



Global Knowledge Brief

# Social/Human Capital/Culture

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Part 1: Internal Audit's Role in Human Capital Management



The Institute of  
**Internal Auditors**

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## About the Experts

### Kevin Ekendahl, AMIIA, B. Bus. (Enterprise Development)

Kevin Ekendahl, CEO of Audit Express in Melbourne, has a special focus on the quality internal audits of tertiary education institutions throughout the Asia/Pacific region. His recent endeavors include embedding diversity, equity, and inclusion audits as a regular feature of internal reviews, aiming to enhance organizational value and foster a more just workplace environment.

### Uday Gulvadi, CIA, CPA, CAMS, CISA

Uday Gulvadi is a managing director in the Disputes, Compliance, and Investigations group at Stout in New York, and he co-leads its regulatory compliance and financial crimes practice nationally. He is a financial crimes, internal audit, information systems audit, and risk advisory practice leader with more than 20 years of experience.



# Introduction

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## A paradigm shift

The past few years have seen a significant change in attitudes on how and where work should be performed. At the same time, organizations are managing evolving expectations and goals on diversity, equity, and inclusion (DEI). Emerging technologies also are having an impact, as companies and workers consider how they will be integrated into the current environment. Altogether, these factors and others are contributing to a potential paradigm shift in human capital management. This brief examines how the world of work is evolving and how internal audit can support management's approach to navigating this increasingly complex issue.



# Human Capital Management Risk

## A Risk for a New Age

### Critical but under-addressed

Because people are a critical asset in any organization, human capital management carries significant risk. The IIA's global [Risk in Focus](#) report monitors the current risk environment for internal auditors and their stakeholders. In the most recent report, internal audit executives around the globe identify human capital as one of the three highest-risk areas for organizations (along with cybersecurity and business continuity). Human capital is defined as encompassing areas such as diversity, talent management, and retention. Looking ahead three years, human capital is expected to remain one of the top three threats.

Despite their perceived risk, human capital concerns do not rank as high on the report's list of risks that consume internal audit's time and effort, although they do edge up from eight today to six in three years. To ensure human capital management receives appropriate attention, internal auditors can consider how best to align the time spent on this area with the organization's related strategic objectives.

### The remote work environment

The lasting impact of the COVID-19 pandemic is one significant element in the risk outlook for human capital and the workplace. The pandemic demonstrated that many organizations could carry on with business as usual without requiring employees to be present in a central workplace every day.

Kevin Ekendahl, CEO of Audit Express in Melbourne, warns, however, of the long-term impact that remote work could have on organizations and the workplace overall. While it does provide flexibility to all workers and allows easier access for those with disabilities and for people in rural communities, it can also produce less beneficial complexities in the workplace.

"People like to interact, collaborate, and form friendships at work," benefits that technology can make more difficult to achieve, he says. With employees untethered from a physical workplace or regular social interaction with colleagues, work could become more transactional as people feel less and less connection to the overall organization. If corporate culture is damaged, it can also make it more difficult to inspire dedication to the organization and a commitment to ethical behavior.

### Top Areas of Internal Audit Time and Effort Today

1. Cybersecurity
2. Governance/corporate reporting
3. Business continuity
4. Regulatory change
5. Financial liquidity
6. Fraud
7. Supply chain and outsourcing
8. Human capital

### Top Risks Internal Auditors Expect to Spend More Time on in Three Years

1. Cybersecurity
2. Digital disruption
3. Business continuity
4. Regulatory change
5. Governance/corporate reporting
6. Human capital
7. Climate change
8. Fraud

Source: [2024 Risk in Focus Survey Results, Global Summary](#), Internal Audit Foundation, 2024.



“This is a challenge that is not to be ignored,” says Ekendahl, who recommends top management take intentional steps to create a cohesive work environment. Internal audit can take on an important role in promoting greater understanding of this issue, he says.

As the third line, internal audit can examine the efficacy of management’s related controls, oversight, and implementation of processes to determine any negative impacts of the remote work environment. Internal audit also can offer “an objective and independent vantage point from which to evaluate culture,” according to [DEI 101: Internal Audit’s Invaluable Role in Creating a Sense of Belonging at Work](#), a joint project by the Internal Audit Foundation, The IIA, and Deloitte.



# Implementing Inclusion

## Addressing Human Capital Risks

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### The internal auditor's role

Issues related to DEI also should be front and center in human capital considerations. “Some could contend that internal audit, perhaps more than any other function, is in the better position to help advance DEI within the organization, because internal auditors already serve as assurance providers and trusted advisors to the audit committee and the executive team,” the DEI joint report states.

According to the report, internal audit's role can encompass:

- Providing assurance. Incorporating DEI issues into the audit plan, internal auditors can perform human resource audits, third-party management audits, policy and procedure reviews, and regulatory compliance reviews to assess the organization's handling of DEI. Internal auditors also can audit the organization's DEI metrics for accuracy and work with human resources to understand DEI measurement.
- Developing valuable insights. In its trusted advisor role, internal audit can report on progress in DEI as well as on the potential impacts of DEI risks, identify risks in talent processes, and consult on the consistency of DEI practices across the organization.
- Acting as agent in charge. Internal audit can identify practices that will promote DEI and become role models for them and can help management understand the causes of inequitable processes or programs.

The risks for internal audit to consider in performing a DEI review include:

- Using an incomplete methodology. Human capital and DEI approaches may not be applied consistently across the organization.
- Focusing too narrowly. Concentrating on one segment of DEI considerations may not provide a complete picture of the organization's efforts or meet its goals.
- Relying on a top-down approach. As the report notes, “while culture can be set from the top, transformation occurs from the bottom up.”
- Looking for a quick fix. While consistency is important, approaches may have to be customized in certain cases. The organization also may be too hasty to tackle issues found in audit plans and fail to take a measured approach to transformation.

According to a recent poll by [The Washington Post and Ipsos](#), six in 10 Americans say DEI programs are a “good thing” for companies to adopt. This is despite rising tensions in a political year, when companies are being forced to reassess their policies with an eye toward limiting legal risk. Looking ahead, organizations that fail to support effective DEI efforts may face consequences that include failure to attract talent who are seeking an inclusive workplace or loss of vendors or customers who demand commitment to DEI principles.



## Performing DEI audits

Auditing DEI involves considering top management goals across the organization to determine how well the company is meeting regulatory requirements and stakeholder expectations, and if it is actually succeeding in promoting a sense of inclusion, Ekendahl says. That means understanding organizational strategies as well as cultural distinctions in various regions.

“DEI means different things in different countries or regions,” he notes. In Vietnam, for example, the focus may be on adding more women to the workforce and to leadership, in particular, while in Australia, the emphasis may be on creating equitable outcomes for Aboriginal and Torres Strait islanders and for migrants. Internal auditors and their organizations need to understand the nuances as well as the differing regulatory climate across the globe, he adds.

DEI audits examine the development and implementation of related policies and processes. That may include determining whether the company minimizes potential hiring biases and avoids references to gender or other attributes in job descriptions so that decisions are made based on qualifications and experience, Ekendahl says. Internal audits also could consider the adequacy of training provided to HR professionals and hiring managers so that those professionals are aware of the biases they may bring to their recruitment practices and decisions.

The effort is well worthwhile, Ekendahl says. In addition to promoting a harmonious and productive workplace, numerous studies show that organizations that embrace DEI are more productive and profitable because they promote retention and enhance collaboration.

In addition, “by including DEI audits in their internal audit universe, companies show they are working toward an equitable and inclusive workforce,” he says. Internal audit can further the effort by espousing more equitable practices within its own function, including setting policies and procedures that promote inclusion and providing training to root out unrecognized bias and embrace inclusion, he adds.

## A workforce for new technologies

While there is a great deal of excitement over the changes that emerging technologies may have on business and on work, their long-term impact and adoption remains unclear. According to [Gartner](#), the top barriers to implementing artificial intelligence (AI) include:

- Difficulty in estimating and demonstrating AI value (49%).
- Lack of talent/skills (42%).
- Lack of confidence in the technological aspects of AI (40%).
- Lack of data, business alignment/defining use cases, and trust in AI (each 39%).

As these barriers demonstrate, organizations should be aware of the important role their workforce will play in ensuring the success of new technology adoption. Benefiting from new technologies will depend on workers who can understand, communicate, and make the best use of new capabilities. “AI-mature organizations invest in foundational capabilities that will remain relevant regardless of what happens tomorrow in the world of AI, and that allows them to scale their AI deployments efficiently and safely,” according to Gartner.

In today’s fast-paced work environment, training and adapting to new tools and approaches are increasingly important. When many workers resigned from their jobs after the pandemic ended, they were replaced by team members who were new to the organization and were working remotely, notes Uday Gulvadi, a managing director in the Disputes, Compliance,



and Investigations group at Stout in New York. Getting them up to speed was critical. That included a focus on soft skills to ensure that they understood corporate approaches and culture, as well as how to work effectively with clients.

With emerging technologies and other disruptions to how business is structured and managed coming at a dizzying pace, organizations must be ready to bring their people up to speed quickly and regularly. They also will need to address potential differences in the adaptability of people at different levels and in different functions or regions.

## Measuring HR risk

One important first step in tackling human capital risk is establishing that it exists. There are several ways internal auditors can demonstrate the impact and importance of human capital risk. “If the CAE wants to elevate awareness of talent risk, metrics or KPIs can help,” because they can provide graphic evidence of a potential problem, Gulvadi says. These metrics can include:

- **Attrition rate.** Numbers that are higher than the company average can pinpoint issues within a department, level, or region. “It can be used to find a root cause and identify a host of human performance management issues,” Gulvadi explains.
- **Time to replace.** How long it takes to fill a job can indicate whether a company is considered a desirable place to work and help it understand what is driving negative perceptions.
- **Measurements of internal promotions vs. external hires, especially for key positions.** This can indicate the effectiveness of the organization’s talent development and succession planning efforts to help avoid losing talented people who don’t see chances for upward mobility.
- **Citizenship surveys.** In Gulvadi’s organization, these anonymous, 360-degree surveys allow a leader’s direct reports to weigh in on how well their supervisor demonstrates company values and their perceived areas for improvement.





# Conclusion

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## Working toward understanding

By performing specialized audits and offering strategic advice, internal audit can foster greater understanding of human capital management risk and how best to address it. Internal audit also can point to emerging issues for organizations. Companies should be prepared, for example, to address the human capital management risks related to an uncertain political environment.

Gulvadi notes the increasing calls from employees and other stakeholders to speak out on political or social justice issues, pointing to them as an underappreciated risk for organizations. Failure to take a stand can have a demoralizing effect on those who are passionate about a cause, but expressing an opinion can risk alienating or offending those on the other side of the discussion. In this area and every aspect of human capital management, internal audit can alert organizations to the value of monitoring new risks and disruptions and offer insights on the most effective way to respond to them.



## About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 245,000 global members and has awarded more than 195,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit [theiia.org](https://theiia.org).

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