



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)



Research Paper on **Value Addition Through Internal Audit**

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Published by
Pune Branch of WIRC of ICAI

Date
10th October 2025



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Abstract

Within organizational governance, internal audit function as a cornerstone, offers independent assurance and consulting services to enhance value and streamline operations. As businesses attempts to optimize value in a dynamic landscape, the role of internal audit function becomes increasingly vital. Beyond its traditional financial oversight, internal audit function acts as a catalyst for value creation. This paper conducts a thorough analysis of how internal audit function contributes to organizational value, emphasizing its role in strengthening risk management, refining processes, and ensuring regulatory compliance.

Covering a broad range of topics, the paper explores the foundational aspects of internal audit function and traces its evolution. It examines key milestones in internal audit's journey, positioning it as a trusted guardian of business wellness. Factors shaping the modern business environment and stakeholder expectations are analysed, revealing how internal audit transforms challenges into opportunities. Moreover, the paper highlights internal audit function's pivotal role in maximizing organizational excellence, supported by real-world case studies.

Despite facing contemporary challenges, internal audit remains resilient, as highlighted in the Global Risks Report 2024. Through proactive risk management and strategic foresight, internal audit function continues to add value and uphold its indispensable role in organizational governance. This paper underscores the invaluable contribution of internal audit function, solidifying its position as a strategic driver of organizational success.

Internal Audit Function

In the realm of corporate operations, Internal Audit Function (IA) has long been perceived as a necessary yet detached entity — a cost center relegated to ensuring regulatory compliance rather than actively contributing to organizational value.

Historically, its activities were narrowly focused on adhering to financial oversight, regulations and internal policies, with little attention given to driving tangible bottom-line benefits. This perception often cast internal audit function as an outsider within the organizational framework, distanced from core business operations. However, recent years have witnessed a profound transformation in the landscape of internal audit function, ushering in a new era characterized by its emergence as a Trusted Advisor.

This evolution signals a fundamental shift towards recognizing internal audit functions potential to not only safeguard but actively enhance organizational success and value creation.

Indeed, according to the Institute of Internal Auditors (IIA), internal auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. This redefinition positions internal audit function as a strategic partner deeply ingrained in organizational processes, poised to deliver meaningful contributions to operational excellence and sustainable growth.

Key Internal Audit Milestones: A Journey Of Evolution And Progress

Internal audit, as we recognize it today, traces its origins back to 1941 with the establishment of the Institute of Internal Auditors (IIA). Since then, the profession has undergone a transformative journey, marked by significant milestones that have shaped its evolution and contributed to its professionalization and relevance in the business world.

Below are key internal audit milestones spanning intervals of 25 years until the year 2000, followed by notable developments in five-year intervals post-year 2000.

1941: Birth of Modern Internal Audit

The establishment of the Institute of Internal Auditors (IIA) marked the birth of modern internal audit.

The IIA's mission was to promote the profession, establish professional standards, and provide guidance for internal auditors worldwide.

1966: Introduction of Professional Standards

The IIA introduced its first professional standards, laying the foundation for consistent and ethical internal audit practices.

These standards emphasized the principles of independence, objectivity, and integrity, guiding internal auditors in their roles and responsibilities.

1991: COSO Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its Internal Control-Integrated Framework in response to growing concerns about fraudulent financial reporting.

The COSO framework provided a comprehensive framework for designing, implementing, and assessing internal control systems, shaping internal audit practices globally.

2000: Sarbanes-Oxley Act Implementation

The enactment of the Sarbanes-Oxley Act (SOX) in 2002 following corporate scandals such as Enron and WorldCom.

SOX mandated stringent requirements for internal control over financial reporting, elevating the role of internal audit in providing assurance and guidance to ensure compliance.

2005: Emphasis on Enterprise Risk Management (ERM)

The focus shifted towards enterprise risk management (ERM), recognizing the interconnectedness of risks across organizations.

Internal audit embraced ERM frameworks to provide holistic risk assurance and advisory services, aligning audit activities with strategic objectives.

2010: Integration of Data Analytics

The widespread adoption of data analytics and technology-driven audit techniques within internal audit functions.

Internal auditors leveraged data analytics tools to enhance audit effectiveness, detect anomalies, and extract valuable insights from vast datasets.

2015: Agile Audit Methodologies

The adoption of agile audit methodologies to enhance audit responsiveness and adaptability.

Internal audit function embraced iterative planning, continuous risk assessment, and dynamic resource allocation to address evolving risks and business priorities.

2020: Remote Auditing and Digital Transformation

The acceleration of remote auditing and digital transformation initiatives in response to the COVID-19 pandemic.

Internal audit function leveraged technology to conduct virtual audits, collaborate remotely, and maintain audit continuity amidst disruptions.

2024: Focus on Environmental, Social, and Governance (ESG) Factors

The integration of environmental, social, and governance (ESG) factors into internal audit processes.

The internal audit function is playing a pivotal role in assessing ESG risks, identifying opportunities for sustainable practices, and enhancing stakeholder value.

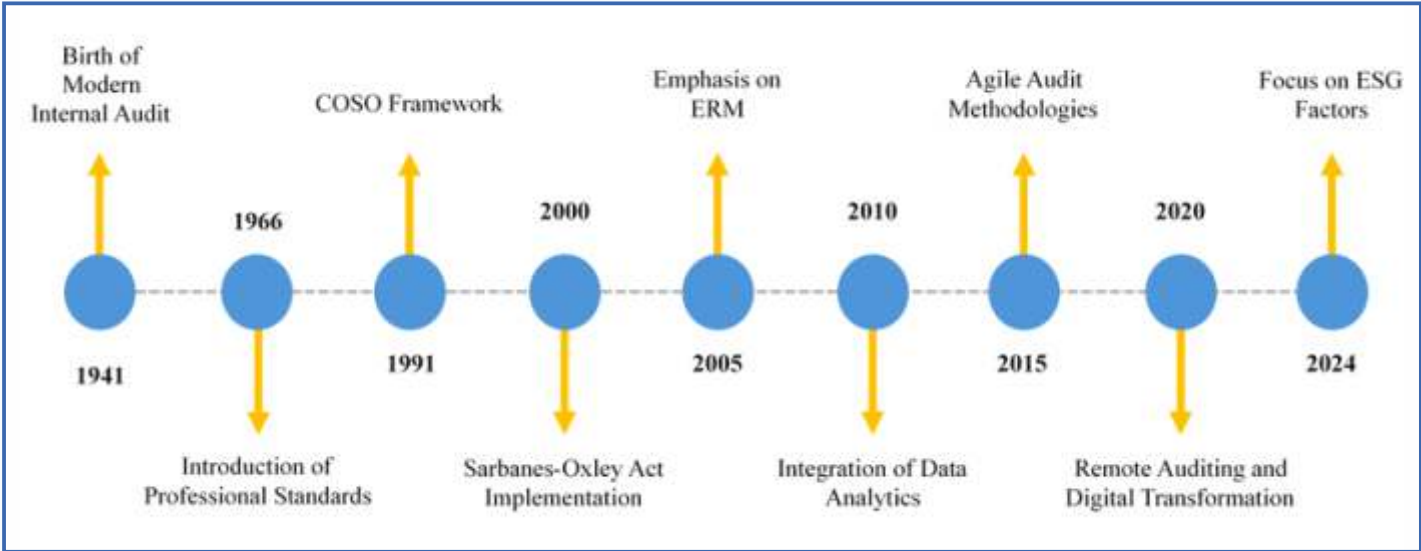


Figure 1: The journey of internal audit

The journey of internal audit from its inception in 1941 to the present day reflects a continuous evolution driven by changing business landscapes, regulatory environments, and technological advancements. By adapting to these changes and embracing new challenges, internal audit has demonstrated its resilience, relevance, and commitment to excellence in serving organizations worldwide. While the core purpose of internal audit—to assure and advise—remains steadfast, it's essential for internal audit functions to evolve their service emphasis and delivery models to stay relevant in today's dynamic environment. The most successful internal audit functions will not only provide assurance on existing risks but also anticipate and proactively address emerging risks, helping organizations stay ahead of the curve and achieve their objectives.

The Internal Auditor: A Trusted Guardian Of Business Wellness

Imagine an energetic corporate ecosystem like a busy succeeding city, where various departments of corporate represent vital organs, each contributing to the overall health and prosperity of the organization. In this intricate network, the Internal Auditor function assumes the role of a skilled Business Wellness Expert or Business Doctor, diligently monitoring the pulse of the company's operations, diagnosing potential ailments, and prescribing remedies to ensure optimal performance and longevity.

Much like a Business Wellness Expert, the Internal Auditor function conducts routine check-ups, meticulously examining the company's financial statements, operational processes, and compliance with regulatory standards. Through comprehensive audits and assessments, they identify areas of weakness or vulnerability, akin to detecting early signs of illness in a patient. By analysing data, reviewing controls, and conducting interviews with key stakeholders, the Internal Auditor gains valuable insights into the organization's health status, enabling them to formulate targeted interventions to address any issues before they escalate.

However, just as a Business Wellness Expert may consult specialists in the face of complex or urgent health conditions, the Internal Auditor function collaborates with subject matter experts and external advisors when confronted with significant risks or unforeseen challenges. Whether it's navigating through financial crises, responding to cybersecurity threats, or adapting to regulatory changes, the Internal Auditor acts as a conduit for expertise, tapping into a network of specialists to provide timely and effective solutions to the organisation.

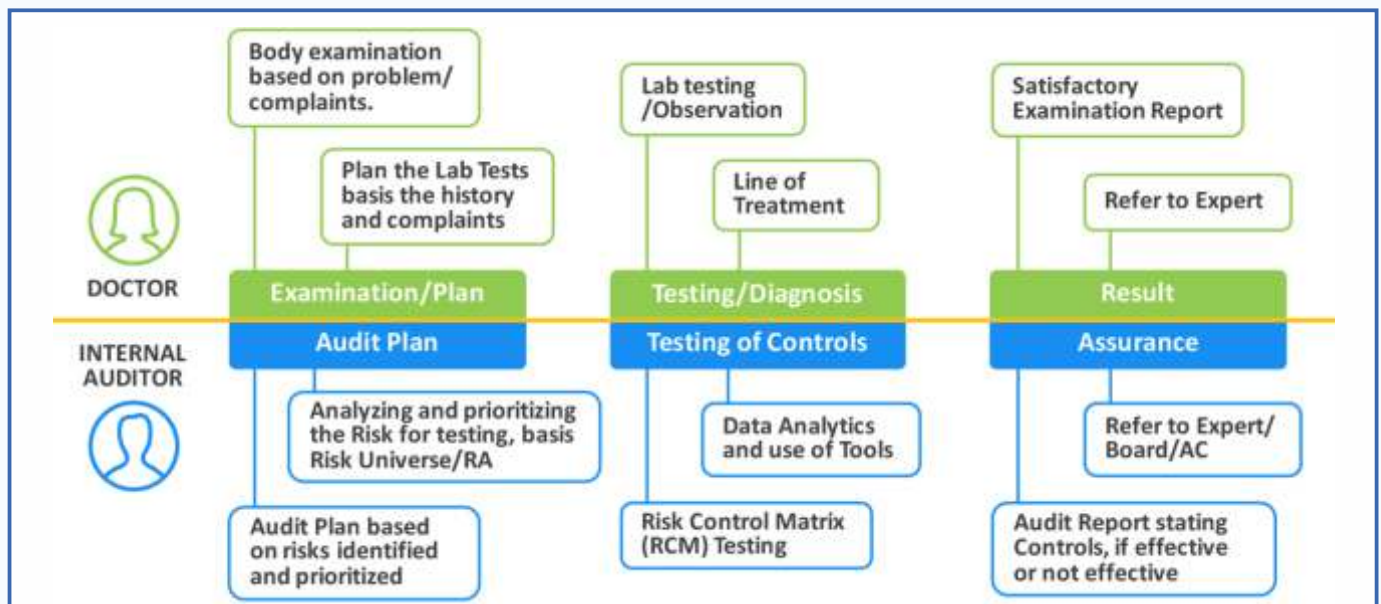


Figure 2: Internal Auditor serves as a guardian of business wellness.

Consider an imaginary scenario in which a company experiences a sudden disruption in its supply chain, threatening its ability to fulfil customer orders and maintain profitability. In this critical situation, the Internal Auditor function swiftly mobilizes its own team with a team of experts, including supply chain analysts, procurement specialists, and risk management consultants. Together, they assess the impact of the disruption, devise contingency plans, and implement strategic measures to mitigate risks and restore operations to normalcy.

Through their proactive approach and strategic foresight, the Internal Audit function not only safeguards the company's financial health but also contributes to its long-term resilience and competitiveness. By acting as a trusted advisor and facilitator in times of crisis, they demonstrate the value of internal audit function as a strategic partner in driving organizational success.

In essence, the Internal Audit function serves as a guardian of business wellness, diligently monitoring vital signs, diagnosing ailments, and orchestrating interventions to ensure the organization's vitality and prosperity. Just as a skilled Business Wellness Expert nurture the well-being of their patients, the Internal Auditor nurtures the health and resilience of the company, earning their place as a trusted advisor and partner in the journey towards sustainable growth and value creation.

Factors Affecting Business Environment

In today's dynamic business world, change is the only constant. The pace of change is so rapid that it is essential for companies to stay ahead of the curve to survive and thrive. In this ever-evolving landscape, businesses must be agile, adaptable, and innovative to succeed. Keeping up with the latest trends and technologies can make all the difference in staying ahead of the competition. Therefore, it is crucial for businesses to embrace change and be open to new ideas to ensure their long-term success. Numerous factors exert profound influences, shaping the environment in which organizations operate. From technological advancements and regulatory requirements to shifting consumer expectations and geopolitical uncertainties, these influences significantly impact business dynamics and strategic decision-making. As the underlying asset of businesses undergoes transformation, there arises a critical need for internal audit function to adapt and evolve accordingly. Internal audit serves as the guardian of governance, risk management, and operational efficiency, ensuring that organizations effectively navigate the complexities of the evolving business landscape. Let us understand what are the key factors influencing the business environment.

Key Factors Influencing the Business Environment:

Technological Advancements: Rapid technological advancements, such as automation, artificial intelligence, digitalization, blockchain and process automation reshape business operations and create new opportunities and challenges.

Regulatory Requirements: Increasingly complex and stringent regulations across industries and around the globe, impose compliance burdens and necessitate organizational adaptability to remain compliant.

Globalization: The interconnected nature of "Global markets" seems to refer to the interconnected system of markets around the world where businesses buy and sell goods and services. This exposes businesses to geopolitical risks, trade barriers, and economic fluctuations, but also presents opportunities for expansion and diversification.

Shifting Consumer Expectations: Evolving consumer preferences and mode of purchasing from offline to online, driven by factors like sustainability, convenience, and personalization, require businesses to innovate and tailor their offerings to meet changing demands continuously.

Economic Conditions: Fluctuations in economic indicators like interest rates, inflation, and GDP affect consumer spending, investment choices, and market stability.

Competitive Landscape: Intense competition, fuelled by globalization and technological advancements, necessitates strategic differentiation and agility to maintain market relevance and competitiveness.

Environmental Concerns: Growing awareness of environmental sustainability and corporate responsibility requires businesses to adopt eco-friendly practices, comply with environmental regulations, and address stakeholder expectations. Many countries have also initiated reporting standards on Environmental and Social Governance (ESG).

Social and Demographic Trends: Changing demographics, social values, and lifestyle preferences influence consumer behaviour, workforce dynamics, and market trends, prompting businesses to adapt their strategies and practices accordingly.

Geopolitical Uncertainty: Geopolitical tensions, trade disputes, and geopolitical events can disrupt supply chains, affect market sentiment, and introduce geopolitical risks that impact business operations and profitability.

Startup Investments: Increasing investments in startups and disruptive ventures introduce new competitors and market dynamics, forcing established businesses to innovate and differentiate to maintain market share.

Requirement of Governance: A heightened focus on corporate governance and ethical conduct necessitates robust governance frameworks to maintain trust with stakeholders and mitigate risks associated with non-compliance and misconduct.

Key Stakeholders And Expectations:

IA Function Converting Challenges Into Opportunities

Key stakeholders and their expectations are critical considerations for internal audit (IA) functions as they evolve to meet the demands of the modern business environment. By understanding the needs and priorities of stakeholders, IA can identify opportunities to add value and enhance its contribution to the organization's success.

Let's delve into key stakeholders, their expectations, and how IA can convert these expectations into opportunities:

Board of Directors (BOD)

Expectations: The BOD expects IA to provide independent assurance on the effectiveness of governance processes, risk management, and internal controls. They rely on IA to help fulfil their oversight responsibilities and ensure compliance with regulations and best practices.

Opportunities: Internal Audit function can seize the opportunity to become a trusted advisor to the BOD by providing strategic insights and recommendations. By aligning audit activities with the organization's strategic objectives, IA can enhance its relevance and influence in the boardroom.

Senior Management

Expectations: Senior management expects IA to identify operational inefficiencies, root cause analysis for any failure of controls, mitigate risks, and support decision-making processes. They value IA's ability to provide actionable recommendations for improving business performance and achieving objectives.

Opportunities: Internal Audit function can leverage its access to valuable data and insights to help senior management drive operational excellence and innovation. By collaborating closely with management, IA can identify opportunities for process optimization, cost reduction, and advisory toward revenue enhancement.

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Audit Committee

Expectations: The audit committee expects the Internal Audit function to provide transparent and objective assessments of key risks and controls. They rely on IA to inform them about emerging risks, regulatory developments, and internal audit findings.

Opportunities: The internal Audit function can enhance its relationship with the committee by clearly and concisely communicating audit results and recommendations. By proactively addressing the committee's concerns and priorities, IA can strengthen its credibility and influence within the organization.

Statutory and External Auditors

Expectations: External auditors expect IA to maintain high professionalism, objectivity, and integrity standards. They rely on IA's work to gain insights into the organization's internal control environment and effectively coordinate audit efforts.

Opportunities: Internal Audit function can collaborate with external auditors to streamline audit processes, share relevant information, and address any areas of concern. By demonstrating a cooperative and transparent approach, IA can facilitate a more efficient and effective external audit process.

Business Units and Operational Teams

Expectations: Business units and operational teams expect IA to provide practical recommendations for addressing operational challenges and improving processes. They value IA's expertise in identifying efficiency gains and risk mitigation opportunities.

Opportunities: Internal Audit function can foster a culture of collaboration and knowledge-sharing with business units by engaging them in the audit process. By seeking input from frontline staff and incorporating their perspectives into audit findings, IA can identify the root causes of issues and develop more effective solutions.

Regulators and Compliance Authorities

Expectations: Regulators and compliance authorities expect IA to ensure that the organization meets regulatory requirements and industry standards. They rely on IA to identify compliance gaps and recommend remedial actions.

Opportunities: Internal Audit function can play a proactive role in helping the organization anticipate and adapt to regulatory changes. By staying abreast of regulatory developments and conducting targeted compliance audits, IA can help mitigate regulatory risks and enhance the organization's reputation for integrity and compliance.

Understanding the expectations of all the key stakeholders is essential for the Internal Audit function to fulfil its role as a trusted advisor and value-adding partner to the organization. By converting stakeholders' expectations into opportunities for improvement and innovation, IA can enhance its impact and contribute to the organization's long-term success.

Maximizing Organizational Excellence: The Role Of Internal Audit In Value Addition

Internal audit is a strategic enabler for organizational resilience, agility, and competitiveness in a rapidly changing business environment. By embracing its strategic potential and harnessing its capabilities, organizations can proactively mitigate risks, drive innovation, and foster sustainable growth. Through collaboration, innovation, and commitment to excellence, the internal audit function stands poised to empower organizations to thrive amidst uncertainty and achieve enduring success. Let's examine how internal audit function can benefit the organization.

Enhanced Risk Management:

Conduct thorough Risk assessments covering all core and non-core business functions, identifying both existing and emerging risks.

Evaluate the effectiveness of the current risk landscape after considering the likelihood, impact, and risk control in mitigating identified risks, considering qualitative and quantitative measures.

Provide actionable recommendations based on the risk effectiveness evaluation to strengthen risk management frameworks, focusing on important areas where controls may be inadequate or outdated.

Improved Internal Controls:

Scrutinize the design and help in implementing internal controls, ensuring they align with organizational objectives and regulatory requirements.

Monitor the adherence to internal control policies and procedures through regular audits and assessments, identifying instances of non-compliance or control deficiencies in core and non-core business processes.

Propose enhancements to internal controls, leveraging technology and automation tools where applicable to enhance effectiveness and efficiency.

Efficiency and Effectiveness:

Analyse business processes holistically, identifying inefficiencies, redundancies, and bottlenecks that impede operational efficiency.

Recommend process optimization strategies, such as streamlining workflows, eliminating non-value-added activities, and standardizing procedures.

Explore opportunities for automation and digital transformation to streamline operations, reduce manual effort, and improve overall effectiveness.

Compliance Assurance:

Ensure adherence to applicable laws, regulations, and industry standards through rigorous compliance audits and reviews.

Stay abreast of regulatory changes and emerging compliance requirements, proactively advising management on necessary adjustments to ensure ongoing compliance.

Provide guidance on best practices for compliance management, including developing robust compliance policies, procedures, and training programs.

Fraud Prevention and Detection:

Conduct comprehensive fraud risk assessments along with Internal Audit and Risk assessment function, identifying potential fraud schemes and vulnerabilities within the organization.

Implement fraud detection techniques and controls inbuilt in first and second line of defence, such as data analytics, transaction monitoring, and segregation of duties, to mitigate fraud risks.

Investigate suspected instances of fraud promptly and thoroughly, collaborating with relevant stakeholders to gather evidence and take appropriate remedial actions to ensure it cannot be repeated.

Strategic Insights:

Offer strategic insights and objective assessments of key initiatives, projects, project feasibility, and business plans, helping management make informed decisions.

Conduct industry and market analyses to identify emerging trends, opportunities, and threats that may impact the organization's strategic objectives.

Facilitate strategic planning sessions and workshops, guiding management in setting achievable goals and developing actionable strategies for growth and sustainability.

Stakeholder Confidence:

Build trust and confidence among stakeholders by providing transparent and reliable assurance on the effectiveness of internal controls and risk management processes.

Communicate audit findings and recommendations clearly and effectively, tailoring messages to the needs and interests of different stakeholder groups.

Demonstrate the value of internal audit through measurable outcomes and tangible contributions to organizational success, fostering a positive perception among stakeholders.

Continuous Improvement:

Foster a culture of continuous improvement by monitoring the implementation of audit recommendations and tracking progress over time.

Encourage feedback and collaboration from stakeholders, seeking input on areas for improvement and opportunities for innovation.

Leverage data and analytics to measure the impact of internal audit activities, identifying areas of success and areas for further enhancement.

Cybersecurity:

Assess the organization's cybersecurity posture, identifying vulnerabilities and threats to critical assets and information.

Evaluate the effectiveness of cybersecurity controls and measures in place to protect against cyber threats, including malware, ransomware, and phishing attacks.

Provide recommendations to enhance cybersecurity defences, such as implementing multi-factor authentication, encryption, and intrusion detection systems.

Conduct cybersecurity awareness training for employees to promote a culture of security and vigilance against cyber threats.

Automation (AI and RPA):

Assess the readiness of the organization for automation initiatives, including artificial intelligence (AI) and robotic process automation (RPA).

Identify opportunities for leveraging AI and RPA to streamline repetitive tasks, improve operational efficiency, and reduce manual effort.

Evaluate the risks associated with AI and RPA implementation, including data privacy, security, and ethical considerations.

Provide guidance on selecting appropriate AI and RPA technologies, ensuring alignment with organizational goals and objectives.

Data Analytics:

Utilize data analytics techniques to uncover insights and patterns from large datasets, enabling proactive risk management and decision-making.

Conduct continuous monitoring and analysis of data to identify anomalies, trends, and potential areas of improvement.

Develop predictive analytics models to forecast future trends and outcomes, helping management anticipate and mitigate risks.

Collaborate with business units to develop customized analytics solutions tailored to specific organizational needs and objectives.

Cost Optimization:

Conduct thorough cost-benefit analyses throughout the expensive nonvalue adding business functions to identify opportunities for cost optimization and resource allocation.

Review procurement processes and vendor contracts to help negotiate favourable terms and achieve cost savings.

Explore opportunities for automation, outsourcing the non-core business activities, and process improvements to reduce operating expenses and improve profitability.

Sustainability and ESG:

Assess Environmental Social and Governance (ESG) risks and opportunities, integrating sustainability considerations into business decision-making processes.

Develop ESG reporting frameworks and metrics to measure and track performance against sustainability goals of the organisation and applicable regulatory framework.

Implement assistance for initiatives to reduce environmental impact, promote social responsibility, and enhance corporate governance practices.

Case Study 1: Automation – Intel

it@iIntel AI Optimizes Intel's Business Processes: An Audit Case Study

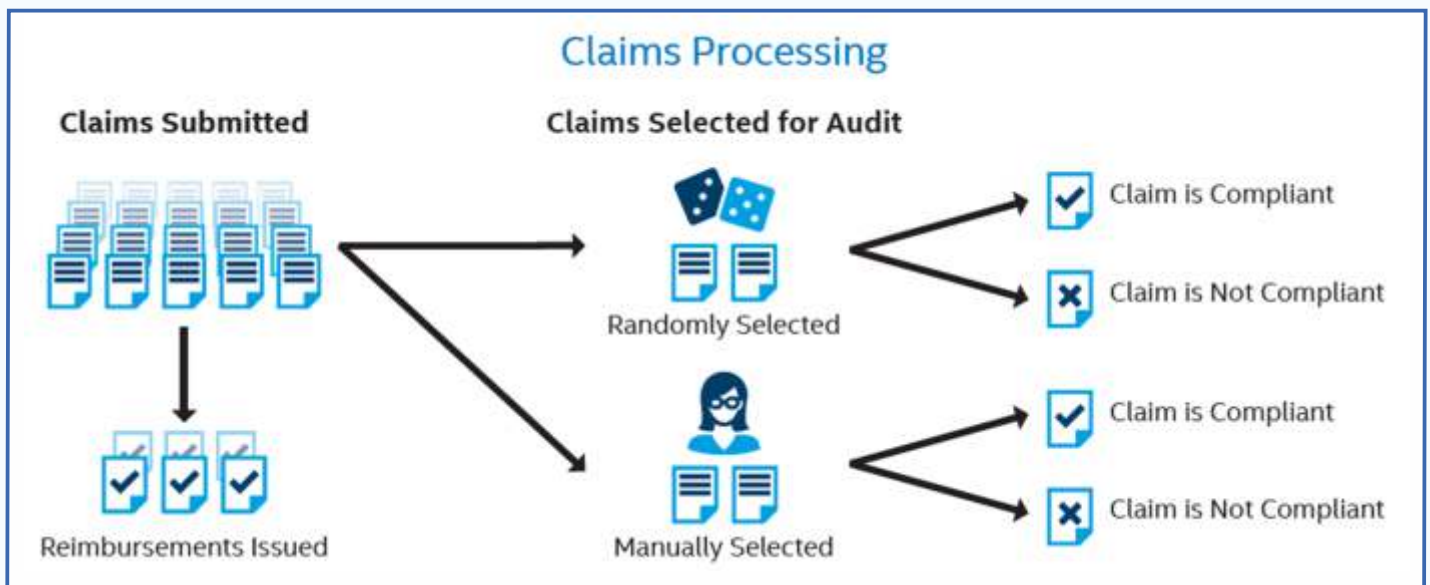


Figure 3: Claims Processing

Problem

The Intel Inside® program is one of the world's largest cooperative marketing efforts, with hundreds of members licensed to use the Intel® brand on their devices.

The Intel Inside® Program (IIP) members can qualify for reimbursement of specific marketing activities if they submit a claim that complies with program requirements.

As part of the business process, Intel's Global Audit Team (GAT) selects samples from the incoming claims and audits them for compliance.

Ideally, every claim would be audited for compliance, but due to resource constraints and the thousands of claims submitted each month, the audit team is only able to select claims randomly or manually for auditing based on human ability to recognize non-compliance.

This process increased the possibility of non-compliant claims slipping through, which could result in a loss of marketing value.

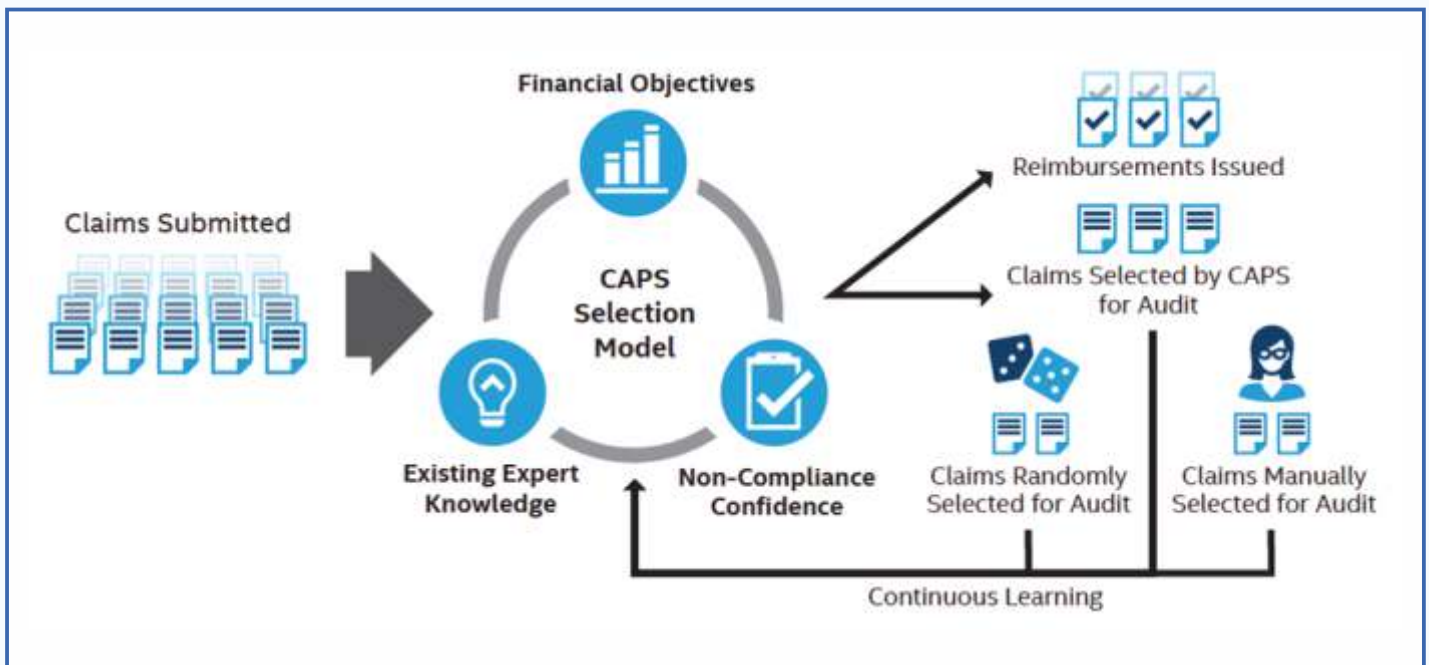


Figure 4: Claims with support of Compliance Analysis and Prediction Service (CAPS)

Solution

Intel IT's Advanced Analytics team developed the Compliance Analysis and Prediction Service (CAPS), designed to support the decision process for which IIP claims are selected for audit.

Its goals included increasing the recovered dollars from non-compliant claims, continuously improving the algorithm through machine learning, and gaining user trust in Artificial Intelligence (AI).

CAPS identifies patterns through data manipulation and predicts non-compliant IIP claims.

Effectiveness is tracked based on a percentage of the total non-compliant claims, the percentage of dollars reviewed, and the percentage of claims accurately predicted for audit. CAPS provides the Intel's Global Audit Team with actionable information in real-time.

One of CAPS's most powerful features is its ability to automatically tune its models through self-learning, improving its success rate over time. It learns from past claims submissions, creating a new predictive model based on updated data each month.

Impact

The claims selected by CAPS accounted for 97 percent of total dollars recovered from non-compliant claims — an average of USD 20 million in marketing value per year that may have been lost due to non-compliance.

Remarks: The objective of presenting this case study in a research paper is to showcase the impact and value addition an Audit Function can bring to the organization's business function by taking the initiative, improving the process, and creating an IP.

Source: White Paper November 2017 it@iIntel AI Optimizes Intel's Business Processes: An Audit Case Study

Case Study 2 – Robotic Process Automation

Invoice posting Automation: This process combines RPA and Optical Character Recognition (OCR) capabilities to enter and post invoices in SAP. This addresses the problem of manual entry of transactions in the system. Through the OCR solution, Invoices or transaction documents can be scanned, and financial data can be picked from the document for data entry through bots. The complete process can be automated, ensuring the accuracy and integrity of data and saving on cost.

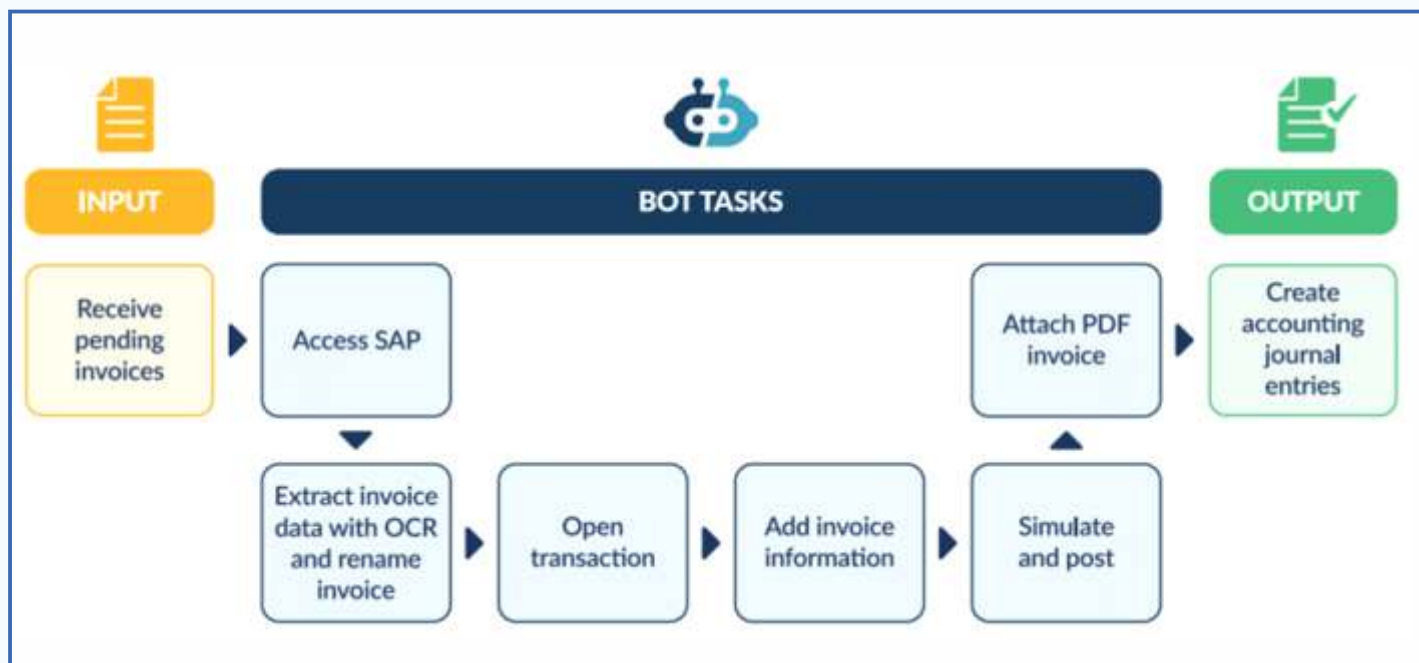


Figure 5: Combination of Robotic Process Automation (RPA) and Optical Character Recognition (OCR)

Impact

Increased process efficiency

Reduced errors

Enabled full traceability of processes including execution reports and processed items.

Reduced Manpower requirements

Remarks: The objective of presenting this case study in a research paper is to showcase the impact of automation through the automation and its impact on the processes.

Case Study 3 – The Future of Internal Audit Function

In this hypothetical scenario, we explore the potential future landscape of internal audit function, driven by emerging technologies such as blockchain, artificial intelligence (AI), Robots (Bots) and advanced data analytics.

Blockchain-Based Client Accounting Systems:

Client accounting systems are transitioning to blockchain technology, eliminating the need for traditional bank confirmations and accounts receivable confirmations. Transactions are only posted upon confirmation by counterparties, ensuring transparency and security.

Real-Time Audit Bots:

Audit bots integrated into client accounting systems provide real-time monitoring and analysis of financial data. Using AI and advanced data analytics, these bots detect significant variations and anomalies, enabling auditors to respond promptly to emerging risks.

AI-Driven Materiality Planning:

Artificial intelligence algorithms analyse client data and big data sets to determine materiality thresholds. These thresholds are recalculated dynamically every month based on evolving business conditions and risk factors.

Automation of Control Testing:

Human involvement in control testing is minimized as audit bots autonomously perform comprehensive control testing. This automation streamlines the audit process, improves efficiency, and reduces the likelihood of errors or omissions.

Manual Entity-Level Controls:

While automation dominates control testing, audit team members retain responsibility for performing manual checks on entity-level controls. These manual interventions ensure oversight and governance in critical areas of the audit process.

Continuous Auditing Approach:

Audit transforms into a continuous process, eliminating the need for interim and final reports. Real-time data monitoring and analysis enable auditors to maintain ongoing oversight, providing stakeholders with timely insights into organizational performance and risk exposure.

Smart Contract Verification:

Smart contracts embedded within client systems automate contract verification processes. Audit bots verify smart contracts for any significant changes, ensuring compliance and accuracy without the need for physical contract inspections.

This futuristic vision of internal audit showcases the transformative potential of technology in revolutionizing audit practices. By harnessing blockchain, AI, and advanced analytics, internal auditors can achieve greater efficiency, accuracy, and agility in delivering assurance and value to their organizations.

The Global Risks Report 2024: A Comprehensive Overview And The Critical Role Of Internal Auditors

Navigating the Future of Risks: The Vital Role of Auditors

In an ever-evolving global landscape, the future of risks presents a complex tapestry of challenges and uncertainties. As the world grapples with environmental crises, geopolitical tensions, technological advancements, societal shifts, and economic instabilities, the role of auditors becomes increasingly pivotal. Internal Audit Functions can serve as the guardians of organizational resilience, equipped with the expertise to navigate turbulent waters and steer companies toward sustainable growth and success.

A Deteriorating Global Outlook

Looking back at the events of 2023 compared to 2024, plenty of developments captured global attention, but with notable differences. While deadly conflicts, extreme weather conditions, and societal discontent were prevalent in both years, the level of instability and risk perception seems to have heightened in 2024. The Global Risks Perception Survey (GRPS) for 2023-2024 indicates a more pessimistic outlook, with respondents foreseeing greater instability and risks of global catastrophes over the next two years compared to the previous period.

Structural shifts in climate change, demographic patterns, technological advancements, and geopolitical dynamics are expected to further exacerbate global risks over the next decade. These shifts introduce uncertainty and volatility, reshaping risk management strategies on a global scale.

Comparison of Global Risks: 2024 vs. 2034

The comparison table below highlights the evolution of global risks over the decade, projecting future trends and emerging challenges based on current trajectories and potential scenarios. It underscores the dynamic nature of global risks and the need for proactive risk management and strategic foresight to address evolving threats and uncertainties effectively.

Global Risks	2024	2034 (Projected)
Environmental	Climate Change, Biodiversity Loss	Climate Crisis, Ecological Collapse
Geopolitical	Trade Disputes, Regional Conflicts	Cyber Warfare, Geo -economic Tensions
Technological	Cybersecurity Threats, AI Risks	Biotechnological Risks, Quantum Threats
Societal	Inequality, Demographic Shifts	Social Unrest, Digital Divide
Economic	Debt Burdens, Financial Crises	Economic Recession, Debt Crisis

Table 1: Evolution of global risks over the decade, projecting future trends and emerging challenges

Key Findings

Environmental risks continue to dominate the global risks landscape, with climate change and biodiversity loss at the forefront. However, the projected shift towards a climate crisis and ecological collapse by 2034 underscores the urgency of addressing environmental challenges.

Geopolitical tensions are expected to evolve from trade disputes and regional conflicts to cyber warfare and geoeconomic tensions, reflecting the growing influence of technology and digitalization on global affairs.

Technological risks, including cybersecurity threats and AI risks, are projected to expand to biotechnological risks and quantum threats by 2034, highlighting the rapid pace of technological advancement and its implications for global security.

Societal challenges such as inequality and demographic shifts are expected to give way to social unrest and the digital divide, reflecting the growing impact of technology on social dynamics and access to resources.

Economic risks, including debt burdens and financial crises, are anticipated to worsen, with projections indicating an economic recession and debt crisis by 2034, emphasizing the need for sustainable economic policies and financial stability measures.

Internal Audit (IA) and Risk Function

In navigating these evolving global risks, the internal audit and risk functions of companies play a crucial role in enhancing resilience and mitigating potential threats.

Environmental Risks: Internal Audit function assesses the organization's environmental management practices, identifies areas for improvement in sustainability initiatives, and ensures compliance with environmental regulations. Additionally, IA evaluates the effectiveness of environmental risk management strategies and recommends measures to mitigate risks such as climate change and biodiversity loss.

Geopolitical Risks: Internal Audit function analyses geopolitical risks impacting the organization's operations, supply chain, and market access, monitors geopolitical developments, and recommends contingency plans to mitigate risks. IA also ensures compliance with international trade regulations and diversifies risks to enhance resilience to geopolitical shocks.

Technological Risks: Internal Audit function evaluates the organization's cybersecurity posture, assesses vulnerabilities in IT systems, and recommends measures to strengthen cybersecurity defences. IA also reviews compliance with data protection regulations and assesses readiness to adopt emerging technologies, recommending measures to manage technological risks effectively.

Societal Risks: Internal Audit function assesses the organization's social impact and engagement with stakeholders, reviews diversity and inclusion initiatives, and recommends strategies to enhance social responsibility and stakeholder trust. IA evaluates the organization's response to social unrest and recommends measures to promote diversity and inclusion in the workplace.

Economic Risks: Internal Audit function assesses the organization's financial health, liquidity, and resilience to economic downturns, reviews financial risk management practices, and recommends measures to optimize capital allocation and preserve financial stability.

Source: Global Risks Report 2024 | World Economic Forum (weforum.org)

Driving Audit Value: Embracing Digital Agility For Next-generation Internal Auditors

Understanding The Approach

In today's rapidly evolving business landscape, next-generation internal auditors are reshaping their role by embracing digital agility. This approach combines data-driven methodologies with agile thinking to proactively identify opportunities, mitigate risks, and deliver impactful insights across the organization.

Embracing Digital Agility

Proactive Problem-Solving Mindset:

Next-generation auditors initiate projects with a proactive problem-solving mindset, leveraging data analytics and advanced audit techniques to uncover root causes and drive meaningful change. This shift is very important for the benefit of organisation and Internal Audit Function.

Enhanced Collaboration with Business Owners:

There is a fundamental shift towards increased collaboration with business owners throughout the audit process. Next-gen auditors work closely with stakeholders to align objectives, concerns, and expectations, ensuring buy-in for audit findings and recommendations.

Agile and Iterative Audit Procedures:

Agile methodologies are integrated into audit procedures, allowing flexibility and adaptability in response to changing business dynamics. Auditors conduct iterative assessments, optimizing audit effectiveness based on real-time data and insights.

Prioritization Based on Impact and ROI:

Next-gen auditors prioritize audit findings based on their potential impact on strategic objectives and financial performance. They focus on evaluating solutions offering the highest ROI, guiding management towards actionable improvement strategies.

Succinct and Actionable Reporting:

Reporting is concise, actionable, and tailored to stakeholder needs. Next-gen auditors communicate key findings and recommendations clearly, leveraging visualization tools to enhance understanding and decision-making.

Continued Engagement for Sustainable Impact:

Internal audit's role extends beyond issue identification to actively supporting solution implementation and driving sustainable impact. Next-gen auditors collaborate with management to monitor progress and refine strategies over time.

Additional Considerations For Next Generation Internal Audit Function

Continuous Learning and Skill Development:

Internal auditors prioritize continuous learning, acquiring technical competencies in data analytics and emerging technologies, and honing soft skills such as communication and critical thinking.

Emphasis on Ethical and Transparent Practices:

Next-gen auditors uphold the highest standards of integrity and objectivity, promoting ethical conduct and transparency to enhance trust and credibility both internally and externally.

Adaptation to Regulatory Changes:

Internal audit functions stay vigilant and adaptable, keeping pace with regulatory developments to ensure compliance and safeguard organizational reputation.

By embracing digital agility and adopting a proactive, data-driven mindset, next-generation internal auditors empower organizations to navigate uncertainty, seize opportunities, and drive continuous improvement in an increasingly complex and dynamic business environment.

Contemporary Challenges In Internal Audit Function

Today, internal audit functions encounter a diverse array of challenges that demand adaptive strategies and innovative solutions. Let's delve deeper into these contemporary challenges:

Navigating Remote Work Dynamics:

The sudden shift to remote work has introduced complexities in asset management, governance, and audit coverage. Internal auditors must navigate the challenges of remote audits, ensuring that established protocols are adaptable to the virtual environment while maintaining the integrity of the audit process.

Managing Complexity and Volatility:

The risk and compliance landscape has become increasingly intricate and volatile, driven by factors such as technological advancements, regulatory changes, and geopolitical uncertainties. Internal auditors are tasked with providing insights into emerging risks and evolving regulatory requirements, necessitating a proactive approach to risk identification and mitigation.

Embracing Technological Advancements:

Rapid advancements in technology have revolutionized the audit profession, offering opportunities to enhance efficiency and effectiveness. Internal audit functions are expected to bridge the technology gap by leveraging data analytics, process mining, artificial intelligence, and other advanced techniques to gain deeper insights into organizational risks and processes.

Addressing Talent Shortages:

The demand for skilled internal audit professionals continues to outpace supply, leading to talent shortages across various industries. Recruiting and retaining top talent have become formidable challenges for internal audit functions, requiring innovative recruitment strategies, competitive compensation packages, and robust professional development initiatives to attract and retain qualified professionals.

Adapting to Evolving Audit Skill Needs:

The evolving risk landscape necessitates internal auditors to possess a diverse skill set that goes beyond traditional auditing techniques. Auditors must adapt to rapidly changing audit methodologies, emerging technologies, and evolving regulatory requirements, highlighting the importance of continuous learning and professional development.

Fostering Effective Relationship Building:

Establishing and nurturing relationships within the organization is essential for effective audit execution. However, the remote work environment poses challenges to interpersonal communication and collaboration. Internal auditors must proactively build rapport with key stakeholders, leveraging virtual communication tools and fostering a culture of transparency and trust.

Reassessing Technological Tools:

The technological tools utilized by internal auditors play a critical role in enhancing audit efficiency and effectiveness. However, technological advancements require auditors to continuously reassess their toolkits to ensure they remain aligned with evolving business needs and regulatory requirements. This entails evaluating the effectiveness of existing tools, exploring new technologies, and investing in training programs to enhance digital literacy among audit teams.

Addressing these contemporary challenges requires internal audit functions to adopt a proactive and strategic approach. By embracing innovation, fostering collaboration, and investing in talent development, internal auditors can navigate the complexities of the modern business landscape while delivering value-added insights to their organizations.

Data Insights On Global Internal Audit

The global internal audit services market is witnessing a significant transformation, driven by a myriad of factors that are reshaping the landscape of corporate governance and risk management. Let's explore the key elements contributing to this evolution and the specific trends within the Indian market.

Global Market Dynamics:

The global auditing services market is projected to grow from USD 226.6 billion in 2024 to USD 277.2 billion by 2029, at a CAGR of 4.11%.

This growth is attributed to the increasing complexity of financial transactions, heightened focus on public accountability, and the rising need for risk management and adherence to corporate governance practices.

Technological advancements such as AI, big data, RPA and analytics are becoming integral to auditing services, enabling auditors to gain actionable insights and address concerns that affect long-term value.

The Asia-Pacific market, which includes India, is expected to reach USD 38.5 billion by 2026, showcasing the region's growing importance in the global audit market.

Demand-Supply Equation for Audit Professionals:

Auditing Services Global Market Report
Auditing Services Global Market Report
Global Auditing Services Market
IIA-India

Despite economic uncertainties, the demand for internal audit services continues to rise, with the global market size expected to reach USD 49.3 billion by 2027, growing at a CAGR of 4.8%.

The trend of outsourcing internal audit functions is contributing to market growth, as companies seek to leverage external expertise and resources.³

Indian Internal Audit Professionals:

The Institute of Chartered Accountants of India (ICAI) plays a crucial role in training and certifying internal audit professionals, ensuring a structured approach to the profession.

IIA-India, a non-profit organization, has over 4400 members dedicated to advancing the internal auditing profession in India, reflecting the community's commitment to excellence.

The internal audit sector is at the cusp of a new era, where technology and strategic risk management are becoming central to its functions. As businesses globally recognize the importance of internal audits, the demand for skilled professionals continues to grow, making it an exciting time for the industry.

Conclusion

In navigating the ever-evolving business landscape, internal audit functions must adopt a forward-looking approach, prioritizing proactive risk identification and mitigation strategies. Integrating enterprise risk management (ERM) principles into audit efforts allows for a holistic view of organizational risks and compliance requirements, enabling internal auditors to tailor their efforts effectively.

Asia-Pacific Market

Emerging Trends in Internal Audit: A 2024 Vision

The Dominance of Top Audit Firms in India's Corporate Landscape

To meet the demands of a rapidly changing environment, internal auditors must continually augment their skill sets and leverage available resources, including advanced analytics and emerging technologies. A heightened focus on fraud prevention and detection, encompassing control environment assessments, hotline activities, and regular fraud risk assessments, is essential for safeguarding organizational assets and reputation.

Establishing an advisory role within the organization enables internal auditor function to contribute to initiatives rationalization and ERM activities, fostering a culture of risk-aware decision-making. Embracing continuous audit capabilities and influencing the adoption of continuous monitoring techniques enables internal audit functions to provide timely insights and recommendations, enhancing organizational resilience and agility.

Leveraging access to management and fostering collaborative relationships enables internal audit functions to effectively influence decision-making processes and drive positive change. Maintaining independence and objectivity remains paramount for internal auditors, ensuring the integrity and credibility of their assurance services. By providing value-added assurance services beyond compliance requirements, internal auditors can demonstrate their strategic relevance and contribute to organizational success.

In conclusion, by embracing these principles and practices, internal audit functions can position themselves as trusted advisors, driving value creation and organizational resilience in an increasingly complex and uncertain business environment.



Published by

Pune Branch of WIRC of ICAI

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