

Internal Audit as a Driver of Innovation

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On 9 October 1903, an article published in *The New York Times* titled “Flying Machines Which Do Not Fly” estimated that the development of flying machines would take between one million and 10 million years. However, a few weeks later, on 17 December 1903, the first manned flight was successfully achieved by the Wright brothers.¹ But after that, it took commercial airlines 68 years to reach 50 million users. In comparison, it took the popular mobile game *Pokémon Go* only 19 days to reach the same number of users.² The growth of *Pokémon Go* is an example of the era referred to as “Turbulent Times.”³

The Fourth Industrial Revolution (4IR), which began in 2000, is marked by the rapid, exponential pace of change driven by four major digital forces: social, mobile, analytics and cloud (SMAC). These forces, when combined, create the foundation for high-velocity disruptive innovation and the digital transformation of products and services.^{4, 5, 6}

However, despite the chaotic and nonlinear nature of the turbulence that depicts this era, its causes are still manageable using internal audit.⁷ The internal audit function is instrumental in promoting innovation and cultivating a culture of continuous improvement in organizations. However, to remain relevant and fulfill this role, the internal audit function needs to adjust its activities and value propositions to align with the demands of the 4IR era.

The Intelligent Organization, Digital Business Agility and Flux Mindset

To keep pace with a rapidly changing, turbulent business landscape, organizations strive to develop organizational intelligence. Organizational intelligence encompasses an organization's ability to adapt, transform and proactively influence its environment.⁸ To achieve this, intelligent organizations are client-

focused, effectively communicate and collaborate, engage in knowledge management, and practice digital business agility.^{9, 10, 11}

Digital business agility encompasses three key competencies:

1. **Hyperawareness**—Allows an organization to stay alert to the flux of changes in its internal and external business environments.
2. **Informed decision-making**—Supports data- and knowledge-driven decision-making in a fully automated or semiautomated structured process.
3. **Fast execution**—Ensures that decisions are promptly and efficiently implemented.^{12, 13}

The internal audit function is instrumental in promoting innovation and cultivating a culture of continuous improvement in organizations.

Adopting these practices supports a shift from a fixed to a flux mindset. A flux mindset is rooted in change and embraces change as an ongoing aspect of the business. Organizations that adopt flux mindsets are comfortable with change, highly responsive to

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changes, and have the ideal environments and digital cultures for engaging in digital transformation and innovation efforts.¹⁴

Digital Transformation, Digital Culture and Innovation

Digital transformation is a strategy for enterprises to implement change in their business models and ecosystems by utilizing digital competencies while simultaneously cultivating a digital culture within the organization. This shift toward a digital culture is critical to the success of digital transformation as it supports the values and behaviors necessary to drive innovation, agility and responsiveness in a rapidly evolving digital landscape.^{15, 16} Digital transformation is about rewriting the organization's business story in the new language of digital natives—that is, the Y, Z and Alpha generations.

There are four core values of digital culture:

1. **Impact**—Underscores the need for radical change through innovation
2. **Speed**—Emphasizes the importance of moving quickly and iterating rather than waiting for a complete understanding of the situation before taking action
3. **Openness**—Highlights the importance of hyperawareness and transparency in both internal and external contexts, and open sharing of information and data
4. **Autonomy**—Emphasizes the importance of decentralization and delegation of authority, which allow for discretion and fluent, prompt execution¹⁷

Innovation is conceptualized as a process that incorporates the ideation, adoption and execution of new ideas, processes, products and services.¹⁸ Scholars have also defined it as a process that starts with the inception of a new idea and then matches a challenge with a solution through its realization to its impact.¹⁹

Innovation encompasses two main aspects: innovation speed and innovation quality. Innovation speed refers to the time span to conduct the innovation process from inception to impact. Like the fast execution competency associated with digital business agility, innovation speed is essential to assure the timely implementation of creative ideas for a competitive advantage.^{20, 21, 22, 23} Innovation speed is the ability to identify, decide on and execute changes quickly enough to cope with a high-paced, exponentially changing business environment.

Innovation quality encompasses various factors that define the value of services or products, such as functionality, effectiveness, reliability, costs and complexity.²⁴ This aspect of innovation can be seen as a dimension of a client-centric intelligent organization that strives to provide its customers with the right and relevant value through its products and services.

Its distinct overall organizational access and perspective, combined with its independence, objectivity and impartiality, allows the audit function to serve as an accurate sensor for gaps in knowledge and competencies.

Innovation extends beyond generating creative, novel and useful ideas. It encompasses their successful execution, which leads to impact. Creative ideas alone are not enough; it is through their implementation that their value is realized.^{25, 26} Therefore, effective innovation leadership does not necessarily require individuals with creative competencies, but rather individuals with the ability to get things done.²⁷

The Role of Internal Audit in Driving Innovation

The International Professional Practices Framework (IPPF) 2017 defines internal auditing as a systematic process aimed at improving an organization's value through assurance, advisory and insightful activities, while considering the future impact.²⁸ The audit function is further defined to be independent, objective, unbiased and devoid of any conflicting interest. The internal auditor must remain impartial and maintain objectivity during the provision of consulting services and must not assume management duties.²⁹

The internal audit function is well-suited to serve as a key player in promoting and enhancing organizational innovation and providing the necessary means to cope with a fast-paced, changing business environment.

Its distinct overall organizational access and perspective, combined with its independence, objectivity and impartiality, allows the audit function to serve as an accurate sensor for gaps in knowledge and competencies. In addition, it can perform a change audit to determine areas of new business that are yet to be explored.³⁰

Socrates famously stated, "All I know is that I know nothing."³¹ The role of internal audit is paramount in assisting organizations to understand their areas of ignorance. Internal audit serves as a medium for the expression of unheard internal and external opinions and ideas. This enables internal auditors to facilitate and foster collaborative behaviors such as communication, and balance member contributions to enhance teamwork and knowledge sharing. That, in turn, promotes creativity and innovation.^{32, 33}

Moreover, the internal audit function can monitor and motivate informed decision-making, enabling organizations to make sound decisions that are efficient and effective. In situations in which organizational shortcomings hinder innovation, internal auditors can serve as mediators and facilitators to remove bottlenecks, promote decentralization and delegation of authority, get things done, and improve innovation speed. In addition, the internal auditor is well-positioned to examine the quality and method of execution, consider the voice of the customer and gauge the impact on the customer experience.

To effectively fulfill this role, the internal audit function must transition from its traditional focus on retrospective analysis and control examination to a more consultative, predictive and forward-looking approach.

Furthermore, the internal auditor can offer unbiased, forward-looking insights without being constrained by first-line factors such as biases due to prior investments, knowledge limitations or operational incapacity. This enables internal auditors to shed light on complex challenges that arise from the implementation of cutting-edge technologies or the digital transformation of processes and products.

Practical Implications

To transform internal audit, there are several practical approaches.

This transformation necessitates a change in auditing skills and competencies, encompassing the mastery of audit proficiency with a greater emphasis on professional knowledge, hands-on experience and real-time auditing skills.

In addition, the internal audit function should adopt an Agile approach, allowing for greater flexibility and responsiveness. It is recommended that the Agile approach be integrated into the audit work plan process to enable internal auditors to remain alert to changes and to prioritize critical and high-risk issues. In addition, incorporating the Agile approach into audit project management promotes audit programs that are more focused and effective, while increasing efficiency and facilitating rapid execution.^{34, 35, 36, 37, 38}

Moreover, internal auditors can adopt content validity approaches, such as an expert panel inter-rater agreement for reconciliation, to overcome hindrances to innovation caused by professional disagreements among decision makers within the organization.³⁹

Conclusion

Internal audit has an important role in promoting and fostering organizational innovation and a flux mindset. To effectively fulfill this role, the internal audit



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function must transition from its traditional focus on retrospective analysis and control examination to a more consultative, predictive and forward-looking approach, facilitated by professional and academic research, benchmarking, advanced data analytics and business process analysis methodology.⁴⁰

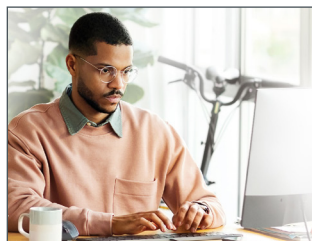
The internal audit function must align with the new demands of the 4IR era and transform its activities and value propositions accordingly. By adopting an intelligent approach and digital business agility, the internal audit can retain its significance and relevance and act as a driver for innovation.

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