



ROLE OF INTERNAL AUDIT IN THE AGE OF DISRUPTIONS

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Abstract

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

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

Introduction:

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

Taking a fresh look at risk management in the context of changing technology and data-driven experience has prompted a significant change in the function of auditors in organizationsorganisations. With the emergence of new technology at an unprecedented pace, the function of internal auditors is to be prepared for a rapid transition. Giving an

instance we will comprehend how the introduction of the digital camera completely disrupted industry leaders like Kodak and how the likes of Samsung and Apple completely caught Blackberry off guard guard. then Then we'll realize how quickly the roles as of internal auditors are evolving.

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

How Internal Audit Evolved: Brief Overview

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

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

Disruptions in Different Areas:

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

automation demands overhauling control environments to manage risks like operational disruptions and data security.

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

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

Current Trends Challenging the IA Approach:

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

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

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

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

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

B. Introducing a risk Risk framework Framework: The scale of change in healthcare necessitates a framework made to adapt to changing needs. Internal auditing ought to be a key element. A collaborative enterprise risk management (ERM)

framework, for instance, enables internal audit to create a comprehensive risk profile that might be shared with the board and used to guide decision-making and annual work plans.

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

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

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

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

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

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

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

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

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

1. An internal audit department can collaborate with the management to create a plan to reduce a new risk that could negatively affect the organization's organisation's operations.
2. An internal audit department that offers suggestions for how to enhance the organization's organisation's operations can assist the organisation in more effectively and efficiently achieving its strategic goals.
3. The organisation can identify and execute the essential adjustments that will enable it to remain competitive in a changing environment with the aid of an internal audit department that is willing to challenge the status quo.

How IA will leverage Leverage that:

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

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

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

Where to start for transformation of Internal audit:

A. Establishing strategic vision for Internal Audit:

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

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

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

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

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

Here are some of the statistical data:

1. According to a survey conducted by the IIA, 72% of internal audit leaders believe that new technologies will significantly affect their companies in the next two to three years. They also agree that internal audit needs to improve its capacity to offer assurance and insight on these technologies.
2. In a Deloitte survey, internal audit leaders said that 58% of their teams were utilising or testing AI-based solutions for auditing tasks like data analysis, fraud detection, risk assessment, and audit reporting.
3. A secure and transparent audit trail for their transactions and processes may be created using blockchain technology, according to a PwC analysis that cites the opinions of 44% of internal audit leaders.
4. In a study by EY, 67% of internal audit leaders stated that they were utilising or planned to employ big data analytics and cloud computing to increase the efficiency and efficacy of their audits, including data collection, storage, processing, and visualisation.

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

Sector	Role of Disruptive Internal Audit	Examples
Financial Services	Identifying and reducing risks related to emerging technologies like blockchain and artificial intelligence. Collaborated with management to create a plan including new controls and training for staff on how to spot and report suspicious behaviour.	A new blockchain -based application could be used to promote money laundering. A large bank's internal audit department discovered this risk and developed control measures.
Healthcare	Assisting in identifying and reducing risks related to new laws like the Affordable Care Act. Collaborated with management to implement new policies and train staff on compliance.	A big hospital's internal audit department discovered a risk related to non -compliance with new patient privacy rules. They created a plan to mitigate this risk by establishing new policies.
Technology Services	Identifying and reducing risks related to new business models like cloud computing and subscription -based services. Collaborated with management to enhance security measures and train staff on data protection.	A major software company's internal audit discovered a risk of data breach recovery failure. They developed a plan to implement additional security measures.

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

Conclusion:

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

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

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