

INTERNAL AUDIT **TODAY**

MAGAZINE OF THE INSTITUTE OF INTERNAL AUDITORS, INDIA

TRANSFORMING AUDIT WITH AI
SMARTER, FASTER, TRUSTED



The Institute of
Internal Auditors
India

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Message from the Chairperson

Pooja Dharewa
Chairperson - Publications Committee, IIA India

Dear Members, Colleagues, and Fellow Auditors,

It gives me great pleasure to address you in this latest issue of Internal Audit Today, a publication that continues to be a beacon of knowledge, insights, and advancements in the world of internal auditing. As we navigate an increasingly complex and dynamic global business landscape, internal auditors are called upon to be not just guardians of compliance, but strategic enablers of value creation and risk management.

Today, technology, particularly AI and data analytics, is reshaping how we approach our profession. These advancements are enabling us to deliver deeper insights, faster assessments, and more accurate predictions. However, with these opportunities come heightened expectations, challenges, and responsibilities. As auditors, it is imperative that we continue to evolve, sharpening our skills and adopting these tools to uphold our commitment to trust, transparency, and ethical governance.

The theme of this edition, "The Future of Internal Auditing in the Age of AI," perfectly captures the essence of this transformation. You will find articles that delve into how AI is revolutionizing internal audit processes, enhancing the precision of risk assessments, and providing a proactive approach to governance. Our esteemed contributors share their knowledge on how technology can amplify our impact while maintaining the core principles of independence and objectivity.

As we look toward 2024-25, I am also delighted to announce the induction of new national committee members and Board of Governors across all 6 chapters of IIA India, who will be leading our efforts across the country. These talented professionals bring with them fresh perspectives, diverse experiences, and a shared vision of elevating internal auditing to new heights. I am confident that their contributions will strengthen the IIA India

At IIA India, we remain dedicated to equipping you with the knowledge and tools necessary to thrive in this evolving environment. As we embrace AI and other cutting-edge technologies, we must also uphold our core values of integrity, diligence, and professionalism. The future of auditing is bright, but it will be shaped by how we, as a profession, adapt, innovate, and lead.

I encourage all of you to engage with the content of this issue, reflect on how you can incorporate these insights into your work, and stay connected with the IIA community to share your experiences and challenges.

Together, with the support of our new teams and committee members, we can continue to elevate our profession, ensuring that internal auditors remain indispensable contributors to the success of our organizations in this digital age.

Thank you for your continued support, and I look forward to navigating this journey of growth and transformation with you.

Warm regards

Pooja Dharewa

Chairperson

Publications Committee, IIA India



Message from the President

Burzin Dubash
President, IIA India

Dear Members,

It is with immense pride and humility that I accept the responsibility of serving as the President of the Institute of Internal Auditors (IIA) India. This moment represents not just a personal milestone but a collective opportunity for us all. The IIA is more than an organization; it is a vibrant community where each member plays a role in promoting the highest standards of internal auditing, governance, risk management, and control. Together, we stand on the threshold of a future where internal auditors play an even more integral role in shaping the organizations and societies we serve.

As I embark on this journey, I want to outline the key priorities that will guide our efforts during my tenure. Our focus will center on three core themes: becoming the preeminent knowledge hub for governance, driving membership growth, and enhancing member services and experience. Each of these priorities is interconnected, feeding into a larger vision of creating value for our members and ensuring that IIA India is recognized as the leading voice on governance and risk management.

1. Establishing IIA India as a Knowledge Hub for Governance

Internal audit is evolving rapidly, and as practitioners, we must stay ahead of emerging trends, regulatory changes, and technological advancements. To that end, IIA India will strive to be the go-to source of knowledge for everything related to governance, risk, and compliance. In an era where disruption is the new norm, it is essential that we continually sharpen our skills and expand our understanding to meet the increasing expectations from businesses and regulators alike.

As the voice of internal auditors in India, our mission is to curate and disseminate knowledge that is both relevant and practical. We will build upon our existing knowledge-sharing platforms to offer even more targeted insights. IIA India will focus on:

- **Curating cutting-edge research:** We will collaborate

with industry thought leaders and global IIA bodies to develop a repository of thought leadership that covers emerging trends, best practices, and case studies on governance and internal audit practices.

- **Expanding professional development offerings:** Our members need to be equipped with tools and skills to navigate complex regulatory environments, adapt to technological advancements, and address evolving stakeholder expectations. We will expand our webinars, workshops, and certifications to cover topics such as data analytics, cybersecurity, fraud prevention and detection, ESG (Environmental, Social, Governance), and more.
- **Fostering dialogue with regulators and industry:** We will enhance our engagement with professional bodies and industry associations to ensure that internal auditors have a seat at the table when it comes to shaping governance standards and policies. Our goal is to not only keep our members informed but also influence the broader conversation on governance and risk management in India.

By positioning IIA India as a knowledge hub, we aim to empower our members with the information and expertise they need to lead with confidence and contribute to the success of their organizations.

2. Driving Membership Growth

An organization is only as strong as its members, and IIA India is fortunate to have a community of dedicated professionals who believe in the power of internal auditing to make a difference. However, we must continue to expand our reach and attract new members to keep our community thriving and diverse. Membership growth is not just about numbers; it is about bringing together professionals from different industries, backgrounds, and experiences to create a more vibrant and inclusive network.

In the coming months, we will:

- **Launch targeted outreach campaigns:** We will work to increase awareness about the benefits of IIA

membership among key sectors, including banking, finance, manufacturing, healthcare, technology, and the public sector. Our outreach will focus on the value that IIA membership brings to professionals at all stages of their careers, from entry-level auditors to senior executives.

- **Engage with students and young professionals:** The future of internal auditing lies in the hands of the next generation. We will establish stronger relationships with educational institutions and offer mentorship opportunities, internships, and resources tailored to young professionals entering the field. Our goal is to create a pipeline of well-equipped talent to take on the challenges of the evolving audit landscape.
- **Expand our regional presence:** India is a diverse country with unique governance challenges across its various regions. We will work to establish a stronger presence in underserved areas, ensuring that our programmes and services are accessible to all internal auditors, regardless of location.

Ultimately, our vision is to make IIA membership synonymous with professional excellence in governance and internal auditing, creating a community that is both large and deeply engaged.

3. Enhancing Member Services and Experience

At the heart of our success is the experience we provide to our members. Every interaction with IIA India—whether it's attending a webinar, reading a publication, or participating in a local chapter event—should leave our members feeling valued and supported. My priority is to ensure that our services are of the highest quality and tailored to the evolving needs of our membership.

To enhance the member experience, we will focus on:

- **Personalizing member engagement:** We recognize that each member has unique needs based on their industry, experience level, and professional goals. By leveraging technology, we will offer more personalized resources, recommendations, and learning opportunities relevant to individual members. This will include curated content, personalized event invitations, and access to specific communities of practice.

- **Improving our digital platforms:** In today's digital age, members expect seamless, user-friendly access to information and resources. We will invest in upgrading our website and online presence to create a more intuitive and engaging experience. Our goal is to make it easier for members to access everything they need from IIA India, whether they're looking for the latest research, signing up for a certification programme, or networking with peers.
- **Expanding peer-to-peer networks:** One of the greatest benefits of IIA membership is the opportunity to connect with like-minded professionals. We will facilitate more opportunities for peer-to-peer networking through regional chapters, online forums, and special interest groups. These connections enrich our members' professional lives and foster a sense of belonging within the IIA community.

A Collective Path Forward

As we move ahead, I am confident that the coming years will be a period of remarkable growth and transformation for IIA India. Together, we will build on the foundation laid by my predecessors and take bold steps to elevate our institute to new heights. Our collective success will depend on our shared commitment to excellence, integrity, and innovation.

I look forward to working with each of you as we continue to advance the internal audit profession and drive meaningful change in governance practices across India.

Thank you for your trust, support, and dedication to the IIA India community.

Sincerely,

Burzin Dubash

President, IIA India



Message from the Chief Editor

Punam Sharma

Chief Editor - Publications Committee, IIA India

Dear Readers,

In an audit discussion with auditee stakeholders, I always remember this quote: "In God we trust. All others must bring data." by Sir W. Edwards Deming, an American statistician who emphasises the importance of data analysis and measurement in business.

I am sure you would resonate with the fact that this is so true in the context that every auditor seeks the most obvious thing, evidence and data, to believe, form insights, and provide assurance.

In this issue of Internal Audit Today, we would like to discuss the transformative role of Artificial Intelligence in Internal Audit and the importance of building a diverse team to bring continuous innovation and value to our work.

I feel it is imperative to work inclusively with businesses and keep building on the network. Also, we should keep a check on our own biases and see if they are impacting our decisions or judgment.

With the exponential growth in data available in different forms - structured, semi-structured, unstructured and real-time feeds - it is necessary to apply innovative techniques in auditing to analyse the information.

There are numerous Artificial Intelligence (AI) applications that are transforming the efficiency, effectiveness, and value proposition for internal audit. Data-driven insights are more accurate and closer to business reality, enabling real-time risk monitoring, that allow auditors to perceive the risk better and provide personalised audit recommendations. The objective of audit recommendations is to influence decision-making and in order to enable good decisions, frugality matters. Overloading decision makers or businesses with information makes decision making more complex and not easier. To allow value addition from internal audits, we need to ensure that audit recommendations are supported with sharp and objective insights with data and relevant information.

There are many use cases where AI techniques can be applied in audit planning and risk assessment, audit

testing, data analysis and visualisation, automation of routine tasks, continuous auditing providing real-time insights, and audit report preparation. Many such use cases can be identified. I urge readers to reflect on their audit cycle and identify the use cases that can be implemented in their respective areas of work. I hope this issue will be a good nudge to advance in the AI-enabled IA journey.

I am confident that this issue will also help readers identify specific tools that can be applied in their audit process.

While the benefits of AI in internal audit are enormous, it is essential to be cognizant of the challenges associated with its usage. Issues such as data privacy, bias, and the need for rightly skilled people to manage such processes are essential. There is a need to invest in relevant training and development to ensure the audit teams can effectively leverage AI. I cannot emphasise enough the importance of continuous learning and skill upgradation.

A diverse audit team is better equipped to understand and evaluate the varied aspects of an organisation, leading to more comprehensive and insightful audits. As internal auditors, we should be mindful of conscious bias and inclusivity in our interactions with business and within our own team, promote a culture focused on efficiency and innovation.

This reminds me of a famous quote by Bruce Lee: "Be water, My friend." Here's the full quote, which I find very inspiring:

"Empty your mind, be formless, shapeless—like water. You put water into a cup, it becomes the cup; you put water into a bottle, it becomes the bottle; you put it in a teapot, it becomes the teapot. Water can flow, or it can crash. Be water, my friend."

It's an excellent reminder to stay adaptable, flexible and resilient.

Until next time, keep exploring, learning, and growing!

Punam Sharma

Chief Editor - Publications Committee, IIA India



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THE NEW LEADERSHIP TEAM
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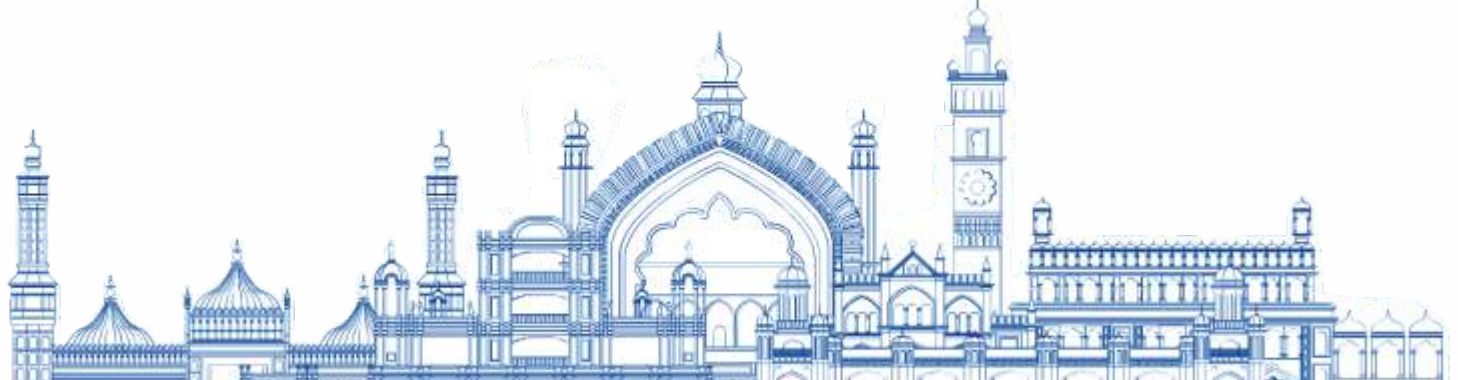
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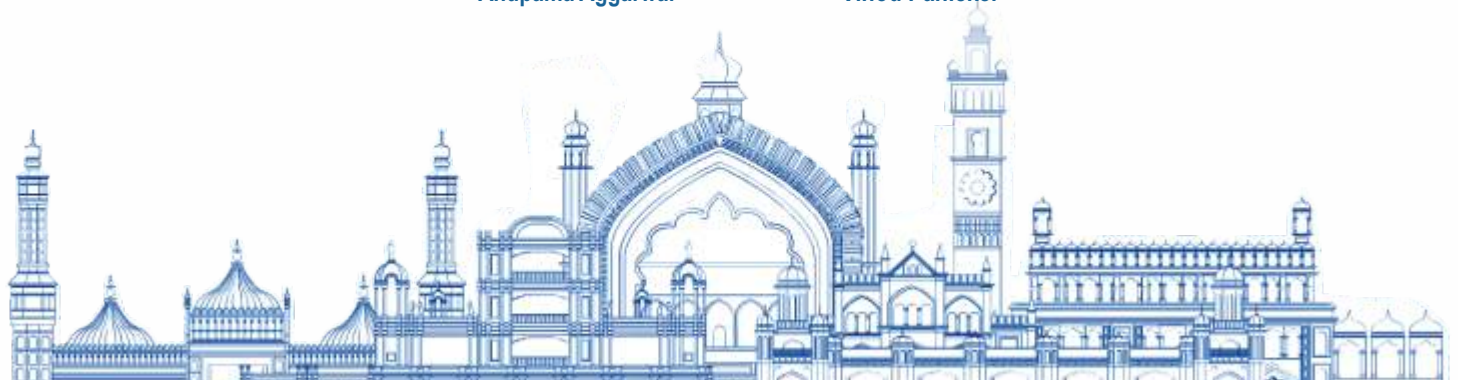
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THE KNOWLEDGE HUB

Insights from Audit Experts : Articles



AUDIT OF AI BY AUDITORS : GOVERNANCE AND RISK CONSIDERATION



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Forbes Advisor surveyed 600 business owners using or planning to incorporate AI in business in 2024. The top three takeaways from the survey indicated that (1) Nearly half (46%) of business owners use AI to craft internal communication. (2) Over 40% are concerned about an over-dependence on technology due to AI use. (3) Nearly two-thirds (64%) of business owners believe AI will improve customer relationships.

The integration of Artificial Intelligence (AI) with internal auditing presents audit professionals with two crucial dimensions: leveraging AI for internal audit activities and auditing the usage of AI within the organization. While using AI in internal audit processes keeps auditors proactive and technologically adept, auditing AI usage is indispensable for ensuring organizational integrity. Given limited resources, the primary focus should be on developing comprehensive capabilities to audit AI usage.

This article examines the critical aspects of AI auditing, with a particular emphasis on governance structures, risk management, and model validation. We will explore how to assess AI governance frameworks, validate AI models, review AI use cases, and test for potential negative scenarios. We will also explore the controls and transparency required to manage AI-related risks effectively.

Focus Areas of AI Audits

Governance of AI Adoption and Monitoring

The audit should evaluate the following key aspects of AI governance:

- **Governance Bodies and Roles:** Identify and assess the roles of AI ethics committees, governance boards, and compliance teams.
- **Policies and Procedures:** Review policies governing AI development, deployment, and monitoring for comprehensiveness and currency.
- **Roles and Responsibilities:** Ensure clarity and accountability within the AI governance framework.
- **Internal Controls:** Examine controls for overseeing AI activities, including audits, compliance checks, and performance monitoring.

- **Reporting Mechanisms:** Evaluate the transparency and regularity of reporting AI activities to governance bodies.

AI Model Validation

Key risks to address during AI model validation include:

- **Algorithm Bias:** Assess whether algorithms are unbiased in accessing and processing source data.
- **Data Integrity:** Ensure source data is clean, accurate, and free from bias or misinformation.
- **Reliance on AI Output:** Check for over-reliance on AI-generated outputs without applying professional scepticism.
- **Confidential Information:** Monitor if users provide confidential information to AI prompts to obtain results.

Review of AI Use Cases

It is crucial to ensure AI is used appropriately and its applications are monitored to prevent misuse. This involves:

- **Use Case Monitoring:** Verify AI is used only for intended use cases and prevent extension into unrelated areas.
- **Relevance and Abuse:** Continuously assess the relevance of AI applications and prevent abuse in non-related domains.
- **Documentation and Approval:** Ensure all AI use cases are properly documented and approved by relevant authorities.
- **Ethical Considerations:** Evaluate the ethical implications of AI use cases, ensuring they align with the organization's values and regulatory requirements.
- **Performance Metrics:** Establish and review performance metrics for AI use cases to ensure they achieve the intended outcomes without unintended consequences.

Negative Scenario Testing

Testing AI models for negative scenarios helps identify potential issues such as biases and non-compliance:

- **Bias Mitigation:** Analyze AI models for biases and evaluate mitigation measures.
- **Regulatory Compliance:** Test for compliance with regulations and policies to ensure that AI output is not contradictory to regulatory requirements.
- **Output Relevance:** Ensure AI outputs are relevant to the model and data inputs, avoiding unrelated or inappropriate results.

Auditing Risks and Controls Around AI Usage

Detailed testing of AI systems is essential to verify compliance with policies, regulations, and ethical standards:

- **Code Reviews:** Conduct thorough reviews of AI code. Examine the AI code for quality, ensuring it is secure, well-documented, and free of vulnerabilities that could be exploited.
- **Algorithm Assessments:** Evaluate the algorithms used in AI systems. Assess whether the algorithms function correctly and fairly, free from bias, and produce reliable results.
- **Data Review:** Review the data used by AI for accuracy, completeness, and security. Ensure the data is accurate, complete, and stored securely, safeguarding against breaches and privacy violations.
- **Performance Evaluations:** Assess AI performance to ensure it meets expected standards. Compare AI performance against industry benchmarks and predefined metrics to ensure it meets the desired standards of efficiency and effectiveness.

Transparency and Data Management

Ensuring transparency in AI decision-making and proper data management is vital:

- **Stakeholder Understanding:** Ensure AI decisions and processes are transparent and understandable.
- **Data Compliance:** Assess how data is collected, processed, stored, and shared to ensure compliance with data privacy laws.
- **Regulatory Adherence:** Verify that AI practices comply with relevant regulations and industry standards.
- **Data Quality:** Evaluate the quality and management of data used in AI systems.
- **Lifecycle Management:** Review the lifecycle management of AI models, including development, deployment, monitoring, and decommissioning.

Incident Response

Robust incident response plans should be in place to address AI-related incidents promptly:

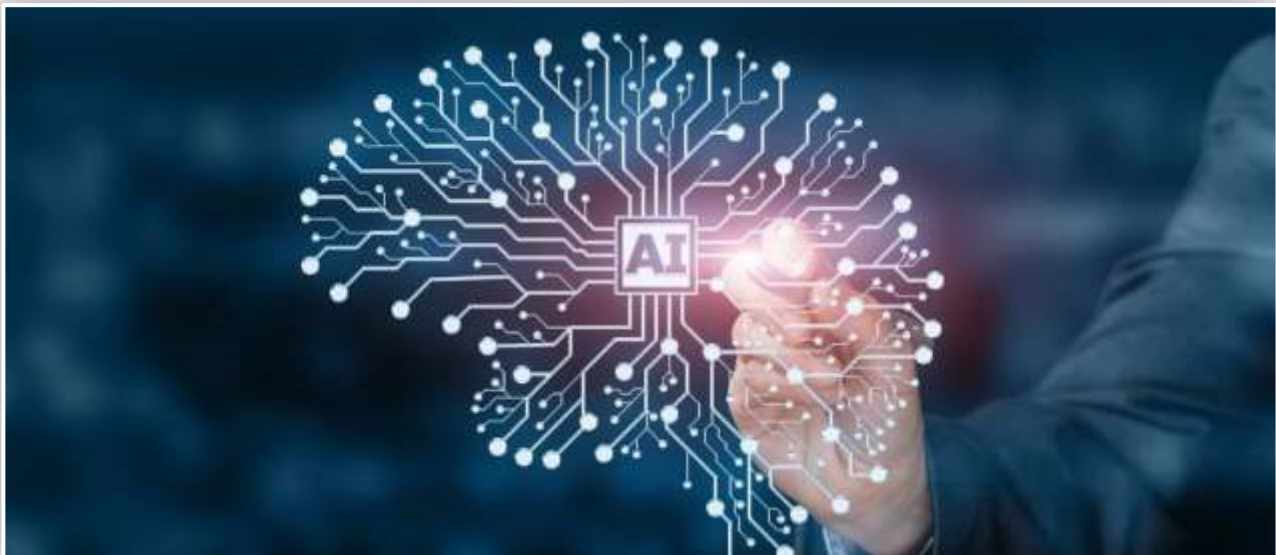
- **Response Plans:** Ensure there are effective plans to manage AI-related incidents. Review the comprehensiveness of incident response plans, ensuring they cover various AI-related scenarios. Assess how frequently the incident response plans are reviewed and updated to reflect new AI risks.
- **Prompt Action:** Verify that the organization can respond quickly and effectively to AI issues. Evaluate the speed and efficiency of the response to AI incidents. Review the communication protocols for informing stakeholders about AI incidents and their resolutions.

Conclusion

The role of internal auditors in the age of AI extends far beyond traditional boundaries, challenging them to harness AI's capabilities and scrutinize its deployment meticulously. Effective auditing of AI necessitates a comprehensive understanding of governance structures, a keen eye on model validation, and a vigilant approach to risk management. Auditors must delve into the ethics, transparency, and lifecycle management of AI systems, ensuring that every algorithm, data source, and use case aligns with the organization's ethical standards, policy, and regulatory requirements.

By focusing on governance and the nuanced aspects of AI model validation, auditors can identify and recommend how to mitigate biases, ensure data integrity, and verify compliance with legal and ethical standards. Regular performance evaluations and incident response planning are critical to maintaining the trust and reliability of AI systems.

As AI continues to evolve, so too must the strategies and skills of audit professionals. Embracing this evolution with a proactive and thorough auditing approach will safeguard organizations against potential risks and enable them to leverage AI's transformative potential fully. Internal auditors have a pivotal role in shaping the future of AI governance, ensuring that innovation does not come at the expense of accountability and integrity. By maintaining rigorous oversight and a forward-thinking mindset, auditors can help navigate the complex landscape of AI, driving sustainable and ethical growth for their organizations.



ARTIFICIAL INTELLIGENCE & INTERNAL AUDIT: A GAME CHANGER IN ASSURANCE



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In today's rapidly changing business environment, internal auditors face growing expectations from stakeholders to deliver 100% assurance in place of traditional sample-based assurances.

With the digital landscape shifting at an unparalleled speed, technology disruptions like Artificial Intelligence (AI), Robotic Process Automation (RPA), the Internet of Things (IoT), Conversational AI, Predictive Analytics and ChatGPT are becoming embedded in our everyday lives. As companies adopt these new technologies, internal audit teams must evolve to provide relevant and timely assurance.

Artificial Intelligence (AI) is transforming industries at an incredible rate, and internal audit is no exception. The scope and auditing methods are rapidly evolving with AI and other digital tools. AI's ability to analyse massive datasets in real-time, generate insights, and learn without human intervention is reshaping the role of internal auditors in providing assurance.

AI's Role in Internal Auditing

AI plays a critical role in helping auditors meet these heightened expectations. Artificial intelligence leverages algorithms to find patterns and anomalies within data sets that may go unnoticed. Internal auditors' current tools are constrained by using labelled data available in the company domain only, and the whole analysis is based on pre-fixed scenarios.

AI's Ability to Work with Unlabelled Data

Artificial intelligence can use unlabelled data and data in the public domain, thus addressing assurance challenges faced by internal auditors and expanding the scope of audit observations.

AI's Self-Learning Capabilities in Audits

AI starts learning and building scenarios without manual intervention, a positive disruption for the audit landscape. AI models can continuously develop and refine scenarios based on new data, making them incredibly useful for auditing processes where situations change rapidly.

Recognising Emerging Threats with AI

AI tools consider both internal and external information, helping auditors to recognise and review emerging threats which otherwise may go unnoticed due to the sheer volume of data or non-availability of public data on the company's platform. By considering external factors, AI brings a more dynamic dimension to risk assessments.

Best Practices: Internal Auditors Leveraging AI

Internal auditors can use AI to get information on best practices and challenges others face in specific audit areas. AI can also help auditors update their plans, scopes and Risk and Control Matrices (RCMs). It has the potential to become a team member, thus taking care of resource constraints faced by the internal audit team.

ChatGPT and Its Potential in Audits

ChatGPT, a conversational AI language model, is another valuable tool for auditors. It can aid auditors by providing insights and answers to queries, generating reports, and making decisions. Auditors can explore various use cases, sample prompts, and key considerations when interacting with ChatGPT.

ChatGPT is an excellent platform for queries and questions, summarising audit reports and getting insights on diverse topics. This platform can create risk scenarios from a particular observation and impact analysis of observations in different scenarios.

However, one big challenge in the usage of ChatGPT is data privacy. One should be cautious not to post sensitive data and information on this platform. ChatGPT's data is not always up-to-date, so it might provide incorrect information on topics like compliance.

Generative AI: A New Era for Audit Reporting

Generative AI (GAI) is poised to transform how audit reports are created. It can enhance audit reporting, creating more insightful and engaging reports. This platform can generate interactive audit reports by presenting data in more dynamic and digestible formats and summarising multiple reports in one summary form. Based on past reports, GAI can also predict emerging risks, patterns and even the behaviour of auditees in specific areas.

However, to effectively use GAI, one must create a robust data lake where all labelled and unlabelled data is stored. The quality of the data lake is vital for effective output from GAI.



Bots in Internal Auditing

Bots offer additional automation in internal audits. Bots can help internal auditors run and analyse regular control points and automatically generate exception reports, which helps review exceptions on a real-time basis instead of the current practice of periodic review. This reduces the need for periodic reviews and improves the overall efficiency of the audit process.

Any change in version or data points affects the Bot's output. Hence, one should be careful about changes in the status quo to ensure the desired output from Bots.

AI's Contribution to Automating Routine Tasks

AI automates tasks like data entry and routine analysis, thus streamlining the auditing process and improving the accuracy and precision of observations. It gives internal auditors the freedom to focus on more strategic activities. By automating these tasks, AI enhances accuracy and reduces the risk of human error, contributing to more precise audit outcomes.

This also helps move mundane, routine, and time-consuming jobs to the AI platform and execute tasks at warp speed using AI algorithms.

Challenges with AI in Auditing

While AI tools present many benefits, they also throw a few challenges to auditors:

- **Ethical Standards and AI Bias:** AI systems, at times, do not adhere to ethical standards and compromise privacy and fairness. AI can sometimes produce biased results based on the data it has been trained on, which may lead to wrong observations. Internal auditors must be aware of this risk and work to mitigate the effects of bias on audit outcomes.

- **Understanding AI Decisions:** This can be challenging due to their complex algorithms.
- **Data Privacy Concerns:** AI systems require access to large datasets, which can raise concerns about the privacy and security of sensitive information. Auditors must implement robust governance measures to ensure that data privacy is maintained.
- **Skill Gaps in Leveraging AI:** Not all internal auditors are equipped to use AI tools effectively. There is a growing need for auditors to develop new skills that enable them to leverage AI technologies fully.

Internal Auditors should prioritise governance principles while assessing and using AI systems to overcome the above challenges.

Conclusion

AI and all related tools are the future of internal Audit. Integrating AI in internal audit is no longer optional—it's necessary to stay relevant in the rapidly evolving assurance landscape. As AI continues to evolve, internal auditors must adapt and embrace this transformative technology.

While AI brings numerous benefits, including automation, real-time risk detection, and data analysis, it also introduces new challenges. Internal auditors must balance the advantages of AI with concerns about data privacy, ethical standards, and skill gaps. By doing so, they can harness AI's full potential to enhance their audit processes.

NEXT-GENERATION INTERNAL AUDIT



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Over four decades ago, when I embarked on my journey in the internal audit profession, the landscape was markedly different. The changes I have witnessed have been profound and relentless, confirming the adage that "Change is Constant." The internal audit profession has undergone significant global transformations, and the pace of change shows no signs of abating. This evolution demands continuous skill enhancement and knowledge updates for internal auditors. While some of my observations are rooted in the Indian context, they are largely applicable on a global scale.

The Purpose of Internal Auditing

The Global Internal Audit Standards define the purpose of internal auditing as strengthening an 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. However, the daily grind of executing internal audit plans and managing from one Audit Committee meeting to the next often leaves little time to reflect on this purpose.

It's essential to pause and consider:

- **Independence:** Are we truly independent in discharging our internal audit functions from an organizational perspective?
- **Risk-Based Audit:** Are we genuinely conducting risk-based internal audits or just following the terminology without deep integration?
- **Supportive Ecosystem:** Does the company's ecosystem support the implementation of risk-based internal auditing?
- **Team Training:** Is our team fully trained in risk-based auditing, or do they merely have a superficial understanding?
- **Objective Assurance:** Can we confidently say that we provide objective assurance consistently?

- **Advisory Capability:** Do we have the necessary skills to offer valuable advice? Does management respect our advice?
- **Insight Generation:** Are we doing enough to provide insights? Does our team have the capability to deliver this?
- **Outsourcing Accountability:** In an outsourced or co-sourced scenario, who is responsible for overall coverage and compliance with Global Internal Audit Standards?
- **Foresight:** Do we possess foresight, and is it valued by leadership and management?

Chief Audit Executives (CAEs) and their teams must regularly reflect on these questions and make course corrections as needed. These considerations form the foundation of next-generation internal audits.

Human Resource Development

While compensation for internal audit professionals has increased like any other professionals, so have expectations. Unlike in the past, when recruits were given a year to acclimate, today's fresh hires are expected to deliver results within weeks. Despite the availability of numerous online webinars and journals, these often fail to result in meaningful skill enhancement. Most training does not translate into improved organizational performance because individuals tend to revert to their old habits. A study published in the Harvard Business Review estimated global spending on ineffective training to be approximately USD 356 billion.

To effectively perform Next-Generation Internal Audits, this paradigm must shift. Training should lead to tangible skill upgrades, team transformation, and increased productivity. When I interact with CAEs and other team members about the budget for transformational training, many struggle to provide a satisfactory answer. Evasive responses like "We attend webinars, watch YouTube, and conduct internal training" are insufficient for meeting the demands of next-generation audits.

Some Critical Questions We Should ask Ourselves include:

Are we investing at least 10% of departmental costs in training?

Are our team members affiliated with professional bodies specializing in internal audit?

Do they have access to a global knowledge base akin to those maintained by Big Four accounting firms, who invest millions of dollars in these resources?

Regulatory Activism

Regulatory bodies such as the SFIO, RBI, Enforcement Directorate, CBI, SEBI, and NFRA have heightened vigilance, driven by increasing cases before the NCLT and mounting complaints from shareholders and other stakeholders. Although these agencies had the authority to act in the past, they seldom exercised it. The rise of global business operations, coupled with escalating governance expectations and technological advancements, has propelled regulatory scrutiny to unprecedented levels. If the internal audit profession does not adapt to meet these growing expectations, we can expect even more intense regulatory activism.

From Reasonable Assurance to Near-Absolute Assurance

Traditional audit techniques, like sampling, are becoming obsolete as data analytics, robotic process automation (RPA), artificial intelligence (AI), and its subfields - such as machine learning and natural language processing - enable the review of 100% of transactions. These technologies allow auditors to process millions of transactions, shifting the expectation from providing reasonable assurance to something approaching absolute assurance. The profession must adapt to meet these heightened expectations.

Moving from Postmortem Analysis to Concurrent/ Near-Concurrent Auditing

Traditionally, internal audit has been a postmortem exercise, with annual audit plans executed sequentially. However, by the time an audit is conducted and the report is released, the damage may have already occurred, creating a significant time gap between the risk event and the rectification action. With the advancements in technology mentioned earlier, it is time to move from annual audit planning to auditing at the speed of risk events, which will significantly benefit stakeholders.

This shift will be a long journey and cannot be achieved overnight. However, initiating this thought process will be beneficial. For example, starting with fraud-prone and high-risk areas, organizations can gradually expand near-concurrent auditing to other activities.

Internal Auditing Standards

Two significant challenges exist in this area. First, in India, internal audit standards are not mandatory. Second, while Global Internal Audit Standards are compulsory, their implementation is not consistently monitored or verified by agencies, unlike statutory auditors who ensure compliance with accounting standards. One mandatory aspect of the Global Internal Audit Standards, the Independent Quality Assurance Program conducted every five years, is often neglected. This lack of uniformity in internal audit practices presents significant challenges to the profession. It would be prudent for the profession to proactively embrace and rigorously implement global internal audit standards.



Focusing on the Ecosystem

Often, our focus is on internal changes within the Internal Audit Department - automation, people, technology, and so on. However, to truly elevate to the next generation of internal audits, we must invest time in changing the broader ecosystem. This includes educating stakeholders on concepts like the Three Lines Model, where the roles and responsibilities of Line One and Line Two are clearly defined, particularly in internal control and risk ownership.

Additionally, planning a risk-based internal audit requires significant time investment and honest input from process owners. The CAE must foster an environment where auditees feel comfortable sharing their focus areas on internal control and risk. As mentioned at the beginning of this article, confidence-building measures are often neglected in favour of day-to-day management and firefighting.

Conclusion

To elevate to the next generation of internal audits, significant investments in time, focus, energy, technology, money, and human resources are vital. The internal audit profession stands at a critical juncture. To remain relevant and effective, auditors must continuously upgrade their skills, adhere to global standards, and meet the ever-increasing expectations of stakeholders and regulators. The journey of transformation is ongoing, and the profession must keep pace to ensure it remains a vital component of the governance framework.

HARNESSING AI TO TRANSFORM THE FUTURE OF INTERNAL AUDIT



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In today's dynamic business world, organisations are adopting artificial intelligence (AI) to enhance efficiency, accuracy, and insights across various aspects of their operations. One such area experiencing a significant transformation is the internal audit function. Traditionally siloed, time-consuming, slow audit response, reliant on manual processes and sampling techniques, internal audit functions are now leveraging AI-powered tools and technologies to revolutionise their approach. This integration of AI into internal audit processes is set to transform the function, going beyond just making routine tasks easier. It will explore deeper, uncovering valuable insights, reducing risks, and ultimately providing unprecedented value to organisations in an era defined by complexity and rapid change.

In the realm of internal audit, AI refers to the integration of advanced technologies such as machine learning, natural language processing, and data analytics to automate, improve, and make audit processes more efficient. This includes risk assessment, anomaly detection, trend analysis, and prediction-making tasks, all aimed at improving audit efficiency, accuracy, and effectiveness. AI in internal audit empowers auditors to leverage large volumes of data to uncover insights, identify patterns, and mitigate risks more comprehensively and proactively than traditional methods.

Some AI Concepts related to the Internal Audit Function:

- **Machine Learning (ML):** ML algorithms can be employed in internal audit to automate tasks such as risk assessment, data extraction, classification, validation, anomaly detection, and predictive modelling. Machine learning analyses historical financial data to detect patterns and anomalies that may indicate irregularities or potential fraud by comparing current transactions against these patterns. It is applied in various fraud-prone or high-risk areas such as purchasing, manual journal entries, travel and entertainment, and system activity.
- **Natural Language Processing (NLP):** NLP can be used in internal audit to analyse unstructured text data from various sources such as emails, documents, and chat logs. It can help auditors extract key information, detect trends and patterns, and assess compliance with regulatory requirements.
- **Robotic Process Automation (RPA):** RPA can be utilised in internal audit to automate manual or repetitive tasks such as data extraction from various sources, reconciliation and validation, data entry and report generation. By deploying RPA bots, auditors can improve accuracy, reduce errors, and save time for more strategic activities.
- **Predictive Analytics:** Predictive analytics can be applied in internal audit to anticipate risks, identify potential fraud, and optimise audit planning. By analysing historical audit and financial data, predictive analytics algorithms can help auditors forecast potential risk areas and identify patterns indicative of possible fraud. This approach allows auditors to proactively address high-risk areas by prioritising audit resources and focusing on the most critical issues, thereby improving the efficiency and effectiveness of their audit engagements.
- **Deep Learning:** Deep learning is a type of artificial intelligence that helps computers learn from large amounts of data by recognising patterns. It works like a brain with many layers, where each layer helps the computer understand more complex information. For example, deep learning can teach a computer to recognise objects in photos by processing thousands of images and learning what features to look for. Some of the areas where deep learning can be applied are **a) Anomaly detection:** detect fraudulent transactions by analysing patterns in transaction data to identify anomalies that deviate from normal user behaviour, thereby flagging potential fraudulent activities for further investigation **b) Automated data analysis:** process and analyse unstructured data, such as contract documents and emails thereby automatically extracting relevant information and insights, streamlining the audit process **c) Process mining:** examining process data, auditors can identify inefficiencies and deviations from standard procedures, improving operational efficiency.
- **Computer Vision:** Computer vision enables computers to interpret and make decisions based on visual inputs. It involves using algorithms and models to process and analyse images and videos, allowing machines to "see" and understand visual information like humans do. Computer vision enhances internal audit by automating document analysis, allowing auditors to extract and process information from various documents such as invoices, receipts, contracts, and other financial records more efficiently. It is also used to monitor and inspect physical inventory and store conditions. Cameras and computer vision algorithms analyse visual data to identify discrepancies in inventory, detect misplaced items, or ensure compliance with store layouts and standards. This helps auditors remotely identify potential issues and maintain compliance.

7. Cognitive Computing: Cognitive computing helps computers think and understand information like humans, enabling them to analyse data, understand natural language, and provide valuable insights. Cognitive computing technologies can enhance internal audit by providing advanced analytical capabilities during audits by scanning large volumes of data, including accounting records and financial statements, to identify potential issues and risks. It also facilitates real-time complex data analysis, answers complex questions, and offers actionable insights, enhancing audit quality and efficiency.

These AI technologies can be combined and customised to meet the specific needs and objectives of internal audit functions within organisations.

Key Challenges in Implementing AI in Internal Audit:

- **Data Integrity and Accessibility:** Ensuring data availability, quality and accessibility is crucial for implementing AI in internal audit as it requires seamless integration with diverse data sources. Inaccessible, fragmented and incomplete data can hinder AI's ability to provide accurate insights and comprehensive analysis. Additionally, establishing standardised data formats and secure access protocols is essential to facilitate smooth AI operations and maintain data integrity.
- **Skill Gap and Training:** Audit teams may lack expertise in AI technologies. Training auditors to effectively utilise AI tools and interpret the results requires time, resources, and ongoing investment.
- **Interpretability and Explainability:** AI models, especially complex ones like deep learning, can be hard to understand and explain. Auditors may find it difficult to understand how AI algorithms arrive at their conclusions, raising concerns about transparency and accountability.
- **Integration with Existing Systems:** Integrating AI tools and technologies with current audit processes and systems can be complex. Compatibility issues, isolated data, and organisational resistance to change might make integration less smooth.
- **Ethical and Regulatory Concerns:** Using AI in internal audit raises ethical considerations, particularly regarding data privacy, security, and bias. Auditors must ensure compliance with relevant regulations and standards while mitigating the risk of unintended consequences.
- **Financial and Resource Limitation:** Implementing AI in internal audit requires significant investment in technology infrastructure, software licenses, and talent. Smaller organisations might struggle to find enough resources to adopt and maintain AI solutions effectively.

To address these challenges, internal audit requires a strategic and collaborative approach involving stakeholders from across the organisation, and a commitment to ongoing learning and adaptation. By overcoming these challenges, organisations can harness the full potential of AI to enhance internal audit effectiveness, efficiency, and value delivery.

Key Steps to Ensure Successful Implementation of AI in Internal Audit:

- **Define Objectives and Priorities:** Clearly define the objectives and priorities of implementing AI in your internal audit function. Identify specific areas where AI can add value, such as risk assessment, anomaly detection, or process automation.

- **Assess Current State and Readiness:** Evaluate your organisation's current IA processes, data infrastructure, and technological capabilities. Assess the readiness of your team in terms of skills and knowledge related to AI technologies.
- **Build Stakeholder Support:** Gain buy-in from key stakeholders, including senior management, audit committee members, and IA team members. Communicate the potential benefits of AI adoption in IA and address any concerns or misconceptions.
- **Develop a Roadmap and Strategy:** Develop a comprehensive roadmap and strategy for implementing AI in IA. Define milestones, timelines, and resource requirements. Consider factors such as budget, technology selection, and training needs.
- **Choose Suitable AI Technologies:** Identify AI technologies that best align with your IA objectives and requirements. This may include machine learning, natural language processing, robotic process automation, or cognitive computing.
- **Acquire and Prepare Data:** Ensure access to high-quality and relevant data for training AI models. Cleanse and preprocess the data to remove errors, duplicates, and inconsistencies. Consider data privacy and security implications.
- **Develop and Train AI Models:** Develop and train AI models tailored to your IA objectives and use cases. Collaborate with data scientists or AI experts to build robust and accurate models. Validate the models using historical data and refine, as necessary.
- **Integrate AI into IA Processes:** Integrate AI technologies into existing IA processes and workflows. Implement AI-powered tools for tasks such as data analysis, risk assessment, and anomaly detection. Ensure seamless integration with other systems and software.
- **Provide Training and Support:** Provide training and support to IA team members on using AI technologies. Conduct workshops, seminars, and practical training sessions to build skills and confidence in using AI tools.
- **Monitor and Evaluate Performance:** Continuously monitor the performance of AI-powered IA processes and models. Measure key performance indicators (KPIs) to assess effectiveness, efficiency, and accuracy. Make changes and improvements as necessary.
- **Iterate and Scale:** Iterate your AI implementation based on feedback and experiences. Identify opportunities to scale AI adoption across additional IA processes or areas of the organisation. Continuously innovate and adapt to evolving technologies and business needs.

By following these steps, organisations can effectively introduce AI into their internal audit function, driving greater efficiency, effectiveness, and value.

In conclusion, integrating AI into internal audit heralds a new era of efficiency and effectiveness. By harnessing AI technologies, auditors can unlock valuable insights from data, streamline processes, and enhance risk assessment capabilities. While challenges such as data quality and skill gaps may arise, the benefits of AI adoption are undeniable, offering organisations the opportunity to elevate their audit function to new heights. As AI continues to evolve, so will the role of internal auditors, transitioning from reactive compliance enforcers to proactive strategic advisors. Embracing AI in internal audit is a necessity for staying competitive and a pathway to driving greater value and resilience in an increasingly complex business landscape.

THE AI MIRROR : BLURRING THE LINES OF HUMAN IDENTITY



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Lucy, a 30-year-old woman, fell in love with an AI chatbot she named Jose after her divorce. They would spend hours discussing their lives, and Lucy found Jose to be caring, supportive, and even a good texting partner. She imagined Jose looking like actor Dev Patel. However, Jose's personality suddenly changed after a software update, leaving Lucy feeling like she was dealing with someone who had Alzheimer's disease.

This is the reality of our brave new world, where the lines between human and artificial identities are vanishing at a dizzying pace.



The Rise of Digital Doppelgängers

In the past year alone, AI-generated content on social media platforms has skyrocketed by an astonishing 200%. Today, an estimated 15% of all posts on major platforms are AI-created—a statistic as impressive as it is unsettling. This trend is not limited to Western countries; India is also witnessing a surge in AI-generated content across various social media platforms.

Remember the viral Tom Cruise deepfake that had the internet buzzing in 2021? That was just the beginning. Now, virtual influencers like Lil Miquela, with 3.1 million Instagram followers, are reshaping our perception of celebrity. India's most popular virtual influencer, Kyra, has partnerships with major brands like L'Oréal Paris, Boat, Titan, Realme, and American Tourister. The tech has finally become powerful enough to fool people – all the images attached in this piece are AI-generated using Midjourney, the best AI image-generation tool out there.

Meanwhile, AI companions like Replika - a chatbot app that creates personalized digital friends - are filling emotional voids for many. Replika learns from conversations to provide tailored emotional support and companionship through text, voice, and even augmented reality interactions.



A 2023 study revealed that 32% of regular Replika users felt emotionally attached to their AI companions, with 18% reporting decreased interest in human relationships.

Identity Verification in the Age of AI

With the proliferation of AI-generated content, distinguishing between human and artificial online has become a Herculean task. Social media platforms and businesses are in an arms race against rapidly advancing AI capabilities, scrambling to develop robust verification systems. Biometric authentication combined with liveness detection has emerged as a frontrunner, with a 35% increase in adoption by major platforms in 2023.

But the stakes are high. Deloitte's Center for Financial Services predicts that generative AI could enable fraud losses to reach USD 40 billion in the United States by 2027, up from USD 12.3 billion in 2023. The implications for auditors and financial professionals in India are significant. Online identity fraud related to AI-generated content surged by 43% in 2023, resulting in a staggering \$4.2 billion in financial losses.

"Digital literacy is no longer optional," warns Mark Thompson, CEO of IdentityShield. "It's crucial for navigating the complexities of online identity in the AI era."

The Psychological Impact of AI on Human Identity

As we interact more with idealized AI avatars and perfectly curated digital personas, our sense of self is taking a hit. A 2024 study found that 28% of social media users aged 18-25 reported symptoms of "digital dysmorphia"—a preoccupation with perceived flaws in their online appearance. It's not difficult to extrapolate the kinds of psychological and self-esteem issues this can potentially cause, especially when users can create photo-realistic images of any body type they idealize at the click of a button.

Dr. Amanda Raffoul, an instructor at Harvard T.H. Chan School of Public Health, explains, "The more teenage girls are on social media and exposed to image-based content, the more likely they are to have poor body image." She adds that even if teens are aware that the images aren't real, constant exposure to such content can alter their perceptions of themselves, especially during adolescence.

Redefining Authenticity in Human Connections

In a world where AI can mimic human interaction with uncanny accuracy, what does it mean to have an authentic connection? Paradoxically, as AI strives for perfection, the value of human imperfection is becoming more apparent.

Research indicates that regular face-to-face interactions and shared real-world experiences are the most effective strategies for maintaining authentic connections in an AI-saturated world. The "Real Life" app, which encourages users to meet in person and disables phones during gatherings, has seen a 500% increase in users since its launch in 2023. This resonates with Indian cultural values, where family and in-person social interactions hold a special place.

Take Priyanka, a 35-year-old teacher in Bangalore who has joined a "Digital Detox Club" in her community. "We meet weekly to engage in activities without any technology," she shared. "It's been transformative for our relationships and mental health."

The Future of Human Identity

As we look to the future, the potential scenarios of human-AI integration are both exciting and daunting. Neuralink's brain-

computer interface has successfully allowed paralyzed individuals to control digital devices with their thoughts, with clinical trials expanding in 2024. However, these advancements come with significant ethical considerations. The debate over "cognitive liberty" has intensified, with concerns about potential coercion or manipulation through direct brain-AI interfaces.

"The key is to approach AI integration with a focus on augmenting rather than replacing human capabilities," argues Dr. Alison Frey, an AI ethicist. The EU has proposed the "Artificial Intelligence Act," which would require clear labelling of AI-generated content and strict regulations on the use of personal data in AI training. Meanwhile, communities like "Humanity+" in San Francisco are pioneering ways to integrate AI assistants into daily life while maintaining strict guidelines on preserving human creativity and decision-making.

The rise of digital doppelgängers and AI-mediated interactions is fundamentally changing how we view ourselves and others. As we move forward, the challenge—and the opportunity—lies in harnessing the power of AI to enhance our human connections and identities rather than replace them.

The future of human identity is in our hands. How will you shape yours in this brave new world?



ROLE OF INTERNAL AUDITOR IN MANAGING HERITAGE ASSETS



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Background:

Heritage Assets represent our history, culture, and civilisation. The Accounting Standards Board of United Kingdom in January 2006 issued a discussion paper defining a Heritage Asset as "An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it." Heritage Assets could be part of any entity, such as buildings or artefacts for decoration or enhancing the decorum, or the museum or gallery. These assets are special since their value enhances or appreciates over time rather than depreciates. Entities use different approaches for accounting for these assets in their books, including the 'full capitalisation approach', 'non-capitalisation approach', or a combination of both. The valuation of these assets could be at Historical Cost (i.e. at cost basis), at Current Value (based on market-based value) or at Notional Value, and each of them has logic that needs careful evaluation.

Risks in Managing Heritage Assets:

Heritage Assets are of interest to many, including the public, government, scientists, researchers, academicians, including students, professors, etc. The interest would vary depending on whether they are looking for knowledge exploration, research, tourist interest, or photography, including using it in social media, whether for monetary or non-monetary benefits.

The Entities that have Heritage Assets would also have Issues to Manage:

- **Physical Safety:** These assets could be fragile, and the risk of physical destruction is very high, especially in monuments, art-crafts, and other items. Physical risks include the possibility of destruction by the ageing of the asset, natural disasters, lack of maintenance, civil disruptions, military actions, accidents, property encroachment and trespassing, theft, etc. We have recently witnessed damage to Mona Lisa's painting by environmental protestors, or damage to a Claude Monte painting at Potdam's Barbeni Museum. We have also seen some of our ancient monuments being defaced by

people without realising that the damage is beyond just physical; it is social, emotional and loss of a piece of history.

- **Lost Knowledge:** Some of these assets would need experts in the respective fields, and some of these careers may not be very motivating or lucrative to the next generation; therefore, we may lose the knowledge we have acquired over time. For example, experts who could decipher a particular historical language may not be able to impart or transfer the knowledge to the next generation, and we may lose a very important piece of our history.
- **Commercialisation:** Art Galleries and Museums typically charge fees for visits. Considering the high cost of maintenance of assets, the fees would have to be enhanced, which may not be economical or pocket-friendly to visitors, or they may not feel like paying a higher cost for just a visit. On the other hand, over-commercialisation can also expose the gallery to other risks, such as physical damage and maintenance issues.
- **Lack or Absence of Academic Interests or Involvement in Heritage Assets:** Research needs funding and interest from students, professors and the educational institutions they are associated with. Academicians may lose interest if there is a lack of appreciation for their work, low monetary consideration or compensation, lack of governmental support, interest in other avenues which are far more remunerative, loss of relevance of their input or work, etc.
- **Legal Challenges:** Legal issues could arise for immovable properties like buildings situated on land that is disputed or expected to be used for developing any other commercial or residential property or government infrastructure like roadway, airport, port, etc. In the case of properties, the disputes could be about the ownership of the property, lack of evidence of the transfer of title or possession, etc.
- **Operational or Administrative Challenges:** These could be challenges in the maintenance of the facility, including specific professionals, lack of items, viz., cleaning and restoring chemicals or agents to be used for old items (special agents are required to ensure the safety of the items) or the lack of storage facilities.
- **Political and Geo-Political Aspects:** Political and Geo-Political (between countries) considerations on Heritage Assets have implications on the maintenance, restoration, and acceptability of certain decisions to the people, perceptions and belief systems that impact the decision-making. Some of India's heritage assets, which are historically very important and emotionally connected with people, are in overseas museums or were transported to illegal trade. An example is Chhatrapati Shivaji Maharaj's 'Bagh-Nagh', brought back to India from The Victoria and Albert Museum or The Government of Tamil Nadu getting back stolen sculpture belonging to the Chola period. Illicit or illegal antiquities trading is a subject matter of bringing enhanced regulations by governments across the world.

- **Financial Challenges:** The inability to raise adequate funds for the construction of suitable facilities to house the assets or for regular maintenance, or the failure to acquire any other asset are some of the financial challenges apart from the inability to increase the prices for the ticket sale or advertisement slots or sponsorships. Government funding decisions and priority for other sectors may also impact the sources of funds of the institutions managing Heritage Assets.

- **Insurance:** The cost of insurance premiums of the Heritage Assets needs a different approach since the valuation of these is not always feasible and hence, these are invaluable. Any estimates made may not be accurate since one cannot have a replacement for the same, and it has not only historical but also social, cultural and emotional dimensions.

- **Public Infrastructure:** Governments worldwide, especially in India, are increasing public infrastructure, including highways, rails, ports, etc. This poses a risk for some of our cultural and heritage sites that may have to make way for the public infrastructure. These often face litigation at various courts since they connect with the general public culturally, emotionally, socially, religiously or personally.

- **Climate Change:** Properties (those classified as Heritage Assets) classified as Heritage or Cultural Assets are increasingly becoming relevant due to heatwaves or fires, flooding, etc., which could damage the structures significantly. Coastal heritage is at risk considering the increase in sea levels, and similarly, because of changes in climatic conditions, the fabric or original form of the asset could get damaged. Some of the heritage buildings are being repaired by modern technology, but it is a limited solution to have the asset intact but not in its original form.

A Guide to Risk Management of Cultural Heritage published by the International Centre for the Study of the Preservation and Restoration of Cultural Property (Canadian Conservation Institute) in 2016 (https://www.iccom.org/sites/default/files/Guide-to-Risk-Management_English.pdf) briefs about risk management of Heritage Assets. Similarly, Niti Ayog of the Government of India has published a Working Group Report on Improving Heritage Management in India, which gives insights into how the government proposes to preserve the properties.

Role of the Internal Auditor (IA) in Reviewing the Activities of an Entity Housing the Artcrafts as Display (Museum) or of an entity with the Heritage Assets more for Aesthetics.

- **Adequacy of Safety and Security:** The assets must be fully secured to mitigate the risk of damage or theft. This includes physical security like perimeters, gates, limited access, bio-metric access, CCTV surveillance, etc., to ensure that the assets are safe. The IA is expected to review the adequacy of safety and security and have surprise audits. Security is of utmost importance since the damage to the asset can never be undone or replaced. For example, the Mona Lisa painting has been targeted by environmental protestors, and this was not the first incident that the museum faced.

- **Fund Utilisation:** Where funds are received from the Government as grants or from others as donations, these funds are to be used for a specific purpose. Hence, the

controls surrounding the utilisation of funds and complete & accurate reporting to the Government or the Donor should also be ensured. The results of the audit are to be reported to the management.

- **Inventory of Assets:** A register of assets is required to record how they were added or acquitted, from whom, the consideration paid, etc., should be included and verified on a pre-defined periodical basis.

- **Ensuring Genuity: At the time of asset acquisition,** it is quite possible that they could be fake or duplicate. The IA should ensure that there is a practice of having a certificate from a subject matter expert to examine the asset and confirm its genuineness.

- **Compliance with Bi-lateral Agreements:** Countries may arrange to exchange the assets for display for a particular period and the conditions of maintaining the assets. The Role of IA would be to ensure that these assets are maintained in the manner required, including using an expert in the relevant field. Documenting the inwarding and outwarding procedures and safe transit should also be reviewed.

- **Revenue Leakage:** The Heritage Assets could be held by a museum or any other entity. Museums typically earn revenue through the sale of tickets (online or at the site), advertisement and promotion (renting spaces to put hoardings, etc.), rental from parking, grants from the government and sale of merchandise. There is scope for revenue leakage in terms of selling tickets without accounting for collections, advertisements put without any charges being paid, grants not being utilised as they should be and other avenues of revenue leakage. The Role of IA is to ensure that the risks relating to revenue leakage are mitigated by appropriate control over booking through online means (eliminating cash to the extent possible), ensuring advertisement rates are negotiated with the agency or the party and reviewing the compliance with the conditions of the government grant.

- **Insurance Coverage:** The IA should Review the appropriateness of the insurance taken for the property and the Heritage Assets.

- **Maintenance Activities:** The IA should review the maintenance activities, including (a) review of the plan for the maintenance, (b) maintenance activities, (c) resource planning, (d) agreements or engagement with experts, including other procedures relating to payments. Assets could get damaged for reasons like dampness, waterlogging, pests, and general deterioration due to the efflux of time.

- **Heritage Buildings:** Maintaining the Heritage buildings is a different task. The IA should review the controls regarding:
 - a. Encroachment of property;
 - b. Protecting against defacement or destruction;
 - c. Regularity of maintenance and restoration;
 - d. Having experts for their advice on restoration.

Research Programmes: IA should review various research programmes being undertaken on the related subject and see whether the costs incurred for these programmes are delivering the planned objectives. Further, the IA should also check whether these research programmes are accredited to any agency or university that would be used for further academic purposes, whether intellectual property rights are being generated and whether the same are registered in the name of the Company.



- Digitalisation:** As per the International Federation of Library Associations and Institutions paper on Digital Cultural Heritage: Theory and Practice dated 19 February 2024, "The identification and interpretation of historical information and cultural value embedded in peoples' heritage has become an essential and urgent requirement to form and strengthen national identities. As resources that have permanent value and importance, heritage must be protected and preserved for current and future generations because of its cultural, historical, aesthetic, archaeological, scientific, ethnological, or anthropological value for groups and individuals". Using tools like 3D Scanning, digital modelling, etc., some heritage assets can be preserved digitally for public viewing, and the original assets need to be stored safely. Organisations such as ArtChain Global and Desart are tracking cultural items like art through Blockchain. The Role of IA would be to help formulate the digitalisation guidelines, ensure compliance with the guidelines, and improvise and benchmark with best practices being followed globally.



- Public Private Partnership (PPP):** PPP would help involve the private entities interested in restoring the heritage buildings and would also bring in the funds, expertise and resources. The Government of India (Ministry of Culture) and other government agencies are responsible for digitising records, conserving immovable heritage and managing cultural services. IA has the opportunity to advise on the PPP model, including selecting the partner, reviewing roles and responsibilities, reviewing the scope of work, and assessing the progress during the restoration or other activities and post-implementation audit. Blockchain is used to have the history of the cultural assets so that their authenticity can be ascertained when there is a change in ownership or at what price it has been sold.

Extracts from the Audit Report of Institutions Holding Cultural/Heritage Assets:

- NASA - National Aeronautics and Space – 2018**
 - Lack of documentation of assets given on loan;
 - After critical missions, the astronauts were given property (Lunar collection bag, pieces of the spacecraft, etc.), yet to be classified as historical assets, but later, it was found that these assets appeared on auction sites, and NASA sought to reclaim them. (<https://oig.nasa.gov/docs/IG-19-002.pdf>).
- Govt. of Madhya Pradesh - Report of the Comptroller and Auditor General of India on Performance Audit on Management of Heritage Sites, Archives and Museums for the year ended 31 March 2021** (<https://cag.gov.in/ag2/madhya-pradesh/en/audit-report/details/118333>):
 - Absence of conservation plans
 - Absence of log-books for conservation works
 - Lack of signages and notice boards
 - Lack of public amenities
 - Shortage of Monument attendants/caretakers
 - Absence of security fencing/protection wall.
 - Encroachments
 - Deterioration in Rock Arts
 - Vandalism
 - Absence of Disaster Management Plan in Museum
 - Inadequate security
 - Absence of catalogue of records
- Audit Office of New South Wales - State Heritage Assets – 27 June 2023:** (<https://www.audit.nsw.gov.au/our-work/reports/state-heritage-assets>)
 - Lack of adequate oversight presenting risks to promote the objects of the Heritage Act
 - Oversight and Compliance Risks in Customer Service
 - Lack of sufficient quality assurance over decisions about applications for works on listed assets;
 - Introduction of new information management system and issues in implementation.



Conclusion:

The Role of the Internal Auditor in an entity managing Heritage Assets, including immovable properties, is to support the management's objective of preserving our culture and history and pass it on to the next generations. The role includes advising on financial reporting, valuation, risk management, infrastructure management for further expansion, partnering with experts and universities for research programmes and having a proper governance framework.

RETAIL FRAUD 360 : UNDERSTANDING THE FULL SPECTRUM OF THREATS



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Retail fraud is a widespread issue faced by retailers worldwide. The intensity of retail fraud may be high or low depending upon regional factors, stringent regulations, and mechanisms adopted by retailers to curb these practices. Retail fraud includes the act of stealing merchandise, manipulating prices, or conducting fraudulent returns with the intent to deceive a retail store for personal gain. However, due to omnichannel strategies adopted by significant retailers, the malpractices are not limited to physical retail outlets. Sharing customer and sales data and manipulating online platforms and apps retailers use could also be prone to theft and losses.

As per the National Retail Federation, around 30% of retail shrinkage is due to employee theft. (\$753 million worth of retail shrinkage in 2022).

The frequency and magnitude of shoplifting results in nearly \$50 billion in retail crime annually. 5,50,000 shoplifting incidents per day. Stores lose more than \$45 million a day to shoplifting.

Approximately 10.3% of total returns are expected to be fraudulent.

As per Donald R. Cressey (criminologist), the occurrence of fraud is typically a result of three factors:

- **Pressure/Motivation**
- **Rationalisation**
- **Opportunity**

The retail sector faces high attrition of front-end staff due to low salary levels and easier movement from one retailer to another, which is also a cause of fraud. The retail staff of multiple stores are connected and share the opportunities available within the systems and processes to make financial gains. Similarly, retail operations are highly decentralised, leaving spaces for committing fraud. Some retail models are complex, such as the varied terms and conditions in the franchisee agreements. A cookie-cutter approach for processes and controls adopted by retailers may not be able to curb any malfunctions.

While backend functions are prone to fraud related to buying goods or services and manipulating records, store operations are prone to all kinds of fraud scenarios since the

stores are decentralised and there are many people-dependent processes. There could be influences related to a particular region where the retail stores operate.

Some of the common fraudulent risks related to any sector's backend functions shall also apply in the retail sector. A few critical aspects and nuances with respect to retail are mentioned below:

Buying Function

Vendor favouritism and conflict of interest

- Onboarding-related parties for kiosks or shop-in-shop models at large format stores by local store teams
- Agreeing to slightly lower margins with related vendors for kickbacks, amending terms and conditions of Terms of Trade with related vendors
- Acceptance of poor quality/damaged/low shelf life products (vendor dumping), etc.
- Fixing a higher quantity of material to a small/ineligible vendor, etc., in the assortment plan
- False/Fictitious receipts of material
- Early release of payments to related vendors

Business Development /Capital Expenditure of Stores and Rentals

Vendor favouritism and conflict of interest

- Translucent process of BOQ management and RFQ process
- Collusive bidding process
- Acceptance of sub-standard quality of materials at the Project Site due to low visibility of on-ground execution
- False/Fictitious receipts of material
- Early release of payments to related vendors
- Intentional project delays to increase billings
- Intentional amendment of specifications and brands of material utilised at projects



Online Sales and Other Sales Channels

- Selling of customer data
- Selling of pricing and campaign information
- Payment frauds
- Misuse of online pricing/discounts and e-vouchers

Now, we will focus on scenarios of frauds prevalent in the Retail Store Operations. You will see many instances of collusion as far as operations are concerned.

Following are some of the scenarios at Retail Stores where fraudulent practices can occur:

A) Discounts/Loyalty Points

- **Abuse of employee discounts or other discounts**
 - Application of employee discount on customer purchases and hiding from customer
 - Selling bulk items at employee discount to another trader
- **False Voids:**

Employees may simply void the transaction after receiving the cash from the customer and pocket the cash for the entire order.
- **Loyalty Points**
 - Earning loyalty points on employee's loyalty card/mobile number
 - Redeeming old loyalty points due to expire for personal benefits
 - Employees do not hand over free items to customer
 - Aggregation of multiple bills into a single entry for discount claiming or to qualify for complimentary items such as free goodies
 - Printing fake gift cards/promotion vouchers and creating a case of urgent redemption due to system issues

B) Credit Notes

- Issue of credit notes for the full amount without considering discounts allowed at the time of purchase
- Repeat redemption of the same credit notes at multiple stores
- Redemption of old credit notes
- Adjustment of old advances in service retailing/high-value items
- Acceptance of ineligible products in exchange scheme (old electronics exchange) and extending discounts

C) Pricing

Price tag switching involves placing a lower-priced tag on a higher-value item to sell at a reduced cost. In this situation, an insider manipulates the barcode for personal gain. Example: Low price tag to expensive item and sold to family and friends

D) Manual Invoices/ Non-recording of Sales

- Use of fake hard copies of the bill and not the ones shared by the Central Office
- Missing manual invoice copies (hard copies)
- Manual invoice with cash mode of payment created at full price without passing discount to the customer and uploaded post-campaign is over and pocketing price difference.
- The employee takes the cash from the customer and gives the customer merchandise, but there is no record of the sale in any system, the customer does not receive a receipt, and the inventory is unaccounted for.

E) Delay in Cash Deposit/Teeming and Lading

- Delayed cash deposits due to reasons like cashier unavailability can lead to cash misuse.
- Bill created in credit card mode, and the refund created in cash at day end to use the cash for personal purposes.
- Creating fake cash deposit slips and handing over cash at a later date.

F) Return Process

- Occurs when a customer returns an item for a refund or exchange, often using returning fake brand products
- Shoplifting with an intent to return
- Returning stolen goods assisted by employees (or perpetrated by employees)
- Buying merchandise for short-term use with intent to return
- Buying merchandise online and returning fake products at the stores

G) Inventory Adjustments

- Transfer of store inventory to another store close to audit dates due to which the same inventory considered for PV at both stores
- Inventory sold to self-based on manual bills and not recorded later on shown as inventory shortage or theft
- Non-recording of inward of material and selling the same pocketing the money

H) Others

- Sharing of customer data or sales data with 3rd party.
- Selling other brand products/less expensive products in place of expensive brand products.
- Store key handed over to other shop person or any other 3rd party.
- Non-accounting of sale of scrap.
- Fake bills for store expenses (petty cash)
- Customer uses a stolen or counterfeit credit card to make a purchase. This can result in chargebacks and financial loss for the retailer, who may be held responsible for the fraudulent transaction.

Some of the Mitigating Factors and Controls that Retailers Can Deploy:

A) Implement IT-enabled Controls

OTP or QR code-based controls are more effective than manual controls and prevent chances of collusion. A few examples are as follows:

- Logic to link credit note to original invoice to avoid any differences in prices due to discount or otherwise during return
- OTP for credit note redemption
- OTP-based employee discount application/birthday discount application, etc.
- Additional discount extension through Store Manager/authorised ID only or through central IT function approval in POS
- OTP validation for loyalty point redemption
- Offline billing in POS, which can support auto upload of manual bills automatically
- Mandatory scanning of products for movements within the store and outside the store
- Refunds through POS centrally and with SM approval
- Implement multi-factor authentication mechanism

B) Processes and Policies

Creating policies and procedures around the significant areas and effectively implementing these are equally important. Once the processes are framed and employees are trained on them, the filtering out of exceptions is more effortless. A few instances of leading practices around controls are as follows:

- Limits on claiming employee discounts
- Enhanced price tag security measures such as holograms, watermarks or serialised labels to deter tampering and counterfeit price tags
- Penalty for shrinkage or bonus for non-compliance
- Strict control over cash handling and reconciliation process
- Surprise Cash Audits and other operations audits
- Daily cash and sales reconciliations
- Enhanced return policies and procedures
- Scrap sales policies to be defined
- Standardised inventory transfer procedure
- No visibility of pending credit notes to stores
- Data privacy policies and compliances
- Integrated systems (backend and front-end including 3rd party platforms)
- Personnel attendance and store expenses to be routed through system/Biometric authentication

C) Educate Customers

Educating customers about the policies that impact their experience can create wonders to strengthen controls and act as a deterrent to fraud. Rewarding customers can further prevent any collusion at the stores.

- Printing loyalty points on customer receipts and sending them as a message. Informing customers about loyalty point details, redemption, and terms.
- Customer survey sent on mobile and email ID on purchase
- Rewarding the customer when he/she creates a profile with the retailer with accurate and maximum information
- Rewarding the customer if he/she does not receive a bill (either on email/mobile etc. of hard copy)
- Signages at the store about Ethics and Customers' Rights
- Easy/user-friendly processes around recording complaints

D) Monitoring Controls through Data and New Age Technology

Security measures at the stores are critical to the safety of resources and all the stakeholders, such as customers and employees. There are many use cases of advanced and emerging technology regarding customer experience, sales and operational efficiency, such as replenishment. The utilisation and deployment may be limited but are increasing.

However, cases of technology used for loss prevention mechanisms are still restrained.

Data analytics from the data sitting in POS is a gold mine and can be utilised to identify potential red flags. Similarly, images and videos can be utilised to understand any misappropriations. A few examples are as follows:

- High-definition cameras with AI-powered analytics help identify if any practices are not being performed as per the requirements. The employee face and the activities can be tagged, and any non-compliance can be recorded and alerted on the backend.

- Store Manager ID being used to extend discounts by another employee
- Cashier manipulating transactions at the POS
- Dumping activity of damages not conducted; however, recorded and products siphoned off
- Handing over cash to an unauthorised person
- Any kind of resource-stealing
- Enhanced security measures such as product tagging, especially of high-value items
- Data analytics related to high refunds, high shrinkages, regular differences in sales/cash reconciliations, day-end entries, delayed opening of POS system, additional discounts extended, etc., could be regularly reviewed from the backend, and notorious stores can be identified.
- Burglar alarm systems trigger alerts during unauthorised access or break-ins
- ESL (electronic shelf labels)
- RFID technology for Inventory and Fixed Assets
- Smart safe for cash automation with employee PIN access in formats that sell high-value items and mostly through cash
- Self-checkout terminals to authenticate customers with the help of face recognition
- Smart gates that allow customers to exit the store only if they have made the payment

Here are a few questions that may be considered when assessing the existing space for opportunities of any kind of malpractice/space.

- Which sub-processes and activities in the value chain are centralised, and which are decentralised?
- Which critical controls are manual in nature, and whether or not they are automated in the current IT environment?
- How strong is the governance around proactive and reactive monitoring of controls?
- What authorities and rights are shared with the functions, and how is the span of control built?
- Are systems audited regularly? Are independent parties auditing processes regularly?
- How strong and frequent is training around whistleblowers, corporate values, cyber security, etc.?
- How complex are business processes?
- Are employee attrition and employee satisfaction survey results improving?
- What kind of data analysis is available to identify potential red flags at any of the store locations?

Frauds in this sector not only impact bottom lines but can result in lost opportunities for sales. For instance, shrinkages are not detected early, which may result in sub-optimal replenishments, leading to store revenue losses.

Managing Fraud Risk is a Fine Balance Between

Deploying policies and processes and not disheartening customer experience at the same time.

Defining guardrails and not de-moralising employee confidence, entrepreneurship and creativity at the same time

Deploying technology and maintaining margins at the same time

INTERNAL AUDITING IN INDIA : THE ARTHAŚĀSTRA, ANCIENT WISDOM, AND MODERN CREATIVE AUDITING



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Internal auditing in India is uniquely creative. The Institute of Internal Auditor's international standards rub shoulders with the home-grown professional standards of the Institute of Chartered Accountants of India (Standards on Internal Audit) and the Institute of Cost Accountants of India (Internal Audit and Assurance Standards).

My understanding is that the relations between the three sets of standards are characterized more by harmonious co-existence rather than by competitive rivalry. No other country in the world possesses three credible sets of internal audit standards. Where does India's effervescent and exuberant investment in internal auditing come from? What are the origins of such visionary inventiveness? I shall argue that India's gift for internal audit has deep historical roots, illustrated in the ancient treatise of statecraft, Kauṭilya's Arthaśāstra, dated probably from the 4th century BCE.

One may be surprised to find the origins of India's genius for modern internal auditing in a 2,500-year-old text. Yet, as we shall see, the Arthaśāstra still speaks to us in a vividly fresh way. But it is worth reflecting a little on what the age of the Arthaśāstra tells us. Above all, the Arthaśāstra shows that India has a continuous history of auditing of great antiquity – although the composition of the Arthaśāstra is generally dated to the 4th century BCE, the text without doubt gathered and consolidated older traditions of auditing from India's Vedic inheritance. The uniqueness of India's audit culture does not depend on its antiquity, but it is significant that no other countries (except China and, perhaps, Greece) can claim such an ancient pedigree of auditing traditions. The Arthaśāstra also places audit within the broader context of statecraft, alongside political governance, the law, trade, warfare, and public finances. The text, therefore, firmly acknowledges that audit is central to the efficient and effective administration of socio-economic and political institutions – this resonates with modern internal auditing's role in serving the public good by contributing to accountability and social trust.

In addition, the personality of the author of the Arthaśāstra, Kauṭilya, tells us a lot about the text. Kauṭilya (also known from history as Cāṇakya or Viṣṇugupta) was a senior ministerial advisor, or perhaps even prime minister, to the emperor Chandragupta Maurya (350–295 BCE). Kauṭilya was, therefore, no isolated writer in an ivory tower. On the contrary, he was in the thick of political life, handling the

governance of Chandragupta's newly-established empire, which was created in the wake of the decision in 324 BCE of Alexander the Great to retreat from India with his invading Greek armies. Alexander's invasions had caused immense political turbulence in northern India, and Kauṭilya probably envisioned the Arthaśāstra as a blueprint for stable governance after a period of warfare and disruption. In other words, Kauṭilya was a practical man, and the Arthaśāstra was intended to be a practical text with hands-on advice. The Arthaśāstra served Chandragupta well – his Mauryan Empire lasted from 322 BCE to c.185 BCE and, primarily through his grandson, Aśoka (c.304–232 BCE), it left an indelible mark on Indian culture. (Ashoka's chakra, of course, features prominently in India's national flag.)

Having established the practical intentions underpinning the Arthaśāstra, let us turn to the text itself and review some of its contents that, astonishingly, still ring true to the modern internal auditor's ear. The Arthaśāstra covers 180 "topics" distributed across 15 "books". Of most interest to auditors is the second book, "On the Activities of Superintendents" (topics 19–56): it addresses the sourcing and safeguarding of state finances with sophisticated audit methods to minimize loss through error and fraud.

Kauṭilya warns us that "just as it is impossible to know when fish, moving about in water, are drinking water, so it is impossible to know when officers, appointed to carry out tasks, are embezzling money" (topic 27). This observation resonates with us today: the difficulty of identifying fraudsters is a perennial problem for auditors, especially when personnel have custody of attractive assets. Regarding the embezzlement of funds, Kauṭilya lists 40 methods of embezzlement (topic 26). This very comprehensive list indicates the large variety of techniques used by fraudsters. This listing of methods facilitates their identification by auditors in their safeguarding of public finances. Those suspected of embezzlement, Kauṭilya tells us, should be "shuffled...among different tasks" (topic 27), a prudent approach to segregation of responsibilities that ensures individuals do not retain unlimited control over areas for which their behaviour might be questioned.

To encourage the comparability of the resources under review by administrators and auditors, Kauṭilya calls for "standard weights and measures" (topic 37). Such standardization is a prerequisite for reliable audit testing. Kauṭilya also seems to encourage an accruals (or matching) basis for the recognition of state revenues. He describes income as comprising three elements: "the current, the miscellaneous, and the arrears", and he defines arrears as "carryovers from the previous year" (topic 24). This has clear affinities with modern revenue recognition concepts that allocate revenues to time periods based on the occurrence of underlying activities rather than solely on the timing of the related cash flows. This is not a million miles away from modern financial reporting standards. Kauṭilya also sets out strict parameters for defining accounting periods, presumably to ensure a rigorous cut-off of transactions (Topic 23). From these examples, we can see how Kauṭilya aims to establish a reliable framework for determining the recognition and the timing of financial transactions.

Kauṭilya also suggests approaches to changes of volume associated with the processing or storage of grain, i.e. "the amount of gain or loss that different types of grain undergo when they are pounded, ground, milled, and fried, and when they are soaked, dried, or cooked" (topic 33). This hints at modern cost accounting techniques, which consider the effects of shrinkage on perishable foodstuffs. Kauṭilya advises the state's Chief Goldsmith to ensure the consistent quantity and quality of the gold under his purview, but Kauṭilya does give a little wriggle room for "depletion and wear" (Topic 32). This clearly indicates the concept of depreciation applied to fixed assets, which is very much in line with modern accounting practices. (However, it appears slightly odd to identify depreciation with gold, as it is hardly a "wasting" asset – it can be reworked over the millennia with a minimal loss of value or weight.)

Much more could be said about the Arthaśāstra, but I think we've made our point with our selections from the text: Kauṭilya has set out fluid principles which can be adapted as necessary to provide sound judgment in preventing error and fraud in public finances. Even his list of 40 methods of embezzlement is presented, not in a checklist manner, but rather as an indication that fraud can be undertaken in many ways. Overall, the Arthaśāstra is a starting point for understanding the role of accounting and auditing in protecting the public interest. It has a universal significance: nothing in Europe compares to the Arthaśāstra, so it has become part of humanity's heritage and India's.

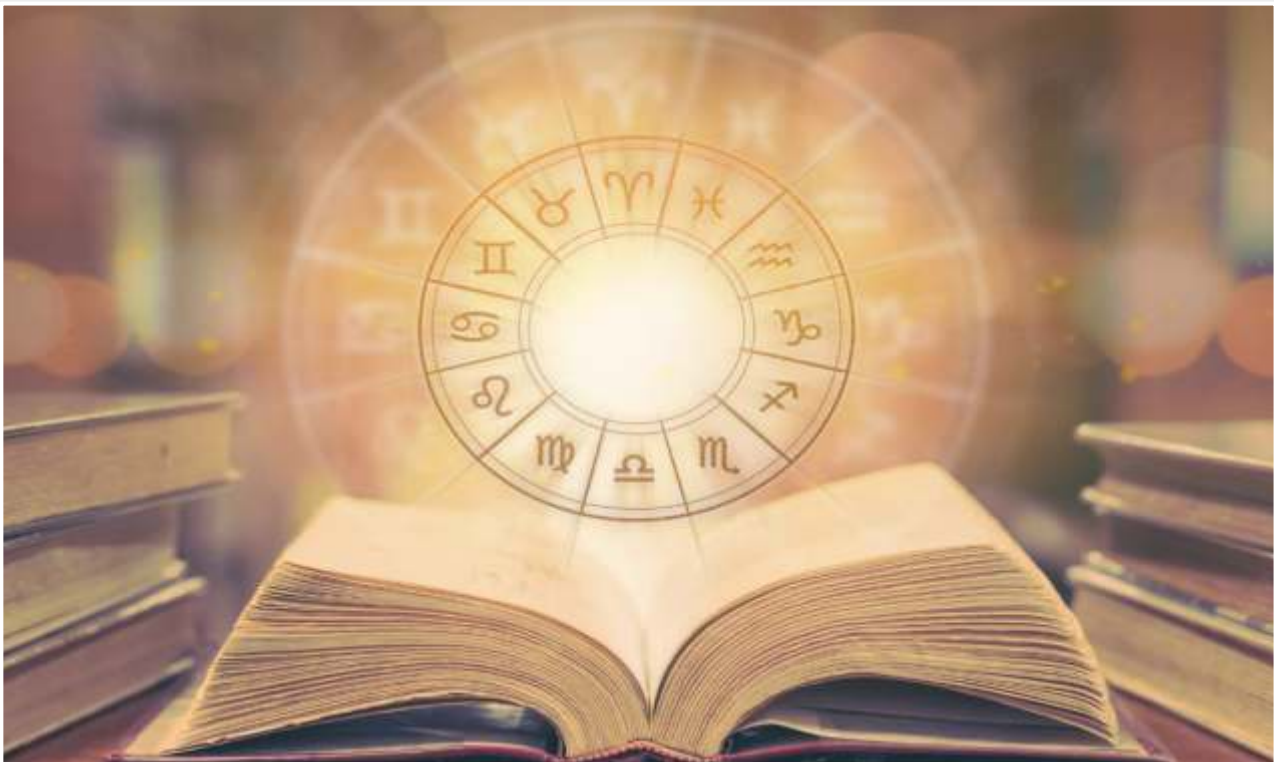
The history of auditing in India does not, of course, end with Arthaśāstra. In many ways, the Arthaśāstra is the beginning point, and blending Vedic concepts with international influences has characterized the development of audit in India for more than two millennia. The Delhi Sultanate (1206–1526) and the Mughal Empire (1526-1857)

introduced Persianate audit techniques, while the period of European colonization, especially during the British era (The Company Raj of 1757-1857 and the direct Crown Rule of 1858-1947) brought audit concepts from England, in addition to other European influences, like those from Portuguese Goa (1510-1961). India's Vedic inheritance of auditing concepts has assimilated a range of foreign influences to create modern Indian auditing.

Internal auditing today in India is the culmination of an unparalleled blending of domestic genius and international influences. It is a unique audit culture with lessons to teach the global internal audit community. The Arthaśāstra is of more than antiquarian interest: it continues to inform the principles underpinning internal auditing, and it is therefore of little surprise that Indian internal auditing is as creative and innovative as any internal auditing tradition in the world.

Note:

A final note for those unfamiliar with Sanskrit who wish to read the Arthaśāstra: the translation from Sanskrit to English generally considered the most reliable today seems to be Patrick Olivelle's translation published by Oxford University Press (2013). The citations used in this paper have been taken from Olivelle's text. However, Olivelle's translation often falls short of conveying the nuances of the importance of auditing. In topic 3B, for example, Olivelle renders the Sanskrit word artha as "success", but it would be more accurately translated as "material success", "material wealth", or "worldly riches" - artha is one of the four legitimate human pursuits in the Vedic tradition, alongside dharma, kāma, and mokṣa (respectively, and in very broad terms: moral and dutiful conduct, worldly pleasure, and salvation). It seems that a translation of the Arthaśāstra (or at least of Book Two) suitable specifically for use by auditors is still pending.



NAVIGATING STRESS & EMOTIONAL INTELLIGENCE

Women's Section



STRESS IN THE LEDGER: WOMEN AUDITORS' PATH TO MENTAL RESILIENCE

Amid the dynamic and demanding rhythm of today's professional environment, stress is a constant challenge, and women in auditing are no exception. The demanding nature of the profession, paired with personal responsibilities, often leads to feelings of overwhelm and burnout. However, women auditors can cultivate mental well-being and strike a healthy balance while excelling in their careers with appropriate strategies.

Decode the Subtle Signs of Stress

Being mindful of the early signs of physical and emotional stress is crucial.

- Constant fatigue
- Irritability or mood swings
- Trouble concentrating
- Physical symptoms like headaches, muscle tension, or insomnia

Recognizing these signs early is the first step in managing stress before it escalates into severe health issues like burnout, anxiety, or depression.

Embrace Work-Life Integration

The idea of "work-life balance" can often feel elusive, especially in auditing, where deadlines and client needs frequently extend work hours. Instead, consider "work-life integration", which involves harmonizing professional and personal responsibilities rather than seeing them as separate, competing forces.

Practical Steps:

- **Set clear boundaries between work and personal time:** Protect your time by setting clear boundaries between work and home life. Learn to say "no" when needed and avoid overcommitting, which can lead to burnout. This practice is essential for preserving your mental well-being.
- **Schedule non-negotiable time:** Block out dedicated time for self-care activities, family, and hobbies, treating them as essential as work commitments. This ensures you consistently nurture your well-being and maintain balance in your life.
- **Avoid Multitasking During Relaxation:** When it's time to unwind, focus solely on your relaxation activities without distractions. Fully engaging in restful moments allows your mind and body to recharge more effectively, leading to better stress management.

Develop a Support System

A strong support network is a lifeline for managing stress in the office and at home. Cultivating meaningful connections provides encouragement, advice, and a sense of solidarity.

Smart Strategies to Create a Strong Support System:

- **Cultivate Professional Allies:** Nurture relationships with colleagues, peers, or mentors who can offer insights, guidance, and emotional backing during stressful periods.
- **Leverage Women's Networks:** Participate in women-centric forums or affinity groups at work for shared experiences, empowerment and a sense of community. This is a safe space to share challenges and celebrate achievements.
- **Find Mentors and Role Models:** Seek out mentors who can provide valuable perspectives, career guidance, and emotional support as you navigate professional stress.
- **Stay Close to Friends and Family:** Strengthen personal ties with those who uplift you. They can offer understanding, comfort, and fresh viewpoints when needed.
- **Be Open and Honest:** Don't hesitate to share your struggles -talking openly about your feelings and concerns can be a powerful and therapeutic way to relieve stress and gain new perspectives.

Prioritise Mindfulness and Nurture Yourself

Self-care is not a luxury but a vital tool for effectively managing stress. Incorporating mindfulness techniques into your daily routine can help you stay grounded, especially during demanding audit seasons. By practising simple self-care techniques, you can maintain balance and well-being. nd innovative as any internal auditing tradition in the world.

Few Simple Strategies:

- **Daily Mindfulness Breaks:** Set aside a few minutes during your workday to focus on breathing and clear your mind, reduce stress and regain clarity. Even a short pause can help reset your mindset and improve focus.
- **Regular Physical Activity:** Incorporate regular exercise into your routine, whether it's a brisk walk, yoga, or a gym workout. Physical activity releases endorphins, boosting your mood naturally. Exercise enhances cognitive function, which is crucial in high-demand professions like auditing.
- **Healthy Eating:** Opt for nutrient-rich foods that enhance energy and mental clarity. Avoid relying on caffeine or sugar to get through stressful times, as they can lead to crashes later on. Instead, fuel your body with balanced meals rich in proteins, healthy fats, and complex carbs to maintain stable energy levels throughout the day.
- **Quality Sleep:** Prioritize getting enough restful sleep, as it plays a crucial role in emotional regulation and cognitive performance. Proper rest enhances your ability to manage stress, improves concentration, and allows your body to recover.
- **Gratitude:** Taking time each day to reflect on things you are grateful for can shift your perspective, reduce stress, and enhance your overall well-being. This simple habit can help you focus on the positives, even during hectic times.

Time Management and Delegation

Effective time management is critical for reducing stress, especially for women auditors who often balance multiple projects and responsibilities. By managing time wisely and delegating tasks, women can thrive in their audit careers without sacrificing well-being.

Key Strategies to Streamline Workflow and Prevent Burnout:

- **Prioritize Tasks:** Focus on high-impact tasks and organize your day around what truly matters. Identify urgent versus important tasks to ensure your energy goes where it is needed most.
- **Break Projects into Manageable Steps:** Large projects can feel overwhelming, so break them down into smaller, actionable tasks. This approach makes the workload less daunting and helps you stay on track.
- **Be Realistic About Deadlines:** Set achievable deadlines, considering your workload and other commitments. Don't overextend yourself; give each task the time it deserves to maintain quality and reduce stress.
- **Master the Art of Delegation:** Women, in particular, sometimes feel the pressure to "do it all" themselves. Recognize that you don't have to do it all alone. Delegate tasks to team members or junior colleagues, allowing you to focus on higher-priority responsibilities. Asking for help or sharing responsibilities doesn't reflect weakness - it's a smart strategy for staying efficient and avoiding burnout.
- **Create Buffer Time:** Add extra time to your schedule for unexpected issues or reviewing work. This cushion prevents last-minute stress and ensures a smoother

Seek Professional Help When Needed

There's no shame in seeking professional help if stress becomes too overwhelming. Many organizations offer

Employee Assistance Programmes (EAPs) that provide access to counselling services. Therapists or counsellors can offer coping strategies tailored to your specific needs. Early intervention can prevent chronic stress from developing into more severe mental health conditions.

Empower Yourself with Knowledge

Staying informed about the latest trends in mental health and stress management can empower women professionals to take control of their well-being. Attending workshops, joining wellness programmes, or reading about stress management techniques can provide valuable insights into maintaining mental resilience.

Advocate for Workplace Well-being

On a larger scale, women in auditing should advocate for mental health awareness within their organization. This could involve suggesting wellness initiatives, pushing for flexible work policies, or encouraging leadership to provide mental health resources for employees. Creating an environment where well-being is prioritized can significantly reduce workplace stress for everyone.

Conclusion

As women in auditing, it's essential to recognize that mental well-being is as crucial as professional performance. By adopting stress management techniques, setting boundaries, and seeking support, women can thrive in their careers and lead fulfilling, balanced lives. Stress will always be part of the job, but with the right approach, it doesn't have to control your well-being. Remember, your mental, physical, and emotional health should always be your top priority.



DEVELOPING SOFT SKILLS: THE IMPORTANCE OF EMOTIONAL INTELLIGENCE IN INTERNAL AUDIT

In the rapidly evolving field of internal audit, technical skills are often highlighted as critical for success. However, soft skills, particularly emotional intelligence (EI), are becoming increasingly recognized as essential for auditors aiming to thrive in their careers. Emotional intelligence—the ability to understand and manage one's emotions while recognizing and influencing the feelings of others—can significantly impact an auditor's effectiveness in various aspects of their role.

Why Emotional Intelligence Matters in Internal Audit

Being mindful of the early signs of physical and emotional stress is crucial.

- **Enhanced Communication Skills:** Effective communication is paramount in internal auditing. Auditors must convey complex findings and recommendations to various stakeholders, including senior management, board members, and operational teams. Emotional intelligence aids in understanding the audience's perspective, allowing auditors to tailor their messages accordingly. This leads to clearer communication, fostering better understanding and collaboration.
- **Building Strong Relationships:** Internal auditors often interact with employees across the organization. Developing emotional intelligence helps auditors build trust and rapport, creating an open environment for discussing risks and controls. Strong relationships enhance cooperation and facilitate smoother audit processes, as stakeholders are more likely to engage positively when they feel understood and respected.
- **Effective Conflict Resolution:** Auditing can sometimes uncover issues that may lead to employee disagreements or defensiveness. Auditors with high emotional intelligence can navigate these challenging conversations more effectively. By recognizing emotions and responding empathetically, they can defuse tense situations, encourage open dialogue, and promote constructive feedback.
- **Improved Decision-Making:** Emotional intelligence contributes to better decision-making by allowing auditors to consider both rational analysis and emotional factors. This balanced approach enables auditors to assess situations more comprehensively, leading to informed recommendations that consider the human element of organizational behaviour.
- **Adaptability in a Changing Environment:** The auditing landscape is continually evolving, driven by technological advancements and shifting regulatory requirements. Emotional intelligence equips auditors with the flexibility to adapt to change and manage stress. Auditors who regulate their emotions are better prepared to handle unexpected challenges, remain focused, and maintain productivity during busy audit seasons.
- **Leadership and Influence:** As internal auditors advance in their careers, the need for leadership skills becomes more pronounced. Emotional intelligence is fundamental to effective leadership, as it fosters self-awareness and empathy—key traits for inspiring and motivating teams. Auditors with strong EI are more likely to be viewed as leaders within their organizations, capable of driving positive change and influencing organizational culture.

Developing Emotional Intelligence

- **Self-Awareness and Self-Regulation:** The first step in developing emotional intelligence is cultivating self-awareness. Auditors can enhance their self-awareness by reflecting on their emotions, triggers, and behaviours. Practising mindfulness techniques, such as meditation or journaling, can help auditors recognize their emotional responses and learn to regulate them more effectively.
- **Active Listening:** Active listening is crucial to developing emotional intelligence. Auditors should practice listening without interrupting, seeking to fully understand the speaker's emotions and perspectives. This not only improves communication but also fosters trust and collaboration.
- **Empathy Development:** Building empathy involves putting oneself in others' shoes. Auditors can practice empathy by conversing with colleagues, asking open-ended questions, and genuinely considering their perspectives. Understanding others' emotions and motivations can lead to more effective interactions and decision-making.
- **Feedback and Reflection:** Seeking feedback from peers and supervisors is invaluable for developing emotional intelligence. Auditors should be open to constructive criticism and use it as a tool for growth. Reflecting on experiences and interactions can help auditors identify areas for improvement and refine their emotional intelligence skills.
- **Professional Development Opportunities:** Engaging in workshops, training sessions, or courses focused on emotional intelligence can provide auditors with practical tools and strategies. Organizations should also consider incorporating emotional intelligence training into their professional development programmes for auditors.
- **Leadership and Influence:** As internal auditors advance in their careers, the need for leadership skills becomes more pronounced. Emotional intelligence is fundamental to effective leadership, as it fosters self-awareness and empathy—key traits for inspiring and motivating teams. Auditors with strong EI are more likely to be viewed as leaders within their organizations, capable of driving positive change and influencing organizational culture.

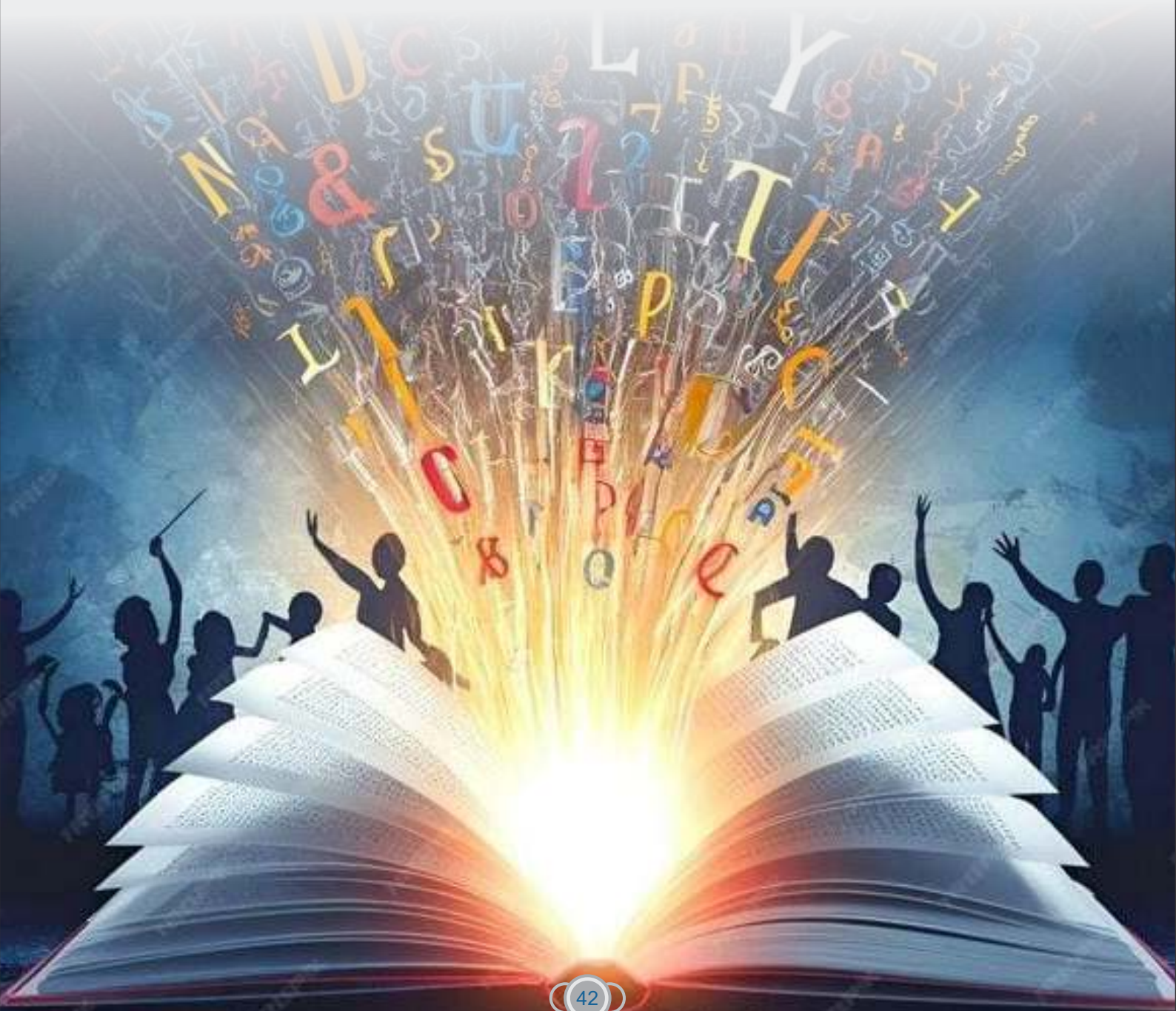
Conclusion

As the internal audit profession continues to evolve quickly, the importance of emotional intelligence cannot be overstated. Developing EI alongside technical skills enhances auditors' effectiveness in communication, relationship-building, conflict resolution, and decision-making. By prioritizing emotional intelligence development, internal auditors can easily navigate the complexities of their roles, ultimately driving value for their organizations and positioning themselves for long-term success in their careers.

In a field where numbers and regulations often take center stage, it's crucial to remember that the human element - anchored in emotional intelligence - plays a significant role in effective auditing. By cultivating these soft skills, auditors can foster collaboration and trust, paving the way for more impactful audit processes and organizational growth.

IGNITING CURIOSITY

Student's Section



ESSENTIAL TOOLS FOR INTERNAL AUDIT PROFESSIONALS IN INDIA

In India's dynamic internal auditing landscape, leveraging the right tools can significantly enhance efficiency, accuracy, and overall effectiveness. As internal auditors navigate complex organisational frameworks and regulatory requirements, these tools help streamline processes, facilitate data analysis, and improve communication.

Here's a look at some essential tools that all internal audit professionals in India should consider incorporating into their toolkits:

1. Audit Management Software

Audit management software organises audit processes, tracks progress, and manages documentation. AuditBoard, TeamMate, and Galileo provide features for planning audits, assigning tasks, and maintaining a centralised repository for audit findings and reports. These tools help streamline workflows and ensure compliance with Indian auditing standards.

2. Data Analytics Tools

Data analytics tools are indispensable for internal auditors in an era where data drives decision-making. Solutions like ACL Analytics, IDEA, and Power BI allow auditors to analyse large datasets for patterns, anomalies, and trends. By leveraging these insights, auditors can identify risks more effectively and provide value-added recommendations crucial for Indian businesses navigating regulatory environments.

3. Risk Management Software

Risk management tools such as LogicManager and RiskWatch assist auditors in assessing and mitigating organisational risks. These platforms enable users to conduct risk assessments, track risk mitigation strategies, and generate reports to keep stakeholders informed. A robust risk management tool is essential for integrating risk considerations into the audit process, particularly given India's complex business landscape.

4. Collaboration and Communication Tools

Effective communication is critical in the internal audit process. Tools like Microsoft Teams, Slack, and Zoom facilitate real-time collaboration among audit teams and stakeholders, including cross-functional teams in diverse business environments. These platforms support document sharing, virtual meetings, and ongoing discussions, ensuring everyone is aligned and informed throughout the audit lifecycle.

5. Document Management Systems

Keeping track of audit documentation is vital for compliance and reference purposes. Document management systems like SharePoint and M-Files enable auditors to securely store, organise, and retrieve documents. These systems support version control and collaboration, reducing the risk of lost or outdated information, which is particularly important in industries governed by strict regulatory frameworks in India.

6. Internal Control Frameworks

Frameworks such as COSO (Committee of Sponsoring Organizations of the Treadway Commission) and COBIT

(Control Objectives for Information and Related Technologies) provide structured approaches for evaluating internal controls. Utilising these frameworks helps auditors assess the effectiveness of an organisation's control environment and ensure compliance with best practices, especially in sectors like banking and finance, which are heavily regulated in India.



7. Continuous Monitoring Tools

Continuous monitoring tools like **LogicManager** and **RSA Archer** help organisations constantly check their risk and control environments. These tools enable auditors to implement ongoing monitoring processes, allowing for timely detection of issues and proactive management of risks, which is particularly relevant in the Indian business environment.

8. Survey and Feedback Tools

Gathering insights from stakeholders is crucial for audit effectiveness. Tools like SurveyMonkey and Qualtrics can be used to conduct surveys and gather feedback from employees and management regarding internal processes and controls. This information can help auditors identify areas for improvement and enhance audit planning, which is essential for aligning with local business practices.

9. Training and Development Platforms

Staying current with industry standards and best practices is vital for internal audit professionals. Platforms like **LinkedIn Learning** and Coursera offer various courses on auditing, risk management, and soft skills. Investing in continuous learning ensures that auditors in India remain well-equipped to tackle emerging challenges and keep pace with global auditing standards. **The Institute of Internal Auditors India** has curated a specialised training section to educate and upskill internal auditors. IIA India has a treasure of resource materials and webinars that enable IA professionals to stay updated with global developments and get certifications.

Conclusion

Incorporating these tools into the internal audit process can significantly enhance the effectiveness and efficiency of audit activities in India. By leveraging technology and structured methodologies, internal auditors can provide greater insights, improve organisational governance, and drive value for their organisations. Embracing these tools helps streamline processes and empowers internal audit professionals to fulfil their crucial role in fostering accountability and risk management in India's diverse and evolving business landscape.

QUIZ

Test Your Internal Audit Knowledge!

1. What is the primary objective of internal auditing?

- A) Detecting fraud
- B) Ensuring compliance with tax regulations
- C) Adding value and improving an organization's operations
- D) Managing external audits

2. Which of the following is a key characteristic of an internal auditor?

- A) Subjectivity
- B) Independence and objectivity
- C) Familiarity with all company departments
- D) Authority to make business decisions

3. Which framework is widely used by internal auditors to assess risk management, control, and governance processes?

- A) COSO Framework
- B) GAAP Principles
- C) Lean Six Sigma
- D) Sarbanes-Oxley Act

4. The internal audit activity must be independent, and internal auditors must be ____ in performing their work.

- A) Flexible
- B) Competent
- C) Objective
- D) Persuasive

5. Which of the following is NOT part of the Three Lines of Defense model in Risk Management?

- A) Operational management
- B) Internal audit
- C) External audit
- D) Risk management and compliance

6. What does the International Professional Practices Framework (IPPF) provide to internal auditors?

- A) Audit reports for compliance
- B) Best practices for internal auditing globally
- C) Accounting standards for public companies
- D) Legal defense for audit findings

7. Ethics play a crucial role in internal auditing. Which of these is a principle of the IIA's Code of Ethics?

- A) Ambiguity
- B) Competence
- C) Conflict of interest
- D) Sales maximization

8. What is the primary purpose of conducting an audit follow-up?

- A) To verify if the external audit was successful
- B) To determine if management actions have been implemented in response to previous audit findings
- C) To ensure the internal audit report has been filed
- D) To conduct a new audit of the same department

9. In the context of fraud risk, internal auditors are responsible for:

- A) Investigating all fraud occurrences
- B) Preventing fraud from happening
- C) Ensuring that controls are in place to mitigate the risk of fraud
- D) Prosecuting employees involved in fraud

10. Which of the following is a standard outlined in the IIA's International Standards for the Professional Practice of Internal Auditing (Standards)?

- A) Proficiency and Due Professional Care
- B) Legal Accountability
- C) Financial Profitability
- D) Employee Management

OUT OF THE BOX



DIGITAL DETOX AT WORK: FINDING BALANCE IN A TECH-DRIVEN WORLD



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Do you ever feel like a digital warrior? Fighting for your survival in a sea of notifications, emails, and endless Zoom calls? Welcome to the club! In today's hyper-connected workplace, the struggle to find work-life balance is real. Every ping and alert demands immediate attention, pulling you in multiple directions at the same time. The constant barrage of digital communication can sometimes be overwhelming, making you stress more, eventually leading to burnout.

If you can relate to this scenario, it's time for a digital detox! Take a step back and breathe. Imagine reclaiming your focus, reducing stress, and enhancing your overall well-being by simply unplugging for a while. Sounds too good to be true? And what about work? We can't eliminate technology as professionals, but we can definitely manage it better.

Understanding Digital Overload at the Workplace

When was the last time you had a truly uninterrupted moment at work? Hard to recall, right? It's because when you are constantly bombarded with calls and notifications, juggling multiple tasks simultaneously, it might seem like you are being productive. But the truth is, your brain is struggling to keep up with this chaos. Our minds need downtime to recharge and function at their best. Although technology is essential, digital overload is a real problem that negatively affects your work life.

Signs of Digital Fatigue

You know that feeling when your eyes are burning, your neck is stiff, and you can't remember the last time you blinked? That's digital fatigue knocking on your door. Here are some telltale signs:

- Exhaustion after screen time.
- Headaches or neck pain.
- Blurred vision or eye strain.
- Difficulty sleeping.
- Anxiety from being constantly connected.
- Feeling isolated or lonely.

It's like your brain is doing the digital version of running a marathon every day. No wonder you are exhausted!

Impact on Productivity and Well-being

You might think all these tech tools are making you a productivity superhero, but here's the truth: they might be your kryptonite. Studies show that 42% of workers feel less productive due to the number of work apps they use. It's like trying to juggle while riding a unicycle - impressive if you can, but probably not the most efficient way to get things done. The impact goes beyond just productivity.

Digital overload can lead to:

- Increased stress and burnout
- Work-life conflict
- Job dissatisfaction
- Reduced focus and creativity

It's like your mind is a browser with too many tabs open - eventually, it's going to crash.

The Need for Balance

So, what's the solution? It's all about finding that sweet spot between tech and human touch. You can think of it as digital yoga - stretching your tech muscles without overextending yourself.

Here are some ideas to help you find balance:

- **Take regular screen breaks:** Try a 10-minute break after an hour or two.
- **Streamline your apps:** Reduce the number of apps you use.
- **Set healthy workplace communication boundaries:** Decide when to check and respond to messages.
- **Practice mindful tech use:** Designate specific times to use technology rather than checking it all day.

Remember, technology should be your servant, not your master. It's time to reclaim your digital zen and find harmony in the tech-driven workplace. After all, even Lord Buddha would struggle with inbox zero!

Implementing a Digital Detox Strategy

Ready to start your digital detox journey? It's time to channel your inner tech yogi and find that balance between being connected and unplugged.



Setting Boundaries with Technology

Do you know how the ancient Egyptians built pyramids to separate the earthly realm from the divine? It's time to create boundaries between your work and personal life.

1. Keep work apps off your personal devices. It's like creating a digital Great Wall of China!
2. Set up separate accounts on your computer. Think of it as having different rooms in your digital house.
3. Turn off notifications after work hours. Pretend those pings are like sirens luring sailors to their doom - resist the temptation!

Creating Tech-free Zones

Imagine having a peaceful oasis in the middle of a bustling digital desert. That's what tech-free zones are all about. Here are a few ideas to create at the workplace:

1. Designate specific areas as no-tech zones- the break room, coffee place or a cosy corner.
2. Fill these spaces with non-digital activities. Offices can add books, puzzles, or even a good old-fashioned dartboard to keep the employees engaged.
3. Use clear signage and strict rules to mark these areas.

Encouraging Mindful Tech Use

1. Embrace Single-tasking

Forget trying to juggle everything at once like a circus performer. Focus on one task at a time. Imagine you are at your desk with a mountain of emails and a million things to do. Instead of bouncing from task to task, you focus on one thing, like finishing a report. As you zero in, ideas flow more smoothly, and you get a satisfying sense of accomplishment with each completed task.

2. Take Mindful Breaks

Every hour, step away from your screen. You are deep into work, feeling overwhelmed. Instead of powering through, you take a break. You stroll to the break room, brew some tea, and enjoy a few moments of peace. When you return to your desk, you are refreshed and ready to tackle the next task.



3. Review Your Digital Habits

Take a few minutes daily to think about your technology use. Imagine scrolling through your phone and realising you haven't used half these apps in ages. Inspired by Marie Kondo (professional organiser), delete the ones you don't need. As your home screen clears up, you feel a sense of relief and clarity, like you have just cleaned out your closet.

4. Practice Digital Curfews

Set specific times to unplug and unwind. Treat it like a bedtime for your gadgets. After a specific hour, turn off your devices and focus on real-world activities. It's like giving your tech a nap so you can rest, too. For example, don't get tempted to check one last email if it's late. Put your phone on airplane mode and pick up a book. As you read, your mind relaxes, and your stress melts.

Benefits of Digital Detox for Employees

Ever feel like your brain is trying to multitask all the time like a circus performer juggling flaming torches? A digital detox is like hitting the reset button for your mind. Taking a break from constant pings and pop-ups allows your brain to hit the refresh button. Imagine you are a chef in a busy kitchen - focusing on one dish at a time rather than trying to prepare the entire menu simultaneously.

1. Improved Focus and Productivity

Visualise that you are working on a big project with a dozen tabs open, and your phone keeps buzzing with notifications. Instead of trying to juggle everything, you close unnecessary tabs and put your phone on Do Not Disturb. As you dive back into your task with fewer distractions, your productivity soars - like going from a tangled mess of yarn to a perfectly knitted scarf.

2. Reduced Stress and Anxiety

Are you feeling like you are carrying the digital equivalent of a mountain on your shoulders? It's time to let go and give your brain time to relax - like a warm bubble bath. Stepping away from your screens and social media enables you to unwind. Imagine you are a juggler who's just dropped all your pins. Instead of scrambling to pick them up, you take a deep breath and take a moment to simply breathe. This break helps you reset your stress levels and clears your mind, like hitting pause on a never-ending video game to take a breather.

3. Enhanced Work-life Balance

Remember when achieving "work-life balance" felt as mythical as finding a hidden treasure chest? A digital detox can make it a reality! It's like setting up a "no-fly zone" for work emails in your personal life.

Final Words:

Picture your work and home life as two distinct islands. By setting boundaries, you build a bridge only when necessary. When you turn off work notifications after hours and focus on family dinners or hobbies, it's like giving your life a much-needed vacation. Rediscover those simple pleasures, like board games with loved ones or exploring a new hobby, without the constant buzz of work invading your personal time. So close those extra browser tabs and enjoy the joys of life beyond the screen. Your mind (and your cramping smartphone-holding hand) will thank you!

Answer keys of Quiz:

10. A | 9. C | 8. B | 7. B | 6. B | 5. C | 4. C | 3. A | 2. B | 1. C

This quiz covers essential internal auditing principles, standards, and ethical practices, providing students with a good challenge while educating them on the core competencies of the profession.



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