Management Audit in times of Disruptive Technologies

Before we discuss the main topic of this paper, let's talk about two tech trends in retail industry as to how it's impacting businesses across the globe.

Contactless self-checkout stores:

▪ Tools that may allow the aforesaid digital transformation may include RFID tags, computer vision systems, machine learning, IoT devices, sensor fusion, deep learning and facial recognition etc.

▪ Customers can put items into a physical shopping cart, while an IoT based system tracks these in a virtual cart. When the shopping is completed, all purchases will be automatically paid off digitally once the customer leaves the store.

Material Tracing and Movements

▪ No human involvement in the tasks like moving goods from shelves, tracking and analysis of shelf inventory or making last-mile delivery by using Robots in conjunction with artificial intelligence.

▪ Aerial drones and shelf auditing robots, AI-powered computer vision, will scan and sense shelves, providing autonomous monitoring for inventory management within the store. Many retailers will likely use robots in the future for the improvement of in-store operations, a load reduction of store employees, and gathering data about customers.

Building Correct Context

Organizations shall be spending billions in the digital technologies to transform their workplaces and customer engagements and have a huge impact on how businesses will run in the future. Digital technology industry trends are moving fast and there are endless choices but doesn't mean businesses should ride the bandwagon blindly.

3 Reasons a technological transformation could fail

1. Technological transformations could fail because people do not understand why change is required in the first place. Such initiatives are successful only if there is a clear strategic directive aligned to it. It should be for one strategic goal i.e. delighting customers.

2. Achieving sustainable improvement in performance requires the organizations to look beyond structures, processes, technologies and systems to address individual and collective behaviour. People are at the crux of business success and failure.

3. There are more questions than answers at the moment. Is eliminating human intervention 100%, achieving accuracy 100%, creating deterrence 100%, a good idea or foolish one after all? Poor cost benefit analysis can fail businesses.

Operational difficulties with disruptive technologies

Business Manager should get timely information on Costs, Business Drivers, Operational Problems, and Accountability for taking timely decisions. Setting clear risk management objectives in areas like Customer Servicing, Materials Management, Production, Quality Controls, Working Capital Management, Treasury, Asset Management and Information Technology etc. is critical.

Let's take two examples to understand what business managers at ground may face.

▪ Let's talk about Bar Codes and their limitation to understand perspective. The key disadvantage for barcodes is that they require a line of sight in order to be read. Barcode scanners usually have to be within 15 feet of the barcode in order to read its data. Barcodes are typically printed on paper or plastic, which makes them easy to damage. A damaged barcode can't be read by a scanner.

▪ Now let's talk about RFID. RFID systems are often more expensive than barcode systems. RFID tags are usually larger than barcode labels. Tags are application specific. You can't always read tags with perfect accuracy since radio waves might be blocked or cancel each other out.

Now, there are definitely advantages of the above two systems and these may outweigh the disadvantages and that's why businesses have invested in these technologies.

Business perspective of bringing disruptive technologies

Top executives understand the importance of new technologies and corresponding Performance Measurement Systems but they struggle implementing it in a cost effective way. They may be able to identify the skill gaps but face challenges in creating and implementing a framework for ensuring high performance.

Executives functioning in the business environment that is constantly changing; they need to realign their strategic needs with agility. Do they know tools and techniques to seize new opportunities and improve one's strategy building 'Processes', and put their resources where the real opportunities are? Are clear Cost Benefits established in each case?

As mentioned above Business Objectives are very clear so how Management Audit can deliver? What should be the new paradigm shift required in the thinking of management auditors?
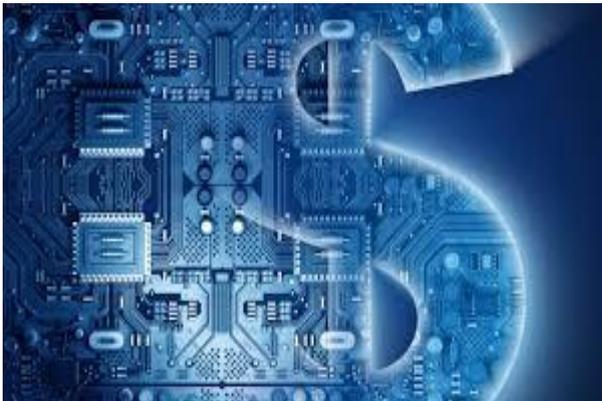
Role of Internal Auditors in these New Times

A. Traditional Thought Approach

Internal Auditors have always thought about 'Existence', 'Continuity', and 'Effectiveness' of Internal Controls as the most important audit assertions to be challenged while understanding underlying control risks and audit risks.

B. New Thought Approach

However, in this new era, thinking about 'Efficiency' of internal controls i.e. cost benefits of internal controls needs equal consideration if not more. It involves questioning decision making process of putting up a control by the management in first place.

Summing up

A. Change in Role

Now, internal Auditors should move their roles to be that of a Management Auditors to give insight, foresight and hindsight of the management decisions w.r.t. risk management along with oversight function. They should bring on table business case and scrutinise the entire business processes rather than just recommend for improvement in the internal controls or provide management assurance on the existence of the internal controls.

B. New Skills Required

Internal Auditors should possess enhanced skills which may include understanding technologies, behavioural sciences, business management, strategic cost management, value chain analysis and management accounting in addition to basic skills of collecting auditing evidences and data analytics to carry out Audits.

C. Value Additions

Management Audit should scrutinise all the decisions of investments in disruptive technologies for calculating current ROI and suggest way to improve returns or reduce costs. They should suggest cost effective ways to achieve business objectives in the specific areas.

D. Objective Relationship

Businesses and Auditors both should understand this new perspective very clear in their minds and their relationship should not be determined by subjectivity around the new technologies or process methods, its advantages and disadvantage, expert views on it or buzz words alone but should be backed by business data about cost benefit analysis, ground realities of operations and business routines and common goal in the context i.e. customer delight.