Supporting Diversity, Equity, and Inclusion from the Inside Out
How internal auditors can shape corporate culture for the broader organization and within their own function
Introduction

From the mailroom to the boardroom, the workplace is changing in profound ways. Likewise, so is internal audit’s role, which has already broadened to encompass emerging areas such as environmental, social, and governance (ESG) reporting and culture risk—of which diversity, equity, and inclusion (DEI) is an important element.

To help internal auditors add value by bringing their insights and expertise to the evaluation of corporate culture, Deloitte, the Internal Audit Foundation, and the Institute of Internal Auditors developed a three-part series on internal audit’s opportunity and obligation to help foster a diverse, equitable, and inclusive culture by starting within its own function. The first paper, Diversity, Equity, and Inclusion 101: Internal Audit’s Invaluable Role in Creating a Sense of Belonging at Work, focused on how internal audit can help shape corporate culture and accelerate the movement toward greater diversity, equity, and inclusivity throughout the organization, from top to bottom. By embedding DEI concepts into its roles and responsibilities, internal audit can support management in meeting their DEI objectives by providing assurance, serving as a trusted advisor, and acting as a change agent. The paper also presents some risks internal auditors should consider when performing DEI reviews, such as the risk of using an incomplete methodology, focusing too narrowly, relying solely on a top-down approach, and seeking a quick fix.

The second piece in the series, Driving an Inclusive Culture: Internal Audit’s Role in Recruiting, Retaining, and Developing Diverse Talent, explained how internal audit can help foster inclusion in DEI recruitment, retention, and development by working across the four As—Assure, Advise, Anticipate, and Accelerate. It also presented leading practices for obtaining a mix of traits and acquired factors, such as skills, experiences, and backgrounds, and emphasized the importance of allyship in promoting inclusion.

As the third and final piece in the series, this paper details how internal audit can practically apply audit techniques within its own function, at the enterprise level, and among stakeholders to support management in achieving its DEI objectives. This generally can be accomplished by providing insight into cultural risks, assessing DEI initiatives, and leading by example.
Catalyzing change

As organizations strive to promote DEI initiatives, internal audit functions are well-positioned to support these efforts. However, undertaking DEI work requires specialized skills and expertise that may not be present in every internal audit function. To address this, internal audit can leverage or call upon subject matter experts in some of these areas.

Internal auditors can act as catalysts by assessing whether programs that organizations have established to support DEI are meeting their intended objectives and reporting results to boards and senior leaders. They can also serve as advisors or coordinate with subject matter experts to help them advise if these programs do not exist or need improvement. Additionally, internal auditors can lead the way by incorporating DEI principles into the day-to-day activities of the internal audit function and holding themselves accountable by assessing the effectiveness of their own DEI initiatives.

Whether they do this work as a stand-alone audit or incorporate it into routine audits or a special project, internal auditors can bring valuable insights into how DEI programs are designed and whether they are operating as envisioned. In addition, they can assess the methods used to monitor, measure, and report on the program and evaluate whether any enhancements can be made. If an organization publishes DEI statistics to the marketplace, internal auditors can provide assurance by independently testing the data for completeness and accuracy.

Internal auditors can start supporting DEI from the inside out by conducting a current-state pulse check, i.e., asking simple questions such as whether the broader organization has a defined DEI initiative and what it entails. This may include a self-evaluation of the internal audit function itself.

Checking the pulse

Pulse checks provide a snapshot of the current status of DEI efforts. Internal audit teams of any size can leverage pulse checks periodically to assess DEI efforts within their own department as well as throughout the broader enterprise. The resulting data can be used to create short- and long-term goals for advancing DEI across one or more areas of the organization. Here are some examples of how to gauge the state of DEI inside the internal audit function, across the broader organization, and among stakeholders.
Internal audit supporting DEI within its own function

The internal audit function can catalyze DEI progress throughout the broader organization by taking actions within its own four walls. These efforts to “walk the talk” can be as straightforward as recruiting, hiring, and retaining diverse candidates or as sophisticated as creating initiatives within the internal audit function to close any DEI gaps identified during the enterprise-wide audit plan. Regardless of the starting point, internal auditors can often help their functions to mature while leading the way for other departments by taking the following steps:

1. **ASSESS INTERNAL AUDIT-SPECIFIC DEI PROGRAMS.**
   - Analyze the internal audit function’s current DEI maturity across key activators, such as governance, talent, and organizational structure, and provide recommendations to help the department “walk the talk.” Internal audit leaders can consider if there is support in place for fostering DEI, such as tone at the top, avenues to report issues, and whether or not those issues are being addressed in a positive manner.
   - Coordinate with subject matter experts to develop and provide guidance on metrics specific to the internal audit department that can be leveraged in periodic assessments of the DEI program. These metrics may differ depending on the size of the function and should be aligned with the goals of both the internal audit department and the broader organization. (*See page 10 for more on DEI-related metrics.*)

2. **EVALUATE INTERNAL AUDIT’S RECRUITMENT, LEARNING, AND DEVELOPMENT ACTIVITIES.**
   - Assess potential individual and systemic workplace barriers to attracting and retaining diverse talent. Individual barriers are those relating to people’s behaviors and are more within the control of the organization. Systemic barriers are those relating to processes and structure and are often beyond the control of internal audit. However, internal auditors can start to make an impact on the systemic barriers with small changes that add up over time. Identifying both types of barriers helps to prioritize and create a plan for how to tackle them.
   - Examine management’s processes for attracting, recruiting, hiring, and retaining diverse talent within internal audit. If the basics of building a diverse team are not kept front and center, progress toward DEI goals can easily slip.
   - Identify potential DEI themes communicated via exit interviews. For example, high turnover may hint at deeper cultural issues, such as the existence of cliques that do not make newcomers feel welcome, unconscious biases that favor employees who have interests and backgrounds similar to those of existing company management, or any number of other DEI-related concerns. Furthermore, there should be a mechanism in place to collect any concerns raised and to escalate and resolve them appropriately.
   - Identify DEI-specific learning and development opportunities for the internal audit function by tailoring training specifically for internal audit and/or leveraging training that may already exist within the broader organization.

3. **HELP DESIGN A DEI ROAD MAP FOR INTERNAL AUDIT.**
   - Understand the company’s overarching DEI strategy and identify the teams that are currently driving DEI initiatives.
   - Align the internal audit department’s DEI objectives with the overarching DEI goals of the enterprise (if they are not already in sync).
   - Analyze the internal audit department’s current DEI strategy and goals and compare them to actual metrics and objectives as well as to competitors’ strategies.
   - Perform periodic pulse checks on whether the department is achieving its stated DEI goals. (*See page 10 for more on DEI-related metrics.*)
   - Assist in analyzing programs or processes that have the potential to create unfair outcomes and advise on remediation steps.
   - Convert the findings of assessments into measurable action plans.
Pulse check of the internal audit function

The Chief Audit Executive should determine if the internal audit function is leading by example. Here are some questions senior internal audit leaders can ask to assess the extent to which the function is engaging in and measuring the impact of DEI initiatives:

- **Is the internal audit team educated on how to identify and mitigate biases while performing audits?** To get a complete picture of existing biases, internal auditors need to look internally as well as externally. Training and education are essential to ensuring internal auditors are equipped to identify and mitigate biases. By proactively addressing the biases that may exist within their own function and being trained to identify biases they may encounter while performing internal audit can set an inclusive tone for the broader organization.

- **Are DEI risks incorporated into the ongoing internal audit plan?** Specifically consider if each audit report encompasses important aspects of DEI.

- **Does internal audit conduct DEI-focused reviews for itself and others?** Internal audit can leverage DEI subject matter experts or develop the necessary expertise to evaluate how well DEI actions, goals, and strategies align with the organization’s mission and values and objectively identify any gaps or discrepancies. Root-cause analysis can further stimulate a proactive dialogue about risks and opportunities related to DEI and other ESG goals.¹

- **Is internal audit modeling common DEI leading practices?** In addition to modeling diversity, internal audit can foster an inclusive culture by being cognizant of unconscious biases and demonstrating allyship, i.e., the act of supporting individuals or groups that one does not directly identify with.² (Reference page 4 in Driving an Inclusive Culture: Internal Audit’s Role in Recruiting, Retaining, and, Developing Diverse Talent for additional information on unconscious bias.)

- **Is the Chief Audit Executive and leadership team aware of how to drive DEI through action?** Internal audit can assess the tone at the top of the organization and provide recommendations to leadership.
Internal audit supporting DEI for the broader organization

Modern internal audit functions have elevated their roles within their organizations to act as trusted business advisors and have expanded their capabilities beyond traditional assurance, giving them the opportunity to refine their skills and coordinate with the necessary subject matter experts to apply typical audit techniques to more intangible areas of risk, such as culture risk and DEI. Internal auditors can apply the following audit techniques to support senior leaders in achieving their DEI objectives:

1. EVALUATE THE CURRENT STATE.
   - Assess the current state of DEI within the organization through pulse checks or other means.
   - Provide assurance that an appropriate DEI strategy has been established and communicated.
   - Provide assurance that management has established effective processes to attract, recruit, hire, and retain diverse candidates.

2. EXAMINE DEI PROGRAMS.
   - Assess DEI programs to provide actionable visibility into strengths and weaknesses and to promote continuous improvement.
   - Analyze the organization’s current DEI maturity across key activators—such as infrastructure, talent, culture, customer, community, brand, analytics, and leadership—that could produce both quantitative and qualitative insights.
   - Perform a talent life cycle assessment focused on DEI factors, looking at the various stages of the employee career cycle to assess the risk of bias and potential inequities.
   - Advise on metrics tied to DEI objectives that can be used in evaluations and periodic maturity assessments. These metrics may include both qualitative and quantitative factors. *(See page 10 for more on DEI-related metrics.)* Resignations and the reasons behind them, for example, may offer insights into whether diversity, equity, or inclusion was a factor in some departures. Furthermore, if root causes for resignations reveal a pattern, internal audit can further evaluate the situation for any underlying culture risk to address.
   - Advise on effective internal controls to implement to promote a healthy DEI environment.
3. ASSESS RISKS AND INCORPORATE THEM INTO THE ONGOING INTERNAL AUDIT PLAN.

- Evaluate the risks associated with the organization's culture, taking into account employee engagement, employee behaviors, political environment, and market signals. Collectively, these insights can inform management's decisions to proactively manage risk and foster a culture in which employees embrace an organization's shared core values and demonstrate behaviors that protect, preserve, and enhance an organization's brand and reputation and employee welfare.³

- Incorporate DEI risks, including culture risk, into the ongoing internal audit plan. Corrosive cultures can pose significant challenges, making the organization more vulnerable to a wide range of internal and external risks. These can include high employee turnover, mishandling or theft of sensitive information, poor execution on high-visibility initiatives, or low customer loyalty and loss of public confidence. Internal audit can leverage employee surveys and other tools to shed light on these risks and others and to inform management's efforts to proactively manage them.

4. CONDUCT SPECIALIZED INTERNAL AUDITS AND FOCUSED REVIEWS RELATED TO DEI.

- Identify and assess targeted DEI-related areas, depending on the risks of the organization. These areas, where stakeholders have concerns or where the organization's risk appetite is low, can include but are not limited to training, recruiting, and performance metrics.

- Conduct special DEI-related audits when the data warrants closer examination (e.g., high attrition rates for specific cohorts) or in response to stakeholder concerns and/or complaints.

5. PROVIDE ASSURANCE AS THE THIRD LINE OF DEFENSE.

- Assure that internal controls to prevent unintended behaviors and to enforce policy are operating effectively.

- Validate the effectiveness of culture-risk management activities.

- Confirm the accuracy of DEI reporting, including the effectiveness of the governance structure in supporting data collection and aggregation.

- Reference the Assurance section on page 6 of Diversity, Equity, and Inclusion 101: Internal Audit’s Invaluable Role in Creating a Sense of Belonging at Work for additional actions internal audit can take as the third line of defense.

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**Example areas to take action:**

- Governance processes and leadership reporting to proactively identify risks and inform action plans

- Leadership communications and actions that promote desired culture

- Training to help build awareness and incentives reinforce expected behaviors

- Policies to guide expected behaviors and controls to help prevent unintended behaviors and enforce policy

- Escalation criteria and response capabilities actively mitigate threats
Pulse check of the enterprise

The internal audit team can ask the following questions to assess how well the broader organization is incorporating DEI concepts and whether leaders are being held accountable for achieving DEI goals:

- **Is the organization leveraging a diversity of perspectives?** Deloitte research reveals that high-performing teams are both cognitively and demographically diverse. Cognitively diverse teams benefit from various educational and functional backgrounds and mental frameworks, while demographically diverse teams benefit from tapping into the knowledge and networks specific to a particular group. Teams that are both cognitively and demographically diverse can solve complex problems more readily by approaching them from different angles.

- **How are the concepts of diversity, equity, and inclusion being integrated into HR and other business processes and reporting?** Complying with regulations and integrating DEI concepts into employee processes are often the starting points for cultural change. As the organization matures, DEI concepts should become more fully embedded into HR and other business processes. Examples include innovation, customer experience, workplace design, succession planning, performance management, employee investigations, health care equity in trials, and bias in artificial intelligence and annual reporting.

- **Are leaders “walking the talk”?** Leaders today need cultural intelligence in order to “walk the talk.” Cultural intelligence is a connective, collaborative, and collective sensibility that allows leaders to leverage and harmonize the different beliefs, intellects, wisdoms, and academic qualifications of each team member for the good of the whole. To gain “cultural intelligence,” experts agree that leaders must demonstrate empathy—a true desire to understand the experiences of others who are unlike themselves.

- **Is senior leadership engaging with middle management in order to ensure the success of their DEI strategies?** While change needs to be driven from the top, middle managers are the “boots on the ground” who are charged with implementing the strategy. As the primary change agents in the organization, their performance often determines if the DEI programs initiated by senior leadership are successful.

- **Are the organization's DEI policies well communicated to stakeholders, and is there someone in the organization tasked with DEI oversight?** Is it clear to employees and other stakeholders what the organization's stance is on DEI and what channels are available to them for escalating concerns? Are the roles and responsibilities to facilitate and execute DEI policies clearly delineated?
Internal audit supporting DEI among stakeholders

Internal auditors can leverage the momentum of recent social-justice advocacy to advise leaders on risk considerations for engaging with increasingly diverse and vigilant groups of internal and external stakeholders. These groups can comprise the public, employees, labor organizations, customers, investors, legislators, and more. Internal auditors can help prepare the enterprise to respond to stakeholders’ rapidly changing viewpoints regarding DEI by taking the following actions:

1. EMPHASIZE THE IMPORTANCE OF TAKING STAKEHOLDER PERSPECTIVES INTO ACCOUNT.
   - Give stakeholder viewpoints on DEI the attention they deserve.
   - Elevate the topic among leadership by articulating how and why insufficient consideration of stakeholder viewpoints on DEI can pose risks to the business, such as the potential for reputational damage; loss of talent, customers, and investor capital; fines for non-compliance; and more.

2. DETERMINE TO WHAT DEGREE THE ENTERPRISE CONSIDERS STAKEHOLDER VIEWPOINTS ON DEI WHEN MAKING BUSINESS DECISIONS.
   - Ask other enterprise functions or departments if they include DEI-related questions in their surveys or focus groups.
   - Incorporate DEI-related findings from surveys, focus groups, or other stakeholder outreach activities into risk assessments conducted by internal audit.
   - Present the findings of these assessments to business leaders for use in creating and refining DEI strategies for enhancing stakeholder engagement.
Pulse check among stakeholders

The internal audit team can ask the following questions to prepare the organization to effectively engage with stakeholders possessing different goals, motivations, and opinions:

- **Is the organization paying attention to diversity among the public, employees, customers, investors, and other important stakeholder groups?** While conducting focus groups and surveys may be the responsibility of the marketing department, senior leaders and the board should know whether DEI-related questions are included in their customer and employee surveys and focus groups so they can reflect and act upon the findings. Internal auditors may take the findings a step further and incorporate them into assessments of organizational culture and resilience.

- **Is internal audit challenging the business to consider stakeholders’ viewpoints on DEI?** Stakeholder viewpoints may inform business decisions and produce various business outcomes, depending on the organization’s risk appetite—defined as the level of risk that an organization is willing to accept while pursuing its objective—and before any action is determined to be necessary in order to reduce the risk. For example, some companies have made great strides in integrating DEI principles into their customer analyses. For instance, a Fortune 500 footwear company has made public support of DEI initiatives central to its business strategy—to the point that it is willing to lose customers who do not support DEI (i.e., demonstrating a high-risk appetite). Other companies are at different stages. For example, a national restaurant franchise is just beginning to consider their customers’ viewpoints on DEI after incurring some negative publicity, while a multinational beverage corporation is proactively assessing the reactions of customers to ads that address DEI. As in the case of banks and fair-lending practices, some companies are required to consider the DEI status of their customers, since it is now mandated by law.
Cultural change begins at home

Internal auditors, with their broad perspective on enterprise risk and their collaborative relationships with a wide variety of stakeholders, including boards and senior management, are well positioned to help organizations assess their DEI approaches and programs and to chart a path forward. The question now isn't whether internal auditors have a role to play in supporting DEI; it's how big that role will be. The answer lies largely with internal auditors and their level of commitment to shaping corporate culture—beginning with thoughtful consideration of the DEI principles employed within the internal audit function itself.

DEI-related metrics

Often used by internal audit, the following metrics can help leaders to track their DEI progress and to refine their strategies based on the results and the overarching goals of the organization.

• Ranked metrics — These measurements include but are not limited to the results of engagement surveys, culture surveys, and DEI surveys. These surveys can be used to gain an understanding of employee sentiment and enthusiasm for DEI programs and implementation. They can also be used to gauge the effectiveness of current DEI initiatives. Internal audit can monitor the results of these surveys and work with the organization to develop and further refine its DEI programs based on the results.

• Workforce metrics — These indicators include data on race, ethnicity, LGBTQ+ status, gender identification, veteran status, socioeconomic status, age, physical disabilities, and education. This data allows for organizations to understand their workforce composition and identify potential gaps that can be addressed within recruiting and retention. It can also serve as a blueprint for establishing future DEI goals.

• Correlational metrics — These statistics include promotion and pay rates, representation in departments, job turnover, performance, and many other factors. Correlational metrics can be applied throughout the organization. These metrics can be used in correlation with workforce metrics and can help the organization identify specific areas within the company where equity may be lacking. They can also be used to compare the organization to the current industry standard, thus giving leaders an idea of where the organization stands in relation to its competitors.
A basic framework for culture-risk management

The following activities offer a basic framework for designing, implementing, and executing a culture-risk management program:

• Assessing organizational culture reveals *how things get done*—a starting point for a program. Diagnostic survey tools can provide actionable visibility into organizational culture and the data needed to understand strengths and gaps.

• Measuring employee engagement indicates *how people connect* to and feel about the way things are in an organization. It reflects employees’ levels of commitment to the organization and their work.

• Identifying market signals uncovers *what the market says*. This provides an outside-in view of perceptions about the organization, based on stakeholder interviews, employee input, or general marketplace sources.

• Monitoring behaviors shows *what people do*—individually and collectively. This offers insight into potential insider threats and risks based on employee conduct.

• Proactively managing culture risk turns insights—*what does it mean*—into action—*what to do*.

• Providing assurance on culture gives understanding as to *whether the program is effective*.

Source: Deloitte, “Culture Risk and Your Organization’s Reputation.”
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Endnotes

1. Institute of Internal Auditors (IIA), *Beyond diversity and inclusion*, September 2020.
5. Ibid.
6. Ibid.
7. IIA, *Beyond Diversity and Inclusion*.
8. Ibid.
The Internal Audit Foundation is an essential global resource for advancing the internal audit profession. Foundation-funded research provides internal audit practitioners and their stakeholders with insight on emerging topics and promotes and advances the value of the internal audit profession globally. In addition, through its Academic Fund, the Foundation supports the profession’s future by providing grants to students and educators who participate in The Institute of Internal Auditors’ Internal Auditing Education Partnership program. For more information, visit www.theiia.org/Foundation.

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