added that the over 50 webinars organized by various Chapters of IIA India were a brilliant source of updated knowledge for the fraternity.

"Your business should be in your heart and your heart in your business," he noted, reiterating how critical it was for IA professionals to up skill to stay relevant in this fast-evolving scenario. He assured that IIA India would continue to strive to bring the best for its members and enable them to keep abreast of all that is happening in the AI-enabled audit world.

In his address, Burzin Dubash, Senior Vice-President of IIA India, shared unique insights into the theme of the conference. He discussed the various dimensions Internal Auditors should focus on while looking at AI, data sets, governance, safeguards, and costs. An extremely important aspect he covered was the risks that came with AI and how Internal Auditors will need to ask the right questions to get the right answers, Audit AI to understand its nuances, and integrate them to their benefit.

Soon after, Sidheshwar Bhalla welcomed esteemed dignitaries on the dais and honoured them for being present at the special occasion.

In his keynote address, Pravin Goel, Managing Director and Country Head of Blackrock India, shared his life experiences and the importance of putting one's heart into what one does. He said we must anchor ourselves in being human, noting that there was no comparison to that in this world. Talking about AI, he said if humanity were the Sun, AI would be a small gem. He spoke about ethical leadership, the human spirit of collaboration, and the value of independence. He also drew inferences from Indian mythology to explain the intricacies of AI and IA. He expressed his immense trust in IIA India for being resilient in meeting the challenges posed in the changing IA world. He hoped that IIA India would rank in the Top 3 and that gender diversity would rise from the present five per cent in the coming years.

Charanjot Singh Nanda, Vice President of ICAI and the Guest of Honour, offered valuable perspectives on the significance of Internal Auditing in today's economic environment. Noting that the IA profession, a sunrise industry with persistent growth, he said it was at an all-time high. Nanda spoke about various interesting aspects of how IA could integrate AI, focusing on the control environment to mitigate fraud. He said that if we need to grow, we need to be in tandem with the latest global technology.

In his theme address, Santosh Shetty, Partner at Deloitte India, spoke about various elements of AI and what it means from the IA perspective. He elaborated on the tools for adopting AI after a thorough understanding of what it stood for. He spoke at length about AI, ML and DL.

Yukti Arora, Treasurer, IIA India, Delhi Branch, expressed gratitude to all speakers and participants, setting a positive tone for the conference.

Celebrations of the IIA India Golden Jubilee followed these thought-provoking inaugural addresses. Past Presidents of IIA India, Past Presidents of IIA Delhi Chapter, National Council Members, National Advisory Board, Board of Governors of IIA India, Delhi Branch, and Board members of other Chapters came together to cut a row of cakes specially baked to celebrate the brilliance of this prestigious organization in India.

Past Presidents of IIA India- Nagesh Pinge, Mr. S Bhaskar, K Vidyadaran, Sumant Chadha, Adithya Bhat and Uma Prakash, Past Presidents of IIA Delhi Branch- Sanjay Vasudeva, Harish Dua, Nikhel Kochar, Sanjeev Singhal, National Council Members- Sidheshwar Bhalla, Burzin Dubash, Krishnan Venugopal, Debashis Ghosh, Manoj Agarwal, Giridhar Janardana, Nehal Shah, S K Rangaswamy, Surendra Reddy, National Advisory Board, Deepak Wadhwan, Dinesh Bahl, Ravi Kumar Patwa, Manjula Banerjee, CEO-Mukundan KV, Board of Governors of IIA India, Delhi Branch- Sana Baqai, Yukti Arora, Mukesh Gupta, Ashish Agarwal, Sumeet Bahadur, Niraj Kumar, Amit Sharma, Priya Gupta, Anupma Aggarwal, Anil Kumar Jain, Gaurav Bhatia, Neeraj Kumar Indoria, Rajat Mohan participated and witnessed the Golden Jubliee celebration of IIA in India.

The subsequent sessions delved into the transformative impact of AI, ML, and advanced analytics on Internal Audit. Puneet Gupta, Managing Director-Internal Audit, Protiviti India, Anuj Agarwal, GM (Internal Audit), Maruti Suzuki India Limited, and Kaushal Dugar, Managing Director, Internal Audit, Protiviti India, discussed the significant impact of these technologies on Internal Auditing, exploring real-world applications and future trends.

Rahul Singhal, Partner at KPMG, contributed by highlighting the Implications Of Artificial Intelligence on Internal Audit.

Following this, a panel discussion on strategies for Integrating AI into Internal Audit featured Amit Gupta, Partner at Deloitte India, Niraj Kumar, Global Head of Audit & Forensic, OYO Group, Vijay Sachdeva, Group IA Head, Indorama Corporation, and Burzin Dubash, COO of Ankur Capital. They shared best practices and addressed challenges in Integrating AI into Internal Audit, providing attendees with strategic approaches to leverage AI effectively.

Post-lunch panel discussions brought significant perspectives on responsible AI innovation. Deepak Gupta, Partner at KPMG, Mohit Kapur, VP & Head Technology Audit at EXL Service, Sandeep Dembla, Director-Legal and Compliance at Evalueserve, Dr. Shakti Goel, Chief Architect and Data Scientist at Yatra, Dhruv Dhanraj Bahl, Managing Partner at Eternal Capital; Ex-Chief Business Officer at BharatPe, and Nagesh Pinge, Independent Director, emphasized ethical considerations and the need for guardrails in AI innovation within Internal Auditing.

Another critical discussion on navigating ESG risks was conducted by Nutan Zarapkar, Managing Director-ESG Solutions, Protiviti India, Dr. Ashok Haldia, Past Secretary-ICAI, Former MD & CEO of PTC India Financial Services, and Amarendra Kumar Sinha, Chief Audit Executive at Adani Green Energy Limited. They highlighted the critical role of Internal Auditors in managing Environmental, Social, and Governance (ESG) risks, a growing area of focus in business sustainability.

The day concluded with the Chapter Awards and IIA India Awards, Top Performing Committee Awards, Best Learning Partner Award, celebrating outstanding contributions in Internal Auditing.

Mukesh Gupta, BOG, IIA India-Delhi Branch, delivered a heartfelt vote of thanks, acknowledging the efforts of all participants and organizers.

The second day began with Sanjeev Singhal, IIA Delhi Past President, welcoming attendees and setting a positive tone. Mukundan KV, CEO of IIA India, shared his vision and strategic direction for IIA India, emphasizing the importance of ethical and innovative practices in Internal Audit.

Panel discussions on the ethical use of AI in business followed, with Amit Ray, Managing Director-Data & Digital Solutions, Protiviti Middle East, Harish Sharma, Group Head-Management Audit and Assurance Services, Adani Group, and Sivaram Subramoniam, Chief Internal Auditor, Titan Company Limited. They explored the ethical implications and best practices for using AI in business, highlighting the balance between innovation and ethical considerations.

Ravi Ruparel, Director at Ernst & Young, emphasized the role of Internal Audit in ensuring transparency and accountability in sustainability reporting and building sustainable supply chains.

Another thought-provoking panel discussion on AI in Cyber Security featured Atul Gupta, Partner at KPMG, Abhishek Bansal, Head Non-Financial Risk & CISO at Max Life Insurance Company Limited, Nagesh Pinge, Independent Director and Deepak Wadhwan, Ex-CEO, IIA India they discussed offensive and defensive strategies in cyber security, focusing on the role of AI in enhancing security measures.

The importance of balancing Human Intelligence with Artificial Intelligence in Internal Audit was emphasized by Vineet Jajodia, Partner at Mahajan &Aibara, Rahul Bhatnagar, Independent Director, Sanjay Bahl, Co-Founder & CEO of Starleaf Talent Solutions; Ex-CFO of Raymonds, S. Bhaskar, CAE at Tata Capital and Vishal Bhanthia, CFO of EverEnviro Resource Management Pvt. Ltd. They highlighted the need for ensuring that Human and Artificial Intelligence complement each other effectively in Internal Audit practices.

Post-lunch panel discussions addressed Corporate Governance issues in AI, with Sumant Chadha, Managing Partner at TRC Corporate Consulting Pvt. Ltd., Monish Gaurav Chatrath, Managing Partner at MGC Global Risk Advisory LLP, Nikhel Kochhar, Senior Partner at JHS & Associates, Surath Mukherjee, Director at Times Group, Bennet Coleman & Co. Ltd., and Kartik Radia, CEO of CLA Indus Value Consulting Pvt. Limited. They emphasized the need for robust governance frameworks to manage AI-related risks.

Alok Govil, Principal Engineer at Amazon, shared insights into the latest developments in AI, discussing its applications and potential in transforming business processes.

The session on managing risks and challenges with digitization featured Kusharga Dabur, Director from Deloitte India, Ankit Maheshwari, Head of Risk & Controls at GR Infra Projects Limited, Amit Sharma, VP & Head of Audit (APAC) EXL and N.G. Shankar, Independent Director. They explored how Internal Auditors can effectively manage the risks associated with digitalisation.

The conference concluded with a Vote of Thanks, by Gaurav Bhatia, BOG, IIA India-Delhi Branch, acknowledging the contributions of speakers, panelists, and participants. The event ended on a high note, with attendees leaving with valuable insights and strengthened professional connections.

Overall, the National Conference of IIA India in Delhi was a resounding success, paving the way for innovative practices and robust discussions in the Internal Auditing community.

Special thanks to our Sponsors, Platinum Partner Protiviti Consulting Pvt. Ltd., Knowledge Partner Deloitte, Technology Partner, KPMG Assurance & Consulting Services LLP, Innovation Partner, Ernst &Young, Bronze Sponsors TRC Corporate Consulting Pvt. Ltd. and Mahajan & Aibara Advisers LLP, Education Partner, Gliem Publications Inc, Mementos & Gift Partner, Riskman Consulting LLP, Associate Sponsors, ETrends Technologies Pvt. Ltd., MGC Global Risk Advisory LLP, CLA Global Indus Value Consulting, MG Cars Pvt. Ltd., Quantlab Wealth Advisors Pvt. Ltd.


IIA India

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EMBRACING THE FUTURE: THE EVOLUTION OF AUDIT IN A TECH-DRIVEN WORLD

P. R. RAMESH
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Prologue

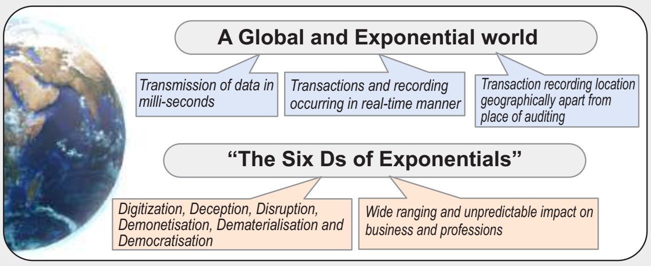
In today's dynamic and fast-paced global landscape, organisations are continually confronted with challenges that demand resilience, adaptability, and foresight. The volatile and uncertain market conditions are complex and often ambiguous regulatory environments necessitate a strategic mindset and a deep awareness of emerging trends. Navigating the complexities of modern business requires not just a response to current conditions but a proactive approach to future developments.

In a world characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), adaptability is the key. Similarly, the BANI framework describes the brittleness, anxiety, non-linearity, and incomprehensibility of today's challenges, highlighting the need for innovative solutions and agile strategies.

Challenges of Our Times

VUCA		BANI
• Volatility	V – B	• Brittle
• Uncertainty	U – A	• Anxious
• Complexity	C – N	• Non-linear
• Ambiguity	A – I	• Incomprehensible

In today's global and exponential world, data travels at the speed of light, transactions unfold in real-time, and the physical location of the financial activity may be continents away from the actual location of the regulators/auditors. The six Ds of exponentials – Digitisation, Deception, Disruption, Demonetisation, Dematerialisation, and Democratisation – are reshaping industries and professions with a force that is both wide-ranging and unpredictable.



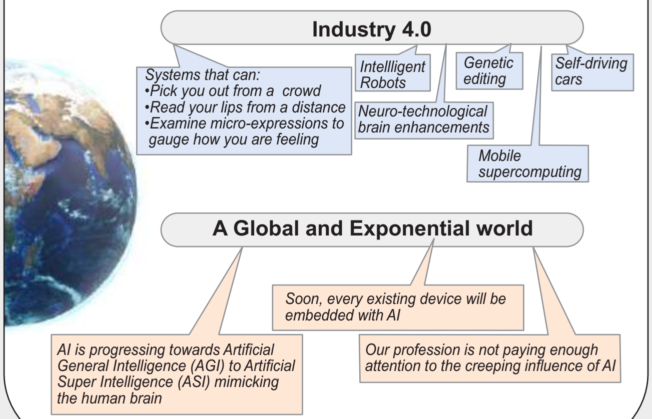
Google "Talk to Books" and the Power of AI :

Yet amidst these challenges lie opportunities for growth and transformation. Imagine a world where you can ask any question, and within milliseconds, an AI system combs through over 1,20,000 books to provide you with relevant quotes and insights. With the rise of AI-powered tools like Google's "Talk to Books" feature, this vision has become a reality. By harnessing the power of artificial intelligence, we are witnessing a revolution in information retrieval and knowledge dissemination.

In the realm of journalism, AI is revolutionizing the way content is produced. On the writing front, companies such as Narrative Science are leveraging AI algorithms to generate magazine-quality prose without any human intervention. From news articles to feature stories, AI-driven journalism is changing the face of media as we know it.

The World Today

Google "Talk to Books" lets you ask AI a question about any subject. The AI responds by reading 120,000 books in half a second and answers by providing quotes from them. On the writing front, companies such as Narrative Science now use AI to write magazine-quality prose without any help from a human journalist.



Industry 4.0 represents the next phase of the industrial revolution, characterized by the integration of digital technologies into manufacturing and production processes. From systems capable of identifying individuals in a crowd to self-driving cars and mobile supercomputing, the possibilities are endless. These intelligent systems can read our lips, analyze micro-expressions, and even enhance our cognitive abilities through neuro-technological interventions.

Artificial intelligence is advancing at an exponential rate, moving from Artificial General Intelligence (AGI) to Artificial Superintelligence (ASI). Soon, every device will be embedded with AI, revolutionizing the way we interact with technology.

Despite these rapid advancements, Audit profession may not be paying enough attention to the creeping influences of AI, highlighting the need for greater awareness and preparedness.

Disruptions and Industry Transformation: Which Way Will the Wind Blow in Future?

Disruption is the new normal, and the winds of change are blowing with unprecedented force. Behemoth organisations that once dominated their respective industries are now facing obsolescence, succumbing to the disruptive forces of technological innovation and changing consumer preferences. The rise and fall of companies like BlackBerry, Nokia, Blockbuster, Kodak, and Yahoo! Mail serve as cautionary tales, reminding us of the importance of adaptability and foresight in an ever-changing marketplace.

Behemoths once, Forgotten now

What happened to these organizations will happen in a lot of industries in the next 5-10 years … and most people don't see it coming.

BlackBerry

NOKIA Connecting People

BLOCKBUSTER

KODAK

$55 Bn

Cumulative Revenues (at their respective peaks)

YAHOO! MAIL

Exciting predictions of technology, such as the widespread adoption of electric cars and the proliferation of connected devices, underscore the transformative power of innovation. As electric vehicles become more prevalent and cities embrace sustainable transportation solutions, the automotive industry will undergo a seismic shift, reshaping urban landscapes and reducing carbon emissions.

Interesting Predictions

Soon to be… - Electric cars

- Electric cars are sold with lifetime guarantees and are only repaired by dealers.
- It takes only 10 minutes to remove and replace an electric motor.

- Auto repair shops will go away
- Gas stations will go away
- Electricity will become incredibly cheap and clean.

- Cities will be less noisy and much cleaner as well.

In the face of these challenges and disruptions, organisations must embrace exponential thinking and agile methodologies to thrive in the digital age. The emergence of exponential organisations, driven by rapid technological advancements and data proliferation, heralds a new era of innovation and disruption. As we navigate the headwinds of mega shifts and disruptions, the key lies in embracing change, fostering collaboration, and leveraging technology to drive sustainable growth and positive societal impact.

Headwinds: Megashifts & disruptions

Which way will the winds blow in the future?

In the next 10 years, 40% of the Fortune 500 companies will be gone.

- BABSON OLIN SCHOOL OF BUSINESS

THE surprising truth

In 2009 the number of devices connected to the internet exceeded the number of people on the planet. A year later driven by the evolution of smart phones, sensors, prices began to plummet. By 2015, all this progress added up to 15 billion connected devices, more than double the population of the planet. By 2030, Stanford researchers estimate there would be 500 billion connected devices

3 BILLION new minds will join the connected internet in the next five years

PETER DIAMANDIS

IN THE LAST TWO YEARS WE'VE SEEN nine times MORE DATA created than in the entire history of humanity.

EXPONENTIAL ORGANIZATIONS

Judicial Activism and Corporate Responsibility

In an era of heightened judicial activism and public scrutiny, organisations are under increasing pressure to uphold high standards of morality and corporate social responsibility. Judicial activism and public outcry for higher standards of morality have placed greater emphasis on corporate social responsibility and ethical governance practices. Cooperation among regulators, both within countries and across borders, is becoming increasingly vital in ensuring transparency and accountability. In this context, the establishment of bodies like the National Financial Reporting Authority (NFRA) serves as a beacon of hope, reinforcing the importance of robust oversight and governance mechanisms. While NFRA's focus is primarily on statutory audits, its existence underscores the broader imperative for accountability and transparency in financial reporting.

Other Trends

- Judicial activism
- Public outcry towards high standards of morality
- Emphasis on Corporate Social Responsibility
- Co-operation among regulators within our country and also across borders
- NFRA - thankfully not in Internal Audit

The Future of Internal Audit: Welcome to Tomorrow, Accountants and Auditors

As auditors, we stand at the precipice of a new era of accounting and auditing, where the winds of change are reshaping the landscape at an unprecedented pace. As we stand on the threshold of tomorrow, the second oldest profession finds itself at a crossroads, facing the looming spectre of irrelevance in the face of technological disruption and evolving business models.

Welcome to Tomorrow, Accountants and Auditors

– it actually arrived a few years ago!

The 2nd oldest profession has the 2nd highest chance of being irrelevant, anytime now!

Future of Employment - Vulnerability of Jobs to Computerization

Job	Probability
Recreational therapists	0.003
Dentists	0.004
Athletic trainers	0.007
Clergy	0.008
Chemical engineers	0.02
Editors	0.06
Firefighters	0.17
Actors	0.37
Health technologists	0.40
Economists	0.43
Commercial pilots	0.55
Machinists	0.65
Word processors and typists	0.81
Real-estate sales agents	0.86
Technical writers	0.89
Retail salespeople	0.92
Accountants and auditors	0.94
Telemarketers	0.99

The Worry

Sadly, the Accounting and Auditing Profession appears to be oblivious of the developments presented so far, which alone can cause their extinction, when one considers the present pace of change in accounting and auditing.

If these threats are to be converted to opportunities then serious introspection, research, strategic planning and implementation are required. This can no longer be on a gradual and graded change as at present but requires radical and bold steps.

In the ever-accelerating whirlwind of technological advancement, the landscape of audit methodologies is undergoing a profound and irreversible transformation. What was once considered the cornerstone of assurance – traditional audit methodologies and tools – now stands on shifting sands, unable to withstand the seismic shifts brought about by Industry 4.0 and the exponential growth of technology. The auditors of tomorrow must possess a diverse skill set, ranging from technological proficiency to problem prediction and solution.

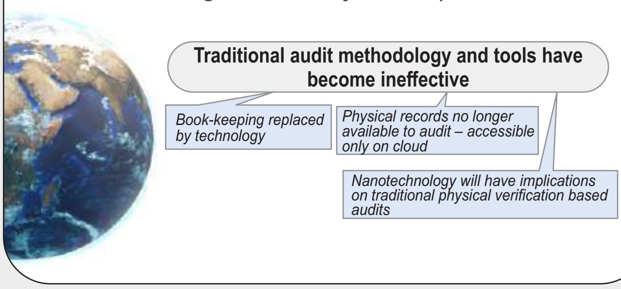
Gone are the days of manual bookkeeping and stacks of physical records. Today, the cloud reigns supreme, serving as the repository for vast volumes of financial data, inaccessible to the touch but omnipresent in its digital form. Nanotechnology, with its promise of molecular-level precision, looms on the horizon, challenging the very fabric of traditional physical verification-based audits.

The once-sturdy pillars of the accounting and auditing profession are under siege, with the rapid advancement of technology threatening to render traditional methodologies and tools obsolete. From the automation of bookkeeping to the digitization of financial records stored exclusively in the cloud, the very foundation of traditional audit practices is being shaken to its core.

To survive and thrive in this brave new world, internal auditors must embrace radical transformation and reinvention. The future of internal audit hinges on its ability to adapt to evolving business models, harness the power of technology and cultivate a forward-thinking mindset.

The World Today

We are going to experience twenty thousand years of technological change over the next one hundred years! ("The Law of Accelerating Returns" - Ray Kurzweil).



What is different?

While new technologies revolutionizing the audit profession, they also bring with them a host of ethical, regulatory, and practical challenges. As AI progresses towards artificial superintelligence (ASI) and every device becomes embedded with AI, auditors must grapple with the creeping influence of technology on their profession. In the world of finance, new technologies such as cloud computing, robotics, AI, machine learning, natural language processing, and blockchain are driving rapid changes. These disruptors are combining to reshape traditional finance models, offering foresight, insight, and hindsight capabilities that were previously unimaginable. As we embrace the transformative power of AI and Industry 4.0 technologies, we must also remain vigilant and proactive in navigating the ethical, social, and economic implications of these advancements.

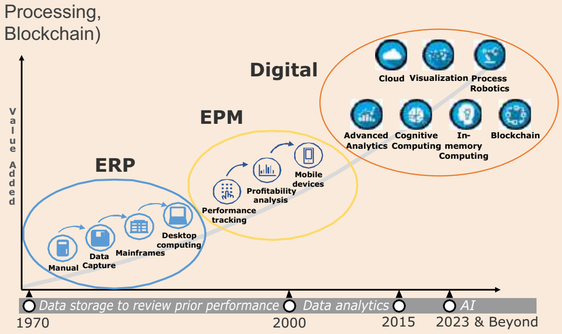
What is Different?

New technology has driven the development of Finance for decades, but now new disruptions are combining for rapid change

Foresight
New technologies (Cloud, Robotics, AI, Machine learning, Natural Language Processing, Blockchain)

Insight
Reporting and analytic software

Hindsight
Historical reporting on Key Performance Indicators



How can Internal Auditor Stay Relevant?

In an era defined by rapid technological advancement and unprecedented global challenges, the governance landscape is undergoing a profound transformation. From increasing regulatory actions to mounting concerns over cyber threats and corporate fraud, organisations face a multitude of complex and interconnected issues that demand careful attention and strategic foresight.

- Concern on compliance – increasing regulatory actions
- Concern on controls and fraud risk
- Cyber security
- ESG
- Global conflicts affecting supply chain and logistics
- Risk Management
- Intellectual property
- Talent – Skillset/ Mindset
- Treasury and debt
- Related Party Transactions
- Concern on Information security – theft of information

As regulatory requirements continue to proliferate across industries and geographies, organisations are grappling with the daunting task of ensuring compliance while navigating an ever-evolving regulatory landscape. From data privacy regulations like GDPR to industry-specific mandates, compliance has become a top priority for boards and executives alike.

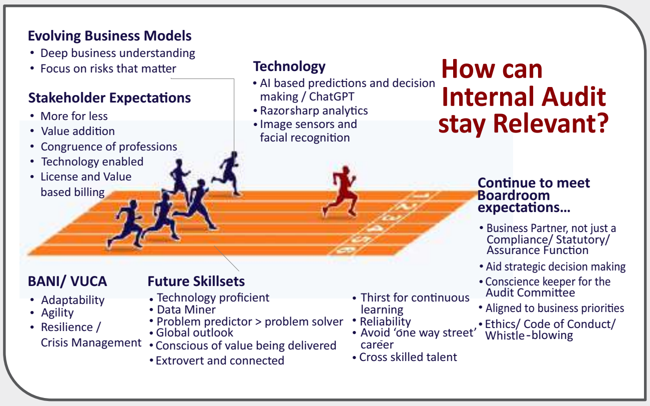
Also, Global conflicts and geopolitical tensions have the potential to disrupt supply chains and logistics networks, posing significant challenges for organisations operating in an interconnected global economy. From trade disputes to geopolitical instability, organisations must proactively assess and manage geopolitical risks to ensure supply chain resilience and business continuity.

Internal auditors must develop a deep understanding of emerging business models and focus on mitigating risks that truly matter to stakeholders. By aligning their efforts with shareholder expectations and embracing technology-enabled solutions, internal audit functions can deliver greater value and drive organisational success.

In an environment fraught with uncertainty and volatility, the spectre of fraud and misconduct looms large. From internal control weaknesses to external threats, organisations must adopt a multi-faceted approach to risk management, leveraging advanced analytics, AI-driven monitoring tools, and robust internal controls to detect and prevent fraud before it occurs. AI-based predictions, razor-sharp analytics, and facial recognition technologies are revolutionizing the audit process, enabling auditors to uncover insights and identify patterns with unprecedented speed and accuracy. By leveraging these cutting-edge tools, internal auditors can enhance their capabilities and deliver more strategic and impactful outcomes.

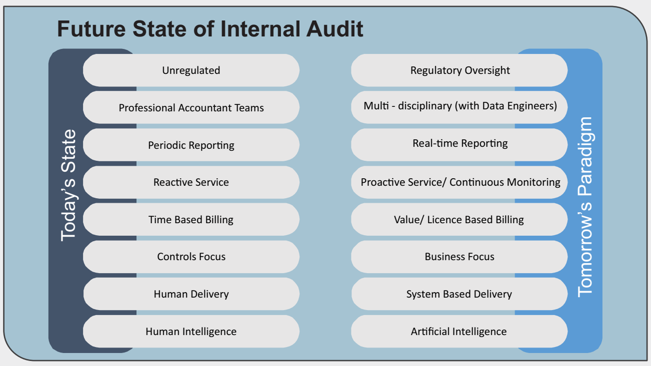
As organisations increasingly rely on digital technologies to drive innovation and growth, the threat landscape has expanded exponentially, with cyber-attacks becoming more sophisticated and pervasive. From ransomware attacks to data breaches, cybersecurity has emerged as a critical concern for boards and executives, requiring the internal auditor to take a proactive and holistic approach to safeguarding sensitive information and protecting against cyber threats.

In an environment characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), internal auditors must cultivate adaptability, agility, and resilience. By embracing a proactive and forward-thinking approach to crisis management, internal audit functions can navigate turbulent waters and emerge stronger than ever before.



The future of internal audit demands a new breed of professionals equipped with diverse skills. A global outlook, thirst for continuous learning, and reliability are essential. From proficiency in technology and data mining to problem prediction and strategic thinking, tomorrow's internal auditors must possess a global outlook, an insatiable thirst for learning, and an unwavering commitment to ethical conduct.

Gone are the days when internal audit functions were relegated to a mere compliance role. In today's fast-paced business environment, internal auditors must serve as trusted advisors and strategic partners to the boardroom, aiding in strategic decision-making and upholding the highest standards of ethics and integrity.



Epilogue-Embracing Change to Invent the Future:

In the words of G.C. Lichtenberg, "The best way to predict the future is to invent it." Internal audit must embrace change to thrive in the digital age. By embodying the principles of adaptability and resilience, internal audit can navigate the winds of change and emerge stronger than ever before.

The future of internal audit is both daunting and exhilarating. By embracing change, innovation, and adaptability, internal audit can chart a course toward a brighter tomorrow. As Mahatma Gandhi once said, "You must be the change you wish to see in the world." It is time for internal audit to be the change and shape the future of the profession. Only by embracing change can we ensure that our profession remains relevant, resilient, and indispensable in the years to come. By harnessing the power of technology, fostering collaboration, and upholding the highest standards of ethics and integrity, auditors can continue to serve as trusted guardians of financial transparency and accountability.

If we change, we won't encounter this

(The challenges facing Internal Audit were splendidly showcased at the IIA Kolkata Annual Conference held on the 15th of March, 2024.)

EMBRACING THE FUTURE: INTERNAL AUDIT, THE AI WAY

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In the ever-evolving landscape of business, adaptation is key to survival. One area where this maxim holds particularly true is internal audit. Traditionally seen as a labour-intensive process reliant on human scrutiny and analysis, internal audit is undergoing a transformative journey, propelled by the relentless advancement of artificial intelligence (AI). This paradigm shift towards **"Internal Audit, the AI Way"** revolutionises how organizations approach risk management, compliance, and operational effectiveness.

This article seeks to approach this evolving topic through two lenses:

1. How can AI help in the IA process ('AI in IA')
2. How can IA audit AI models ('IA of AI')

AI in IA

AI, with its ability to process vast amounts of data at unprecedented speeds, offers a potent toolset for internal auditors. From predictive analytics to machine learning algorithms, AI empowers auditors to extract actionable insights from complex datasets, uncovering patterns and anomalies that might otherwise remain hidden. By harnessing the power of AI, internal auditors can enhance the efficiency and effectiveness of their audits, driving value for their organizations in multifaceted ways.

- One of the most significant contributions of AI to internal audit is in the realm of risk identification and assessment. Traditional audit methods often rely on sampling techniques to assess risk exposure, leaving room for oversight and error. AI, however, enables auditors to analyse entire datasets with precision, identifying emerging risks in real time and providing timely recommendations to mitigate them. This proactive approach not only strengthens risk management practices but also enhances organizational resilience in the face of dynamic threats.

  Walmart collaborated with AI solution providers to develop and implement a custom AI model for risk identification and assessment within its internal audit function. The AI model utilised machine learning algorithms to analyse diverse data sources and identify potential risks and control weaknesses across Walmart's operations

  Key Components of the Solution included

  1. **Data Integration:** The AI model integrates data from various sources, including sales transactions, inventory levels, employee performance metrics, customer feedback, and external factors such as economic indicators and industry trends

  2. **Machine Learning Algorithms:** Walmart's AI model employed machine learning algorithms to analyse the integrated data and identify patterns, anomalies, and correlations indicative of potential risks and opportunities. The algorithms were trained on historical data to recognize known risk factors and adapt to changing business conditions

  3. **Risk Scoring and Prioritization:** The AI model assigned risk scores to different business processes, locations, and activities based on their likelihood and potential impact on Walmart's operations. Risks were prioritized based on their severity and importance to the business, enabling the internal audit team to focus on high-risk areas

  4. **Real-Time Monitoring:** The AI model provided real-time monitoring of key risk indicators, enabling the internal audit team to detect emerging risks and trends promptly. Automated alerts and notifications were generated for significant deviations from expected norms, enabling timely intervention and risk mitigation

- Moreover, AI facilitates continuous monitoring and auditing, breaking away from the periodic audit cycles of the past. Real-time data analysis allows auditors to monitor key risk indicators continuously, flagging potential issues as they arise and enabling prompt intervention. This shift towards continuous auditing not only minimizes the window of vulnerability but also fosters a culture of accountability and transparency within organizations.

- Another area where AI is reshaping internal audit is in the domain of fraud detection. Traditional fraud detection methods often rely on rule-based systems, which are limited in their ability to adapt to evolving fraud schemes. AI-powered fraud detection systems, on the other hand, employ sophisticated algorithms that can detect anomalous patterns indicative of fraudulent activity. By analysing transactional data and user behaviour, AI can identify suspicious activities with a high degree of accuracy, enabling organizations to combat fraud more effectively.

  Here are a few examples of companies and tools that facilitate continuous monitoring and auditing for internal auditors

  ThetaRay: *ThetaRay is a provider of AI-powered financial crime detection and regulatory compliance solutions. Their platform uses advanced analytics and machine learning to detect anomalies and suspicious activities in real time, helping organizations identify potential risks such as money laundering, fraud, and insider trading.*

  Kount: *Kount is a leading provider of AI-driven fraud prevention and digital identity verification solutions. Their platform utilizes AI and machine learning to analyse transactional data, user behaviour, and device characteristics in real-time to detect fraudulent activity. E-commerce companies, financial institutions, and payment processors use Kount's solutions to reduce chargebacks, prevent account takeovers, and protect against fraudulent transactions.*

  MetricStream: *Their platform utilizes AI and data analytics to automate compliance monitoring, risk assessments, and audit processes, providing real-time insights into the organization's risk posture.*

AI can also augment the audit process through automation, allowing auditors to focus on high-value tasks that require human judgment and expertise. Routine tasks such as data collection, validation, and reconciliation can be automated using AI-driven tools, allowing auditors to allocate their time and resources more strategically. This not only improves audit efficiency but also enhances the overall quality of audit findings, as auditors can devote more attention to critical areas of concern.

Here are some examples of companies and tools designed for internal audit that use AI to automate the audit process:

Audit Board: *Their platform includes modules for risk assessment, audit planning, workpapers, issue tracking, and reporting. AuditBoard's AI capabilities help auditors automate repetitive tasks, identify trends and anomalies in audit data, and generate insights to improve audit quality and efficiency.*

Galvanize HighBond: *Galvanize's HighBond platform integrates AI and data analytics into its internal audit software to provide auditors with advanced capabilities for risk assessment, audit planning, testing, and reporting.*

Idea Bridge: *The platform uses AI and machine learning algorithms to automate audit processes, analyse audit data, and generate actionable insights for auditors. IdeaBridge helps organizations streamline audit workflows, identify risks, and improve compliance by leveraging AI-driven automation and analytics.*

Alyne: *Alyne is a SaaS platform that provides AI-driven risk management and compliance solutions for internal audit, cybersecurity, and regulatory compliance. The platform uses AI to automate risk assessment, control testing, and compliance monitoring, helping organizations streamline their audit processes and enhance risk management capabilities.*

However, the adoption of AI in internal audit is not without its challenges. One significant hurdle is ensuring the integrity and accuracy of AI-driven insights. As AI algorithms operate based on historical data, they are susceptible to biases inherent in the data they are trained on. To mitigate this risk, auditors must exercise caution and rigour in validating AI outputs, cross-referencing them with independent sources and subjecting them to thorough scrutiny.

Data privacy is a key concern here. If publicly available data is used to train the LLM model, the output could be deemed too generic. However, training an LLM with internally generated data is quite a costly and time-consuming affair.

The ethical implications of AI in internal audits also need some thought. As AI systems become increasingly autonomous, questions of accountability and transparency arise. Auditors must grapple with issues such as data privacy, algorithmic bias, and the ethical use of AI, ensuring that their use of AI aligns with ethical principles and regulatory requirements.

IA of AI

Equipping themselves to ask meaningful questions when auditing AI models implemented by their companies requires internal auditors to develop a thorough understanding of AI technology, its applications, and associated risks. Here are some steps internal auditors can take to prepare themselves:

1. **Gain Knowledge of AI Concepts:** Internal auditors should invest time in learning about the fundamental concepts of AI, including machine learning, deep learning, natural language processing, and neural networks. Understanding how AI algorithms work and their implications for decision-making will enable auditors to ask informed questions about the AI models being audited.

2. **Understand the Business Context:** Internal auditors should familiarize themselves with the specific business context in which the AI models are being implemented. They should understand the objectives, use cases, and the intended outcomes of the AI initiatives and how they align with the organization's strategic goals.

3. **Review Documentation and Policies:** Internal auditors should review relevant documentation, policies, and procedures related to the AI models, including model documentation, training data, algorithms used, and model validation processes. Understanding the design, development, and deployment of the AI models will help auditors identify potential risks and areas of concern.

4. **Assess Data Quality and Bias:** Internal auditors should evaluate the quality, relevance, and integrity of the data used to train and operate the AI models. They should assess whether the data is representative, unbiased, and sufficiently diverse to produce fair and accurate outcomes.

Auditors should also inquire about measures taken to address data bias and ensure fairness in AI-driven decisions.

5. Evaluate Model Performance: Internal auditors should assess the accuracy, reliability, and performance of the AI models in achieving their intended objectives. They should inquire about the metrics used to evaluate model performance, any limitations or constraints of the models, and how model outputs are validated and monitored over time.

6. Consider Ethical and Regulatory Implications: Internal auditors should consider the ethical and regulatory implications of the AI models being audited. They should inquire about measures taken to ensure transparency, accountability, and fairness in AI-driven decisions and assess compliance with applicable laws, regulations, and industry standards.

7. Assess Controls and Governance: Internal auditors should evaluate the controls and governance mechanisms in place to manage risks associated with the AI models. They should inquire about governance structures, roles and responsibilities, risk management processes, and controls implemented to mitigate risks related to data privacy, cybersecurity, model accuracy, and ethical considerations.

8. Collaborate with Subject Matter Experts: Internal auditors should collaborate with subject matter experts, including data scientists, IT professionals, and business stakeholders, to gain insights into the AI models and their implications for the organization. Engaging in dialogue with experts will help auditors ask relevant and meaningful questions and ensure a comprehensive audit of AI initiatives.

Auditing an AI platform implemented by their company poses unique challenges and risks that internal auditors should consider. Here are some key risks to be mindful of:

1. Data Quality and Bias: AI systems are only as good as the data they are trained on. Internal auditors should assess the quality, relevance, privacy and integrity of the data used to train and operate the AI platform. They should also be vigilant about potential biases in the data that could lead to biased outcomes or discriminatory practices.

2. Algorithmic Transparency and Explainability: Many AI algorithms operate as "black boxes," making it difficult to understand how they arrive at their decisions. Internal auditors should ensure that the AI platform provides transparency and explainability in its decision-making process, allowing auditors to understand and validate the rationale behind AI-driven decisions.

3. Model Accuracy and Performance: Internal auditors should assess the accuracy, reliability, and performance of the AI models used by the platform. They should evaluate whether the models are producing valid and trustworthy results and whether they are effectively addressing the intended business objectives.

4. Ethical Considerations: AI platforms raise ethical considerations related to privacy, fairness, accountability, and the responsible use of AI technologies. Internal auditors should evaluate whether the AI platform aligns with ethical principles and organizational values and whether appropriate safeguards are in place to prevent unethical or harmful outcomes.

5. Cybersecurity Risks: AI platforms may be vulnerable to cybersecurity threats such as data breaches, adversarial attacks, and manipulation of AI models. Internal auditors should assess the cybersecurity controls implemented within the AI platform to protect against unauthorized access, data loss, and other cybersecurity risks.

6. Vendor and Third-Party Risks: If the AI platform is provided by a third-party vendor, internal auditors should evaluate the vendor's reputation, reliability, and security posture. They should assess the contractual agreements, service-level agreements, and risk management practices in place to mitigate vendor-related risks.

7. Change Management and Adoption Risks: Implementing an AI platform often requires changes to business processes, roles, and responsibilities. Internal auditors should assess the organization's change management efforts and evaluate the readiness of employees to adopt and effectively use the AI platform.

In conclusion, "Internal Audit, the AI Way" represents a paradigm shift in how organizations approach risk management and compliance. By leveraging the power of AI, internal auditors can enhance the efficiency, effectiveness, and agility of their audits, driving value for their organizations in an increasingly complex and dynamic business environment. However, realizing the full potential of AI in internal audit requires careful consideration of ethical, regulatory, and practical considerations, ensuring that AI remains a force for good in the world of audit and beyond.

Disclaimer: The views are the personal views of the author. Examples used and case studies provided are just a sample for reference only. The author does not endorse any of them.

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MOVING UP A LEVEL : THE OUTSOURCING, OFFSHORING AND SHARED SERVICE CENTRE RISKS CHALLENGING INTERNAL AUDIT

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Prologue

As Global Capability Centres (GCCs) continue to evolve, a radical transformation for offshored/outsourced IT and business processes is on the horizon. This will be driven by organisations rapidly scaling up their use of AI and the sophistication of associated technologies. I believe this would result in a further increase in the volume and criticality of outsourced and offshored business and IT processes. While the ramifications of the war in Ukraine and related geo-political concerns may result in some slowdown of this growth in Poland and other Eastern European countries, APAC will see an accelerated pace of growth for more critical organisational processes. The dominance of AI-related technologies at the heart of this transformation will need significant tech talent and this will reinforce India's superiority in the game in the days ahead. As a result, there is growing evidence that the associated governance and risk management is becoming of real interest to the Boards in both user as well as provider organizations.

Oversight of outsourcing, offshoring, and shared service centres (SSCs) was being viewed for decades, as an operational-level issue to be dealt through Service Level Agreements (SLAs) by middle management rather than Board or C-suite accountability. This fundamental shift in focus on governance and risk management of such operations is presenting a formidable challenge for business leadership. Our experience indicates a widening gap in organizational capabilities resulting from this re-evaluation.

In today's turbulent business landscape, boards of directors and senior leaders are looking to internal audit to be a trusted adviser that can help the organization navigate risk and change successfully. This shift requires a fundamental rethinking of how IA is perceived and utilized within the organization's governance structure to align closely with business objectives and contribute to enterprise value creation. Consequently, there is a growing emphasis on IA's strategic engagement and proactive risk management rather than merely reactive compliance checking.

Organisations that are pursuing in-house or outsourced SSC strategies are now much more aggressive about incorporating a mix of multi-function, multi-location, multi-region, multi-business, and multisourced models, thus creating complexity and bringing in new risks. While outsourcing, offshoring and shared services continue to increase in complexity, bringing in new threats and challenges, stronger governance can enhance the benefits of strategic partnering and drive operational excellence. This rapidly-changing context is due to various factors such as:

- Increasing Board expectations that the investment in outsourcing, offshoring or shared services will be a strategic lever to enhance competitive advantage and organisational value by bringing in intellectual capital and new capabilities in Artificial Intelligence (AI) related technologies like Machine Learning, Deep Learning, Natural Language Processing, Large Language Models, Chat GPT etc. which, in turn, can be used to fuel innovation, and process improvement to enhance service quality and enhance overall business agility, rather than just save organisational costs.
- The emergence of newer hybrid structures representing innovative combinations of outsourced, offshored and shared service-based solutions.
- The drive by organisations to consider multi-functional yet tailored service delivery models, managed by a new breed of organisational Global Business Services (GBS) teams
- Increasing impact of multi-jurisdictional laws and regulations related to AI, data privacy, taxation etc. on outsourced or offshored services imposing direct responsibility on organisations for the acts of the service providers and delivery centres in the more regulated industry segments.

Objective

This article discusses the impact of these changes and suggests a way forward to help IA teams develop a robust approach under different scenarios, as well as alternative routes to enhance IA capability.

Chief audit executives (CAEs) who prioritize skill-building for their teams will be best positioned to help them meet this challenge and deliver the proactive, value-adding assurance the business needs in leveraging outsourcing, offshoring or SSCs in some form, may find the concepts pertinent.

Large global organisations that are outsourcing IT and business processes to external service providers through onshore, and/or offshore (overseas) delivery locations across all the major industry segments shall find relevance. This also includes Government and Public Sector including organisations that have migrated specific IT and business processes to be delivered through SSCs or centres of excellence, operated by themselves or with the assistance of external service providers. All such entities could be co-located with corporate or business headquarters or based in offshore locations.

Organisational need for assurance under various change scenarios

"The precise role, timing and extent of IA involvement will depend on: the perceived risk it presents to the organisation; the Board's risk appetite; and the cost and complexity of the service."- ***Outsourcing and the role of Internal Audit: IIA Audit Committee Briefing May 2017***

Typically, organisations need assurance through their Internal Audit teams in two broad areas:

1. Governance and Risk Management:

- Governance and management mechanisms are appropriate for the risk mitigation needs of the organisation, recognising key interdependencies.
- Potential operational challenges are anticipated and proactively addressed.
- Regulatory and other compliance requirements, including country-specific issues relating to multiple jurisdictions, are appropriately dealt with.

2. Strategic alignment and benefits realisation:

- The arrangement is achieving the strategic objectives, therefore enabling the business to do things better.
- The benefits proposed to be achieved are actually being achieved.
- Systems and processes are effectively aligned to the outsourcing or shared services environment/ organisation needs to eliminate any gaps in execution of the outsourcing/shared services strategy

An ongoing challenge is the ability to sufficiently demonstrate that IA coverage is sufficient across the ever-changing business and technology landscape; as well as commensurate to the nature and complexity of risks that the organisation is facing today.

Set out below are three scenarios where this strategic IA focus can potentially add value:

Scenario 1
Implementing (or migrating to) a new outsourcing or shared services arrangement

Scenario 2
Scenario 2- Broader business risk review aimed at strengthening an existing outsourced or shared services arrangement

Scenario 3
Review of governance and business risk management in response to a disruptive incident or regulatory action

Scenario 1- Implementing (or migrating to) a new outsourcing or shared services arrangement

Organisations are likely to have a strong need for independent assurance prior to implementing or migrating to a new outsourcing or shared services arrangement. This covers two key areas:

1. Transition Governance and Risk Management Assurance:

Appropriateness of transition plan governance and management mechanisms, together with the plan to manage the transition (including roles, responsibilities and the management of post-transition activities); engagement of sufficiently skilled resources in transition activities.

IT Security & Governance Framework: Adequacy of the design and implementation of the IT Security Governance Framework (covering technology-related as well as other relevant processes to address compliance with organisational policies and regulation).

Risk & Issue Management and Interdependencies: Suitability of approach to identify and manage any risks, issues and interdependencies impacting upon the transition. Adequacy of plans in place to manage/mitigate key

Contingency Planning: Adequacy of contingency plans in place to manage any issues which may arise during the move to post transition activities.

2. Readiness Assurance for Go-live:

Organisational Structure: The suitability of the organisational structure, operational roles, personnel numbers and required skills, to manage the transition as well as the subsequent steady state environment. This includes a specific focus on the approach used to "size" onshore and offshore support teams; processes undergoing a change in delivery location as a result of the transition; services provided by third and fourth parties (including sub-contractors).

Operational Policies and Procedures: Availability and suitability of documented, agreed and tested policies, procedures and controls required to support the post-transition services.

Operational Support Tools: Suitability and availability of installed and tested support tools (e.g. knowledge base, incident logging, etc.) that will be used to manage the post-transition services, with a specific focus on new tools being implemented during transition.

Perform Checks: Approach to performing pre-determined checks against the transition plan, with documented acceptance criteria against each check. This will include a specific focus on the involvement of all relevant stakeholders, including IT/non-IT staff and functional representatives from the organisation.

Test Transition Plan: Acceptable execution of a test or trial of various aspects of the Transition Plan, utilising appropriate resources, timings and environments to perform and record outcomes of all cutover activities.

Training: Adequacy of knowledge transfer and training provided to the support team and all affected users, including awareness of proposed operational processes, business priorities and culture.

Go/No Go Decision: Appropriateness of the decision criteria and mechanisms to complete the cutover or to roll-back (following pre-agreed roll-back procedures).

Scenario 2- Broader business risk review aimed at strengthening an existing outsourced or shared services arrangement

In addition to involving IA teams at the time of implementing or migrating to a new outsourcing or shared service centre arrangement, organisational leadership often commission these teams to carry out a broader risk review aimed at strengthening an existing outsourcing or SSC arrangement. This typically covers some or all of the following areas:

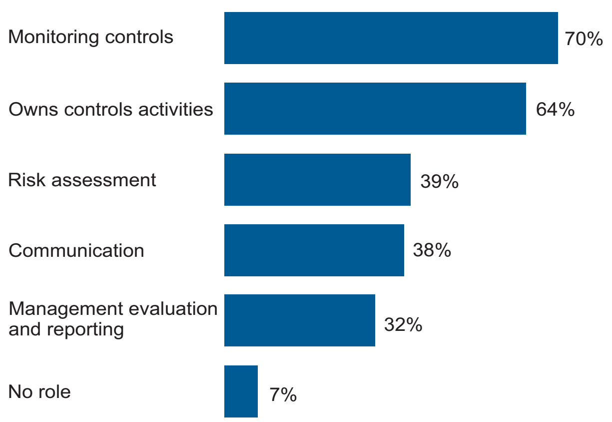
Strategic area	Related business risk examples
Strategic Planning and Operating Model	• Operating model does not ensure strategic, service or management alignment. • Scope of services not aligned with business unit needs or processes retained by business. • Locational challenges to operations. • Inability to effectively monitor or realise benefits or business value set out in business case. • Misaligned or inadequate performance metrics.
Strategic Governance	• Challenges with strategic governance mechanisms. • Governance not aligned to organisational needs. • Unavailability of data for effective governance. • Governance mechanisms increase user dissatisfaction.
Delivery Organisation	• Inappropriate organisation structure of delivery teams. • Lack of appropriate skills and training. • Knowledge transfer and retention issues. • Attrition and poor staff morale. • Recruitment challenges. • Inadequate culture management and conflict with organisation culture.
Technology and Operations	• Operational processes misaligned or ineffective vis-à-vis business needs, scale or continuous improvement. • Inadequate technology or physical infrastructure. • Ineffective physical or technology security, or lack of focus on Health, Safety and Environment issues. • Challenges with business resilience and continuity management.
Regulatory Compliance and Internal Controls Management	• Inadequate processes for regulatory compliance and internal controls management

Scenario 3: Review of governance and business risk management in response to a disruptive incident or regulatory action

As disruptive incidents (e.g. service delivery failures, data security breaches etc.) and regulatory action continue to increase, Global Capability Centres, while modifying their governance and risk management processes, are increasingly seeking assistance of IA to review specific elements of business risk set out in the table under Scenario 2. Such assistance can also be offered by external subject-matter experts to bring in specialist skills in the areas of in Artificial Intelligence (AI) related technologies and understanding of multi-jurisdictional regulatory and tax environment that can be delivered in collaboration with existing IA teams:

- **Supplier selection review** and assistance in due diligence focused on specific criteria such as data security and privacy, business continuity and resilience etc. as may be particularly relevant to a specific provider.
- **Review of service level agreements** to ensure appropriateness to business requirements.
- **Finance, operational and compliance process** reviews and design.
- **Review of vendor performance** based on multiple criteria relevant to the organisation.
- **Assessment of compliance with regulatory guidelines**.
- **Review of ongoing project management** over outsourced service delivery.
- **Process review and improvement** (pre-outsourcing).
- **Contract documentation/review** (with legal inputs).
- **VAT and tax advice on contracting** and organisational structuring.
- **Offshore risk management reviews** (in coordination with our overseas offices).
- **Assistance in establishing centres of excellence** for internal control or risk management.
- **Addressing HR concerns** related to service delivery organisations.

The role of SSC in management and oversight of internal controls



Source : Deloitte Global Shared Services Survey 2015

Alternative routes to enhance IA capability

Internal audit teams need to keep pace with their organisational strategies that continue to be refreshed and redefined in today's volatile and uncertain environment. To do so, these teams need to address an ever-changing and more diverse set of risks while engaging with relevant stakeholders and meeting their expectations in non–traditional areas. Internal audit teams that can access specialised technical skills, in keeping with the dynamic and complex risks involved, can effectively help audit committees and management understand align their strategies with the related risk, enabling them better to adapt to the rapidly changing world.

The Chartered Institute of Internal Auditors (CIIA) recognises that:

- IA can add value by reviewing the effectiveness and efficiency of controls for the entire ecosystem of outsourcing contracts in an organisation as well as and at an individual contract level.
- An in-house IA team working on auditing outsourcing arrangements should ideally be multidisciplinary, including contract and outsourcing/shared services management experience, if necessary. If all the requisite knowledge and skills are not available in house, organisations should consider the option of co-sourcing and use skills transfer where possible.

Although outsourced IA is possibly a common approach to obtaining specialised skills, alternative routes to enhance IA capability through external assistance can also be availed of in the following ways:

Strategically sourcing specialist skills

Also known as Specialised Staff Augmentation, this involves in-house Internal Audit teams working with providers of internal audit services to depute skilled professionals for an agreed duration. Top examples of such skills include understanding of ever evolving and constantly changing advance technology related to AI related technologies like Machine Learning, Deep Learning, Natural Language Processing, Large Language Models, Chat GPT etc., information security, data privacy, process improvement, contract management, tax, multi-jurisdictional regulations. Through strategic sourcing, companies can refocus existing in-house internal audit resources to meet other corporate priorities while strategically sourced individuals can identify, monitor and manage the emerging risks of their business. In this way, trained professionals can be made available for short periods without any long-term commitment and clients can save on recruitment and training costs.

Specialist training and knowledge transfer

External providers can also help in-house internal audit teams fulfil their training needs by preparing and delivering specific and relevant training programmes. A team of experienced internal audit professionals specialised in various areas is typically involved in the development and delivery of these programmes. Additionally, these professionals can transfer further knowledge to in-house teams by jointly working together on review engagements following the training.

External quality assurance and benchmarking assistance

Quality Assurance is designed to help the internal audit function as well as the management meet defined expectations. Reviews are designed to help the internal audit function benchmark their procedures and work practices against similar functions across the industry as well as against professional standards.

Such reviews often start with evaluating the vision for internal audit, followed by the need to amend internal audit strategies, staff resources, technology and working practices to achieve this vision, adopt best practices and achieve continuous improvement.

Mapping and coordinating assurance

Internal audit, as the third line (ref. The Three Lines Model – An Important Tool for the Success of Every Organization by The IIA, 2020) in the organisation, is only one of the assurance providers in the assurance framework. Accordingly, in-house IA teams should discuss the extent of assurance with operational managers (representing the first line) and other organisational teams such as centralised procurement, customer service, human resources and risk and compliance management teams, (representing the second line), together with the work of ISO accreditation teams and other external providers of independent assurance in areas such as IT security, quality, health and safety etc. IA teams are thus well positioned to present a case for mapping and coordinating assurance, against significant outsourcing and SSC risks, leveraging existing organisational and external provider capabilities.

Epilogue

In conclusion, as GCC organizations navigate the complexities of outsourcing, offshoring, and shared services, the rise of AI enabled technologies are poised to significantly impact their operations. This shall lead to increased efficiency and reduced costs thereby improving overall service quality and reliability, making global delivery centres more competitive.

The role of Internal Audit (IA) is evolving to meet the heightened expectations of strategic governance and risk management. This paradigm shift requires AI enabled IA to transcend traditional compliance functions, integrating deeply with business objectives to drive value creation and innovation. AI is particularly well adapted for leveraging the full potential of analytics and can provide the insight required both in terms of improving the effectiveness of the audit process and making a case for transformative change. By strategically sourcing specialized skills and expertise through approaches like Specialised Staff Augmentation, engaging in continuous knowledge transfer, and fostering robust governance frameworks, IA can provide comprehensive oversight and assurance.

As organizations continue to expand their use of outsourcing and shared services, IA's strategic contributions will be indispensable in navigating these transformations successfully. Internal audit leaders can create teams that are not just prepared to take on current challenges, but also better equipped to meet tomorrow's demands. CAEs can help to ensure that their function remains at the forefront of governance, risk management and control practices within their organization.

AI enabled technology will keep elevating GCC processes and systems including that of Internal Audit. Automation will streamline work, improve resource allocation and free up Internal Audit Activities to focus on areas that justify real human attention. It is unlikely that AI enabled magic bullet shall replace human judgement in internal audit. Human led transformation assisted by AI enabled technology tools shall drive innovation in this journey of IA to the future.

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This article contain personal views of the author and does not represent the views of the organization where he is engaged and that of IIA India

WHAT MAKES A "TALL LEADER" STAND OUT AMONGST "LEADERS"

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Reflecting on the nuances of leadership in recent weeks, I found myself pondering whether the leadership skills required for an Internal Audit professional are distinct from those of a business leader. I've arrived at a perspective, but I invite you, the reader, to engage with my thoughts and determine your stance. The goal is to inspire your thoughts, provoke reflection, and encourage diverse viewpoints.

To begin with, I've created an acronym that best distinguishes an exceptional leader within a group of leaders. While the examples, views, and anecdotes I share below are not exhaustive, they highlight the key qualities that, in my opinion, set tall leaders apart from their peers. These qualities are:

C – Connect
R – Risk Acumen
A – Authenticity
F – Fun
T – Technical Depth
D – Diversity
R - Restlessness

Connect: To me, a leader is only as good as the way he or she is connected to the team. Connect is often an abused word in the HR community, and it becomes an irritant for the rest of the organisation, as it was implemented by way of doing virtual team bonding sessions during COVID times or in virtual work environments, when honestly it achieves very little, beyond a tick in the box for a "connect" activity having been organised.

However, an approachable leader can go and have lunch with the team in the cafeteria, go for a game of cricket or badminton with the team, or, for that matter, enjoy many a no-reason-fun evening over a few drinks with a large number of cross-sectional team members. This creates an environment that builds a sense of teaming and connections, which is invaluable. It makes the team feel connected to the organisation through the leader. It allows the "leader" to pick up the pulse on the floor directly and more accurately than any feedback session organised by HR or a 360-degree feedback process.

A perceptive leader can leverage her or his connections to communicate messages best delivered through influencers in the organisation with whom the leader manages to establish a "connect". A connected leader doesn't need to demand respect; it comes naturally.

A connected leader gets productivity by creating an environment where all feel energised to deliver more than expected. A connected leader by design requires humility, a rare virtue that makes those who have it stand out without making any effort. I can talk from my personal example of the infinite team lunches in cafeterias across offices, which would have allowed me never to rely on surveys, feedback sessions, or skip sessions to know what was hurting the business.

You can observe it in the group dynamics; it is evident in the energy levels around the table, the interconnectedness among team members, the freedom with which individuals at all levels express themselves, and the frequency and intensity of spontaneous complaints. Yet never over these lunch sessions was work ever discussed, no matter how stressed a time of the year it was in terms of workload. These were pockets of time that all stole from their busy schedules to bond as a team. You didn't need events to bond. You bonded because everyone had a common purpose of making the organisation successful and derived a sense of achievement from having contributed to building a brand.

Risk Acumen: Business is all about taking a balanced view of risk, and those who dare to take bets while being measured, and backed by data, end up being leaders who drive growth and success more often than those who don't. The biggest risk is not taking a risk, as you would never know the power of exploiting a risk.

The challenge I have observed across leaders globally has been one of a sense of **"I know it all"**. I am the leader. How can I not know what is right for my business? How am I the leader if I do not know what is bad for my business or what could harm it? That said, very few businesses don't get hit by "risks" they had not planned for. It is not because the leaders did not know their business well enough. It is mainly because they all prepare for what I call the BAU **(Business As Usual)** risks. BAU risks are about getting product pricing right, having alternate suppliers, a robust supply chain process, and many more such business essentials, which most businesses and their leaders excel at.

However, business failures happen when businesses and leaders do not manage to look around the corner and prepare themselves for non-BAU risks. None of us would like to believe that Blackberry, Kodak, Blockbuster, and Nokia did not have strong business leaders. Yet they all missed seeing where business disruption could come from. Even when they got hit by the reality of potential disruption, they tried to reason for themselves that they would not be disrupted. That is where the **"agility"** of a tall leader who has the ability to apply a **360-degree risk lens** to business decisions differentiates the tall leader from many others.

The 360-degree risk lens application requires a leader to think through multiple dimensions across customer, competition, regulator, supplier, growth, reputation, profitability and beyond. Risk acumen requires leaders to master a craft, which I refer to as a "blend of art and science", ie, the science of business backed by data and the art of almost being able to predict the "known unknown" without having to become a fortune-teller required to master crystal ball gazing.

Authenticity: As obvious as it may sound, this is possibly one of the singularly most common failures in leaders, in my humble opinion. When I have talked to my teams and many teams across several global organisations, while trying to analyse the essentials of leadership, this has always come across as a subtle undertone in all conversations. Teams do not trust their leader. Teams do not believe what they are told. The fundamental reason is that they lack "authenticity" in what they do. I have said this multiple times in large global forums as well and will repeat myself one more time: organisations that constantly have leaders talk about integrity may lack it in them the most. It is possibly because their incentive structures at the leadership level are so skewed by numbers and performance at the stock exchange that operationally, all modes of profitable growth are acceptable, often putting integrity in question. However, to ensure that the world sees the organisation as being squeaky clean, all leaders and HR constantly preach the virtues of integrity. This is no different from when a consulting firm I worked for created a tagline "quality in everything we do". The first reaction I got from a global customer of mine within hours of this being launched was, "were you all not looking at quality all this while?" The point is not about whether the tagline was right or wrong, good or bad, but just that it was perceived by the relevant external world, in this case, a large global customer, that the firm had to call out loud that they focus on quality, whereas, for the customers, quality had to be table stakes.

While the intent may have been to highlight the laser focus on quality, it did not land well with customers as they felt unsure of the lack of focus on quality thus far. Extending the same logic, a tall leader doesn't need to keep saying that he or she is fair, transparent, inclusive, cares to listen to divergent views, and is willing to accept failures as long as teams learn from their mistakes and do not repeat them.

A tall leader is one who, without having to say that multiple times, creates authenticity about herself or himself as a leader through actions. Her or his actions in every situation make the team believe what is said is meant. Teams stop opening up to leaders who are not authentic as they realise the futility of it all, whereas leaders who are "authentic" naturally create an aura around them that makes peers, team members, and even seniors want to share and consult with them. Peers reach out to consult in their decision-making, team members look up to them for guidance, and seniors view them as good internal sounding boards.

Fun: Now comes something that has always been super close to my heart. I have held a theory over the last three decades, right from when I set up Axis Risk Consulting, that no matter what business one may be in, all businesses are only as good as the team that builds and manages them. Team members in most successful organisations spend no less than 60-70 % of their happy waking hours with their work colleagues. If that is such a universal reality, how can any organisation hope to drive talent retention, one of the most critical success parameters for all, if each team member doesn't feel like spending more time with their work colleagues? Why would they want to do that if they don't have their best friends at work? Why would they want to do that if they do not have fun at their workplace? It is very easy to blame Gen Z, Gen X or whichever Gen for being materialistic, shortsighted, and having all the vices that don't augur well for a successful professional career, but the reality is that no matter what, all Gen folks finally like to have fun at work and friends at work. A successful tall leader consciously focuses on spending time to make a workplace a "fun" place. A fun place is not planning party evenings and events all the time; that is possibly what it is not. It is where teams want to spend time amid a heavy workday and take a break to grab tea or coffee over samosa for 30 minutes and make that a cherished 30-minute time window. It's a workplace where team members do jam sessions in a corner of the office and express themselves. It is a workplace where even though the team has a deadline, they all decide to sacrifice a few hours of sleep but do not curtail their plans to grab a few drinks at a nearby bar. I can never forget the DNA Andersen inculcated in us, whereby during demanding two-week training programmes that ran from 8 am to 5 pm, neither was one late at training nor was one inattentive, but it did not keep any of us away from having fun nights that usually extended to the wee hours of the morning. The firm drove a DNA in us such that even if projects needed all-nighters, one would still step away for a fun dinner and then get back to work through the night or till whenever one had to complete quality deliverable and never miss a deadline. Tall leaders build the "fun" culture so that it becomes an organisational DNA over time. When we did a virtual alumni event of Axis Risk Consulting, the singularly common theme that all alumni had to speak about how they remembered "Axis" was that none of them had experienced any workplace that was more "fun" than Axis. It was gratifying, but more importantly, it proved that there is nothing to replace "fun" at the workplace.

Technical Depth: There is often this view that leaders are great orators, great salesmen, have a sixth sense for customer management, and a host of other soft skills. Unfortunately, there are indeed many leaders who only have those soft skills but, at their very core, lack the depth of technical knowledge that differentiates a "tall leader." The strength of technical expertise creates a sense of positive awe in the team and the organisation, which stems from the fact that they know that the organisation is in safe hands and that in the most difficult of times, they have a leader to fall back on who has the technical wherewithal to deal with challenging situations.

The depth of technical knowledge builds confidence in the "tall leader" to voice a contrarian opinion amongst peers and seniors, as they are not scared of being found wanting if the conversation goes beyond skimming the surface to look for a solution to a serious organisational problem. In consulting, technical strength comes through in senior customer conversations, which instinctively creates a warm fuzzy feeling for the customers that they are in safe hands, that they have hit upon a trusted partner, someone who can be their sounding board for unplanned business situations that they might encounter someday, and not someone who is seen at a sales pitch and then potentially at the following audit committee.

To be a "tall leader", one needs to draw unconditional respect from the best of the best in the team. She or he needs to be one who has team members willing to stretch themselves when it comes not just to hours of work but also to be at their creative best, innovative best, and highest efficiency levels as well. All that only happens when the team feels they have a leader who technically commands that respect and awe. A leader who, while being technically strong, is also willing to roll up her or his sleeves and share some of the work if the situation so demands, stands out in a crowd of leaders. Technical strength is usually also associated with utmost humility. I have seen this throughout my professional career: these tall leaders are remarkably accomplished as leaders with impeccable technical knowledge and are almost always incredibly humble, inclusive, and good listeners. They are not scared to seek inputs from team members and are not worried about turf battles. They are happy to recognise the good work of others and are not desperate to hog the limelight or seek credit, as they know that their shine and spark of leadership and knowledge are well established and accepted. Right through my career across Andersen, E&Y, Axis, and Genpact ERC, I have seen one constant phenomenon across customers and in the internal organisation –more flaky the individual, the more insecure the individual is, which then translates to arrogance, a defensive approach, a lack of inclusiveness, pretence of being fair and authentic. Depth of technical knowledge takes away all of these negative attributes ; it is at the very core of every "tall leader."

Diversity: The world today talks so much about diversity, yet I am convinced that not more than 20% understand diversity, see its value, and therefore don't believe in it. Today, diversity is a matter of getting the required number of women leaders on the board and in leadership teams. It is about ensuring enough workshops are organised on this topic, and everyone in the team is sensitised about saying that they, their team and the organisation are all for diversity. A "tall leader" doesn't need to talk as much about the above as she or he makes it happen. "Tall leaders" value diversity and lead by example so that the rest don't need to be told about it as they see it being practised. I have been fortunate to observe leaders who consciously make things happen and have tried to learn from the concept of leading by example. In my last role as the consulting leader of a team of nearly 1,000 members spread across about 15 countries, we consistently maintained diversity levels over 50%. About one-third of my business portfolio was led by a mother with 2 small kids. Neither the percentage nor the leadership role happened by default. It required conscious working on. One had established a norm from way back in 2010/11, when India and, for that matter, the world had not yet embraced remote working, that we would not lose good talent due to location reasons. This is particularly important in driving retention of women talent, who, due to various life decisions, often end up exiting the system due to locational constraints. I remember having people operate from Jalandhar, Canada, Ahmedabad, and many more locations when we had no clients or offices in these cities. Customers needed to be made comfortable that these team members would be successful from remote locations, their data would be secure, and other team members had to be convinced that it was not going to impact work and that it was not being done as a favour but to ensure that we build a DNA of not losing diverse talent if we could avoid it. Trust me, it wasn't easy, but it all contributed to us maintaining diversity at the level we did.

I still remember rescheduling our weekly revenue pipeline call to 8:30 am instead of 10 am, as suddenly there were a large number of young mothers on the call, for whom that time between 8:30-10am in the morning was not getting well utilised as they all ended up waking up early to get their kids off to school and then the rest of the team was not yet at work. Doing this call from 8:30 to10:30 meant they could all peacefully take an extended break around lunch when their kids came home in the afternoon and spend an extra hour with the little ones before they crashed out. Super small and yet important flexibilities like this can go towards enabling "diversity" rather than us only talking about it. I would say "tall leaders" again lead by example on this count as well.

Restlessness: I used to wonder for the longest time whether a restless mind indicates a lack of focus or a scatterbrain, or whether it is OK to be one and yet one could be a leader who is successful and looked up to. Over time, my conclusion is that not only is it okay to be restless, but it is actually a must to be "restless" if you want to be a "tall leader" amongst a set of leaders. It needs to be **positive "restlessness,"** one that constantly challenges status quo, one that continually wants to think of what can be the next larger scale one can drive a business or an idea to, how can one drive collaboration and leverage technology to drive scale that none could have thought about, how can one develop business models that none have tried so far and thereby create a first mover advantage, which in some cases may remain a differentiator forever.

Again, talking from personal experience, there was a point in time when I had what I then felt was a super coveted role – member of the Global Centre of Excellence of E&Y in the US for the Business Risk Advisory group. We were a group of barely six members, hand-picked globally, doing some fascinating stuff. Yet the "restless" spirit in me told me that there was a better way to do what I was doing at the Global CoE of E&Y. There germinated the idea of Axis Risk Consulting, which, in its current avatar, at least till the time I left towards the end of 2022, was the only Indian firm servicing six of the Fortune 50 companies exclusively on risk advisory, with the entire practice being led by a single India-centric team with a need-based global footprint. We had created a business model that umpteen firms have tried to replicate, but in the last 20 years, no one has yet managed to get there. That is what I call a case of positive "restlessness" where you challenge your status quo as an individual professional and thereby end up creating or evolving your businesses to the next level. "Restlessness" emanates from curiosity and also the willingness to explore the art of possible. It is what I refer to as a state of mind. For some, being in the comfort zone is almost a necessity for them to do well, and yet for some, it could be a source of boredom to the point that they would rather find a new job than live with repetitive work. To me, "tall leaders" along with all of what I have stated above, also need to bring in an essential element of positive "restlessness," as it ensures that they continuously bring in new blood, support innovation, let status quo be challenged or be catalysts that evoke creativity. These are all aspects that make for a vibrant environment, and it transcends itself to life outside of work hours as well. It creates a persona that is seen as one seeking to be a lifetime learner, someone who never mentally ages, as every new idea brings that unbridled smile of joy about what beckons next. Traits of a "tall leader" who will never be missed amongst a crowd of leaders.

I would have loved to actually contrast some of the above with what I feel many internal audit leaders in my view today lack, and hence almost do somewhat of a gap analysis that the internal audit fraternity leaders could treat as a checklist to becoming a better version of themselves, but given that this is already a very long writeup, maybe I will keep that for a sequel to this one whenever I can get myself down to penning down my thoughts next time around. This one attempt rubbed in a self realisation of how poor a writer I am, while possibly not being that poor an orator by my own assessment.

THE NEW INTERNAL AUDIT STANDARDS-INSIGHTS AND INTROSPECTION

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Introduction

We acknowledge the huge effort undertaken by the global standard setter, the IIA Inc. in the United States, in overhauling its 2017 professional Standards. The IIA's issuance in January 2024 of the IIA's Standards, which will come into force in January 2025, was part of a broader revamping of the IIA's International Professional Practices Framework (IPPF), a process referred to as the “IPPF evolution project” (IIA, Citation2024a, p. 6) that began in 2021. At that time, the IPPF included, in addition to the then-in-force International Standards for the Professional Practice of Internal Auditing, a statement of the core principles of internal auditing; a definition of internal auditing; and a code of ethics. The IIA's Standards of 2024 are to be combined with Topical Requirements and Global Guidance to form an updated IPPF. The level of transparency and openness in the standard-setting process are perhaps unparalleled in the context of professional standard-setting, and the IIA is to be strongly commended for its rigorously transparent consultation process. We applaud the IIA and the many contributing stakeholders, most of them volunteers, for their admirable efforts in undertaking the project.

Prior to the issuance in 2023 of an exposure draft for public comment, the IIA's IPPF Oversight Council issued a Framework for Setting Internal Audit Standards in the Public Interest (IPPF Oversight Council, Citation 2022). This Framework established the parameters and tone for the subsequent work undertaken by the International Internal Audit Standards board (IAASB), the architect of the details of the revised Standards, under the guidance of the IIA and its IPPF Oversight Council. Initial consultations involved significant stakeholders, including large institutions (e.g. the European Commission and the U.S. Public Company Accounting Oversight Board) and the large consulting and advisory firms (in IIA terminology, its “principal partners”). The subsequent period of public consultation, which included a survey in 22 languages (IIA, Citation 2024 b, p. 9) and invitations for individualized comments, resulted in almost 19,000 comments that required analysis and assessment.

The IIA has emphasized the transparency of the consultation process, issuing on 9 January 2024 a 50-page document, Report on the Standard-setting and Public Comment Processes for the Global Internal Audit Standards (IIA, Citation 2024 b) alongside the revised Standards themselves. This transparency is a positive thing, and the document explains how the public commentary was addressed, covering matters ranging from the prescriptiveness of some of the IIA's Standards' language to performance measures for internal auditing. Nonetheless, the focus of the IIA's analysis (IIA, Citation 2024 b) perhaps drifts too far in the direction of the process for revising the IIA's Standards, to the detriment of the product of the revised Standards. It thereby elevates the means of the Standards-setting process over its ends.

In this paper we seek to foster further discussions in the internal audit profession. We provide two critical perspectives on the revised Standards, both advocating a greater extent of principles in future Standards. Since creating is much harder than judging, we share our suggestions for future directions of the Standards of the internal audit profession. We do not expect everybody to agree with the content of this paper. But we would be delighted for professional peers to read the article and ponder.

In the FIRST section of this article, Lenz identifies three main threads. 1) He starts with a leading question, the overarching theme, which is: What is the role of Internal Auditors in the Corporate Governance Ecosystem? In other words, what is it that Internal Audit (IA) can contribute to prevent governance failure? 2) Since he views the very core of IA as a Human-To-Human business, he suggests strengthening and focusing the human skills of internal auditors as the recommended future path when seeking to heighten the relevance, impact, and the effectiveness of IA. In doing so, he proposes a model of the major traits, the five most important competence blocks of the effective internal auditor, as he views it. In the age of artificial intelligence Lenz suggests, human beings need to focus on what human beings can do better than robots. Hence, he focuses on the essence of what it means to be human when performing internal auditing work. He introduces authenticity as anchor term to the discourse. 3) He argues that prescriptive guidance and checklists do not help when entering the pioneering zone (Lenz & Hoos, Citation2023). He suggests fundamentally revising the Standards of the IA profession next time round. He argues that de facto principles-based Standards would be the more promising path when seeking to nurture IA as a stronger force in the Corporate Governance Ecosystem.

In the SECOND section of this co-authored essay, O'Regan considers the interpretive challenges and perplexities inherent in all professional Standards. Taking an approach of philosophical hermeneutics, in the tradition of Hans-Georg Gadamer's Truth and Method (Gadamer, Citation 2004), he looks at definitions and understandings of professional Standards, and he investigates the extent to which written Standards might capture social reality in areas like applied knowledge (i.e., expertise) and the promotion of the public good. He suggests that prescriptive Standards, such as the IIA's Standards, tend to struggle both in capturing expertise and in promoting the public good. He also suggests that the knowledge base of IA is rather slippery, complicating the Standards-setting process, but that this slipperiness can be offset by methodological rigor in the use of traditional logic in IA.

The paper ends with the authors' shared conclusion that the IIA's revised Standards are a missed opportunity to truly transform rules-driven into principles-based Standards. Both authors offer remedies, of differing yet perhaps not irreconcilable natures, to the problem.

FIRST SECTION

Onto the FIRST section of this paper. Briefly, Lenz's three main threads in the first section are:

- What is the role of Internal Auditors in the Corporate Governance Ecosystem?
- Effective Internal Auditors "must-have" strong human skills, including authenticity
- To heighten effectiveness, the professional Standards must become principles-based

First things first. From a meta-perspective I suggest further consideration be given to the role and responsibility of IA in the corporate governance mosaic. As a leading question, I recommend more fully understanding the distinct features, the assets that IA can bring to the table. I am positive that there is plenty of unexploited potential for internal auditors typically on deck all the time - they breath the air of the organization they serve, they know how the company ticks, they know "who is running the firm and how is accountability ensured" (Korine, Citation 2020, p. 11),Footnote1 they know how decisions are made. Given the continuing governance failures the different corporate ecosystem actors must question their roles and mode of cooperation.

What is the Role of Internal Auditors in the Corporate Governance Ecosystem?

There is an extensive list of governance failures, mentioning prominent cases like Enron, WorldCom and Lehman Brothers in the USA, Parmalat in Italy or FlowTex and Wirecard in Germany. There are many others. There will be further corporate disasters because of governance failure unless we fundamentally change our governance mosaic.

Accountancy Europe (Citation 2023) views collective learning as the most effective means to reinforce the corporate sector's resilience by mitigating the risk of corporate incidents. The discussion paper proposes, as an example solution, to set up a "Corporate Resilience Network." I support that endeavor. I focus thereby on the part of IA, also in this paper.

Over 10 years ago, Lenz (Citation2013) stated that "IA has not generally been seen to have a significant role in the financial crisis, neither as part of the problem nor as part of the solution", and "IA is still searching for an identity and a unique selling proposition (USP) in order to play a more important role in the governance debate." In 2024, over 10 years later, that observation, that judgment is still valid - unfortunately. For example, Drašček (Citation 2024), not yet seeing a convincing purpose of IA asks fundamental questions, including "What is Internal Audit uniquely good at?" and "How does Internal Audit create value?". The search for identity continues. Time is ripe to change for the better.

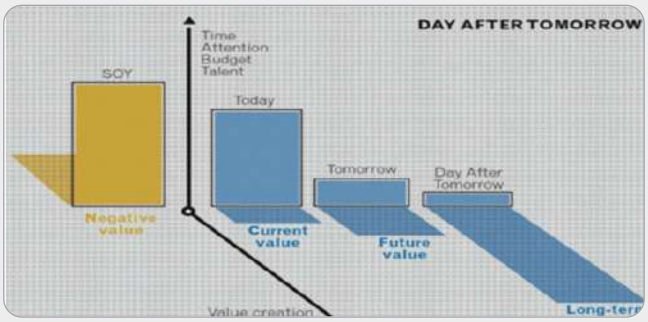
I am positive that IA can do better, IA can do more to prevent governance failure. Corporate governance failures typically do not happen from one day to another. Corporate governance failure "develop over time, often over a number of years" (Korine, Citation2020, p. 99). I view internal auditors as potentially highly performant to help preventing governance failure. Internal auditors can be the ones duly listening, with audire (Latin) the name and origin of the profession, asking the right questions in good time, thereby ideally sensing the emerging exposure early while problems are small. Admittedly, there is no absolute guarantee. Never. It is like a garden, "corporate governance is never 'done'" (Korine, Citation2020, p. 99). "Governance Needs Gardening" (Lenz & Chesshire, Citation2023).

Drašček (2024) as synonym for the void waiting to be filled is in search of the purpose of IA. I have a suggestion. I see value in the mantra, the suggested leitmotif for internal auditors, here refined as "The Gardener of Governance: Our nature is Nurture" (Lenz & Jeppesen, Citation2022).Footnote2 I suggest viewing internal auditors as gardeners, nurturing/strengthening the governance ecosystem, helping to better deal with a complex coordination challenge, be a connector, interpreter, translator, be a hinge, and nurture the foundation of organizations, its mind-set, the ABC of organizational change: Attitude, Behavior, and Culture. I believe that viewing internal auditors as gardeners in the governance ecosystem could be a promising path, deserving further consideration in practice and academic research.

Korine (Citation 2020, p. 99) rightfully demands "stakeholders need to have a dynamic view of corporate governance." I see the future of the IA profession in the "pioneering zone" (Lenz & Hoos, Citation 2023), dealing with complex and chaotic subject matters. The VUCA and BANI world we live in is fast-paced and fast-changing. That perspective is shared by PwC's (Citation2023) global study of IA, also referencing pioneering as the future arena for internal auditors to add value and have influence. I would challenge PwC, though: I do not believe there is such a thing as an "objective viewpoint" (PwC, Citation 2023, p. 10). Either it is a viewpoint, hence subjective in nature, or it is objective, "verifiable reality" (O'Regan, Citation forthcoming). It cannot be both. PwC (Citation 2023) has a valid point: In the world we live in, it is the pioneering zone that matters. We are all in that pioneering zone now, on unknown, unchartered territory. Hence, in the age of artificial intelligence, Burkhardt (Citation2018, p. 165) rightfully suggests humans to "Shift from Exploiting the Familiar to Exploring the Unknown".

Organizations are often overwhelmed with what Hinssen (Citation 2017, p. 58) calls "SOY" i.e., legacy issues that create negative energy. In such situations, the allocation of resources is misplaced. There is too much emphasis on dealing with the past. Present challenges and future ambitions do not get the attention they deserve. The focus should shift toward the tasks of "Today" and, more importantly, toward the value creation in the future, the "Tomorrow", the future value, and the "Day After Tomorrow", the long-term value (Diagram 1).

Diagram 1



Hinssen (Citation2017, p. 163) cites Chairman Lee from Samsung stating that "Business is perpetual crisis. Pioneers meet every crisis head-on, and they triumph over it. Again and again". Hinssen (Citation2017, p. 213) references "Political Myopia", "Corporate Myopia", and "learned helplessness", especially in large organizations to stress the difficulties when changing (the mind-set of) people and organizations.

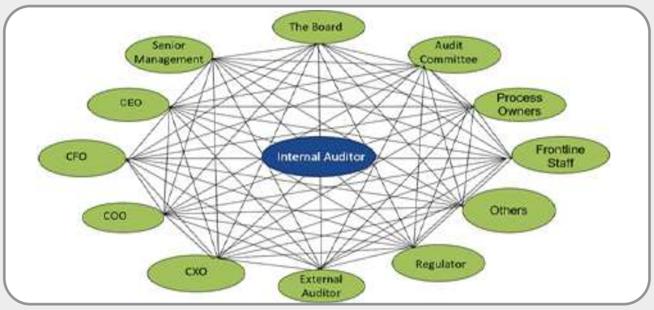
IA can help sorting the "SOY". IA can help overcoming "Myopia". IA can help dealing better with "learned helplessness". IA can be instrumental when providing transparency about WHAT IS (Assurance) and giving guidance about what to do, thereby addressing SO WHAT (Advisory) type of questions. More importantly, internal auditors can and should (more often) step up and render value when dealing with future value (Tomorrow) and long-term value creation (Day After Tomorrow). That is unknown territory for all stakeholders. That is the pioneering zone.

There is a lot of truth in Hinssen's illustration and thinking (Citation 2017). Legacy systems, processes, and people can be a burden, costing time and energy, without creating value. The CEO at Bayer AG,Footnote6 Bill Anderson, not only wants to modernize Bayer AG, he wants to revolutionize it, he wants to streamline the corporate bureaucracy and reintroduce independent thinking among middle managers (Financial Times, Citation2023). This is a prominent example of the corporate world unmasking the "illusion of control, deeply hardwired in our thinking" (Burkhardt, Citation2018, p. 72). Independent, original thinking is vital especially when companies enter the pioneering zone, dealing with complex and chaotic circumstances. We are all in the pioneering zone when launching new products, introducing new software, hiring new people, acquiring, and integrating companies and so forth. Pioneering is the new normal, to say so, in the dynamic and fast-paced world of VUCA and BANI we live in.

This is also relevant for the future of internal auditing. We do need more independent and original thinking when aspiring to add value in the pioneering zone. Since the days of COVID-19, we are de facto all in the pioneering zone. "Footnote 7" Since COVID-19, all internal auditors need to start doing (more) remote-auditing, for example. In the crisis of COVID-19, building on the auditors' social capital became mission critical. Relationship equity has become key and a prerequisite for internal audit to be part of the solution (and not the problem). High flexibility is indispensable. In the days of COVID-19, it was a smart move for internal auditors to ask senior management and the board, "How best can internal audit help the organization during the crisis"? That conversation may lead to fresh perspectives and a new focus on the activities. Internal auditors might assume roles beyond their traditional core remit, depending on the specific organizational context. Lenz and Hoos (Citation 2023) reference in their ABC article ESG as an example, suggesting internal audit to widen its repertoire, add "Building" (B) to the traditional roles of rendering Assurance (A) and Consulting (C) type of services. In the webinar with 2,000 registered participants on 30 January 2024 "Footnote 8" about "Rethinking Internal Audit: Governance Needs Gardening" I also reference designing an Internal Control System and leading a Global Working Capital Initiative as real-life examples from my practice as Chief Internal Auditor.

I regard shared goals, shared knowledge, mutual respect, and effective communication (frequent, timely, accurate, and problem-solving minded) as key ingredients of a successful value-adding internal audit function. These are the elements of Jody Hoffer Gittell's Relational Coordination Theory "Footnote 9" (also referenced and applied to the context of IA by Lenz, Citation 2013). In 2024, over ten years on, time is ripe for further research exploring the power of that theory in the corporate governance ecosystem. "Footnote10" I picture the internal auditing process as a complex coordination challenge (Diagram 2).

Diagram 2. IA as coordinator in the corporate governance ecosystem.



As "there is nothing so practical as a good theory" view Jody Hoffer Gittell's Relational Coordination Theory (RCT) as particularly relevant and helpful when aspiring to nurture and strengthen the corporate governance ecosystem. I encourage further (qualitative) research, thereby also challenging the metaphor, "The Gardener of Governance: Our nature is Nurture" (Lenz & Jeppesen, Citation2022).

Effective Internal Auditors Must Have Strong Human Skills, Including Authenticity

Drašček (Citation2024) rightfully asks "How does Internal Audit create value?" and "What is Internal Audit uniquely good at?" To address these valid questions I draw our attention, given the VUCA and BANI world we live in, and being in the age of artificial intelligence, to "rethink what it means to be human, rethink the skills that make us strong" and "shift from following logic to living with chaos", referencing Burkhardt (Citation2018, p. 16, 175).

Many professional peers appreciate the Gardener metaphor. The amazing traction of the metaphor by practitioners is encouraging. "Footnote13" The Gardener metaphor suggest the effective internal auditor to be respectful toward planet and people, to nurture/strengthen things, and to humbly work indirectly, not being the Chief Executive Officer (CEO). No metaphor works for everyone and every context. Taking the origin of the Latin word audire, there is consensus that internal auditors must be good at listening. Internal Auditors are not super-men, not super-women. There is consensus about that, too, I like to believe. There are often, though, long lists of attributes which go in the direction of internal auditors as "super-heroes", unfortunately. I wonder what the ordinary internal auditor can realistically do and what to focus on. The leading question I want to get a good grip on is: "What makes IA distinct from other actors in the governance arena?"

Many professional peers might first advocate "objectivity" and "independence." I am taking a different stance. I suggest a different perspective. I advocate a more realistic positioning, as I view it, which could help to further increase credibility in the eyes of key stakeholders. When reflecting on these legacy attributes of what traditionally characterizes internal audit, I suggest de-emphasizing both attributes, "independence" and "objectivity". In my eyes, both traditional values are aspirational, and when aspiring to prevent governance failure (Korine, Citation 2020) I regard the traditional traits of "objectivity" and "independence" of little value. Hence, I challenge both here.

Let me start with "objectivity." Objectivity per se is worth striving at, I agree. When things are simple, there is objectivity, "verifiable reality" (O'Regan, Citation forthcoming), for example: "1 plus 1, equals 2". Also, when things get complicated, for example engineering a Ferrari, there is objectivity, there is an exact plan and model how to build that vehicle. There is, however, no objectivity in the pioneering zone (Lenz & Hoos, Citation 2023). There is no single truth when things get complex or chaotic. Here, there is no one right answer, there are pieces to the puzzle, the complete picture is typically fuzzy, there are alternative paths to consider, there are trade-offs. What I call "WHAT IF type of questions" can then be helpful here. Internal auditors like viewing themselves as truth finder, but: "Truth only comes in two","Footnote 14" it takes more than one perspective to get a good grip on what is truly happening in the pioneering zone, and what the root causes of issues are. "Reality is a constant battle", as Burkhardt (Citation 2018, p. 47) puts it nicely, "by sharing what we know, we put our part of this reality on the table and others validate what we know or they reject it." In my view, after 30+ years of international experience in global organizations as senior financial leader in CFO type of roles and Chief Internal Auditor since 2007, I recommend this humble approach to my professional peers in the world of internal auditing. In doing so, I suggest de-emphasizing "objectivity" as a core asset of internal auditors for there is no single truth in the pioneering zone. There cannot be complete objectivity, anyway, for everybody views the world with his/her pair of eyes. Education, experience, values, inner beliefs, and motivation have an impact.

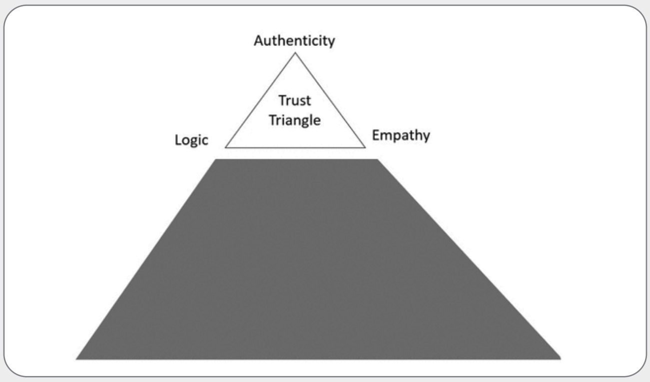
Let me turn to "independence." Also, independence per se is worth striving at, I agree. However, "there can be no such thing as complete independence" either, I fully concur with Chambers (Citation 1992). So, I wonder, why bringing something to the fore that is not achievable? I acknowledge the value of the theoretical argument of the "principal-agent-theory," owners/shareholders and management are different bodies with (potentially) diverging interests. Internal audit can play a role safeguarding the interests of the owner, and of the public. I agree with that. However, I wonder and challenge the reader with my following question: who really believes that internal auditors are more independent than, say the compliance officer, the general counsel, or external auditors? You have rightfully guessed my stance: I have no evidence supporting the perspective that internal auditors are more independent than those other actors in the governance mosaic.

I suggest pursuing a different path. I argue that there are more distinct traits of the internal auditor, true unique selling propositions, internal auditors can be superior given their role and position. Inspired by Frei and Morriss (Citation2020, p. 115), I understand, "Leadership really isn't about you. It's about empowering other people as a result of your presence, and about making sure that the impact of your leadership continues into your absence." I view internal auditors as "Gardeners", their nature is nurturing, strengthening, also mentoring. Helped by the Gardener metaphor, I point to the particular importance of human skills, some say soft skills, however I prefer calling these human skills, for they are far from being soft. Hence, I recommend positioning IA fundamentally in the Human-To-Human business. Internal auditors are not robots. Neither are their peers or clients. With the rapidly growing relevance and influence of artificial intelligence (AI), "now is the time to rethink what it means to be human" suggests Burkhardt (Citation 2018, p. 16). He continues alerting, "In a digital, globalized world, however, the need for humans who behave like robots is decreasing rapidly" (Burkhardt, Citation 2018, p. 122).

To succeed in the age of artificial intelligence, human beings need to focus on what human beings can do better than robots. Thereby, humans need to exploit the technology available, the technology should not exploit human beings. I suggest a model with five competence blocks which I regard as distinct characteristics of the modern, the effective internal auditor, becoming a value driver (Eulerich & Lenz, Citation2020) in the pioneering zone.

Human workplaces of the future demand these top five competences, says the World Economic Forum (Citation2023) 1 Analytical thinking, 2 Creative thinking, 3 AI and big data, 4 Leadership, and 5 Curiosity and lifelong learning. I build on that when suggesting my model of the top five competence blocks the effective internal auditor will need to excel in the future. To become a genuinely empowering internal audit leader, I introduce the "Trust Triangle" (Frei & Morriss, Citation2020) as pinnacle of my pyramid of competences (Diagram 3).

Diagram 3. Pyramid of competences with Trust Triangle as pinnacle.



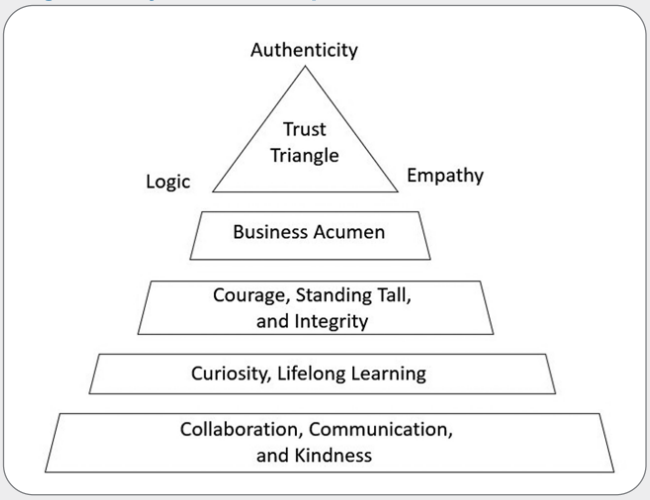
I view trust as the key to success and impact. "Being trusted" is the foundation (Lenz & Chesshire, Citation2023). "People tend to trust you when they think they're interacting with the real you, when they have faith in your judgement and competence, and when they believe you care about them," summarize Frei and Morriss (Citation2020, p. 114). Chambers (Citation2017) has coined the term "Trusted Advisor". Jacka (Citation2019) defines the leading paradigm of internal auditors as "A trusted advisor is one of the first people you turn to when you have a decision to make, need feedback, or just need an honest appraisal of a situation. It is someone with whom you can freely share information; someone who can help you analyze the current situation; someone who will be honest; and someone who will provide valuable, critical, and constructive advice in times of need.“Footnote 16”

The Trust Triangle (Frei & Morriss, Citation2020) has the components of logic, empathy, and authenticity. Logic represents analytical and critical thinking, reasoning and judgment are sound. Empathy is the key to people's heart, a promising path more fully understanding the underlying root causes. Without empathy the dialogue between the client and the internal auditor typically remains transactional, questions and answers, a question triggering a response type of conversation. Without a sincere human-to-human connection all brilliance of the internal auditor might easily be futile. With empathy, the dialogue can become transformational, enabling lasting impact and change. When the internal auditor genuinely cares about the client and his success, when there is a heart-to-heart connection, to say so, this may open the gate to unknown territory, to discuss the real issues, the root causes, thereby regularly going far beyond the imagination of the internal auditor when starting the engagement. With the Trust Triangle (Frei & Morriss, Citation2020) I introduce Authenticity as new anchor term to the discourse of the effective internal auditor, right on top of my competence pyramid, as the pinnacle of the value driving internal auditor (Eulerich & Lenz, Citation2020), as I view it. The term stresses the need that clients experience “the real you.” That REAL YOU is not about objectivity, it is about YOU, it is about who you are as a person, it is about subjectivity, how you make sense of the world around you. In the age of artificial intelligence, to say it with Burkhardt (Citation 2018, p. 144) humans should “Shift from Being Normal to Being Unique”. Thereby, and that has not changed: “The real challenge is to identify a really good question” (Burkhardt, Citation 2018, p. 73).

Frei and Morriss (Citation2020, p. 118) propose “A quick test: How different is your professional persona from the one that shows up around family and friends? If there's a sharp difference, what are you getting in return for masking or minimizing certain parts of yourself? What's the payoff?” I invite internal auditors to reflect on their personality on and off the job. Are there big differences? Is that in sync? I view authenticity as the core pillar when building trust. I alert to challenges what authenticity is concerned when the human being and his/her role as internal auditors are not in sync. Authenticity is about the REAL YOU when performing internal audit work, too. That perspective is diametrically different from aspiring “objectivity” or an “objective viewpoint” (PwC, Citation2023, p. 10).

While the three building blocks of the Trust Triangle (Frei & Morriss, Citation2020) are crucial, there is more the effective internal auditor needs to excel at in my understanding. I suggest a model with five building blocks. My short-list of all must-haves. None of the skills should be left out (Diagram 4).

Diagram 4. Pyramid of competences.



I view Collaboration, Communication, and Kindness as prerequisites. “Treat People With Kindness” is a song-title from Harry Styles. I regard kindness as fundamental. We internal auditors do not know what our clients go through in life. Hence, whatever message there is to convey, however delicate the topic might be, we are humans interacting with humans. Kindness is mandatory, non-negotiable. We live in an interconnected world. We can only make sense of the world around us when successfully interacting with people. There is no single truth when things get complex and chaotic, that is, in the pioneering zone. Collaboration and communication are indispensable skills of the effective internal auditor.

The effective internal auditor is no “know-it-all”, no “Jack of All Trades Master of None”, s/he is rather a “learn-it-all”. Curiosity, Lifelong Leaning are part of the modus operandi, the way of working. Effective internal auditors enjoy entering unknown territory, being pioneers. The effective internal auditor is keen on learning. I position IA as enablers of learning and change referencing Scharmer (Citation2009), helping to overcome the four barriers to learning and change: NOT to see what we do, NOT to recognize what we see, NOT to say what we think, and NOT to do what we say.

Curiosity and lifelong learning include mastering technology. That is of utmost importance for internal auditors because Eulerich et al. (Citation2023) state that “accountants, auditors, and tax preparers as having a 100 percent exposure to significant automation.” Eulerich et al. (Citation2023) demonstrate that ChatGPT passes professional exams with flying colors, including the exam of the CIA, the Certified Internal Auditor. Moreover, Emett et al. (Citation2023) report “that Uniper, an international energy company, is using ChatGPT in the internal audit function, testing its use in audit preparation, fieldwork, and audit reporting. Initial reports suggest efficiency gains ranging from 50 to 80 percent.” This raises fundamental questions about how the robot (machine) and internal auditors will work together in the future. My plea is that effective internal auditors must have strong human skills, must be people-orientated. Moreover, I concur with Alexander Ruehle's (CEO at https://www.zapliance.de) viewpoint that “people-orientation is and will stay the most important skill. … People-orientation without data and technology base will not suffice anymore.”Footnote 19” Hence, IA must benefit from Computer-Assisted-Auditing-Techniques, including analyzing big data and unearthing patterns in the digital traces in Enterprise Resource Planning (ERP) systems, increasingly helped by artificial intelligence, too. In 2017, I might have been early with the claim (Lenz, Citation 2017), a few years on, in

2024 it is a fact: Time is Ripe to Revolutionize Internal Auditing.

In the world of VUCA, the days of Jack-of-All-Trades (Know-it-all) in internal audit are counted. My mini-typology of internal auditors (Lenz & Hoos, Citation2023) distinguishes three different types: Type 1: Standing on the sidelines; Type 2: Swimming in a calm pool; and Type 3: Surfing the wild ocean. To gain relevance, the internal audit profession needs more type 3 auditors, more pioneers, and innovators. In the world of VUCA, checklists no longer help.

Courage, Standing Tall (when it matters), and Integrity are must-have attributes. As a younger auditor I erroneously viewed internal auditors as having no fear, having no favor. With more experience under my belt, I maintain the latter, I correct the former. I have fears. Human beings have fears. Mark Twain puts it beautifully: “Courage is resistance to fear, mastery of fear – not absence of fear.”Footnote20 There are “moments of truth” (Lenz, Citation 2013) in an auditor's life. In such moments, internal auditors need to be courageous, stand tall, and say what needs to be said. That requires integrity, doing and saying the right thing when it matters most. In doing so, internal auditors can nurture psychological safety (Edmondson, Citation2019), foster a speak-up culture. Internal audit operates in the political space. There are toxic workplaces. Demonstrating courage, standing tall when it matters, can have career limiting consequences in toxic organizations. As Edmondson (Citation 2019, p. 190) puts it: “The hard part isn't knowing what the right thing to do is. The hard part is doing it.“

In the corporate world many internal auditors operate in, Business Acumen is indispensable. The effective internal auditor understands the business s/he is working in. To be effective, internal auditors must be able to put his/her perspective into the given context to distinguish the relevant from the irrelevant. IA serves internal purposes. IA is contextually bound (Lenz, Citation 2013).

On 30 January 2024, I kicked-off two identical polls on LinkedIn, being interested in learning the perspectives of my professional community. Both polls were open to answer for two weeks. As the effective internal audit leader needs many and increasingly more competences and characteristics, I was asking: “If you had to pick THE one most important competence/characteristic, what would you choose? The options provided are in alphabetical order. Please comment on your rationale, if you wish, and/or suggest (more important) missing options.” As options to choose from I offered the three components of the Trust Triangle, complemented by Business Acumen (Table 1).

Table 1 Polls on LinkedIn about most important competences of internal auditors.

LinkedIn-Polls	OPEN		TheIIA		Total	
N=	**136**	**%**	**476**	**%**	**612**	**%**
Authenticity	29	21%	143	30%	171	28%
Business Acumen	53	39%	157	33%	210	34%
Empathy	34	25%	67	14%	101	16%
Logic	20	15%	109	23%	130	21%

Notably, Business Acumen was ranked on pole-position when running polls on LinkedIn, in both cases, the open poll (136 votes) where anyone in my network with 11,000+ followers could respond, and the poll in the official subgroup on LinkedIn of The IIA (476 votes). Interestingly, Authenticity, a fresh term in the discourse about competences of internal auditors has enjoyed much traction and was the runner-up in the poll with professional peers in internal auditing.

The list is not exhaustive. There is more. The list of desirable traits is endless. Those five building blocks are what I regard as must-haves of the effective internal auditor. There are as many other views out there as there are professionals. “Footnote21” Whatever the perspective may be, I recommend limiting the set of skills and attributes to a handful or so, only. Otherwise, the set of criteria becomes too much like a super-man, super-woman profile, which gets unrealistic. With this I would like to trigger a debate in the professional community about the Top 5 competences of the effective internal auditor. I recommend the professional standard setter, The IIA in the US, to reflect on the most important human skills of the effective internal auditor and consider that (more) adequately in the curriculum of the CIA program, and the normative guidance, the Standards, too.

To Heighten Effectiveness, The Professional Standards Must Become Principles Based

The IIA Standards are a “normative force” (Lenz & Hahn, Citation2015): “The stronger the normative force of the IIA, the more effective the IAF [Internal Audit Function] may demonstrate itself to be by conforming to the IIA's good practice principles.” Conformance with the IIA Standards per se says de facto little (nothing) about the performance of internal auditing, its effectiveness and value provided.

The Global Internal Audit Standards (IIA, 2024) encompass 120 pages. In today's fast-paced world characterized by VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) and BANI (Brittle, Anxious, Nonlinear, and Incomprehensible), such detailed and compliance-oriented Standards can seem overwhelming. Feedback from my network indicates that these extensive new Standards have caused stress for many Internal Audit Functions. However, it's important to note that the actual changes from the previous version of the Standards (IIA, 2017) are not as extensive as the length of the document might suggest. While the new Standards may appear more complex and wordy, the core updates are relatively few.

When reflecting on “What is really, new about the new Standards? What is the updated content that matters most in the recently published Global Internal Audit Standards?” I note three significant changes, in addition to the new structure and the new name (IIA, Citation2024a):

The PURPOSE of internal audit has been revised. It now says: “Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.” While the expanded wording aims to provide clarity, further research and discussion, as suggested by Drašček (Citation 2024), might help in understanding and refining this purpose.

Domain IV (Managing the Internal Audit Function), Standard 9.2 Internal Audit Strategy, it says: “The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.” This is a new mandatory requirement. Chief Internal Auditors will have to formalize their internal audit strategy, that is, “a plan of action designed to achieve a long-term or overall objective”, as the standard puts it, and evidence alignment with key stakeholders. The impact of this requirement in fast-paced environments like VUCA and BANI will become clearer over time.

TOPICAL REQUIREMENTS (yet to come at the time of drafting our article) are an integral part of the mandatory Global Internal Audit Standards (Citation 2024 a).

These are my top three. Moreover, there are some added terms, including courage and professional scepticism, for example, terms I value. I included courage into my competence model.

The inclusion of topical requirements as mandatory components of the Standards presents certain challenges. Given the fast-paced and ever-changing nature of our world, characterized by VUCA (Volatility, Uncertainty, Complexity, and Ambiguity), BANI (Brittle, Anxious, Nonlinear, and Incomprehensible), and permacrises, maintaining the relevance of these requirements can be difficult. Additionally, by introducing these requirements, the IIA faces competition from other standard setters, such as those in cybersecurity. According to Abbott (1988), establishing a profession often involves competition and turf battles. While the intent behind making topical requirements mandatory is to enhance the overall quality of internal audit services—particularly to support lower-performing internal audit functions—it is important to consider potential drawbacks. There is a concern that these requirements may not always stay current, which could dilute the value proposition and impact the professional standing of the IIA. The risk of over-promising and under-delivering is something to be mindful of. Moreover, some professionals, myself included, might view these forthcoming topical requirements as somewhat restrictive, potentially hindering the ability to provide agile and value-adding internal audit services. That said, I remain hopeful that these concerns will not materialize, and time will reveal the true impact of these changes.

Considering the new Standards, the extensive documentation requires significant reading and analysis, creating a need for gap analyses, transitioning efforts, and training programs. These activities can be beneficial for the professional standard setter and associated consultancy firms. Various business proposals are emerging to assist internal auditors in transitioning from the 2017 IPPF to the 2024 Standards. While these resources can be helpful, there is a concern that smaller Internal Audit Functions might find the process time-consuming and demanding. It's important to balance the need for comprehensive standards with the practicalities of implementation, especially for smaller teams. At this point, I wish to state that I have no commercial interests. I do not offer paid consultancy services or else. I am purely content driven.

In fact, whether we like it or not, there is nothing as constant as change. Going forward, I encourage the professional standard setter to consider alternative approaches. I suggest benefitting more from the power of competition. More precisely, when the next revision comes on the agenda, I recommend inviting various groups of people in parallel for searching alternative paths to strengthen the normative power of the Standards. Artificial intelligence might then be well equipped to make a proposal, too. I expect such competition to trigger innovation. I encourage the professional standard setter to invite competing groups of people working on creative and alternative ways of updating the Standards. That competition might help finding innovative solutions, best tailored to the needs of the professional community.

As always, there are different views in the community. And, that is a good thing, that is healthy. High consensus can be misleading. At this point in time, it is reasonable to get on with the standard. It is now what it is.

To conclude, and with the ambitions in the pioneering zone on my mind as the arena where I suggest the relevant, impactful, and effective internal audit function to operate in, and to increasingly make contributions in such complex and chaotic contexts, also in the eyes of key stakeholders, I see value in principles-based professional Standards.

Let's see how the new IIA standards work out in practice

On to part 2.

SECOND SECTION

In the second section of this co-authored essay O'Regan will consider the conceptual foundations and interpretative purposes of professional Standards in general, before evaluating the extent to which the IIA's Standards might relate to notions of knowledge and expertise in IA, and to the principles of professional altruism and the public good.

PROFESSIONAL STANDARDS, EXPERTISE, AND THE PUBLIC GOOD

Before embarking on any type of analysis, it is worthwhile defining one's terms. For my purposes in this paper, I shall define a profession as “an occupation characterized by a high level of expertise and a commitment to serving the public interest”, and a professional standard as either “a rule or guideline” that nurtures professional practices (O'Regan, Citation forth coming). Despite the ostensible simplicity of these definitions, they carry profound implications, and both definitions contain two elements – respectively expertise/altruism and rules/principles - that might be challenging to balance in day-to-day implementation.

For any profession, technical expertise and an altruistic commitment to the public interest are necessary but probably insufficient characteristics. Sociologists (e.g., Abbott, Citation1988, pp. 35–113; Kultgen, Citation1988, p. 60; and Macdonald, Citation1995, passim) have identified as many as 20 traits of a profession, including stringent certification requirements and the use of legislation and other legal instruments to monopolize markets. My focus in this paper will be narrower than the typical scope of the sociological literature, as I shall restrict my discussion to the co-existence of technical expertise and altruism in professional activity. (I shall set aside the question of whether the IIA's brand of internal auditing qualifies as a profession in the absence of monopolistic control of the internal auditing market.)

The significance to a profession of the co-existence of the traits of technical expertise and altruism is difficult to exaggerate. Altruism is inadequate without technical expertise: one would surely decline an offer of pro bono dental services from an individual who admits to having no formal dental training. Similarly, technical expertise is inadequate without altruism: one might grudgingly acknowledge the detail-focused proficiency of a bank note counterfeiter, but withhold approval because this type of expertise is undermined by the absence of an ethos of public service. I therefore conclude that neither the generous, uneducated fool nor the “professional criminal” is truly a professional in the sense understood in this paper. A professional's expertise must be intertwined with a commitment to the public good. A profession with serious deficiencies in either expertise or altruism would fall short of the mark of an authentic profession in the public's eyes.

IA, naturally, is no exception to the necessity of these two traits. When Flint suggested that the authority of auditors' opinions rests on the public's “confidence in the technical competence, reliability and integrity of the auditors” (Flint, Citation1988, pp. 45–46), he highlighted our dual themes of reliable technical competence and altruistic integrity. I shall explore further these two necessary traits of a profession and how they might relate to the IIA's Standards.

Knowledge and Expertise in The IIA's Standards

Professional expertise invokes the notions that (1) the expertise derives from a largely abstract body of knowledge, (2) the possessor of the abstract knowledge is capable of applying that knowledge in practice, and (3) professional knowledge is cumulative: it is not merely a matter of mastering a fixed body of knowledge at a single point in time, but rather of mastering a foundation of knowledge upon which further experience and learning accumulate. It is in the second and third of these attributes, where knowledge overlaps with expertise, that professional Standards play a significant part. Standards do not usually deal with abstract bodies of knowledge, but rather with the pragmatic application of bodies of accumulated expertise to everyday situations.

In evaluating the professional Standards for IA one encounters, at the outset, a not negligible problem: in contrast to other specialties of auditing, the knowledge base of IA is elusive. For example, the knowledge base of external auditing is grounded in accounting, with an emphasis on double-entry bookkeeping; the accounting equation of assets = liabilities + capital; and the abstraction of accounting information into financial statements. Election auditing is grounded in the mechanics of the political franchise. Royalty auditing is based on the dissemination (e.g., through sales) of the underlying units of intellectual property. And underpinning environmental auditing are the “firm” sciences relevant to the sustainability of the natural world, including biology, oceanography, and zoology. Internal auditing has no such solid knowledge base – there is, therefore, no simple “scientific” solution to the problem of developing adequate Standards for IA. To a greater extent than other categories of auditing, IA is an overtly social construct. The elusiveness of IA's knowledge basis implies that the IIA's standard-setting process is likely to spend significant time balancing opinions rather than gathering facts, and that the standard-setting process will therefore necessarily involve extensive dialogs on compromises and trade-offs. The IIA's remarkable transparency in its revision of its Standards suggests that transparency has been a means of meeting the challenges of IA's socially-constructed and often contested foundations.

The reader might at this point counter that the IIA's “common body of knowledge” (CBOK) is a credible body of abstract knowledge. The latest version of the IIA's CBOK commenced in 2015 with practitioner and stakeholder surveys, and it remains, at the time of this writing, an ongoing project that has generated a suite of reports, mainly summarizing the opinions of practitioners and stakeholders. The CBOK does not therefore derive from abstract reasoning but instead from a consensus or preponderance of opinions relating to generalizations of existing practices. It is difficult not to conclude that the knowledge base of IA is a rather insecure and fragmented agglomeration of elements taken from management theory, accounting, information technology, legal topics, bureaucratic proceduralism, fraud awareness, corporate governance mechanisms, and risk assessment, bound together by logical assessments of the evidential material encountered in auditing. Owing to the eclecticism of such a broad knowledge base, it is little wonder that Michael Power described IA as a “ragbag of tasks and routines in search of a unifying role or idea” (Power, Citation2000, p. 18).

The elusive epistemology of IA does not, however, imply that the IIA's Standards have no systematic foundations. A body of knowledge for an activity like IA is not merely an accumulation of concepts or an inventory of theories, whether socially constructed or otherwise: a formal structure with logical, orderly patterning is required to give it coherence. By analogy, a pile of bricks does not make a house—the arrangement of the bricks in logical and systematic patterns is needed to construct a house. It is therefore the primary purpose of the IIA's Standards to provide a coherent, logical arrangement of the raw materials of the CBOK's building blocks of knowledge, so as to create a credible, and socially acceptable framework for IA. This task, the latest iteration of which has resulted in the IIA's Standards of January 2024, entails making decisions on deep perplexities inherent in IA. Does IA embody objective knowledge? Is it an activity founded on applied logic? Is it an amalgamation of empirical beliefs and time-tested practices? Is it a means of pursuing a “professionalization project” for internal auditing (as suggested in O'Regan, Citation2001)? IA is a complex mixture of some or all of these interpretations and, whether implicitly or explicitly, such considerations have underwritten the IIA's Standards-setting process. As I have suggested, in comparison with many current auditing specialties IA has the most slippery and unsettled knowledge base, which lends itself to a wide variety of interpretations. The elasticity of the IIA's CBOK and Standards accommodates a wide range of opinions, perhaps explaining, at least in part, why public commentary on the exposure draft of the IIA's Standards sometimes involved, in 2023, intensely emotional and idiosyncratic polemics. I conclude that only principles-based standards can satisfactorily capture and convey IA's rather elusive knowledge base, because the slipperiness of IA's foundations lends itself to multiplicities of interpretation that prescriptive rules cannot satisfy.

A final reflection on the complexities of the capturing of knowledge in professional standards before I move on to consider questions of serving the public good. One might identify three broad categories of professional knowledge. We may possess knowledge of something (e.g., “her knowledge of the IIA's Standards is thorough”); we may possess knowledge of how to do something (e.g., “she knows how to implement the IIA's Standards”); and we may possess knowledge that something is the way it is (e.g., “she knows that the inventory most at risk from shrinkage is stored in the overspill warehouse down at the docks”). All these categories of knowledge are relevant to IA. The first two categories (knowledge of something and how to do something) address, respectively, theoretical and practical knowledge. The third category (knowledge that something is the way it is) is knowledge at a far more complex level – it derives from and transcends the first two categories of knowledge to form high-level expertise, in which professional opinions wrestle with both facts and value judgments. Expertise of this nature, with wide applications to specific circumstances, is extremely difficult to capture in written Standards (O'Regan, Citation2017). Professional Standards generally address the second and third categories of knowledge. The process of standard-setting therefore grapples with highly complex aspects of expertise, and it is no surprise that the outcomes of standards-setting processes are frequently contested. On that note, I turn to understandings of morality and judgment in professional Standards.

The IIA's Standards and the Public Good

The second necessary trait of a profession is an altruistic commitment to the public good. The IIA has made clear its intention for its Standards to serve the public interest, as indicated in the title of the IIA's IPPF Oversight Council's Framework for Setting Internal Audit Standards in the Public Interest (IPPF Oversight Council, Citation 2022, emphasis added). In the month following issuance of the IIA's Standards, a senior IIA official confirmed that the IIA's Standards "need to serve the public interest" (Seeuws, Citation 2024, p. 33).

Professional Standards have the advantage of encouraging consistency in professional activities, and reliability in professional decision-making. But four disadvantages of prescriptive professional Standards have been identified (in Myddelton, Citation 2004, pp. 96–109), as follows: (1) the stifling of professional judgment, (2) the discouragement of competition in ideas, (3) the legitimization of bad practices, and (4) a misleading of the public by unduly raising expectations of professional performance. It is the first of these criticisms that concerns me here, perhaps allied to a degree to the third criticism.

In evaluating the capability of the IIA's Standards to serve the public interest, I return to my definition of professional Standards in the introduction to this paper, in which I suggested the alternatives of a "rule" or "guideline" approach. I might rephrase this as a choice between rules-based or principles-based Standards, and this differentiation reaches to the roots of my enquiries. The shortcomings of "cookbook" professional rules are widely acknowledged. Rules provide only a limited number of "recipes", insufficient to cover every possible combination of circumstances. An awareness of the dampening effect of prescriptive rules on individual judgment and critical thinking in auditing has a long history. The Dutch auditing theorist Theodore Limpberg Jr. (1879–1961) expressed in the early 20th century the view that (financial) auditing "ought to be characterised by the application of intellectual effort and expert insight … rather than by thoughtless reliance on established routine" (quoted in Camfferman & Zeff, Citation1994, pp. 123–124).

In my view, recent IIA Standards, prior to the issuance of the IIA's Standards in January 2024, have been tilted far more toward rules than principles. The prescriptiveness of the IIA's Standards has petrified individual judgment and critical reasoning, thereby narrowing intellectual and moral horizons in IA. Principles-based Standards tend to encourage the internal auditor to apply universal interpretations to particular cases or, in other words, to apply abstract concepts to concrete examples. By following rules, in contrast, the focus of internal auditors has been on process over substance, inculcating a checklist-based mind-set in which moral agency is diminished. Under these circumstances, individual judgment has been downplayed in recent years, and a collective conformity has descended on IA like a heavy shroud. Power has suggested that despite being widely and commonly criticized, box-ticking approaches [associated with rules-based auditing Standards] persist because they correspond to a particular climate of auditability which pervades risk governance" (Power, Citation 2007, p. 164).

To deploy their expertise in the service of the public interest, internal auditors are required to exercise moral agency, which has been defined as acting "in a manner that expresses concern for moral values as final ends" (Garofalo & Geuras, Citation2006, p. 3). In this sense, morality is intrinsic, not instrumental, and it is not a means to an end but an end in itself. Moral agency therefore implies both the ability and the opportunity to rationally arrive at moral decisions, and to face accountability for those decisions. For internal auditors, there is no equivalent of the physicians' Hippocratic Oath and its explicit exhortation of what has become the principle of primum non nocere ("above all, do no harm"). Internal auditing nonetheless demands moral agency and individual judgment from its practitioners. For example, an internal auditor may feel a strong sense of loyalty to her employer, and this loyalty may on occasion come into conflict with a duty to serve the public interest. Should this internal auditor blow the whistle on institutional wrongdoing, thereby flagging it to the wider community, or should she merely report it internally, for discreet, in-house handling? The internal auditor's dual responsibilities are in conflict in such a situation. In facing a sliding scale of judgments between such extremes of possible conduct, the internal auditor's thoughts are pushed to levels of nuanced enquiry that no rules-based Standards can satisfy.

One might expect the IIA to honor its commitment to serve the public interest by cultivating spaces in which the moral agency of its members can flourish, through principles-based Standards that encourage personal responsibility and promote sound judgment. The elaboration of principles-based Standards would enhance IA's virtuous nature. The recent IIA's Standards therefore presented an opportunity to move toward a principles-based approach, thereby to reverse the increasingly mechanistic style of IA that has prevailed in recent years, and to reorient IA more strongly toward concepts of virtue and public service. I therefore anticipated that the IIA's recent Standards would move away from the amoral, clockwork approach encapsulated in the rules-based Standards of the IIA's recent past, toward a more pronounced engagement of moral agency through the promotion of professional principles. I shall evaluate this aspect of the IIA's Standards in the following paragraphs.

The IIA's Standards, Rules, and Principles

I have suggested that the deployment of IA expertise in the service of the public good has been hampered in recent years by the failure of the rules-oriented IIA's Standards to cultivate the flourishing of their members' moral agency. The IIA's Standards of 2024 have been described as "principles-based" and my preliminary assessment is that the grouping of the revised Global Internal Audit Standards under 15 principles is a step in the right direction. However, it is misleading or disingenuous to claim that the revised Standards are now principles-based. Certainly, it is good to organize the revised Standards by principles, but the Standards are now arranged by principles rather than arranged into principles. The principles in the IIA's Standards serve primarily as classificatory headings, and the majority of the text consists, as in the past, of a bloated inventory of rules and requirements. My anticipation of a more extensive change of emphasis from rules to principles remains unfulfilled. To this extent, one may argue that the IIA's revised Standards resemble old wine poured into new bottles.

Virtue is not a fussy, old fashioned, classical Greek or even Victorian construct, but a living part of what makes professional activity contribute to the human good. Virtues are "character-traits which we need to live humanly flourishing lives" (Oakley & Cocking, Citation2001, p. 18), and they are central to a wise deployment of moral agency in IA. Professional virtue entails the transcendence of written rules of behaviour. The de-personalization of virtue arising from rules-based Standards detracts from the exercise of moral agency, and it is perhaps one of the greatest threats to the standing of IA. I consider the IIA's revised Standards to represent a missed opportunity in terms of promoting virtue in IA, and advocate a future revision of the IIA's Standards to achieve a preponderance of principles over rules.

I suggest two approaches to future IA standard-setting. First, as the IIA's CBOK is conceptually anterior to the IIA's professional Standards, there might be value in reimagining the CBOK, moving it away from an aggregation of surveys and opinions toward a precise, abstract conceptual model, from which principles may be extracted to form the nucleus of future Standards. The current, fuzzy connections between the CBOK and the IIA's Standards constitute a gap that encourages the conflict of opinions and understandings at the heart of IA. Second, the IIA might emphasize the importance of traditional logic as an enduring, consistent methodological tool to evaluate audit evidence, to compensate for IA's slippery and elusive conceptual base.

CONCLUSION

Two individuals with experience of chairing the International Internal Audit Standards Board (IAASB) have stated that the aim of the IIA's Standards has been “to make the guiding principles and Standards more simply structured with greater clarity and alignment of their elements” (Mouri & Peppers, Citation 2024, p. 29). This aim has clearly been met, through a rigorous Standards-setting process of unprecedented transparency. We consider the IIA's Standards, issued in January 2024, to be an enhancement over the IIA's previous Standards. The IIA's Standards have been restructured and rearranged into more logical patterns. However, although the grouping under 15 principles of the 52 individual Standards has been a step in the right direction, the IIA's Standards have not, as a whole, been revised into principles, but rather arranged by principles.

In our view, the IIA has missed an opportunity to transform its Standards into a radically creative, principles-based framework. The IIA's revision of its Standards has therefore deferred, rather than answered, the core questions of how to encourage a strong foundation for IA expertise and how to promote moral agency in IA. We may have to wait for a future generation of internal auditors to establish professional Standards comprehensively comprised of principles. Otherwise IA runs the risk of becoming an activity of skilled technicians rather than the domain of accomplished professionals.

The authors derived their arguments independently, and it is instructive that, starting from different premises (e.g., in their approaches to the role of logic in IA) they both arrived at the conclusion that principles-based Standards will benefit the profession's long-term ability to fulfil its mission. Although both authors arrived at the same conclusion they offer alternative suggestions for the future of IA.

Lenz draws our attention, in the age of artificial intelligence, to “rethink what it means to be human, rethink the skills that make us strong” and “shift from following logic to living with chaos”, referencing Burkhardt (Citation 2018, p. 16,. 175). He introduces the Trust Triangle (Frei & Morriss, Citation2020) that places authenticity as anchor term to the discourse. Effective internal auditors must have strong human skills: he therefore suggests his model with five competence blocks of the most important skills of the effective internal auditor. There is no need for humans who behave like robots. The refined leitmotif of “The Gardener of Governance: Our nature is Nurture” is suggested as purpose for internal auditing (building on Lenz & Jeppesen, Citation 2022). With the words of Burkhardt (Citation 2018, p. 165), Lenz encourages the IIA profession to “Shift from Exploiting the Familiar to Exploring the Unknown”. He sees potential when encouraging individual judgment especially when entering the pioneering zone, characterized by complex and chaotic circumstances. In our VUCA and BANI world, checklists and prescriptive guidance no longer help. Time to think. Time to re-think! Lenz wonders what robots and what human beings (including internal auditors) will do next. Lenz recommends internal auditors to be authentic, showing the REAL YOU. Lenz wants internal auditors to stand tall when it matters. Or saying it with Burkhardt (Citation2018, p. 122): “We need to shift from 'doing our job' to 'making a difference'”. He believes that positive, principles-based normative guidance can support that pursuit much better than the prescriptive Standards of today.

O'Regan suggests that the IIA considers a reimagination of its CBOK, moving it away from a loosely structured aggregation of surveys and opinion-gathering toward a precise, abstract conceptual model, from which principles may be extracted to form the nucleus of future Standards. In addition, an emphasis on the enduring value of logic as the conceptual glue that binds IA together might mitigate some of the slippery and vague aspects of the knowledge base of IA.

“To better understand the plurality in practice, we need to study the practice” (Lenz, Citation2013, p. 286). We would be delighted if our joint article is an encouragement for constructive discussion in the professional community and a starting point for future scholarly studies.

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Notes

1. According to Korine (Citation 2020) (11),"When governance breaks down it is because of too much power concentration or not enough accountability or both."

2. The term "Gardener of Governance" stems from Lenz and Jeppesen (Citation 2022). The refined wording "The Gardener of Governance: Our nature is Nurture" (September 2023) benefits from contributions by Kathleen Carroll (Brand Positioning Expert)

https://drrainerlenz.wordpress.com/2023/09/07/gardeners-of-governance-its-our-nature-to-nurture/.

3. VUCA stands for: Volatility, uncertainty, complexity and ambiguity, Wikipedia, accessed online, 12 February 2024, https://en.wikipedia.org/wiki/VUCA.

4. Is BANI the new VUCA? Agile work in the 21st century, accessed online, 12 February 2024,

https://www.leaders21.com/en/blog/is-bani-the-new-vuca-agile-work-in-the-21st-century/; BANI stands for Brittle, Anxious, Non-linear, and Incomprehensible.

5. SOY stands for "Shit of Yesterday" (Hinssen, Citation2017, p. 58).

6. Financial Times (Citation 2023), "With 101,000 employees and €50.7bn in revenue, Bayer is one of Europe's largest corporate juggernauts, owning 354 consolidated companies in 83 countries."

7. Building on Lenz's blog from May 2020:

https://drrainerlenz.wordpress.com/2020/05/08/we-are-all-in-the-pioneeringzone-now/.

8. Recording via YouTube:

https://www.youtube.com/watch?v=aF3wnnP0i64, and Lenz' blog about the event from 12 January 2024:

https://drrainerlenz.wordpress.com/2024/01/12/cpe-webinar-rethinking-internal-audit-governance-needs-gardening-30-january-2024/.

9. Accessed online 04 February 2024,

https://rcanalytic.com/rctheory/.

10. Lenz' blog from 15 September 2023, after initial discussion with Professor Jody Hoffer Gittell,

https://drrainerlenz.wordpress.com/2023/09/15/internal-audit-as-gardeners-in-the-governance-ecosystem-gittell-lenz-2023/.

11. Lewin, K. (Citation 1945). The research center for group dynamics at Massachusetts Institute of Technology. Sociometry, 8, 126–135, cited in Van De Ven, A. H. (1989). Nothing is quite so practical as a good theory. Academy of Management Review, 14(4), 486–489.

12. The idea stems from Lenz and Jeppesen, (Citation 2022). The refined wording "The Gardener of Governance: Our nature is Nurture" (September 2023) benefits from contributions by Kathleen Carroll (Brand Positioning Expert)

https://drrainerlenz.wordpress.com/2023/09/07/gardeners-of-governance-its-our-nature-to-nurture/.

13. There are (will be) 25+ translations of that publication, originally written in English

https://drrainerlenz.wordpress.com/2023/01/01/translations-of-lenz-jeppesen-2022-the-gardener-of-governance-paper/. The Lenz and Jeppesen, (Citation2022) article is with 27,000 reads (accessed online on 04 February 2024) by far the most read publication of all time at EDPACS.

https://www.tandfonline.com/action/showMostReadArticles?journalCode=uedp20.

14. Arendt (Citation2015), German book title "Wahrheit gibt es nur zu Zweien", Reprint 2020.

15. World Economic Forum Citation2023: Accessed online 04 February 2024 https://www.weforum.org/publications/the-future-of-jobs-report-2023/.

16. Blog from 16 April 2019, accessed online, 12 February 2024,

https://internalauditor.theiia.org/en/voices/20192/trying-to-define-trusted-advisor/.

17. PwC (Citation 2023, p. 10) says "The ability to connect the dots and spot misalignment can often require an objective viewpoint." We find that term misleading. There is no such thing like an "objective viewpoint." We recommend internal auditors to become authentic. That is a pillar of the "Trust Triangle" (Frei & Morriss, Citation2020).

18. More about Harry Styles, please see on Wikipedia, for example https://en.wikipedia.org/wiki/Harry_Styles Accessed online on 04 February 2024.

19. Blog on LinkedIn, 11 February 2023

https://lnkd.in/e8eT3F3u.

20. Accessed online on 04 February 2024

https://www.quotespedia.org/authors/m/mark-twain/courage-is-resistance-to-fear-mastery-of-fear-not-absence-of-fear-mark-twain/.

21. For example, Herve Gloaguen (former Chief Internal Auditor at Allianz SE) regards humbleness, curiosity, and diplomacy as great soft skills for auditors (in a blog on LinkedIn on 12 January 2024). Garyn and McCafferty (Citation2023) suggest the following "Seven Characteristics of Internal Audit Leaders of the Future": 1 Ability to Think Strategically, 2 Technology Acumen, 3 A Contortionist's Flexibility, 4 Remote Communication Skills, 5 Prescience, 6 Ability to Build Bridges, and 7 Executive Know How.

22. According to Heraclitus "You can't step into the same river twice", Wikipedia, accessed online on 14 February 2024, https://en.wikipedia.org/wiki/Heraclitus.

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SUSTAINABLE FINANCE TAXONOMY WITHIN THE INDIAN CONTEXT

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Abstract

India like several other countries has signed up to achieving the UN Sustainable Development Goals (UNSDGs or simply, SDGs) by 2030. Achievement of SDGs would mean investments – both public and private. Taxonomy is a classification methodology that is intended to help investors and financial institutions in codifying investment products and aligning those to the sustainability strategy of a country. In this paper we look at the importance of the concept of sustainable finance (SF) taxonomy from a theoretical angle. We also dwell on how different economies in the world have progressed towards forming their own SF taxonomies. We discuss a case study of a country to illustrate how a country's SDG strategy can be translated to a SF taxonomy. Greenwashing and its pitfalls are brought into the discussion and explained to emphasize how SF taxonomy can help in countering greenwashing to a great extent. The Bank for International Settlements has proposed a methodology of how a nation can develop its own green taxonomy which has been discussed in the paper in the context of how several economies have approached their own development of green taxonomies. In the end, we have focused on the need of having a structured SF taxonomy in India (both green and brown taxonomy), giving some examples of how SDGs have been translated into country level targets in India and the imminency of linking those targets to SF products. Keywords: Taxonomy, Greenwashing, Sustainable Finance, SDGs

The concept and importance of taxonomy

Theoretical background

Taxonomy implies schemes of classification. The classification could be of various subjects. The concept of taxonomy has been widely used in biological sciences that help in organizing the world of living creatures, plants and other biological beings into classes that have common characteristics. Taxonomy as a science in itself attempts to classify diverse and wide population of something into streams that can be identified and defined by their common characteristics. Therefore, as a central theme, the need for taxonomy arises when we want to classify a large population of something.

Without definitions it becomes difficult to progress in science. Taxonomy essentially helps inassigning definitions to phenomenon/ classes/ groups. As a concept it has wide usage in natural sciences like biological sciences that help in classification of species etc. It is also equally relevant in social sciences since definition of terms helps in explaining the concepts that are used in social science research.

The concept of taxonomy is intricately linked with concepts of legitimacy and isomorphism put forth by the Institutional Theory that is one of the foundational theories in the study of organizational systems. Seels, B. (1997) points out that "taxonomic classifications require division into groups on the basis of shared characteristics". It "consists of systems of categories constructed to fit the empirical observations so that the relationship among categories can be described. The usefulness of taxonomies is that theories based on taxonomies are based on empirical observation". Consequently, when patterns are generated about the behavior of categories or groups for which policies need to be adopted , a taxonomic approach of categorization is helpful as it helps in measurability of the characteristics (variables) associated with those categories. If the empirical evidence gathered using taxonomical classification shows that the organization is aligned to the norms of social behavior that is expected of it, that becomes its way of asserting the legitimacy of its existence.

DiMaggio and Powell (1983) suggested that isomorphism is a process whereby one firm seem like the other firm due to qualities in common. In other words, isomorphism means companies tend to incorporate certain practices in themselves by imitating the other companies. Institutional theory gives the management an institutional perspective, specifically giving attention to homogenous practices drawn from the isomorphism and institutional pressure (DiMaggio and Powell 1983; Meyer 1977; Scott 1995). Precisely, this theory argues that companies are under pressure/forces to become isomorphic to other companies. And these can be various forms like coercive, mimetic, and normative forces. In such scenarios, a taxonomy is helpful. It effectively translates into a set of codified and empirically measurable standards to be applied uniformly to organizations to which it applies, helping them to adjust to isomorphic pressures quickly just by aligning their decisions to those norms.

The remit of Sustainable Finance

One of the cogent definitions of Sustainable Finance (SF) has been provided by the European Union1. As per the EU, "Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects".

The finding shown by the recent assessment of sustainable finance by Cunha et al. (2021), highlights that the area's literature is "excessively fragmented," making it challenging to "define what comprises the discipline and what differentiates it from traditional finance." However, their review only looked at 166 articles, despite the fact that the field is actually much larger in terms of the aspects of sustainable finance, global initiatives for the promotion of sustainable finance, and the strategies and results of the key players in that domain.

We note though that the definition of SF by the EU is linked to ESG considerations in investment decisions, it particularly contextualizes it with private investment. We need to link SF to the broader context of achievement of SDGs. As M. Ziolo et al (2021) have observed that the 17 SDGs and their associated targets cannot be achieved without financing support. A study by the International Monetary Fund [IMF] revealed that the average yearly budget shortfall for investments in roads, power, water, and sanitation in developing countries is approximately $2.6 trillion USD. All these investments do not happen through private sources as often these relate to creation of public goods and there is a heavy element of public expenditure involved. This also is the remit of SF as it goes towards the achievement of the objective of sustainable development.

Ziolo et al (2021) conducted a review of SF related literature and noted that several authors have emphasized on the importance of finance as a driver of sustainability. They draw reference to Schoenmaker (2017) proposed framework for Sustainable Finance based on sustainable finance models (SFM). Schoenmaker (2017) in his work refers to Sustainable Finance Model SF 3.0 as "contributing to sustainable development, while observing financial viability".

One of the few articles that demonstrated the relationship between fiscal policy instruments and the SDGs discusses the role of fiscal instruments, such as taxes, levies, and public spending, in promoting and assisting with the attainment of SDGs 6 through 14 and 17.There has been research that raises the question of how governments might use instruments of sustainable fiscal policy to shape fiscal policy for sustainable development.

When discussing the financing of the SDGs, Sachs (2015) considered both public (SDGs 3-7) and private means of finance. The issue of how to secure the necessary magnitude of flows and sufficient institutional and policy frameworks to govern the flows was brought up by Sachs. Sachs emphasized that a large portion of the required financing will come from private markets, some from philanthropy and not-for-profit organizations, and a large portion of it will need to come from the public sector; however, no specific recommendations were made about how to set up the systems to attract such finance, only general assertions were made.

Relevance of taxonomy in SF

In the foregoing paras of this section, we see how ,in order to achieve the SDGs, we need to ensure that adequate financing, public or private, flows through to projects that align with SDG targets. The financial sector through which financing flows are controlled needs to facilitate this. Clearly there must be a mechanism for the financial sector to track which investments are meeting the criteria that have been set to qualify as SDG aligned.

The concept of finance taxonomy comes in here. Finance taxonomy is a way to classify financing into classes based on pre-defined criteria. As an extension of this concept, we introduce the concept of **Sustainable Finance taxonomies that has been defined by Bank of International Settlements** in their BIS Paper No 118, by Ehlers et al (2021), as **"set of which can form the basis for an evaluation of whether and to what extent a financial asset can support given sustainability goals".**

According to the BIS paper, the goal of the SF taxonomy is to provide the sort of information investors require to assess an asset's sustainability benefits and to categorize an asset based on that asset's support for specific sustainability goals. Investors and other stakeholders can understand the sustainability advantages of an asset, based on the taxonomies`.

According to the BIS definition, sustainability goals should serve as a taxonomy's foundation. Sustainable finance taxonomies can be crucial tools for accomplishing these goals by creating a bridge between the sustainability goals and the corresponding high-level policy objectives (forexample, policy objective of reducing carbon emissions in line with the Paris accord).

The rise in investments in green and social bonds and ESG-themed investment funds suggests that arguably, many non-financial advantages have probably been strongly adopted by investors in their decision-making.

Role of SF Taxonomies in bridging scientists and policymakers

SF taxonomies are designed to direct financial flows to investments that are aligned to sustainability goals. Several of the SDGs will mean investing in new technologies and or adopting scientifically measurable targets (e.g. Science Based targets for climate goals) towards achievements of SDGs.

Let us take an example of how a technology-based target can be translated to policy using SF taxonomy.

Context: Capital city of Country X is situated in a metropolitan area. One of the key objectives of its overall development strategy is creating a "cleaner urban environment". Its cities are the source of economic growth, but the local environments are deteriorating at an alarming rate. X has implemented new air pollution rules in response to the decreasing air quality, acknowledging the role it plays in respiratory illnesses and decreased productivity. Acute incidents brought on by poor air quality have forced the shutdown of schools and limitations on activity. It has a 10-year roadmap to improve air quality through its Air Quality Management Plan for cities.

Strategic goal: X needs to develop a green finance taxonomy to support the aforesaid plan. That would imply achievement of the following:

- Mobilization of funds from public and private sources to support air quality improvement related investments in pertinent sectors

- Provide clear guidance to financial intermediaries and investors for them to know which investment support the stated long-term plan

Need to prioritize Air Quality: Country X is a signatory to SDG and has SDG 11 and within that target 11.3 i.e. "provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons" as one of its targets. According to recent studies, air pollution concentrations have been related to early mortality and decreased productivity and affects this target.

Data shows efforts to control air pollution is mainly jeopardized by rising number of automobiles and other pollution from other industrial activities. Due to these factors, Country X has made the creation of a "cleaner urban environment" a major target in its green taxonomy and is utilizing its Plan for Management of Air Quality as the primary policy tool to attract eligible green finance.

The taxonomy documentation will therefore need to clearly reference to the 10-year plan for air quality management. Let's take a few examples of how the Air Quality Management plan can be translated to scientific selection criteria leading that can be used as a base for development of SF taxonomy to be followed by financial intermediaries and investors.

Table 1: Translating Sustainability policy of a country to SF selection Criteria (example)

Sector/ Sub Sector	***Technology/ measure of Green Taxonomy***	***Description***	***Selection Criteria***
Transportation Sector			
Mass transit Systems	Expansion, incentives and supporting infrastructure for Rapid transit network	Make public transportation more accessible and efficient	Invest in those projects that follow the minimum national design standards, such as the platform-level boarding method and the ideal dimension of dedicated bus lanes etc. Global standards can also be used here.
Public Buses	*Upgrading of existing fleet*	*Replacement of old buses to meet the new emission standards supported by enhanced maintenance*	*% of bus fleet aligning to Country X's emission standards*
Industrial Manufacturing Sector			
Boilers/ Foundries and other Fuel Combustion processes	Relocation to new manufacturing zones (e.g., industrial parks) / upgradation of existing processes to cut down on emission	To fulfil the emission standard for stationary sources, redesign the procedure or relocate the facility.	Processes/ location that conform to new norms for emission: 20 μgr/m3 for particulate matter 30 μgr/m3 for SO2

Attributes of a good taxonomy

The BIS definition aims to clarify what results a taxonomy should (and should not) be expected to produce. A powerful signal should be sent to investors and other stakeholders by a good taxonomy, aimed to aid in their decision making around investments based on their non-financial advantages.

One of the recent practices in the world of green finance is called "greenwashing," that means giving the impression that an asset caters to sustainability goal whereas in effect it doesn't. In an ideal scenario, taxonomies should be robust in reducing green washing.

Although ideally taxonomies should be based on published data, taxonomies are not always a tool to implement disclosure rules. An effective evaluation of how an asset fits with a taxonomy's criteria requires the disclosure of non-financial information. Taxonomies utilize and perhaps process this data to categorize assets in accordance with their sustainability advantages. Naturally, well-designed taxonomies will benefit investor needs and other sustainability-related regulations, such as by assisting in the determination of non-financial disclosure obligations. However, their main goal is to strongly convey to investors the non-financial advantages of a specific asset.

Investor interest in assets that obtain a taxonomy-based classification will ultimately determine how well taxonomies contribute to sustainability objectives. By convincing investors that their money is actually helping to achieve specified sustainability goals, well-designed taxonomies can boost both investor interest and market transparency.

The rapid scaling up of climate action and sustainable financing cannot be supported by taxonomy alone, despite the fact that they are a critical part of sustainability policy. An organized and effective system of policy incentives is required to utilize taxonomies to mobilize the maximum amount of private sector resources toward sustainable initiatives. This includes financial regulatory policy, fiscal policy (such as a carbon tax), and central banking activity.

Taxonomy users and their various uses

The key driver of a system is the expected need and response of the user. Therefore, the relevance of the nature of users of SF taxonomy is paramount.

Policy makers

The concept of Sustainable Finance is relevant as long as it can attract finance to sustainable and sustainability linked investments. Policy makers often signal what is sustainable by adopting policy measures to promote what they consider sustainable in the context of the country's strategy. How effective a taxonomy is, could potentially be measured by the additional investments it attracts to sustainable projects as compared to a situation where such taxonomy is absent.

To incentivize financial products, there needs to be concrete specification of those products. SF taxonomy seeks to provide such definitions.

Corporates

Taxonomies are very relevant for Corporates. To demonstrate to the stakeholders that they are adhering to accepted norms of sustainability, corporate need to publish data relative to benchmark thresholds. Taxonomies can provide those thresholds.

Financial sector participants

SF taxonomies are opportunities for Asset Managers, Asset Owners, and Banks (Financial sector participants) to indicate alignment of their portfolios. Several participants are introducing new products to attract investments that are available in the market only from investors that want their investments to go into sustainable ends. Greenwashing (discussed later) is a big issue in this respect, which can be avoided to a large extent by an effectively designed taxonomy.

Retail Investors

Taxonomies and definitions of sustainable finance increases the trust in retail investors to participate with confidence in the sustainable finance market. Taxonomies and definitions used to define sustainable finance products provides an opportunity to retail investors to participate in the sustainability policy dialogue, through the way they respond by creating demand for those products.

Global advancements in SF taxonomy

EU Taxonomy

The EU has made the most significant global advancements in the field of SF taxonomy. The EU taxonomy is a classification scheme that creates a list of economically viable ecologically sustainable activities. It might have a significant impact on how the EU scales up sustainable investment and puts the European Green Deal into practice. Companies, investors, and regulators would have access to proper definitions of whether economic activities qualify as ecologically sustainable thanks to the EU taxonomy. This should provide security for investors, safeguard private investors from greenwashing, assist businesses in becoming more environmentally friendly, lessen market fragmentation, and assist in directing investments to areas where they are most needed.

The EU Taxonomy requirements cover the economic operations of over 40% of listed firms through the Taxonomy Climate Delegated Act, in industries that produce close to 80% of the direct green house gas emissions in Europe. The EU Taxonomy can greatly boost the potential that green financing offers to promote transition through this coverage, especially for carbon intensive sectors where change is urgently required.

The Taxonomy Regulation establishes six environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of bio-diversity and ecosystems

The mandatory application of the first two objectives is from January 2022 and the other four from January 2023.

According to the EU taxonomy law, a business must not only support at least one environmental goal but also refrain from transgressing the other goals in order to be categorized as a sustainable economic activity. Sustainable activities are those that try to reduce climate change while simultaneously having a negative impact on bio-diversity.

The classification of an economic activity in terms of sustainability is based on the following four criteria:

- -The commercial activity supports one of the six environmental goals.
- -None of the six environmental goals are significantly harmed by the economic activities (DNSH).
- -The business activity complies with "minimal protections" to prevent having a detrimental social impact, such as the UN Guiding Principles on Business and Human Rights.
- - The commercial activity satisfies the technical standards established by the EU Technical Expert Group.

Comparative study of key Green Finance taxonomies

The World Bank in its Guide to Developing a National Green Taxonomy (2020) has enumerated the various green taxonomies that had been introduced by 2020. Four key economies namely Bangladesh, Mongolia, China and EU and Climate Bond Initiative has issued their Taxonomy Guidance in respect of how they envisage Green Financing to happen.

The key points that are noted from the comparisons of these are as follows:

Sectoral coverage is not uniform in the guidance. Some of the guidance cover topics that are absent from others. For instance, the CBI and EU both include Information and Communications Technology (ICT)—a sector that uses a lot of carbon—in their taxonomies, whereas the others do not. The other taxonomies do not include aviation, which is a component of CBI, which the EU also plans to assess later. Though included by CBI, the other taxonomies do not include nuclear energy with China being an exception. Only China includes "clean coal" in its taxonomy.

Country specific taxonomies align with local environmental objectives apart from their focus on climate change. Although preventing climate change and adapting to it are common objectives, country level taxonomies also focus on local environmental standards.

Taxonomies vary in granularity. Chinese taxonomy does not specify specific technology, but rather broad project activities. On the other hand, practically every activity and industry are represented by a specific project technology in the Mongolian taxonomy. Bangladesh provides a list of projects, activities, and technology (such as vermicompost). China and Bangladesh do not have sector-specific screening requirements. In accordance with its decarbonization strategy, the EU offers indicators and thresholds (net zero by 2050). For 68 climate change adaptation projects and 70 climate change mitigation initiatives, there are already available technical screening standards, including criteria for "causing no major harm" to other environmental goals. For some sectors, CBI offers screening criteria with metrics and thresholds. Some of these are bioenergy, geo-thermal energy, solar energy, low-carbon structures, low-carbon transportation, marine renewable energy, and wind energy,

SF taxonomy and greenwashing

The concept of greenwashing

The act of giving the impression that a company's products are ecologically friendly is known as "greenwashing." Greenwashing is the practice of making unfounded claims that lead consumers to believe that a company's products are more environmentally friendly or have a bigger positive influence on the environment than they actually do.

More and more companies are being found out to be making false claim about the environmental soundness of their operations/ products to take advantage of the movement towards sustainable investing.

The corporate legitimacy theory and the concept of "greenwashing" have both been discussed in literature. There are three sorts of corporate legitimacy that can be distinguished: moral legitimacy, pragmatic legitimacy, and cognitive legitimacy. According to Seele and Gatti (2015), greenwashing, is an example of pragmatic legitimacy. This is also linked with the theory of mimetic form of institutional isomorphism as greenwashing behaviors get triggered by neighboring enterprises in the same region leading to a 'bandwagon' effect.

de Freitas Netto et al. Environ Sci Eur (2020) 32:19 classify greenwashing into two levels – Firm level and Product/service level and then further at each level into two sub-types namely Claim and Executional greenwashing. Claim greenwashing uses textual arguments that explicitly or implicitly refer to the ecological benefits of a product or service to create a misleading environmental claim. Execution greenwashing is the approach of greenwashing that does not employ any of the claims that were previously outlined, but instead suggests natural-evoking components such pictures that use colours (such as green or blue) or sounds (e.g., sea, birds). Executional nature-evoking features include backgrounds depicting natural settings (such as mountains, woods, or oceans), images of endangered animals (such as pandas, dolphins), or sustainable energy sources (such as wind, waterfalls).

Role of Taxonomy in context of greenwashing

There has been criticism of EU taxonomy stating that it helps in "greenwashing". The main criticism is around the EU labeling gas and nuclear energy as green as part of its taxonomy. The criticism is that renewable forms of energy are much cheaper compared to gas, nuclear being labelled as green will attract investment into nuclear technology that potentially could lead to accentuation in geopolitical tensions.

Ciarán Cuffe, Dublin's Green MEP at EU has expressed his view that by promotion of gas a green source of energy also means promoting those inefficient and faulty gas boilers are the "sustainable" choice. Green views that those technologies and resources will trap vulnerable households into energy poverty and an unsustainable future.

Marie Toussaint, EFA Member of European Parliament, has stated that the European Commission by proposing to label investments in fossil gas and nuclear power as "green investments" in the EU taxonomy is going against science and will eventually result in diverting European public money by misleading private investors. She has also gone ahead and called for rejection of the EU taxonomy.

With these claims that are made for EU taxonomy, the role of taxonomy, in combating greenwashing and particularly claims greenwashing becomes very important. As has been mentioned, any economy's/ country's Sustainable Finance taxonomy will depend on its SDG commitments and the policies priorities that it undertakes to achieve those priorities. Therefore, the process of through which taxonomy is set up becomes very important in order to ensure that the linkage between SDG priorities, the investments in technology/process/products & services that are required, and the SF taxonomy are in alignment.

Need for a SF taxonomy in India

India has made a few commitments at the COP26 summit in Glasgow namely:

- Non fossil fuel capacity to be increased to 500GW
- Decreasing the carbon emissions by one billion tons from the current projected levels
- Meeting 50% of the total energy needs of the country through renewables
- Net zero by 2070

The Union Government is already announcing several policy measures to support these commitments. Amongst several, some of the prominent ones are:

- 100 Million Tonnes of Coal Gasification by 2030
- National Mission on Transformative Mobility and Battery Storage
- Productivity Linked Incentives (PLI) Scheme on Advanced Cell Chemistry and Battery Storage

SEBI in its consultation paper "Consultation Paper on Green & Blue Bonds as a mode of Sustainable Finance" (August 2022) has emphasized on the need to create an Indian SF taxonomy to help investors in aligning their investments to the sustainability goals taking advantage of the Government policy measures. Taxonomies for sustainable finance are typically created by technical working groups that are directed by public bodies. These task forces may be headed by industry experts as well as Ministries (Ecology, Economy). The idea and capabilities may occasionally originate from the private sector (e.g., Canada). In this process, international organizations frequently offer recommendations (e.g., World Bank, UNDP).

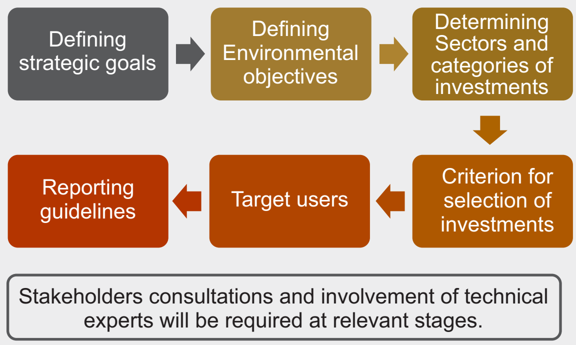
Sustainable finance taxonomies can be built upon and structured around:

- Economic sectors that use a variety of categories, such as the statistical classification of economic activities in the European Community (for example, transportation and renewable energy).
- By technology or asset type.
- Environmental performance (energy consumption, improvement against a baseline and/or benchmark), on situation and/or context

While the green taxonomy has been in key focus, one other important element of taxonomy that needs to be focused is "Brown Taxonomy". Transition or brown taxonomies are meant to provide criteria and methodologies assessing the transition paths of companies operating in traditionally brown sectors for climate change mitigation, for instance. For a country like India, this taxonomy will be very important given its position of a developing nation adopting SDG goals.

Roadmap for developing a national SF taxonomy

The World Bank Group has published Developing a National Green Taxonomy: A World Bank Guide, June 2020. This lays out the broad suggested steps for a country to develop its own Green Taxonomy. The broad steps that are summarized below in the diagram not only apply for developing a "Green Taxonomy" but also to a broader Taxonomy for Sustainable Finance that cater to all of India's SDG priority including that of being a net zero economy.



Strategic Goals

A green taxonomy's overarching strategy objective is to ensure an environmentally sustainable future economy. Some of the specific objectives could be:

- To create uniform definitions for green investments that would get prioritized attention for sustainability or the environment

- To aid in expanding the green financial markets
- To make the financing scene more appealing to ethical investors, among them are those who are using impact investment techniques in both the domestic the global stage
- To make it possible to track and report on public or private investments focused on a particular environmental or sustainability concern, aligned with the relevant and latest technological standards
- To announce the progress being made to investors and the larger financial markets toward important environmental objectives
- Identify investment gaps that need to be filled.

Environmental objectives

The guide suggests developing a green taxonomy aligned to the broad environmental goal that are narrowed down into measurable and realistic targets. Such targets could be like achieving desired air quality targets by a certain year or reducing the carbon emissions by a certain year as compared to a base year or align with the Nationally Determined Contribution (NDC) to serve the UN Framework Convention to Combat Climate Change (UNFCCC).

Meeting environmental goals in developing nations is difficult because implementation sometimes lags behind legislation and regulations. Implementation is frequently greatly hampered by financial constraints. This certainly will be a relevant condition for India where policy decisions and regulatory measures having direct alignment with the commitments made in COP26 and the broader SDG goals, are yet to be fully put in place. This is given the fact that the country at the same time is trying to balance the urgent need of employment generating growth with sustainable development.

It is pertinent to note here that the taxonomy may often be aligned to attract investments where tested technological solutions exist, and policy regulations are in place and therefore there may be a need to revisit an existing SF taxonomy to align it with the changes of technological possibilities from time to time.

Determining Sectors and categories of investments

According to their anticipated contribution towards accomplishing the chosen environmental objectives, priority sectors and associated activities or investments aligned to those sectors should be. The sectors may be generated from the International Standard Industrial Classification or from the current industrial categories used by International Standard Industrial Classification (ISIC). Environmental policies and regulations can also be used to identify the pertinent industries. Urban air pollution rules and standards, for instance, are likely to apply to the transportation, energy, and industrial sectors.

Criterion for selection of investments

The choice of specific investments within the selected sectors and categories is the main objective for building the taxonomy. The most important factor in choosing a specific investment type is how it helps achieve a national goal or a common or approved threshold. If we take the example of the energy sector, an investment selection criterion could be the nation target for climate mitigation (achieving a certain reduction in volume of gCO2e/unit of production by a certain year).

Examples for the transportation industry in the context of standards set for air quality could include whether public transport engine technology complies with a particular emissions regulation and whether an upgrade to mass transit conforms to design standard that are nationally or internationally accepted.

Target users

As mentioned in an earlier section, taxonomy should cater to the needs of various users that need to use it for their own objectives. Clear guidance should be issued to the targeted users of the taxonomy on how they should use it. Typically, the taxonomy will be used by Financial intermediaries (like banks, insurance companies, asset owners and asset managers), project developers, issuers of green bonds, investors etc. For example, banks may use the taxonomy to classify loan proposals to align their loan book to their green asset targets. Standard setters are expected to create pertinent labels in accordance with the taxonomy, and issuers of green bonds and developers of capital projects will be expected to align with the eligibility standards and methods of reporting.

Development of a SF taxonomy for India

One of the most important questions to be answered in India's context is which Institution/ combination of Institutions should take the lead in developing India's SF taxonomy.

If we study the example of Japan, we note that the Ministry of Environment of Japan has taken the lead in issuing what is now known as the Green Bond and Green Loan and Sustainability linked Loan guidelines that provide guidelines for Sustainability Linked Loans.

China has three main frameworks for green finance definitions. The core framework " Guiding Catalogue for the green industry" which was a joint effort of seven ministries and related commission was published in 2016 and updated in 2019. The Ministry of Planning, Ministry of Environment, and the Chinese Central Bank PBOC took lead in issuing the core guidelines. For issuing lending criteria, China's Banking sector regulator (CBRC) took the lead. For issuing green bond's PBOC issued the relevant norms.

In Netherlands, Sustainable Finance definitions appear in GreenFin label for investment funds that are based on the Climate Bond Initiative (CBI) market-based taxonomy. The GreenFin Label is administered by the Ministry of Ecology and Inclusive Transition.

In India, SEBI (Securities and Exchange Board of India) has taken the lead to create a regulatory framework for issuance of Green Debt securities. While there are no additional regulations beyond the normal requirements for debt securities issuance for unlisted green debt securities, issuances of listed green debt securities must adhere to the additional requirements under the following regulations.:

i. The SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations).

ii. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations); and

iii. Chapter IX of the SEBI Operational Circular for Issue and Listing of Non-convertible Securities (SEBI Operational Circular)

These are collectively referred to as **"Green Debt Securities Regulations".**

SEBI has further gone on to define "green debt security" indicates a debt security issued to raise money for project(s) and/or asset(s) falling into any of the following categories, subject to any conditions the Board may from time to time specify.:

- To create uniform definitions for green investments that would get prioritized attention for sustainability or the environment
- To aid in expanding the green financial markets
- To make the financing scene more appealing to ethical investors, among them are those who are using impact investment techniques in both the domestic the global stage

(iii)Sustainable water management including clean and/or drinking water, water recycling,

(iv)Climate change adaptation,

(v)Energy efficiency including efficient and green buildings,

(vi)Sustainable waste management including recycling, waste to energy, efficient disposal of wastage,

(vii)Sustainable land use including sustainable forestry and agriculture, afforestation,

(viii)Biodiversity conservation, or

(ix)a category as may be specified by the Board, from time to time."

SEBI's initiation, though a starting point, is narrow and for limited purposes. These seek to provide broad guidance on the categories of investments that are eligible for being considered as Green Bonds. However, detailed criterion/ metrics that the investments should comply with is not specified. As such, alignment to any sustainability goals cannot be achieved easily in a transparent and objective manner since there are no objective performance parameters that should be followed to raise money/ report on the end use of the proceeds.

Clearly, a top-down approach has to be adopted in India to define objective criteria that should be used for making sustainability linked investments and reporting on them in a transparent manner (avoiding the potential of greenwashing as much as possible). And these criteria should serve our overall commitments in respect of achievement of SDGs and COP26.

Based on the Centre for Science and Environment's State of India's Environment Report, 2022, India is lagging behind on 11 out of the 17 SDG goals (to be achieved by 2030) which has caused it to slip to 120th rank amongst SDG signatories. The Niti Aayog has mapped SDG goals to Centrally Sponsored schemes and the departments and also to targets that are to be achieved by 2030 along with the Central Ministries/ Departments that will have primary responsibilities for achieving these targets2.

The gap we are noting here is the linkage of these targets with a taxonomy that would help drive finance to support these goals both from a public and a private sector perspective. We take for example, SDG 1 "End Poverty in all its forms everywhere" (refer Annexure). An example of a target that has been adopted is "By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day". The Ministries involved hare are those of Rural Development, Housing and Urban Poverty Alleviation, Skill Development & Entrepreneurship. The questions that arise are the following:

- How can National Target be translated to financing criteria to channelize sustainable funding?
- How would the relevant departments formulate policies to incentivize investments if achievable targets for investments proposals are not defined objectively?

Sustainable Finance taxonomy comes in here to bridge this linkage. When the Indian government takes the decision to take is to appoint the lead ministry/ institution/ working group with the mandate to start the process of SF taxonomy development, the starting point therefore will be the SDG strategies and targets to which those have been translated.

Conclusion

Only certain countries in the world have developed/ progressed towards developing their own SF taxonomy. The importance of having one cannot be under estimated especially due to its role in translating the country's SDG strategy to financing activities that directly support in achieving those strategies. EU and China have certainly progressed a long way whereas Netherlands has adopted the CBI taxonomy. These however are mainly directed towards controlling environmental impact through investments. Available SF taxonomies do not generally focus on SDGs that do not directly relate to cleaning and conservation of the environment. There is a multi-stage process proposed by the BIS, for a country to develop its taxonomy. This would mean certain Ministries/ Departments/ Institutions (e.g., Central Banks) taking the lead in its development and seeking inputs from other linked ministries / stakeholders. In India, the securities market regulator SEBI, has issued certain mandates on the sectors / types of projects in which the proceeds from listed Green Debt Securities can be deployed. This is perhaps the only attempt towards defining/classifying Sustainable Finance products though this is far from what having a SF taxonomy would mean for the country. Looking at India's commitment to achieving SDG targets by 2030 and its recent commitments in COP26, it is imperative for the to have a SF taxonomy aligned to the various SGD targets formulated by the Niti Aayog, so that the financial sector can align their SF product offerings to those taxonomies.

Annexure

SDG 1 Linkage with Central Government Ministry, CSS, Targets and concerned Ministries and Departments

Sustainable Development Goals (SDGs), Targets, CSS, Interventions, Nodal and other Ministries

SDG No.	SDG Description	Nodal Ministry	Centrally Sponsored Schemes/Central Sector Schemes (CSS)	Related Interventions	Targets	Other concerned Ministries/Departments	Concerned Depts. of the State
1	End poverty in all its forms everywhere	Rural Development	1. National Rural Employment Guarantee Scheme (MGNREGA) (Core of the Core) 2. Deen Dayal Antyodaya Yojana (DAY)-National Rural Livelihood Mission (NRLM) & National Urban Livelihood Mission (NULM) (Core) 3. National Social Assistance Programme (NSAP) (Core of the Core)	1) Pradhan Mantri Jan Dhan Yojana 2) Pradhan Mantri Jeevan Jyoti Bima Yojana 3) Atal Pension Yojana (APY)	1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day	RD, HUPA, Skill Development & Entrepreneurship	
					1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions	RD, HUPA Skill Development & Entrepreneurship	
					1.3 Implement nationally appropriate social protection systems and measures for all,including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable	Social Justice & Empowerment, RD, Labour, WCD, Minority Affairs, Tribal Affairs	
					1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance	Agriculture & Cooperation, Land Resources, Drinking Water & Sanitation, HUPA, RD, Panchayati Raj, Urban Development	
					1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters	Home Affairs	
					1.a Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions	RD, HUPA	
					1.b Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions	External Affairs, RD	

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Pg 2 of 33

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Glimpses of National Conference 2024

STRATEGIC MANAGEMENT: CONCEPTS AND WAYS TO SUSTAINABLE GROWTH OF THE ORGANISATION

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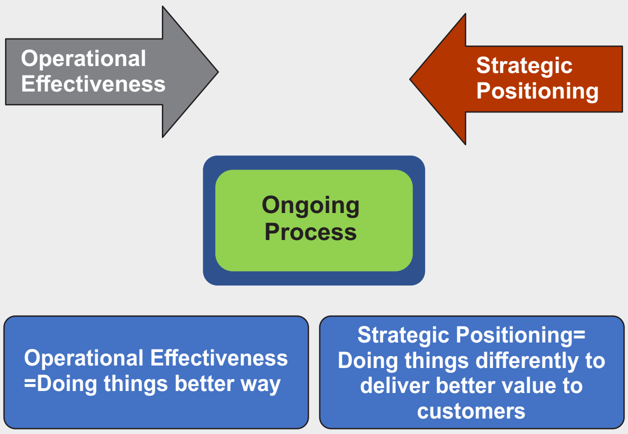
What is STRATEGY?

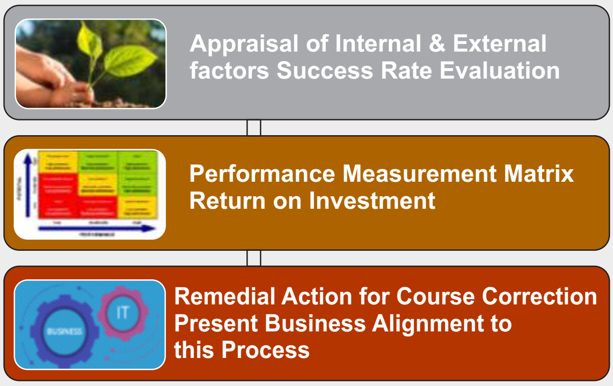
- The word STRATEGY is derived from the Greek word "Strategros" A combination of Status (army) and Ago (leading/Moving).
- It is a blueprint for Organisational objectives & goals.
- It is the Road Map of an Organisation and defines its overall Mission, Vision and Direction.

What is Strategic Management

- Integrating the Organisation's activities.
- Utilisation of scarce resources.
- Dealing with long-term developments.
- Exploring New Innovations, New products, and New markets.
- Dealing with competitors and the behaviours of customers.



Factors to be Considered for Strategic Management



Why Strategy has to be well thought of and is required for an Organisation's survival

- Competitive advantage over your business competitors
- Higher profit margin
- Better return on investments
- Market reputation
- Brand building

How Competitive Advantage Can Be Achieved

- If an Organisation can respond to external changes faster than competitors.
- Cost advantage can be achieved by Price reduction and Process Innovations.
- Differential advantage can be achieved by offering unique products and services, thereby charging premiums.

Now, I will explain the game-changing strategic initiatives of a few famous brands.

Analysis of Starbucks

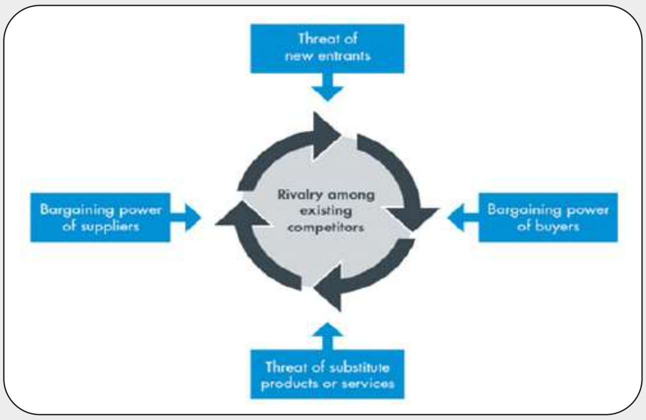
- Starbucks operate in a stable external environment.
- Despite the recession, the Food & Beverages industry continues to grow.
- Changing from traditional Hot coffee to Cold beverages, Ice creams and Snacks.
- People look for cheaper options.

MAIN ISSUE BEFORE STARBUCKS WAS COST-CUTTING AND GIVING VALUE FOR MONEY

The following factors were considered by the Starbucks management before diversification for sustainable growth.

- **Political Factor:** Sourcing of raw materials from countries adhering to environmental norms.
- **Economic Factor:** Shifting customers to lower-price alternatives.
- **Social Factor:** Offering quality products.
- **Technological Factor:** Providing WIFI in café so that customers can search the web while sipping coffee.
- **Legal Factor:** Legal compliance in countries from where coffee beans are sourced.
- **Environmental Factor:** Handle activities for fair business practices.

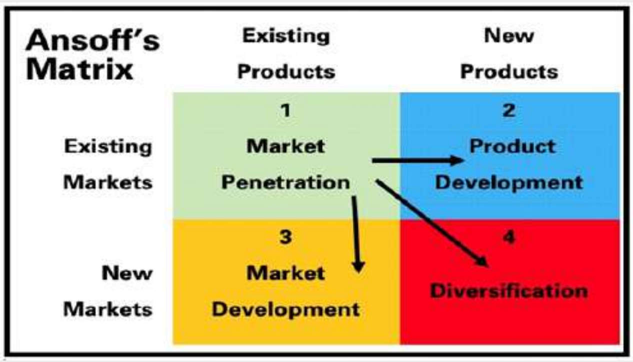
Let's now discuss a very effective management tool called the Porter Five Forces Model



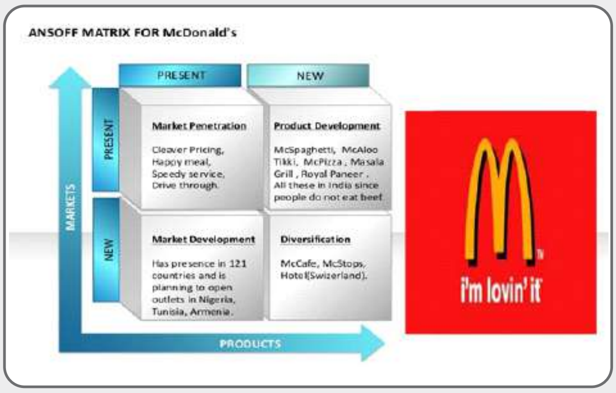
There are several examples of how Porter's Five Forces can be applied to various industries. The ultimate goal is to identify the opportunities and threats that could impact a business. As an example, stock analysis firm Trefis looked at how "Under Armour" fits into the athletic footwear and apparel industry.

- **Competitive rivalry:** Under Armour faces intense competition from Nike, Adidas and newer players. Nike and Adidas, which have considerably larger resources at their disposal, are making a play within the performance apparel market to gain market share in this up-and-coming product category. Under Armour does not hold any fabric or process patents, hence its product portfolio could be copied in the future.
- **Bargaining power of suppliers:** A diverse supplier base limits supplier bargaining power. Under Armour's products are produced by dozens of manufacturers based in multiple countries. This provides an advantage to Under Armour by diminishing suppliers' leverage.
- **Bargaining power of customers:** Under Armour's customers include wholesale customers and end-user customers. Wholesale customers, like Dick's Sporting Goods, hold a certain degree of bargaining leverage, as they could substitute Under Armour's products with those of Under Armour's competitors to gain higher margins. The bargaining power of end-user customers is lower as Under Armour enjoys strong brand recognition.
- **Threat of new entrants:** Large capital costs are required for branding, advertising and creating product demand, which limits the entry of newer players in the sports apparel market. However, existing companies in the sports apparel industry could enter the performance apparel market in the future.
- **Threat of substitute products:** The demand for performance apparel, sports footwear and accessories is expected to continue to grow. Therefore, this force does not threaten Under Armour in the foreseeable future.

Next is Ansoff's Matrix, another very powerful model for strategic management



Below is the matrix for McDonald's which depicts the strategy its management has adopted for growth



Now we discuss a very popular measurement matrix called **Balance Scorecard**

A **balanced scorecard** is a strategic management performance metric used to identify and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organisations.

It was originally published by Dr Robert Kaplan and Dr David Norton as a paper in 1992 and then formally as a book in 1996. Both the paper and the book led to its widespread success.

The Factor for Balance Scorecard

KPI: Once created, input to a Scorecard comes in the form of Performance Measures, often referred to as Key Performance Indicators (KPIs). A KPI provides information an organisation requires to determine whether it is performing well or not. Unfortunately, in some organisations, KPIs have often become indistinguishable from operational measures. Organisations frequently take the view that everything should be measured and reported on. A KPI is a Key Performance Indicator. It is one of a small number of measures that are designed to reduce the complex nature of organisational performance and turn it into something that can be understood easily and acted upon quickly.

Ultimately the objective of any management is to have the growth of the enterprise.

Organic Growth

Organic growth in management parlance refers to the growth of a company that occurs naturally. In other words, if a company grows through increased revenues and increased profitability on its own without resorting to mergers and acquisitions, then it is known to grow organically. For instance, companies like Infosys are known to shun mergers and acquisitions and instead, concentrate on growing through the expansion of their business. The main advantage of organic growth is that it helps companies focus on their core competencies and avoid the traps of cultural clashes and differing value systems that happen when two firms merge. Apart from this, organic growth is natural as mentioned earlier which means that the management of the company can feel comfortable about the growth prospects by doing what they are good at.

Inorganic Growth

On the other hand, inorganic growth refers to the expansion of the bottom line through mergers and acquisitions (whether they are friendly takeovers or hostile takeovers). The main advantage of inorganic growth is that it helps companies with large cash reserves to invest in productive mergers and acquisitions that help the bottom line of the company.

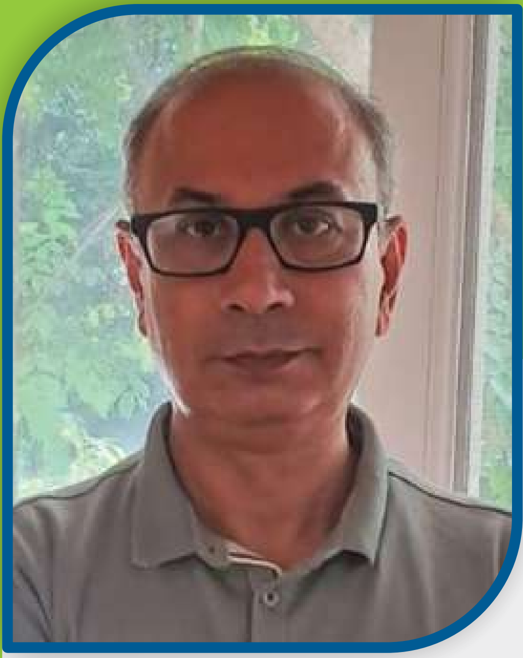
Apart from this, companies in distress can benefit through inorganic growth as a more successful company can bid for it and help both companies in the process. Further, inorganic growth helps in the consolidation of similar strategic imperatives and business drivers. Of course, when a company grows inorganically, it has to go through all the joys and perils that mergers entail in a way that is similar to how couples go through when they get married. On a serious note, inorganic growth helps companies beat the downturn as was evident in the recent merger between American Airlines and US Airways. The merger that was actualized as this article is being written points to the need for consolidation in the aviation industry, which is leaving many airlines in the red

Which is Preferable?

The answer to the question as to which kind of growth is preferable depends on the strategic intent of the companies involved. If the driver of strategy is increased market share alone, then inorganic growth makes sense. On the other hand, if operational imperatives are involved, inorganic growth leads to friction and a mismatch between organisational cultures between the two companies. Apart from this, when the objective is to keep the two companies distinct and the merger is only to consolidate operations, there is a chance that inorganic growth might work. Finally, organic growth helps the organisational identity whereas when companies grow inorganically, there is the possibility of the merged organisation losing its identity.

Closing Thoughts

The number of mergers and acquisitions is increasing mainly because these companies believe that size matters and big is better. Further, the fact that regulators are encouraging mergers and acquisitions is another factor in favour of inorganic growth. However, there is a word of caution here and that relates to the fact that companies must think twice before taking the plunge as growing inorganically does not lead to expected increases in revenues all the time.



PROFIT IMPROVEMENT

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There are four ways you can improve your profits: sell more, get customers to buy more frequently, increase prices and reduce costs. If you can do all four at once, your profits will increase dramatically. Even changing one of these four factors will boost your profits.

Profits are vital for your company's growth for the following reasons:

- They provide a return on your investment capital.
- They provide opportunities to reward staff.
- They make it easier to attract investors and customers.
- They make it easier to borrow money and negotiate a lower interest rate on the money it secures.
- They can be re-invested in the business to expand into new markets, products and locations.
- They provide a buffer against economic downturns and changes in market conditions.
- They make it possible to hire more people.
- They allow you to develop and test new products or services.

While many business owners experience a decline in their net profit margin (the percentage of total revenue that's profit) at one time or another, they are usually able to continue to trade, albeit with the aid of a short-term loan and some heavy-duty cost-cutting.

Sadly, unless you identify and address what's causing your profits to shrink, the problems are likely to get worse. It often follows that poor profitability leads to reduced cash flow. When profits are low and cash flow is weak, businesses can slip into a downward spiral.

Your profits tell you how well or how poorly your business is performing. For example:

- Gross Profit (the total amount your business makes minus the cost of goods sold (COGS) indicates how efficiently your business uses resources to produce your products or services.
- Operating Profit (gross profit minus operating expenses, depreciation, and amortisation) indicates how efficiently you produce and sell your product or service.
- Net Profit (the amount of money left after paying all the business expenses including interest, taxation, depreciation, etc.) indicates how well your business is generating healthy results.

These figures alone won't give you the whole picture. You'll need to compare them with previous annual and monthly profit results. That's where ratios come in and they can be used as a benchmark against which you can measure your business performance.

They include gross profit margin; operating profit margin; and net profit margin.

Gross Profit Margin: your gross profit divided by your sales- is a useful indicator of your company's financial health. It shows how efficiently your business is using its materials and labour in the production process and indicates the pricing, cost structure and production efficiency of your business.

The higher the gross profit margin, the better. That is because the higher the percentage, the more your business retains each rupee of sales, which means more money for other operating expenses and net profit.

Operating Profit Margin: calculated by dividing your operating income by your net sales during a period reveals how much revenues are left over after all your company's variable or operating costs have been paid. It also shows what proportion of revenues is available to cover non-operating costs like tax, interest, and distribution to your company's owner.

It is useful because it shows you whether your operating costs are too high.

Net Profit Margin: calculated by dividing your after-tax net income (net profits) by your sales (revenue) shows the amount of each sales rupee left over after all expenses have been paid.

The higher your net profit margin, the better because that shows your company is more efficient at converting sales into actual profit. A low net profit margin might mean that your business is not generating enough sales, your gross profit margin is too low or your operating expenses are too high.

The Main Reasons for Low Profits

Falling Revenue

Your sales or turnover slump could be due to internal and external factors such as:

- **Inadequate Marketing Programmes.** To be effective, your marketing needs to convey the right message to the right target audience and convince them to take a desired action like calling your company to purchase a product or book your service.
- **Poor Pricing Strategies**
- **Increased Competition**
- **Inability to keep up with market changes**

Excessive Expenses

Budget overruns or unexpected costs will chip away at your net profit.

- **High variable costs**

The higher your variable costs, the lower your net profit margin will be. High production costs or purchase costs can result in insufficient funds to cover expenses. When variable costs rise to the point that there are not enough funds left to support all expenses for the period, a net loss will occur.

How to Boost Your Profits

There are only four things you can do to increase your company's profitability:

1. Sell more
2. Sell more frequently
3. Increase prices
4. Reduce costs

If you can do all four at once, your profits will increase dramatically. Even changing one of these four factors will boost your profits.

Selling more and selling more frequently

Driven by a need to make more sales, most business owners will chase new customers.

This can be a costly exercise since it will often involve more expenditure on marketing and advertising. Acquiring new customers can cost as much as five times more than satisfying and retaining current customers, according to Management Consultants Emmett Murphy and Mark Murphy.

That's because convincing people to buy from you for the first time is difficult. Prospective clients are scared of making a mistake; of choosing the wrong supplier and wasting their money.

If your sales are low, it's better to focus attention on your existing and previous customers and find ways to encourage those people or companies to buy more and to do so more often.

Your existing and previous clients do not have the prospective clients' fears and objections to doing business with you. You've already demonstrated that you can deliver the benefits they want from your products or services.

On average, loyal customers are worth up to 10 times as much as their first purchase.

There are other benefits to selling to existing and past clients too: it cuts your refund rate, raises the likelihood of positive word-of-mouth, and lessens the risk of your clients buying from your competitors.

Even better, a 2% increase in customer retention has the same effect as decreasing costs by 10%, according to Emmett and Mark Murphy. Cutting your customer defection rate by 5% can raise your profitability by between 25% and 125% depending on the industry, they say.

Customer profitability tends to increase over the life of a retained customer, they say. In other words, the longer your clients are with you, the more they will spend.

Raising Prices

All too often, business owners believe their prices must be lower than their competition. They also believe if they increase their prices, they will lose customers. Both assumptions are false.

It all comes down to the perception of value. People will happily pay more for a product or service they perceive as having added value.

(Source: White House Office of Consumer Affairs, '75 Customer Service Facts, Quotes & Statistics: How Your Business Can Deliver With the Best of the Best', Help Scout, www.helpscout.net)

'Leading on the Edge of Chaos: The 10 Critical Elements for Success in Volatile Times', Murphy, PH.D., Emmett C., Murphy, MBA, Mark A., Prentice Hall Press, June 15, 2002

If your products or services are on par with your competitors, your prices should be similar or higher.

Even a small price rise will have a positive impact on your profit margins. After all, the larger the difference between the cost of a product or service and the price it sells for, the higher the profit.

Reducing Costs

Companies that fail to control their costs are often forced to borrow but then find that servicing that debt erodes their profits still further.

The benefit of cutting your costs is that it will have a direct short-term impact on your bottom line since a rupee saved in expenses might mean an extra rupee in profit.

Typically, profit drivers will be to increase sales, reduce the cost of sales and reduce overhead expenses but they could be any of the following:

Financial Drivers
(which have a direct impact on your finances)

- **Pricing**
- **Variable Costs** (Cost of Sales)
- **Sales Volume** (for example, generate more prospects, convert more prospects to customers, retain more past customers, increase the size of each purchase, increase the sales price, etc.)
- **Fixed Costs** (for example, overhead expenses)
- **Cost of Debt** (for example, interest rates on debt)
- **Stock**

Non-Financial Drivers

- **Staff Training**
- **Product Innovation**
- **Market Share**
- **Productivity**
- **Customer Satisfaction**
- **Product/Service Quality**

- Analyse every area of gross profit to understand where the biggest opportunities lie and to determine how to reduce less profitable activities.
- Find your most profitable customers (those who consistently spend more with you).

- Find the customers who you are currently serving but who are loss-making for you.
- Analyse return on investment on capital and product development expenditure.
- Ensure your management information is up to date and in a format that is useful and reliable.
- Educate the senior team about the importance of Critical Success Factors (CSFs). These are the activities that your business must do to survive. **You can determine your CSFs by answering the following questions:**
  - How is our business better than our competitors?
  - What do our customers like about our products or services and how do we operate?
  - What don't our customers like?
  - What would make our customers stop buying from us?

You measure your CSFs by using Key Performance Indicators (KPIs).

- Systematically analyse relevant KPIs and trends to identify potential hazards before they become a problem.
- Review arrangements with your main customers to see if there is a more profitable way to supply them.
- Review pricing arrangements with existing suppliers.
- Research alternative suppliers across all areas of the business.
- Research sources of grant funding.
- Determine your company's eligibility for Research and
- Development (R&D) tax credits. The tax relief will either reduce your tax bill or provide a cash sum. To receive R&D tax credits, you must show that your company is carrying on a project that seeks an advance in science or technology and how it will achieve it, according to HM Revenue & Customs (HMRC). The advance being sought must constitute an advance in the overall knowledge or capability in a field of science or technology, not just your company's own state of knowledge or capability.
- Develop effective incentive schemes for staff to encourage productivity and manage risk.
- Prepare customer surveys to understand what the market really wants (and then sell it to them).
- Analyse competitors to find out what is working well and what isn't and course correct accordingly.
- Review significant overheads and isolate opportunities to reduce expenditure.
- Investigate exchange rate hedging and planning.
- Create a realistic and achievable action plan, then communicate it to all your employees.
- Increase prices.
- Explore online selling.
- Explore more cost-effective ways of marketing by forming strategic alliances and joint ventures with companies that deal with your prospective clients.
- Arrange for business mentors to give advice and share experiences with you.
- Review organizational structure and delegation procedures to maximize efficiency.
- Develop customer retention strategies to prevent loss of revenue.
- Evaluate business location and determine possible alternatives (to save costs on production, delivery, etc.).
- Outsource some functions (and so save on wages) or employ someone on a part-time rather than full-time basis.
- Look at the viability of redundancies. If you're making people redundant, you will need to fund redundancy payments. You will also need to ensure you meet current legislation and standards regarding consultations with employees, the grounds for redundancy and the selection of employees.
- Introduce an expense control programme. Challenge expenses in all categories, large and small. Besides cost-cutting measures, also ensure you tighten your control on costs. If you don't already have a purchase order approval policy, for example, you'll be encouraged to introduce one.
- Look at your bank charges. Question all bank fees on your statements and compare them with what other banks charge.
- Check invoices from suppliers for overcharging (incorrect charges, missing discounts, double billing, etc.)
- Get rid of inefficient systems (for example, paper-based systems)

  Measure the return on all your advertising and stop using whatever hasn't worked in the past.
- Replace frequent small orders with bulk buy discount orders.

As you can see from this, profit improvement is not an emergency fix. It's something you and your organisation need to plan for and follow consistently. If you don't, there's a very real danger that once you return to growth, you'll get swept up with the day-to-day demands of running your business. That increases the risk you'll find yourself back in an unprofitable position.

As with many challenges facing growth businesses, the solution lies in good planning for profit improvement on the one hand and an ability to stick to the plan, month in, and month out, on the other.

Profit improvement should be seen as an ongoing project. It takes some time to establish systems, which enable your business to maximize its profitability, and then it takes focus and resources to maintain the monitoring process.

Conclusion

Most business owners say making a profit is the number one reason they are in business. Everything else (passion, purpose, mission) is subordinate.

Profit is an expression of getting the most out of your business for the least amount of effort. It is a reflection of your efficiency.

Building a large company and being able to cite impressive turnover figures are often the wrong drivers for business owners. Again, this is not to say that increasing sales is the wrong approach – on the contrary – it is merely to point out that selling lots of products without a full understanding of the profitability of the product can be a waste of valuable resources.

A compact, efficient business which operates under tight management procedures is nearly always a happier place to work than a chaotic business which can boast significant turnover figures.

Expanding overseas, taking on more staff and resourcing up may well be the right way for you to take your business. It could equally be the case that you may be able to enjoy increased profitability (and an improved lifestyle if this is an important driver) without expanding rapidly, but merely by improving profitability.

NAVIGATING THE AI-DRIVEN FUTURE: PREPARING THE WORKFORCE FOR UNPRECEDENTED CHANGE

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The dawn of the AI era is upon us, and with it comes a seismic shift in the employment landscape. As technology advances at an unprecedented pace, industries are being reshaped, and the very nature of work is undergoing a profound transformation. The latest findings from the U.S. Chamber's Commission on Artificial Intelligence Competition, Inclusion, and Innovation underscore the complex and unpredictable impact AI will have on the job market. While the report emphasizes the potential of ethically developed and deployed AI to enhance human work rather than replace it outright, it also highlights the challenges in foreseeing the full ramifications of this technological revolution.

In this dynamic environment, the demand for skills is evolving, with a growing emphasis on technological proficiency, social and emotional intelligence, and higher cognitive abilities. To thrive in this AI-driven future, individuals and organizations must adapt and strengthen their durability and competitive advantage. The key to navigating this cloudy landscape lies in embracing change and investing in continuous learning and skill development.

The Shifting Sands of Skill Demand :

As artificial intelligence permeates various industries, the hierarchy of competencies is being redefined. While technical prowess remains crucial, the focus is shifting from rote knowledge to the ability to adapt and innovate in an ever-evolving digital landscape. Moreover, the growing recognition of the importance of social and emotional intelligence highlights the unique value that human workers bring to the table. Skills such as empathy, creativity, and adaptability are increasingly prized, as they enable individuals to navigate complex social dynamics and collaborate effectively in diverse teams.

The emergence of AI is not a battle between humans and machines, but rather an opportunity for a symbiotic relationship where each complements the other's strengths. By honing critical thinking, problem-solving, and emotional intelligence, workers can future-proof their careers and remain relevant in an AI-driven world.

Reskilling and Upskilling: The Keys to Success

Reskilling and upskilling have emerged as essential strategies for preparing the workforce for the AI-driven future. Organizations must invest in continuous learning initiatives to ensure that their employees remain competitive in an increasingly digitalized world. By providing opportunities for skill development and career advancement, employers not only foster employee loyalty and engagement but also cultivate a culture of innovation and adaptability.

These initiatives can potentially bridge the gap between the supply and demand of talent, addressing critical shortages in emerging fields such as data science, machine learning, and cybersecurity. Moreover, by investing in lifelong learning, workers can stay relevant in an ever-evolving job market, ensuring their long-term success and employability.

The Emergence of "New-Collar" Jobs

As automation disrupts traditional job roles, a new category of employment opportunities is on the rise: "new-collar" jobs. These roles require a unique blend of technical and soft skills, often acquired through non-traditional pathways such as vocational training, apprenticeships, and online courses. New-collar jobs span a wide range of industries, from advanced manufacturing to digital marketing, offering promising career prospects for individuals with the right skill set.

However, the emergence of these roles also presents challenges, as organizations grapple with the task of identifying and cultivating talent in an increasingly competitive landscape. To succeed in this new era, it's not just about preparing for a specific job; it's about fostering a mindset of adaptability and innovation that enables individuals to thrive in the face of change.

The Vital Role of Financial Auditors in Assessing AI's Impact on Businesses

Financial auditors play a crucial role in assessing the financial implications of AI adoption and guiding organizations through this transformative period. By examining the costs, benefits, and risks associated with implementing AI technologies, auditors provide valuable insights to inform strategic decision-making. They must consider both the direct financial impact of AI adoption, such as investments in reskilling and upskilling programs, and the potential indirect effects, like the costs associated with workforce displacement.

As organizations increasingly rely on AI systems for financial analysis and decision-making, auditors must adapt their methodologies to effectively assess the accuracy and reliability of these systems, ensuring the integrity and transparency of financial reporting in an AI-driven world. By leveraging their expertise in financial analysis and risk assessment, auditors can help organizations make informed decisions about AI adoption, ensuring that these investments are financially sound and align with the organization's long-term goals.

Conclusion: Embracing the Future with Confidence

The AI-driven economy presents both opportunities and challenges. While it promises to revolutionize innovation and streamline processes, it also threatens to disrupt traditional employment patterns. Preparing the workforce for this new era is not merely a matter of survival but an opportunity for growth and transformation.

Governments and businesses must work together to guide society into this new era, fostering innovation and AI adoption while creating safety nets to support those who may be displaced by technological progress. As we navigate this uncharted territory, we must embrace the future with open arms, confident in our ability to adapt, evolve, and thrive in the ever-changing landscape of work.

The path ahead is one of continuous learning, collaboration, and innovation. By investing in the development of our workforce, leveraging the expertise of auditors, and fostering a culture of adaptability, we can harness the power of AI to drive progress and create a better future for all. The AI-driven future is upon us, and it is up to us to seize the opportunities it presents and shape it for the betterment of humanity.

The author is an AI Automations Consultant and a marketer based in Delhi-NCR. An Arizona State University graduate, he got entrenched into the world of AI in his pursuit for innovative solutions for his agency AloHype. His exposure to AI turned him from an agnostic to an evangelist. He has immersed himself in developing products that help people interact with AI systems for consistent and precise results. He can be reached at: ***ashutosh@thealgohype.com***

Glimpses of National Conference 2024

MUSINGS ON THE PERFORMANCE OF INTERNAL AUDITS AND THE IMPACT THAT THIS HAS ON THE AUDITEE.

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When approached by your editorial team to provide you with another opinion piece, my plan was to discuss with you the update of the IPPF into the new Global Auditing Standards. Then in March, this all changed.

As you know I work for Birmingham City University these days, and we provide the only Apprenticeship programme in the UK for a level 7 Apprenticeship in Internal Audit, as well as the MSc Internal Audit and Consultancy. Part of the privilege of delivering this programme we are regulated by OFSTED (UK Government's Office for Standards in Education) and are subject to an OFSTED inspection audit, yes, we are audited. Being part of and observing this process has given me a newfound appreciation on our impact as auditors on those that we audit, and the levels of anxiety that this can cause.

As some of you will know, I was a practicing internal auditor for over 30 years, and very rarely would have given much thought about the impact of what we do on those we audit from a health and wellbeing perspective. We were always told it is the process not the people we are auditing, which I promulgated over the years. How do we communicate, do we check in the auditees in regard to their mental health needs as we progress? Back in the 1990's – 2010's this was never a consideration, we had a job to do and if "people were doing their job properly, then they should have nothing to worry about". But how true is that? Today and in today's world, especially post-pandemic, I do not think that is true anymore. Having now been audited myself and seeing this from the other side of the fence on the impact on those around me, and feelings that were manifested in how I felt about the process.

Historically, when I trained new auditors in the workplace, I would have always stressed that we should remove the personal element from the review for as I have stated above, we are auditing the process and not the people. If processes are not followed and controls can be circumvented, is the control framework that is weak, and should not be a reflection on the individuals involved in the process. The issue is in the design and not execution of the control operation. I know you are now saying "But what about those that specifically try to circumvent processes?" Yes, there will always be those instances, and it is down to how robust the process is that will guard against it. People generally do not go work to work each day thinking about how they can break the rules and do something wrong or in the worst case be dishonest.

Audits are conducted as much as to protect the auditee as ensuring efficiency and effectiveness in operations of processes. But is this how this is perceived by the auditee today? Now, having been audited myself, I strongly believe that as a profession we do need to start to consider the impact we have on the people we audit from a holistic perspective, which is the wake that we leave behind. I know that many organisations have feedback surveys to gauge the process and output of the audit, but this will generally go to management and not the auditees who are the process and control operators. It is they that we as auditors would spend most of our time talking to, getting under the skin of whatever it is we are auditing. What do they think? How do they perceive the process of being audited? How were they impacted? And what could we do differently in the future, to make it a more pleasant experience.

What the last couple of months have demonstrated is that despite how much you think you are doing the right thing, are compliant with process, and know that you are doing what is expected, your Chimp will take over. Mind talk is the anxiety inducing aspect we all have inside ourselves, "am I good enough", "will management think less of me", "will they find something that I should be doing, that I am not", and so it goes on. This is a heavy burden to have, when you are in front of an auditor (OFSTED have inspectors) and answering their questions. Having spoken to colleges involved in this process, and in education, just like in business a-lot rides on what the auditors think, and in the case of Further and Higher Education the outcome of an OFSTED inspection can determine whether you can still provide an Apprenticeship Programme.

So what do we do…

One of the things that I will be addressing personally is that in our modules where we are training auditors on how to complete audits, we will start focusing more on the how, and not just on the what. It is the soft skills of our professionals we need to develop. The new Global Auditing Standards are wonderful at telling us what, but it is only through the learned experience do we develop these soft skills.

How do you talk to your auditees, how do you communicate…

I would challenge you reader to think about, when you are preparing for your audit, to think how much time you are devoting to placing the audit with the auditees, not just management but those control operators who you will be speaking to as part of your field work. Do you just book a meeting and turn up (that is what I used to do) or will you send them more of an explanation of why you want to see them, what the overarching purposes are and why they are important to you and the process. Don't just send them a copy of your audit engagement document (terms of reference), spend some time tailoring your requirements request to ensure that they are re-assured in the process and remove some level of anxiety for them.

The OFSTED Inspector assigned to review our provision was amazing and took the time each day to check in on how we were doing, were we getting enough feedback from them, were we comfortable in what we were being asked for. This made all the difference, and I wish that back in the day, I was as enlightened as I am now, about how to approach and talk to auditees to get the best out of the process for all concerned.

Hal Garyn in his article the Seven Worst Words Internal Audit Use. He talks about specific words and the negativity they evoke and the "Gotcha" mentality people perceive about audit in general. It dates from January 2023, but I found it profound.

The key words he talks about are:

- Findings
- Weakness
- Material
- Disclosed/uncovered
- Entrance/Exit
- Consulting
- Satisfactory

How many of you have used these words in your last audit, last meeting or communications? If I was still a practicing auditor, I would be using them, I know if I had not read Hal's article and been audited myself.

However, on reflection I can now see, the impact these words have on the recipient. They are all negative in the connotation and, yes, we can use our language, no matter what our native tongue is to better effect through considering the impact of the words we use.

In conclusion, at the end of the day we want our auditees to "buy-in" to the process and want to enhance what they do, grab those opportunities for improvement thus better protecting the effectiveness of the control environment for which they own and govern. Be this for the better protection to stakeholders, shareholders and the continued improvement and development of the organisation we all operate within. So consider our language, the wake we leave behind as we travel through our audit days and weeks, and the people we impact along the way.

Thank you for reading this.

Glimpses of National Conference 2024

AI INTO IA: IS IT JUST A BUZZ?

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Abstract

This article covers the difficulties internal audits (IAs) face due to growing data and automation. It also provides a business case for using Artificial Intelligence (AI) in the internal auditing process. It examines how automation, data analysis, and ongoing monitoring can be leveraged using AI to overcome these obstacles and transform the IA function. The article also notes that AI has drawbacks, such as possible biases and requiring precise instructions and high-quality data. It highlights how crucial it is for humans and AI to collaborate, where AI enhances human capabilities rather than taking their place. The article's conclusion asserts that although cautious application and an emphasis on human-AI collaboration are essential for success, AI can improve the IA function. Overall, the article explores how AI can revolutionise IA and whether this is feasible in the near future.

Introduction

Currently, technological advancement is at its peak. New technologies keep popping up everywhere. Every field around the globe is transforming immensely due to the introduction of new technology and Internal Audit (IA) is one of them. IA is going through a massive transformation due to increased data, automation and the introduction of Artificial Intelligence (AI). Due to the enormous amount of data available nowadays, auditors cannot work in silos. Auditors must analyse the immaculate data and need tools to make it possible. AI is one such tool. It includes advanced data analytics, automation, and so much more. Is it a powerful enough tool to revolutionise the IA function? This question has been addressed in this article.

Challenges Currently being faced in IA:

1. Data Handling: This first challenge is pretty obvious for everyone to predict. Organisations are generating and handling vast amounts of data daily. This large amount of data makes it cumbersome for auditors to understand and analyse the components of various processes in the organisation. Handling such vast data may lead to errors and waste the most useful resource-time. According to a report published by IDC in 2023, the global data sphere will grow to approximately 175 zettabytes by 2025. Manual handling of such a massive amount of data is not possible. Finding any red flags promptly so that they can be addressed becomes a challenge.

2. Resource Constraints: IA is a resource-intensive function. It requires a lot of time and capital. A 2023 report by Protiviti titled "Internal Audit Capabilities and Challenges in a Digital Age", stated that the internal audit function is highly resource constrained. These constraints limit the scope of the IA function and adversely impact its effectiveness.

3. Risk is Evolving: With the introduction of many new business models and the constant changes in the business environment, risk is becoming more dynamic daily. According to the "Global Pulse of the Internal Audit Profession," report by the Internal Audit Foundation, cybersecurity, environmental, social and geopolitical risks in the current scenario are highly concerning.

These challenges raise questions about traditional methods of IA and the demand for constant improvement. **A 2024 report by Deloitte titled "Audit Renaissance: Reimagining the Internal Audit Function for the Digital Age" emphasises the need for internal audit to provide continuous assurance and insights throughout the year.** This is where AI comes into play. Its various capabilities include automation, trend analysis, data analysis, etc. AI can empower IA in many ways. Since we have now seen how IA is becoming increasingly challenging day by day, let's look at how AI helps overcome these challenges.

Here are some of the benefits of using AI in IA:

- **Boosts Effectiveness and Efficiency:** Data extraction, transaction testing, and control walkthroughs are just a few repetitive processes that AI-powered technologies can automate. This frees up auditor time that could be better used on higher-value tasks like risk analysis, judgment, and assessment.
- **Better Understanding of Data:** AI systems can examine enormous volumes of data to spot trends, abnormalities, and obscure patterns a human could miss. This makes it possible for auditors to concentrate on higher-risk areas and more efficiently allocate their time.

- **Enhances Risk Assessment and Mitigation:** AI can create more complex risk models considering a more extensive variety of variables. This allows auditors to foresee new hazards and implement efficient mitigation plans.
- **Offers Continuous Monitoring:** AI-powered solutions can continuously monitor critical processes and controls, giving immediate insights into possible problems. This makes it easier to undertake internal auditing in a proactive and future-focused manner.
- **Better Use of Resources:** AI helps reduce costs and decrease the hours spent auditing extensive processes through automation, i.e. it reduces audit time.

The above benefits look very pleasing, but it is crucial to understand how AI accomplishes them. Automation and AI help avoid duplication of work. By doing tasks like data extraction, control testing and report generation, AI helps save a truckload of valuable time. The most time saved by using AI is spent on data analysis. AI can train algorithms to detect abnormalities or red flags in auditing. Due to these features, AI can have applications such as internal control testing, continuous monitoring, audit documentation and reporting, data analytics and audit risk assessment.

Everything has its pros and cons, and so does AI. Although AI provides significant benefits and more significant challenges that it overcomes in internal audit, it does not come without challenges of its own.

The use of AI requires careful reconsideration due to the following reasons:

1. **Bias:** It is not unknown that AI has its own sets of biases. AI works on an underlying model. If there is a flaw in the model on which it is working, like the recent case of the Human Resource function facing backlash due to the use of AI to filter out resumes, but the data fed to AI was biased against women. It is essential to understand the underlying model and its logic.
2. **Data Quality:** AI uses whatever data is fed to it. It cannot question things like the human mind does. The quality of data fed into it is crucial. The integrity and accuracy of data play a significant role.
3. **Command Clarity:** AI merely works on commands. It does not have a mind of its own. The clarity of the instruction given is again crucial. Even if one word is missed in the instruction or is misinterpreted by AI, it can lead to disastrous audit results.

Even though AI imposes challenges, its usefulness surpasses its challenges considerably.

Now that we understand the basics of AI, let's look at a particular AI segment currently used extensively in IA. This segment is **Augmented AI.** What is augmented AI? "Augmented auditing is the expert-led tech-enabled solution. I believe it's the next logical evolution in internal auditing because the business landscape has changed significantly. With the amount of data we have, we need a better or smarter way of auditing". According to Emmanuel Manalo, Head of Internal Audit at Lemonade (All Things Internal Audit: AI podcast by IIA), this is what augmented AI is. He further discusses accuracy, efficiency, and scalability: "Full automation sounds radical, but it is about efficiency in doing many things through automation. Accuracy is because AI never gets tired, and the data crunching is always a disposition to it, and then scalability is a game changer because we could do many things without increasing resources".

Intelligence augmentation, or augmented AI, is a term that refers to a paradigm shift in how humans interact with artificial Intelligence. Augmented AI focuses on enabling people instead of standard AI systems that function independently. As a result, AI functions as a potent tool in a collaborative setting, augmenting human capabilities and promoting improved decision-making. This cooperative strategy is based on three fundamental ideas:

1. **Human in the Loop:** Augmented AI systems give people a higher priority. Humans draw on AI's insights while defining objectives, analysing data and reaching conclusions.
2. **Task Augmentation:** Artificial Intelligence automates laborious, repetitive jobs, freeing the auditor's attention for higher-order cognitive functions like analysis, creative problem solving and strategic planning.
3. **Explainable AI:** Augmented AI places a high priority on offering concise justifications for its results. This transparency promotes cooperation and trust, making it possible for people to comprehend the logic underlying AI's recommendations.

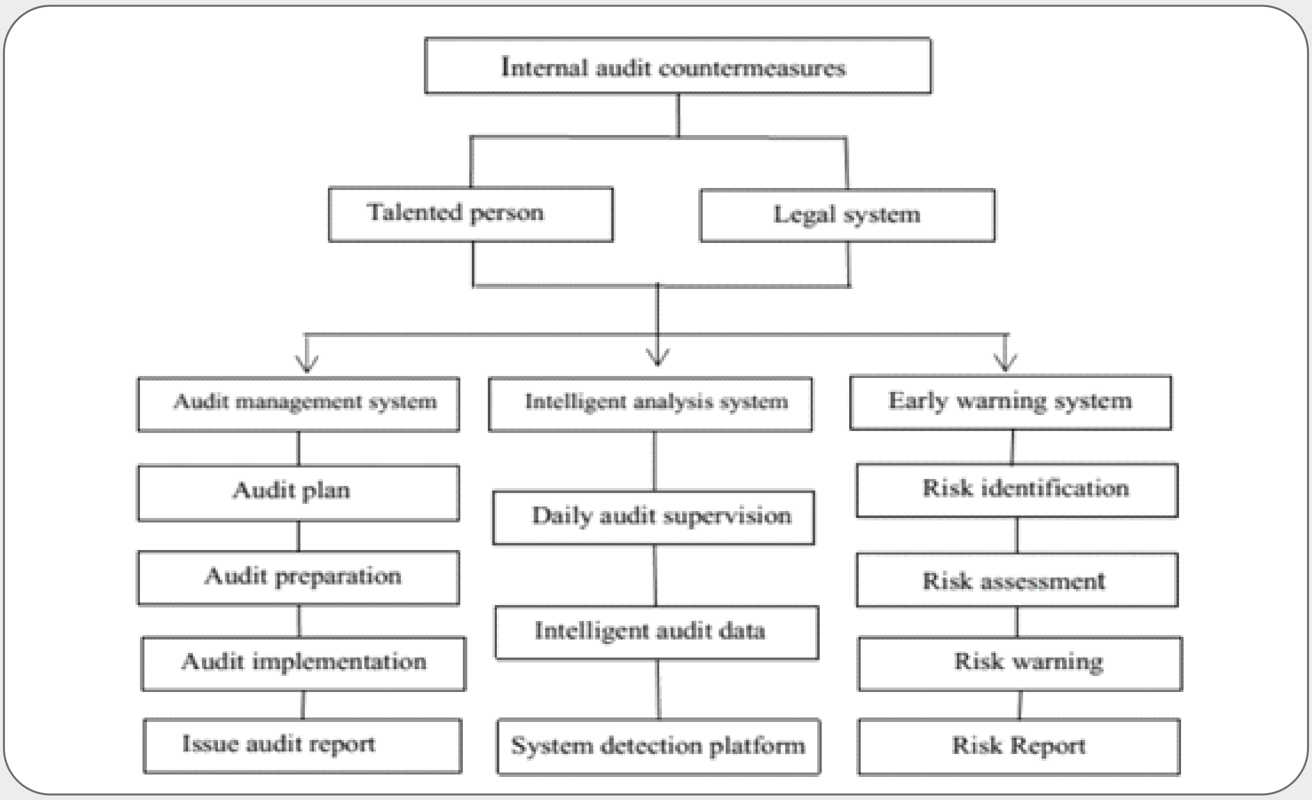
The above facts and data points make it clear that integrating AI into internal audit is inevitable. Artificial Intelligence is poised to revolutionise the profession of IA, not by replacing auditors, but by augmenting their capabilities. While AI won't replace auditors, it will become a mighty co-pilot, augmenting capabilities and ushering in a new era of efficiency, insight and proactive risk management. One of the most impactful areas will be in data analysis. Traditionally, internal audits involve sifting through mountains of financial records, contracts and operational data. This time-consuming process often relies on sampling, which leads to leaving potential risks undetected. AI, however, thrives on vast data sets. Advanced algorithms can analyse the entire data population and identify anomalies, patterns and trends that might escape our human eye. Imagine AI uncovering subtle inconsistencies in purchasing data, potentially revealing fraudulent activities. This not only leads to having better expertise on the audit process but also leads to better risk management function in the overall organisational landscape.

Furthermore, AI's ability to automate repetitive tasks will free internal auditors to focus on higher-level functions. Consider the mundane task of reviewing control procedures for effectiveness. AI can automate the process, analyse control documentation and identify potential weaknesses. This frees auditors to delve deeper, testing the effectiveness of controls in real-world scenarios and conducting insightful risk assessments. This time saved translates to increased efficiency, allowing internal audit teams to cover more ground and provide more strategic value to the organisation.

Conclusion

Much research has been conducted on this topic, and many reports have been published on why AI should be used in IA. One such Research paper provides the following analysis:

Internal Audit Countermeasures



Source: as applied by Zhou (2021)

The figure shows the AI resolution of anomalies in the IAF of the organisations.

Some of the reports that prove a compelling case for the use of AI in IA and also show the fact that the integration of AI into IA is inevitable are:

- **A 2023 Institute of Internal Auditors report** on "The Internal Audit Disruption series: Embracing Technology and Innovation" found that 68% of internal auditors believe AI will play a significant role in AI.
- A 2024 Gartner report states that 20% of internal audit functions will leverage AI for continuous process monitoring by 2025.
- A recent study by EY internal audit found that 62% of internal audit functions have already begun exploring or implementing AI technologies.
- A **2023 PWC report** titled "AI in Internal Audit: Transforming the Profession" found that 73% of internal audit leaders believe AI will significantly impact the profession within the next five years.
- A **2023 KPMG report** titled "Internal Audit in a Transformative Era" predicts that AI-powered audit tools will save internal audit functions an average of 30% of their time by 2026.

The future of AI in IA extends beyond data analysis and automation. Continuous monitoring is a critical aspect of effective risk management. Traditionally, this involves periodic reviews and testing of controls. AI-powered tools can be set up for real-time monitoring, constantly analysing data streams and generating risk alerts when anomalies are detected. This allows auditors to identify and address potential issues much faster, mitigating risks before they escalate into major problems.

However, it's important to remember that AI is a tool, not the hen that lays golden eggs. Internal auditors will still need to possess strong analytical skills and critical thinking to interpret the data and insights provided by AI. They must exercise professional scepticism and ensure the accuracy and validity of AI models used in the audit process. The future of IA lies in a collaborative approach, where AI empowers human expertise, not replaces it.

AI holds immense potential to transform the internal audit function for the better. By leveraging its capabilities, internal auditors can attain higher levels of efficiency and effectiveness and manage risk better and faster. This integration of AI into IA requires careful implementation. We need to take care of proper governance functions, look over them, manage change, and plan everything very carefully. The proper collaboration between humans and AI is vital for the success of this integration. Auditors must understand that AI is not here to take their jobs; instead, it helps make their jobs easier. The integration of AI and IA is no longer a hoax; rather, it is the reality that we must embrace and utilise in the best possible manner to make the best out of it.

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Glimpses of National Conference 2024









REDEFINING INTERNAL AUDIT: A FRESH PERSPECTIVE FOR UNPRECEDENTED TIMES

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Abstract

The traditional role of internal audit, focused on compliance and controls, is no longer sufficient in today's dynamic and rapidly changing world. This article argues that internal auditors must evolve into strategic risk navigators, actively identifying and mitigating threats that could jeopardise an organisation's existence.

Introduction

The business landscape is experiencing constant disruption driven by technological advancements, economic shifts, and geopolitical uncertainties. Internal audit functions must adapt to this new reality by moving beyond traditional practices and embracing a strategic perspective focused on mitigating critical risks that can make or break an organisation.

> "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction."
>
> ~ Bill Gates

The world is in a state of flux. Technological advancements are happening at breakneck speed, economies are constantly evolving, and geopolitics throws curveballs with alarming regularity. In this dynamic landscape, the role of the internal auditor can no longer be confined to the traditional realm of checklists, controls, and ensuring compliance. A fresh perspective is needed – one that positions internal audit as a strategic partner, actively mitigating risks that threaten an organisation's very existence.

> *According to a Harvard Business School Professor in the book The Balance Scorecard:* ***"Translating Strategy into Action, 90% of organisations fail to execute their strategies successfully. However, some say that 95% of strategic plans fail."***

From Compliance to Strategy: A Shift in Focus

Traditionally, internal auditors have excelled at identifying operational risks, compliance gaps and IT vulnerabilities. These remain crucial functions, but they are no longer enough. The future of internal audit lies in its ability to address strategic risks. These risks, broadly categorized as external and internal, can make or break an organisation. Statistics suggest that companies that are not able to address strategic risks on time have disappeared or significantly reduced their market share.

- External Strategic Risks: These stem from factors outside the organisation's control, such as:
  - Failure to adapt to disruptive technologies: Imagine a company clinging to outdated brick-and-mortar retail models while the Quick Commerce revolution unfolds in India. They risk losing market share if they don't leverage this new channel to reach customers.
  - Economic downturns: A global recession or pandemic can wreak havoc on unprepared businesses.
  - Shifting geopolitical landscapes: Regulatory changes or trade wars can disrupt entire industries.
- Internal Strategic Risks: These stem from decisions made within the organisation, such as:
  - Poor decision-making: A bad acquisition or a flawed product launch can have disastrous consequences.
  - Compromising quality for cost savings: Cutting corners on materials or safety can lead to product recalls and reputational damage.
  - Failure to innovate or monetize intellectual property: Companies that fall behind the innovation curve are at risk of being overtaken by competitors.

Real-life Risk posed by Quick Commerce Companies to Traditional Retail and e-commerce companies.

In India, quick commerce players like Zepto, Blinkit and Swiggy Instamart are not restricting themselves to groceries, essentials and utilities. They have started delivering consumer electronics including iPhones that are delivered to customers in under 5 – 10 minutes. Imagine the risk they are posing to traditional retail as well as traditional E-commerce companies. According to a 2024 report from , the quick commerce (q-commerce) market in India was valued at $652 million in 2023 and is expected to reach $19,932.5 million by 2030, with a compound annual growth rate (CAGR) of 63%.

Bridging the Gap: The Internal Auditor as a Strategic Risk Navigator

So, how can internal auditors equip themselves to tackle strategic risks? Here's a roadmap:

Understanding the Big Picture: Internal auditors need to move beyond individual processes and departments. They must grasp the organisation's overall goals and objectives, and assess how each audited area aligns with the strategic vision.

Asking the Right Questions: During audits, the focus should shift towards facilitating discussions about strategic risks. For example, in the Quick Commerce scenario, an internal auditor might ask: "Has the management explored strategic partnerships with Quick Commerce companies to expand reach?" The management's response and proposed mitigation strategies become crucial insights.

Elevating the Conversation: The audit committee meetings should become a platform for in-depth discussions about strategic risks. This ensures that these critical issues reach the highest levels of management.

Beyond the Checklist: Expanding the Internal Audit Toolkit

To become effective strategic risk navigators, internal auditors need to expand their skillsets beyond traditional auditing practices. Here are some additional areas of expertise to consider:

- **Data Analytics:** Data analysis is crucial for identifying hidden patterns and trends that could indicate emerging risks. Mastering data analysis tools will empower auditors to extract valuable insights from vast data sets.
- **Scenario Planning:** The ability to forecast potential future scenarios, and assess their likelihood and impact, will allow auditors to proactively identify potential strategic risks and recommend contingency plans.
- **Industry Knowledge:** Staying abreast of industry trends and disruptive technologies specific to the organisation's sector allows auditors to anticipate potential challenges and opportunities.
- **Communication Skills:** Effectively communicating complex risks to non-technical stakeholders is paramount. Internal auditors need to translate their findings into clear, concise, and actionable insights for the management to understand.

Emerging Threats: The Expanding Risk Landscape

The traditional focus on financial risks alone is no longer sufficient. In today's world, internal auditors must also consider:

- **Cybersecurity Risks:** With increasing reliance on technology, cyberattacks pose a significant threat. Assessing an organisation's cybersecurity posture and identifying vulnerabilities are essential internal audit functions.
- **Third-Party Risks:** Partnerships with external vendors can introduce new vulnerabilities. Internal audits need to evaluate the risk profiles of third-party vendors and ensure proper controls are in place.
- **ESG Risks:** Environmental, Social, and Governance (ESG) issues are becoming increasingly important for investors and consumers. Internal audits should assess an organisation's ESG practices and identify potential areas for improvement.
- **Futuristic Risks:** As technologies like AI, ML, Robotics, RPA & Blockchain evolve, internal auditors need to stay informed about their potential risks and opportunities for the organisation.
- **Changing Consumer Preferences:** As consumers are more informed and have an abundance of data, they are making conscious decisions while making their purchases. For instance, they consider buying healthier products or a product which is produced using sustainable practices or from a brand that showcases care for its customers and society.

Taming the Hydra: Insights for a Spectrum of Futuristic Risks

Use case of "A.I. & Intelligent Automation in TPRM"

AI can be used to segment the vendors into High-risk, medium-risk and low-risk.

Automated relevant questionnaires could be made and sent to the vendors after review.

For screening, AI can scrape through different reputed portals and analyse the risk profile, negative news, previous offences or pending litigations and sanctions.

For continuous monitoring, there can be a dashboard for high to medium-risk vendors who are critical from the Perspective of AML, ABAC, Data privacy, Cyber security, BCP DR, and Supply Chain which brings in alerts for emerging risks faced by the vendor.

If there is serious risk posed by the vendor, the system should automatically trigger alternative vendor discovery if needed and should bring new competitive quotes for the same. As the TPRM life cycle for onboarding a customer like in the case of banks can be as long as 6 months, certain repetitive processes can be automated. For continuous monitoring, AI can be the best Use case (also helpful in overall supply chain risk and triggers).

Use of AI-based contract terms analysis & AI-based contract formation which can address the typical risk faced and mitigating measures that create a favourable and win-win contract taking into consideration all aspects and scenarios.

Use of advanced search techniques on search engines, use of advanced scrapping tools to gather data about third parties and analyse them to navigate the risks.

Use case of "A.I. & Intelligent Automation in Cyber Security"

- Technologies are emerging that will monitor threats in real time and also mitigate them. There are tools which not only monitor networks, applications, cloud and endpoint devices for threats and malware but also provide a comprehensive report to mitigate those threats and vulnerabilities. Internal Audit can make use of such reports and escalate them for timely resolution.
- Future is not far where AI can also do secure code reviews more efficiently than any humans can.

Use case of "AI/ML, blockchain and NLP for Data Loss Prevention"

- Advanced Threat Detection: AI/ML algorithms can analyse user behaviour, data access patterns, and content to identify anomalies that might indicate a potential data breach. This allows for a more proactive approach to DLP, focusing on the riskiest activities.

- Content Classification: AI can be trained to automatically classify sensitive data with greater accuracy than traditional rule-based systems. This ensures that only truly sensitive information is flagged for potential DLP violations.
- User Entity and Behaviour Analytics (UEBA): UEBA leverages AI to analyse user behaviour patterns, entity relationships, and context to identify suspicious activity that might indicate a DLP attempt. It analyses a wider range of user activities and contextual information to identify unusual behaviour that could indicate a data exfiltration attempt. For example, a sudden spike in file downloads or emailing sensitive documents to personal accounts could trigger an alert.

Natural Language Processing (NLP)

NLP can be used to analyse the content of emails, messages, and documents in real time, identifying keywords or phrases that indicate sensitive information being shared inappropriately. This can be particularly helpful in detecting attempts to mask sensitive data through techniques like data obfuscation.

Blockchain

While still in its early stages of adoption for DLP, blockchain has the potential to create tamper-proof audit trails for data access and movement. This can provide a more secure and transparent way to track data and identify potential leaks.

Use case of “A.I. Surveillance & Sensors”

- Industries can augment AI surveillance systems in high-risk environments like in an oil & gas Industry, manufacturing plants prone to accidents and mishaps, warehouses with high-value goods or high-tech robots, hazardous chemicals, ATMs and branches of banks etc. These systems can be trained to trigger during specific events, suspicious activity and manage the movement of the goods, people and robots. These systems can also alert stakeholders, and give warnings in multiple relevant languages to prevent or be alert in a certain event or activity.
- Prevent suspicious activity and physical activity in the server rooms and vicinity.
- These systems can also be used to control the quality of goods and filter damaged or sub-standard goods.
- Produce more informed reporting and decision-making.

Use case of “Blockchain-based audit trail, especially in Banking and Financial Services Industry”

- Blockchain technology has the potential to revolutionize the way audit trails are maintained especially for the banks and financial services industry, where each record is crucial and any manual unauthorized changes can pose critical risk to the organisation.
- Blockchain-based changelogs also offer greater security to the overall sensitive data.

Use case of “AI & ML in Fraud Detection and Anomalies in Data”

- AI & ML can analyse the data and trigger data anomalies and suspicious data patterns which can be helpful in uncovering frauds.
- This tech can be used for real time “Transaction Monitoring & Suspicious Transaction Reporting” for AML complainces.
- Internal auditors can leverage predictive analytics to become more proactive. By analysing past data on fraud, errors, inefficiencies, and risks, auditors can build models to predict future issues

  1. Focus on high-risk areas: Prioritize areas most likely to have problems, saving time and resources.

  2. Prevent issues: Shift from identifying problems to predicting and preventing them.

  3. Make data-driven decisions: Use insights to allocate resources and mitigate risks more effectively.

  Scenario: Credit Card Fraud Detection

  AI/ML Method: Machine learning models are trained on historical data containing legitimate and fraudulent transactions. The model analyzes various factors like:

  - Transaction amount
  - Location and time of transaction
  - Merchant category
  - User's past purchase history

  Anomaly Detection: The model learns to identify normal spending patterns for each user. When a new transaction deviates significantly from the user's typical behaviour (e.g., a large purchase from a geographically distant location), it's flagged as suspicious.

Use case of “RPA in Internal Audit, Cyber and Cloud Security”

Internal Audit:

- **Data Extraction and Aggregation:** RPA bots can efficiently extract data from various sources, such as ERP systems, CRMs, and financial databases. This eliminates manual data entry and reduces the risk of human error.
- **Transaction Testing:** Automating repetitive transaction testing allows auditors to focus on exceptions and analyse potential anomalies.
- **Reconciliation Tasks:** RPA can streamline account reconciliations, comparing data sets from different systems and highlighting discrepancies for further investigation.
- **Compliance Testing:** Automating compliance testing processes can ensure consistent adherence to internal controls and regulations.
- **Report Generation:** RPA can automate the generation of standard audit reports, saving time and ensuring consistency in formatting and presentation

Cloud Security Applications:

- **User Provisioning and Access Management:** RPA can automate user account creation, modification, and deletion in cloud environments. This ensures timely access for legitimate users while minimizing the risk of unauthorized access.
- **Security Patch Management:** RPA bots can automate the process of identifying, downloading, and installing security patches across various cloud-based systems. This reduces the risk of vulnerabilities being exploited.
- **Activity Monitoring and Log Management:** RPA can automate the collection and analysis of security logs from cloud platforms, helping to identify suspicious activity and potential breaches.

Cybersecurity Applications:

- **Incident Response:** In the event of a cyberattack, RPA can automate routine tasks like isolating compromised systems, notifying relevant personnel, and initiating recovery procedures. This allows security teams to focus on critical incident response activities.
- **Vulnerability Scanning and Remediation:** RPA can automate vulnerability scanning across systems and applications, followed by the deployment of pre-defined remediation steps for identified vulnerabilities.
- **Phishing and Spam Detection:** RPA can be trained to analyze email content and attachments, flagging suspicious messages for further investigation, potentially saving the organisation from phishing attacks and malware infections.
- **Password Management:** RPA can automate password resets and enforce strong password policies, reducing the risk of unauthorized access due to weak credentials.

Use case of "Technology for ESG Wins"

Environment:

- Big Data & Analytics: Analyze energy use, waste to target improvements and guide sustainability efforts.
- LoT Sensors: Monitor resources, and emissions in real-time for proactive environmental impact reduction.
- Blockchain for Circular Economy: Track materials to promote waste reduction and product reuse.

Social:

- AI for Fair Recruitment: Uncover potential biases in hiring practices to promote diversity and inclusion.
- Cloud HCM Software: Streamline employee onboarding, and training for a positive work environment.
- Blockchain for Ethical Sourcing: Track goods to identify labour violations and ensure ethical practices.

Governance:

- RPA for Compliance: Automate tasks like financial reporting, freeing up time for strategic initiatives.
- RegTech Solutions: Automate regulatory compliance processes to reduce errors and fines.
- Data Visualization Tools: Clearly communicate complex ESG data to stakeholders for impactful reporting.

These are just some of the many use cases an Internal Auditor can augment to complement his audit procedures, automate and ensure greater assurance by leveraging this tool. The crux lies in experimenting, learning new technology and tools and exploring different use cases.

Conclusion

- Internal audit needs to prioritize strategic risks over operational ones, focusing on threats that can significantly impact an organisation's success.
- Internal auditors must broaden their understanding of organisational goals, ask strategic risk-oriented questions during audits, and elevate risk discussions to the highest management levels.
- Expanding the internal audit skillset to encompass data analytics, scenario planning, industry knowledge, communication skills, and expertise in emerging threats like cybersecurity, ESG risks, and futuristic technologies is crucial.
- Utilizing AI, machine learning, blockchain, and other advanced technologies can significantly enhance internal audit capabilities in areas like third-party risk management, cybersecurity, data loss prevention, surveillance, and fraud detection.

Visionary Statement:

Internal auditors have the potential to become invaluable strategic partners within organisations, proactively identifying and mitigating critical risks through a data-driven, technology-augmented approach. By embracing continuous learning and adaptation, internal audit can play a vital role in ensuring the long-term success and resilience of organisations in the face of an ever-changing world.

This vision portrays internal auditors as not just guardians of compliance but as strategic risk navigators who leverage cutting-edge technologies and possess a deep understanding of evolving threats to safeguard organisations and ensure their long-term survival and success.

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ROLE OF INTERNAL AUDIT IN THE AGE OF DISRUPTIONS

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Abstract

This research paper delves into the evolving landscape of internal audit in the age of disruptions. It traces the historical evolution of internal audit functions, highlighting their transformation from a primarily compliance-focused role to one that plays a pivotal role in risk management and strategic decision-making. The study scrutinizes the profound impact of technology on internal audit practices, exploring how advancements in data analytics, AI, and automation are reshaping audit methodologies.

Additionally, it investigates the shifting regulatory norms, emphasizing the need for internal auditors to adapt to an ever-changing compliance environment. Furthermore, this paper underscores the expanded role of internal audit in strategy building, demonstrating how auditors contribute to organizational organisational resilience and value creation. The benefits of a modernized internal audit function, including enhanced risk mitigation, improved operational efficiency, and informed strategic planning, are also examined. In a world characterized by constant disruptions, this research sheds light on the pivotal role internal audit plays in ensuring the continued success and sustainability of organizations.

Introduction:

Disruption is frequently portrayed as a tsunami, smashing against established corporate processes; or as an earthquake, upending the firm ground upon which the company has held steady for years. The need to change the practice of concentrating on historical internal audits and participate more in delivering assurance while employing the most recent technology, and tools, and embracing continuous auditing stems from the fact that disruption can be quick and unanticipated.

Taking a fresh look at risk management in the context of changing technology and data-driven experience has prompted a significant change in the function of auditors in organizationsorganisations. With the emergence of new technology at an unprecedented pace, the function of internal auditors is to be prepared for a rapid transition. Giving an instance we will comprehend how the introduction of the digital camera completely disrupted industry leaders like Kodak and how the likes of Samsung and Apple completely caught Blackberry off guard guard. then Then we'll realize how quickly the roles as of internal auditors are evolving.

Furthermore, it is anticipated that it will advance the profiles (as Internal Auditors) and enable them to better understand, foresee, evaluate, and manage new risks arising from organizational organisational changes (based on internal & external factors), transform the IA function to deliver increased strategic value to stakeholders, and help the company cut costs.

How Internal Audit Evolved: Brief Overview

To help people understand the purpose, boundaries, and goals of internal auditing, the IIA established standards for its formal practice in 1978. Additionally,It provides a foundation for uniform operation measurement to harmonize the internal auditing process globally.

Almost every area of business, including its operations, financial records, information and information systems, legal and compliance matters, environmental reporting, performance, and quality, must now be examined by auditors in the twenty-first century. Professional ethics, analytical and critical thinking abilities, a comprehension of risk and opportunity relevant to both auditors and auditees, and an effective method of comprehending any auditee's organization's organisation's systems, or even the auditee's individual, are all talents that auditors must acquire. Last but not least, audit technology can be adjusted to different types of audit reports.

Disruptions in Different Areas:

A. Changes in Technology: Technological shifts driven by platform businesses are transforming industry norms and pushing companies towards digital integration. These changes enhance corporate value but complicate risk management, requiring internal audits to adapt quickly. Auditors must now address new processes, emerging threats, and stricter regulations, expanding their role to include strategic facilitation and control enhancements. For example, automation demands overhauling control environments to manage risks like operational disruptions and data security.

B. Changes in Regulatory Norms: The evolving regulatory environment challenges businesses to improve risk management and governance, especially in data protection and cybersecurity. Internal auditors must refine risk assessment techniques and collaborate more with other assurance functions. Audit committees expect proactive recommendations for improving governance and controls in response to new laws, positioning internal audit as a leader in driving organizational organisational change and ensuring compliance.

C. Gap in the Skillset: A growing talent gap within internal audit divisions necessitates auditors with specialized knowledge in risk management, compliance, and technology. Rapid advancements and complex operations increase the demand for skilled personnel. Challenges like an ageing workforce and high turnover further stress the need for innovative talent management strategies. Business leaders and audit committees are thus focusing on leveraging expertise more effectively to maintain productivity and adapt to organizational organisational needs.

Current Trends Challenging the IA Approach:

A. Data Analytics: Data analytics significantly enhances the internal audit function by providing data-driven insights that support decision-making and improve control efficacy. These tools process large volumes of data quickly and accurately, reducing reliance on small data samples and subjective judgment. Predictive analytics further aid continuous, real-time auditing, allowing auditors to identify and address potential risks proactively.

B. Rise of Robotics: Robotic Process Automation (RPA) is increasingly used in internal audit to automate repetitive tasks, allowing auditors to focus on more strategic, judgment-based activities. This integration not only speeds up processes and reduces errors but also ensures comprehensive coverage of data, enhancing the audit's effectiveness and efficiency.

C. Amplified Risk Related to Social Media: Social media introduces new risks to information security and requires auditors to adapt by understanding and mitigating potential threats. Internal audit plays a crucial role in analyzing these risks and guiding how social media is managed within the organization organisation to safeguard sensitive information and maintain compliance.

How Internal Audit can add greater value as an enabler of change in the age of Disruption (In accordance with the Healthcare Sector):

A. Enabling a strategic focus: An internal audit programme that is strategically focused will be in line with the overall goals of the organisation. The goal is to comprehend the disruptive forces' effects and determine the best course of action. The goal, delivery, and relevance of healthcare, as well as the efficiency with which companies are set up to provide services, are all impacted by strategic initiatives, such as those relating to quality of care, physician recruitment, and cybersecurity. The highest levels of assistance should be given to internal audit.

B. Introducing a risk Risk framework Framework: The scale of change in healthcare necessitates a framework made to adapt to changing needs. Internal auditing ought to be a key element. A collaborative enterprise risk management (ERM) framework, for instance, enables internal audit to create a comprehensive risk profile that might be shared with the board and used to guide decision-making and annual work plans.

C. Operating in an advisory Advisory capacity Capacity: A core requirement for an internal audit function's ability to carry out its responsibilities is the capacity to recognise, manage, and reduce risk. Stakeholders will focus more on raising challenging questions for every given project when internal audit becomes ingrained in an organization's organisation's culture. What are the dangers? How open are we to addressing the issues, and how can we lessen them? What would happen in the worst-case situation if the risks weren't mitigated? Internal auditing's job is to support an organisation while it investigates hazards by providing guidance.

An internal audit function that promotes a strategic focus, serves as an advising function, and establishes a risk framework will be highly regarded and seen as a crucial strategic partner for the company.

How a Disrupted Internal Audit can be a Stronger Strategic Partner:

Internal Audit needs digitization, . a A flexible model and a more dynamic approach is required in order to provide insights about the strategic risks.

In practice, IA must change what it does, how it does it, and who actually carries out the work.

1. Proactively identifying and assessing emerging risks: In a world that is always changing, it is critical for internal audits to be proactive and detect risks before they become issues. This calls for an in-depth knowledge of the organization's organisation's operations and the surrounding environment, as well as an ability to think creatively.

2. Providing insights and recommendations that help the organization organisation achieve its strategic goals: Internal auditing ought to be more than just a "watchdog" role; it ought to be a reliable counsellor who can guide the organisation towards better choices. To accomplish this, you must have a thorough awareness of the organization's organisation's strategy and be willing to question the current quo.

3. Be a change agent: Organisations must be able to quickly and successfully adjust in a disruptive world. Internal audit can assist the organisation in identifying and putting into place the essential adjustments, which can be a crucial step in the process. This calls for a willingness to take chances and dedication to ongoing progress.

Here are some specific examples of how disruptive internal audit can be a strategic partner:

1. An internal audit department can collaborate with the management to create a plan to reduce a new risk that could negatively affect the organization's organisation's operations.

2. An internal audit department that offers suggestions for how to enhance the organization's organisation's operations can assist the organisation in more effectively and efficiently achieving its strategic goals.

3. The organisation can identify and execute the essential adjustments that will enable it to remain competitive in a changing environment with the aid of an internal audit department that is willing to challenge the status quo.

How IA will leverage Leverage that:

The IA mandate is not "one size fits all." IA assurance includes more than just a check for adherence to contractual and financial commitments. It involves working along with the management to understand all organisational risks and determine if they are properly identified, dealt with, and mitigated by the business.

An updated version of the risk framework includes the following risk categories:

Risk Approach	Description
Upside Approach	Focuses on risks that directly impact a company's ability to execute its business strategy and objectives, providing opportunities for value creation and expansion (e.g., return on assets, market penetration, talent management).
Downside Approach	Concerns risks that can only result in negative outcomes which businesses aim to eliminate, mitigate, or transfer cost -effectively (e.g., employee fraud, regulatory compliance, information security).
Outside View	Involves unforeseen risks outside the control of the business that could have both positive and negative impacts (e.g., geopolitical c hanges, competitive shifts, natural disasters).

Where to start for transformation of Internal audit:

A. Establishing strategic vision for Internal Audit: Businesses always grow and change, and as a result, their strategy and objectives change as well. For internal audit to provide the organisation with instant benefit, activities must be coordinated with the company's vision. Create a vision for the position that is in line with the organization's organisation's future direction, main objectives, business risks, and unpredictable operating environment before anything else.

B. Raising the stature Stature of Internal Audit: Internal audit will continue to take on a bigger role in corporate governance, attracting increased focus, interest, and expectations. For internal audit to fulfil its expanded tasks, it will need a place at the table. It has a good chance of succeeding by demonstrating a complete understanding of organisational demands and by delivering greater value through critical operations and deeper, more pertinent, and more timely projects.

C. Changing the profile Profile of its delivering Delivering capabilities Capabilities: Particular data analytics knowledge will be essential for audit tasks. Internal audit specialists need to have a solid grasp of business fundamentals in order to thoroughly handle risks throughout the firm. They must be knowledgeable about the ins and outs of particular business processes and how each fit into the bigger picture in terms of risk. Future internal audit positions should be filled by applicants who have these skill sets, according to internal audit leaders. These jobs may be located in a different manner than how companies have done so in the past. The performance of the function will ultimately define how well it functions, regardless of whether it is bought, built, or borrowed.

D. Aligning the datasets that to of Internal Auditor objective Objective: If internal audit groups include intelligent automation and data analytics into their working models, audits may run continuously and be completely covered. This is a wise decision despite the challenges. The volume of data needed for testing and analysis inside the data-driven audit function might be challenging to manage. As the business and the audit plan develop, develop a strategy for collecting and managing the source data that supports the audit plan while remaining flexible enough to adjust the data management strategy.

What some of the leading survey reports have to say about this:

Here are some of the statistical data:

1. According to a survey conducted by the IIA, 72% of internal audit leaders believe that new technologies will significantly affect their companies in the next two to three years. They also agree that internal audit needs to improve its capacity to offer assurance and insight on these technologies.

2. In a Deloitte survey, internal audit leaders said that 58% of their teams were utilising or testing AI-based solutions for auditing tasks like data analysis, fraud detection, risk assessment, and audit reporting.

3. A secure and transparent audit trail for their transactions and processes may be created using blockchain technology, according to a PwC analysis that cites the opinions of 44% of internal audit leaders.

4. In a study by EY, 67% of internal audit leaders stated that they were utilising or planned to employ big data analytics and cloud computing to increase the efficiency and efficacy of their audits, including data collection, storage, processing, and visualisation.

Examples of how disruptive internal audit has been beneficial in different sectors:

Sector	Role of Disruptive Internal Audit	Examples
Financial Services	Identifying and reducing risks related to emerging technologies like blockchain and artificial intelligence. Collaborated with management to create a plan including new controls and training for staff on how to spot and report suspicious behaviour.	A new blockchain -based application could be used to promote money laundering. A large bank's internal audit department discovered this risk and developed control measures.
Healthcare	Assisting in identifying and reducing risks related to new laws like the Affordable Care Act. Collaborated with management to implement new policies and train staff on compliance.	A big hospital's internal audit depa rtment discovered a risk related to non -compliance with new patient privacy rules. They created a plan to mitigate this risk by establishing new policies.
Technology Services	Identifying and reducing risks related to new business models like cloud computi ng and subscription -based services. Collaborated with management to enhance security measures and train staff on data protection.	A major software company's internal audit discovered a risk of data breach recovery failure. They developed a plan to implemen t additional security measures.

This table effectively highlights the roles and impacts of disruptive internal audit in different sectors, showcasing the specific actions taken and the problems addressed

Conclusion:

Internal auditing's function is changing in the age of disruption. Internal audit is now a strategic partner that assists organisations in identifying and minimising risks as well as seizing opportunities. It is no longer only a compliance role.

It must be proactive, futuristic, and data-driven to be effective in this new position. It must be able to explain its results and suggestions succinctly and clearly, and it must make effective use of technology. Organisations can benefit greatly from internal audit's ability to guide them through the difficulties of the disruptive era. Internal audit may help organisations stay ahead of the curve and safeguard their bottom line by offering unbiased assurance, assisting them in improving their risk management procedures, and providing insights into developing trends.

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Glimpses of National Conference 2024

THE ART OF STRESS MANAGEMENT SPIRITUAL TECHNIQUES FOR LEADERS TO STAY RESILIENT AND PRODUCTIVE

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Life in the fast lane often feels like a never-ending marathon. The constant juggle of work, relationships, and personal growth can leave us feeling like we are drowning in a sea of stress. It's like we are always racing against the clock, trying to keep up with the demands of life. But if we let it run rampant, chronic stress can set in which has been linked to all sorts of physical and mental health issues like depression and anxiety.

Scary, right? Don't stress! Take a deep breath because there is a powerful antidote – spirituality.

I know what you might be thinking. Spirituality? Isn't that just about chanting mantras or meditating on mountaintops? Many people have misconceptions about spirituality, associating it solely with religious practices or esoteric beliefs. However, spirituality is a beautiful blend of tried and tested practices and wisdom that help us find meaning, purpose in life and connection with our true inner self.

Modern science also backs it up. A study conducted in 2020 discovered that social workers who were trained in wellness techniques and had embraced spirituality felt less stressed and were able to cope well in traumatic situations.

So, what spiritual techniques can professionals and leaders employ to stay resilient and productive amidst the challenges they face?

Let's explore some powerful methods:

1. Navigating Chaos with Mindfulness

You all must have heard of mindfulness, especially in the post-Covid period. It's like having a front-row seat to your thoughts and emotions. By tuning into the present moment without judgment and without identifying yourself with what's happening, you can gain some serious clarity and control over your stress levels. Imagine you are in the midst of chaos, calmly observing your thoughts like a spectator at a theatre. That's the essence of watchfulness – a powerful tool to navigate life's turbulent waters with grace and resilience. It will take some practice before you can see some results, but it works like a charm.

2. Power of Visualization

It's a technique where we mentally rehearse success and positivity, so we can tackle challenges with confidence. Visualize yourself crushing your goals and living your best life. Close your eyes and imagine yourself achieving your wildest dreams – it's not just wishful thinking, it's a potent strategy to manifest your desires and conquer stress with unwavering determination. Take a few moments each day to visualize yourself succeeding in your endeavours, and notice how it affects your mood and mindset.

3. Purposeful Living:

Who says you have to choose between spirituality and ambition? Contrary to popular belief, spirituality doesn't require sacrificing your material pursuits or ambitions. Live your life with passion and purpose, while staying true to your true intrinsic nature and spiritual values such as compassion and integrity. Whether you are climbing the corporate ladder or chasing your dreams, infuse every action with conscious meaning and intention. That's the essence of purposeful living - a harmonious blend of ambition and spirituality that fuels your journey towards fulfilment and inner peace. Many people may feel it's not practical and exactly the kind of thing a spiritual person would say, because the life of vanity seems more normal to us than this. However, if you can accumulate the strength to pursue this life, you will see the light that it brings.

4. Breathing Exercises to the Rescue:

Many times we feel trapped, buried under a mountain of stress. Our heads hurt, hearts and bodies feel heavy. This is when deep breathing exercises can help calm the nervous system and promote relaxation. It will give you instant relief. Practice mindful breathing techniques such as diaphragmatic breathing i.e. take deep, slow breaths or the 4-7-8 technique where you inhale for 4 seconds, hold your breath for 7 seconds, and exhale for 8 seconds. This will help center yourself amidst the chaos of daily life.

5. Progressive Muscular Relaxation

This simple technique can work wonders when you are feeling wound up like a spring. Close your eyes, focus on each muscle group in your body, and consciously release the tension. Tense your muscles - Relax - Repeat! You are at your desk, feeling overwhelmed by deadlines and stress. Instead of succumbing to the pressure, you practice progressive muscular relaxation. As you consciously release tension from each muscle group, you feel the stress melting away. With a clear mind and renewed energy, you are all ready to tackle your tasks. It's like a mini vacation for your mind and body.

6. Healthy Coping Mechanisms

Forget drowning your sorrows in a bottle of wine or a pint of ice cream. You are not reducing your stress, but adding to it! Try prayer, positive affirmations, or visualization instead. Shift your focus from stress to strength. Start your day with a prayer of gratitude, fill your mind with empowering affirmations, and visualize success in vivid detail. Watch how your mindset transforms, and your stress levels plummet as you embrace a more positive and empowered approach to life.

7. Practice Gratitude

Imagine a day where everything seems to go wrong – from spilling your morning coffee to getting stuck in traffic on the way to work. It's easy to feel overwhelmed and stressed out by these challenges. But instead of letting negativity take over, pause and take a deep breath. Start counting your blessings, appreciating the little things like the sunshine streaming through your window or the comforting warmth of a favourite sweater. As you cultivate gratitude, you feel your perspective shift, and suddenly, the day doesn't seem so bleak anymore. By embracing gratitude, you find peace amidst the chaos, and your stress melts away like snow under the sun.

8. Healing Touch of Nature

You've been cooped up inside your office all day, staring at screens and battling deadlines. Feeling like a caged animal, you decide to break free and step outside. As you inhale the fresh air and feel the warmth of the sun on your skin, it's like a sigh of relief for your soul. Nature's beauty surrounds you, from the gentle rustle of leaves to the chirping of birds. You take a stroll through the park, letting the tranquillity wash over you like a wave. Suddenly, the stress of the day feels miles away, replaced by a sense of peace and calm.

Let's face it, stress is just part and parcel of the human experience. You cannot avoid it, control it or stop it so trying is in vain. We can only reduce its impact on us. With spiritual methods, we can tap into something deeper within ourselves, something that gives us strength and resilience in the face of life's curveballs, even in high-pressure environments like the workplace. For leaders, time and energy are the most valuable resources. So if you can manage your emotions and stress better, wouldn't it be better for not just your health, but also your work?

Finally, don't hesitate to reach out for support when you need it. Whether it's talking to a trusted friend, seeking guidance from a spiritual mentor, or seeking professional help from a therapist, recognizing when you need support is a sign of strength, not weakness.

Glimpses of National Conference 2024

JUST IN

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Direct Tax

A. Cost Inflation Index (CII) for FY 2024-25

The Cost Inflation Index (CII) for the financial year 2024-25 (Assessment Year 2025-26) is notified as 363 (348 for FY 2023-24). The CII is used for calculation of taxable income from long-term capital gains. (Notification No. 44/2024-Income-Tax on May 24, 2024, issued by Central Board of Direct Taxes (CBDT), Ministry of Finance)

Summary of Cost Inflation Index for the past five years: -

Financial Year	Cost Inflation Index
Base Year (2001-02)	100
2020-21	301
2021-22	317
2022-23	331
2023-24	348
2024-25	363

B. Advancements in Presumptive Taxation

The presumptive taxation scheme is a simplified approach offered by tax authorities to determine taxable income for specific eligible businesses or professions. This scheme permits taxpayers to report income at a predetermined rate, relying on presumptions instead of meticulous bookkeeping and intricate calculations.

Category	Turnover pre-Budget 2023	Turnover post-Budget 2023
	Rs. in Lakhs	Rs. in Lakhs
Small Business Owners (as per Section 44AD)	200	300*
Specified Professionals (such as lawyers, doctors, freelancers, engineers, interior decorators, etc. (as per Section 44ADA)	50	75*

*Cash receipts should be less than 5%.

C. Revised Leave Encashment Exemption

Under the new tax regime, the taxpayer will obtain an exemption on leave encashment. In the budget 2023, the exemption limit for leave encashment was raised 8 times i.e. from Rs. 3 lakhs to Rs. 25 lakhs for non-government employees. So, at retirement, the leave encashment amounting up to Rs. 25 lakhs are free from tax, as per Section 10(10AA).

Goods & Services Tax (GST)

GST implications on Corporate Guarantee

The Punjab & Haryana High Court, in a recent development, has granted a stay on a circular addressing the taxability issues surrounding corporate guarantees exchanged between related parties availing loans from banks or financial institutions. This judicial action suspends the enforcement of the circular until the court further deliberates on the matter.

*** Disclaimer: The views expressed are based on personal understanding and interpretation of the relevant laws and regulations.**

RICHARD CHAMBERS LEADS TRANSFORMATIVE IIA INDIA MASTERCLASS ON "AUDITING AT THE SPEED OF RISK"

In a landmark event, the Institute of Internal Auditors (IIA) India hosted its first-ever International Masterclass on "Auditing at the Speed of Risk" on the 20th and 21st of May 2024, coinciding with the Internal Audit Awareness Month. Approximately 70 participants, including delegates from Sri Lanka and the Maldives, attended this groundbreaking seminar. Led by the esteemed Richard Chambers, the masterclass focused on equipping internal audit professionals with vital strategies to navigate the rapidly evolving risk landscape.

Core Takeaways

- Participants delved into critical topics increasingly relevant in today's fast-paced risk environment.
- The speed of risk in the 21st century.
- Understanding the rapid pace at which risks evolve in today's world.
- Identifying emerging risks.
- Techniques to foresee and prepare for new risks.
- The Impact of risk-induced disruption.
- Understanding how risk disruptions can affect enterprises.
- Adapting to new challenges posed by these disruptions.

Identifying and monitoring critical and emerging risks.

- Strategies to pinpoint emerging risks that could impact business operations.
- Continuous risk monitoring techniques to stay ahead of potential threats.
- Methods to conduct audits that keep pace with the speed of risk.
- Adapting audit practices to be more agile and responsive.

Highlights of the Masterclass

The interactive 8-hour session, spread over two days, provided a platform for rich discussions and exchange of ideas. Internal audit professionals participated, contributing to a diverse and dynamic learning environment. Despite being based in the USA, Richard Chambers conducted the masterclass from London and made it accessible to the Indian audience.

Participant Experience

The masterclass was designed to be highly engaging, with participants actively involved in discussions and Q&A sessions. The experienced and senior professionals brought unique perspectives, enriching the learning experience.

Participants found the session incredibly beneficial, offering a refresh on familiar concepts and introducing new ideas to stay ahead in the evolving landscape of risk and auditing. The interactive format allowed for the practical application of concepts, making it a precious experience.

Conclusion

The International Masterclass on "Auditing at the Speed of Risk" was a resounding success. The insights and knowledge gained from this session will undoubtedly help internal audit professionals enhance their capabilities and adapt to the fast-changing risk environment.

IIA INDIA UNVEILS KOCHI AUDIT CLUB

The Institute of Internal Auditors (IIA) India inaugurated the Kochi Audit Club on June 12, 2024, marking a significant step forward in promoting excellence in internal auditing within the region. The inaugural event, held at the Hotel Holiday Inn, Kochi, witnessed a vibrant gathering of industry experts, auditors, and professionals committed to enhancing the standards of internal audit practices.

In his warm welcome address, Mr. Ramachandra Kamath, President of the Kochi Audit Club and Partner at ASA Associates, Kochi, emphasised the club's mission to foster a community of auditors who can share knowledge, best practices, and innovative approaches to internal auditing in this fast-paced audit environment.

Mr. Mukundan KV, CEO of IIA India, delivered an inspiring address, highlighting the pivotal role of the Institute of Internal Auditors and internal auditors in today's rapidly evolving digital ecosystem. He urged IA professionals to continuously upgrade their skills to meet new challenges and leverage emerging opportunities.

Mr. K.Vidyadharan, Past President of IIA India and BOG member of the IIA Madras Chapter, graced the event. In his special address, Mr. Vidyadharan underscored the importance of collaboration and knowledge sharing among auditors to effectively manage risks and drive organisational success.

The inaugural address by the Chief Guest, Mr. Jomon K George, Past Chairman of SIRC of ICAI, set a positive tone for the seminar. Mr. George commended the Kochi Audit Club's initiative and shared his insights on the evolving responsibilities of internal auditors.

The seminar featured two technical sessions led by distinguished speakers. Mr. Sanjesh Kumar, Chief Audit Executive at Federal Bank, Kochi, presented on "Internal Audit in this New Digital Age," exploring the transformative impact of digital technologies on auditing processes. Mrs. Uma Prakash, Immediate Past President of IIA India, conducted the second session on "Fraud Prevention & Detection: Role of Internal Audit," providing valuable strategies for identifying and mitigating fraud risks.

The event concluded with a vote of thanks by Mrs. Deepa Varghese, Secretary of the Kochi Audit Club and Proprietor of D Varghese and Associates. Mrs. Varghese expressed

gratitude to all attendees, speakers, and sponsors for their support in making the inauguration a success.

Attendees had the opportunity to network and exchange ideas during the Hi-Tea session, fostering connections that will further the professional growth and development of internal auditors in Kochi.

The Kochi Audit Club is committed to organising regular events, workshops, and training sessions to keep its members abreast of the latest developments in internal auditing.

WOMEN'S DAY EXCLUSIVE: IIA BOMBAY AND DELOITTE CHAMPION GENDER EQUALITY

Women's Day is a global celebration that honours the achievements and contributions of women while advocating for gender equality. The Institute of Internal Auditors (IIA), Bombay Chapter Women's Forum marked this occasion by organising a Women's Day exclusive event titled "Stronger Together" in collaboration with the Deloitte Internal Audit team. The event took place on March 15, 2024, at the Deloitte Knowledge Centre.

As the saying goes, "Alone we are Strong……together we are Stronger". The topics aligned with the theme and focused on actions that everyone can take, from the C-suite to those on the front lines. The event was attended by nearly 40 women from diverse professional and demographic backgrounds who came together to empower themselves.

The keynote session was delivered by Ms. Neeyati Kothari, Partner - Deloitte Internal Audit Team. She set the event's context and mandate and emphasised learning, empowerment and meaningful connections.

The first session on "Music Therapy for Women's Health & Well Being" was conducted by Ms. Binal Shah, a music therapist and Founder of Aaroha Music Therapy. The session revolved around the benefits of music therapy in women's health and well-being. The session energy was high, and the live experiences made it super fun. The audience got a glimpse of how music therapy sessions are designed using music improvisations, receptive music listening, songwriting, lyric discussion, music and imagery and learning through music. The goal of the music therapy sessions was non-musical, i.e. physiological, psychological, emotional, spiritual and social.

The Key Takeaways from the session were:

- Music-based self-care routine
- Therapy applications and benefits
- 3 live musical experiences

The participants created a supportive community, leveraging their diverse knowledge, exchanging ideas, sharing success stories and bravely examining their failures. During the tea break, they could network, collaborate, and mentor one another, all while enjoying delicious food.

The second session was "Empowering Women through Personal Branding and Image Consulting." The session was conducted by Ms. Ramya Chaturvedi, an Image Consultant and Brand Building Coach. She has worked in Los Angeles as an anchor and holds a Master's in Public Relations and Advertising from USC Annenberg and a Bachelor's in International Relations and Affairs from Wheaton College and the London School of Economics. The session reiterated the philosophy of "Being Authentic", thus enabling the participants to be a better version of themselves and live a life with confidence, passion and authenticity. The learnings revolved around enhancing confidence by developing appearance, social conduct and communication. The engagement and enthusiasm the contestants displayed signified how it resonated so well with the participants.

The Key Takeaways from the session were:

- Benefits of a strong personal brand
- Practical insights through a Personal Brand
- Development workshop.

Ms. Abha Sarda, Senior Vice President at Tata Capital, delivered the concluding keynote. She emphasised the need to shape a stronger, more connected community of women professionals. Also, she spoke on the various activities being conducted by IIA Bombay Chapter Women's Forum to help women internal auditors grow in their careers and develop on the personal front.

The theme "Stronger Together" was clearly evident in the energy and presence of attendees, as well as the resounding enthusiasm for the sessions conducted during the event. One of the most remarkable aspects of the event was the genuine and open-minded dialogue that emerged and the personal experiences shared. Participants found themselves inspired and took home new resources and connections that would help fortify their efforts in building a more robust version of themselves.

With initiatives like this and many more happening around the globe, in a few more years, we will probably stop celebrating Women's Day - when women who are equal also start getting an equal seat at the table.

Joining The IIA is an investment in your career and the profession.

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