



Diversity, Equity, and Inclusion (DEI) 101:

Internal Audit's Invaluable Role in Creating a Sense of Belonging at Work

Introduction

"Diversity, Equity and Inclusion (DEI) 101: Internal Audit's Invaluable Role in Creating a Sense of Belonging at Work" is the first in a three-part series produced jointly by Deloitte, the Internal Audit Foundation, and The Institute of Internal Auditors (The IIA) on internal audit's opportunity and obligation to foster a diverse, equitable, and inclusive culture by starting within its own function. Stay tuned for part two in the series, which will focus on assessing DEI recruitment and retention initiatives.



Several pivotal events over the last 24 months have exposed the many forms of inequity, discrimination, and social injustice in society—some of them blatant, some of them subtle, and some arguably harmful and counterproductive. At the same time, the arrival of COVID-19 and the subsequent need to work remotely disturbed employees' work/life balance throughout the global workforce.

The revelation of potential biases and the inequitable impact of the pandemic on different demographics were among some of the forces that galvanized efforts to improve DEI within the workforce. Organizations that had yet to address DEI often found themselves at a competitive disadvantage in attracting and retaining scarce talent. Those that already had DEI programs underway largely recognized that they needed to do more—not only to attract talent but also to empower their current employees to be their authentic selves at work.



Defining DEI and More

Diversity, equity, and inclusion, and the related concepts of anti-oppression and belonging, mean different things to different people. Nonetheless, they are united in the goal of creating a culture where employees can be themselves and contribute their full complement of skills and experiences. In developing DEI initiatives, organizations will ultimately need to determine what these concepts mean to them. Here are a few suggestions from The IIA and Deloitte to get the process started:

DIVERSITY

The representation, in a group, of various facets of identity, including (but not limited to) race, ethnicity, nationality, gender identity, Lesbian, Gay, Bisexual, Transgender, Queer or Questioning (LGBTQ+) status, socioeconomic status, ability, religion, and age. "Diverse" is a term that describes a group: "diverse" is not a person.

(Source: Deloitte)



EQUITY

Ensuring that everyone has support and access to the resources needed to be successful and identifying and eliminating barriers that have prevented the full participation of communities most impacted by systemic oppression. Improving equity involves increasing justice and fairness within the procedures and processes of institutions and systems, as well as in the distribution of resources. Tackling equity issues requires an understanding of the root causes of outcome disparities within our society and institutions. Equity differs from equality. Equality refers to treating everyone the same, but does not necessarily lead to equitable outcomes because diverse communities often have diverse needs and may have faced varying obstacles and inequities.

(Source: The IIA)



INCLUSION

The actions taken to understand, embrace, and leverage the different strengths and facets of identity for all individuals so that they can feel welcomed, valued, and supported. An inclusive institution promotes and sustains a sense of belonging; it values and practices respect where all people are recognized for their inherent worth and dignity, talents, beliefs, backgrounds, and ways of living.

(Source: Deloitte and The IIA)



ANTI-OPPRESSION

The theory, strategy, and active practice of confronting individual and institutional power and privilege to consistently challenge and dismantle exclusionary and oppressive systems, policies, practices, and organizational values. Anti-oppression recognizes the pervasiveness and seriousness of oppression and actively seeks to challenge, eliminate, and prevent it. Anti-racism is a type of anti-oppression.

(Source: The Equity Imperative: The need for business to take bold action now¹)



BELONGING

The emotional outcome of being one's full, authentic self as part of a group, resulting from an intentionally inclusive environment that fosters psychological safety and a diverse, team or organization.

(Source: Deloitte)



Bolstering Business Performance

Cultivating a diverse, equitable, and inclusive culture enables organizations to create a sense of belonging, which motivates people to bring the best of themselves to the job. Creating a sense of belonging for employees of diverse backgrounds is not only the right thing to do, but it is also an essential component of business performance. A pre-pandemic study conducted by BetterUp in 2019 found that increased workplace belonging can lead to an estimated 56% increase in job performance, 50% reduction in turnover risk, and 75% decrease in employee sick days.²

Considering the social injustices and pandemic-related stresses of the last two years, many CEOs believe DEI impacts business performance even more profoundly today. A January 2021 Fortune/Deloitte Chief Executive Officer (CEO) survey found that 94% of CEOs report that diversity, equity, and inclusion are strategic priorities for them as CEOs, and 72% plan to disclose DEI metrics to the public.³

Lack of diversity, inequity, and exclusion are problems that demand a cultural shift. Many companies are acknowledging this by designing and implementing DEI programs that touch upon everything from relationships to products, services to spend, and governance to external interactions.¹ Nonetheless, moving the needle on DEI requires more than good intentions. It should be approached with the same rigor and discipline as any strategic business initiative. This includes establishing metrics and monitoring the program to ensure it is performing as intended. Organizations also need new ways to identify and manage DEI risks and to compare business processes to expose strengths and deficiencies. In other words, many of the skills required to assess the success of DEI initiatives are core skills of internal auditors.



Adding Distinct Value

As the connections between DEI and business performance expand, so too do the opportunities for internal audit to add value. Some could contend that internal audit, perhaps more than other functions, 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. Internal audit is also attuned to pending disclosure requirements for environmental, social, and governance criteria, of which DEI is an important part.

Many business leaders today acknowledge both the value of DEI within the enterprise as well as the importance of DEI within their own ranks. Establishing an inclusive environment that drives performance and financial results starts at the top with the makeup of the executive team and the board of directors. Progress is being made, albeit slowly. For instance, the Alliance for Board Diversity reported that women and minorities occupied 38.3% of Fortune 500 board seats in its 2020 analysis.⁴ However, nearly 36% (more than one-third) of those diverse board seats were occupied by persons on multiple Fortune 500 boards. Accordingly, the report concludes that opportunities need to be spread more widely among eligible women and minority board candidates.

Internal audit has an opportunity and an obligation to accelerate this movement toward greater diversity, equity, and inclusivity throughout the organization, from top to bottom, by embedding DEI concepts into its responsibilities and the services it provides within its own functions. More specifically, internal audit can do its part in helping management meet its DEI objectives and shape corporate culture by enhancing the following roles and responsibilities with respect to DEI.





ASSURANCE PROVIDER

- Assess the current state of DEI within an organization through the three spheres of influence¹ in workforce, marketplace, and society (i.e., human resource audits, third-party management audits, policies and procedure reviews, and regulatory compliance reviews).
- Use quantitative and qualitative approaches to enrich audits by adding DEI considerations into the existing audit plan.
- Confirm that management has established effective processes to attract, recruit, hire, and retain diverse candidates.
- Audit the accuracy of DEI statistics provided to the board, regulators, or external parties.
- Perform “pulse checks” on whether or not the organization is achieving its stated DEI goals.
- Work with human resources professionals to better understand how equity objectives are measured across the business and whether reward practices or programs introduce elements of business risk/bias that should be further investigated.



TRUSTED ADVISOR

- Incorporate DEI risks into audit programs, reporting on potential impacts to the organization.
- Assist management in analyzing talent processes (recruiting, retention activities, etc.) to identify vulnerabilities to cognitive biases and potentially adverse impacts on specific workforce demographics.
- Determine if DEI objectives across multiple business units, functions, or merger and acquisition (M&A) targets are aligned with the overarching DEI goals of the enterprise.
- Provide a perspective on DEI progress to management and the board.



AGENT IN CHARGE

- Identify DEI behaviors that inspire the organization and can be tracked for progress.
- Propose changes to promote, support, and activate DEI.
- Assist management in identifying and remediating the root causes of inequitable programs or processes.
- Initiate cross-functional partnerships and external alliances through the leadership of the chief audit executive (CAE).
- “Walk the talk” by modeling DEI leading practices within the internal audit department.

Considering Program Risks

DEI programs often fail due to several common pitfalls including leadership constraints, incomplete talent data, and mistaking analysis for action. With its enterprise-wide view, internal audit is uniquely suited to help organizations identify and mitigate common risks to their DEI programs. Here are some risks for internal auditors to consider when performing a DEI review.

USING AN INCOMPLETE METHODOLOGY

DEI transformation requires a broad approach throughout the organization, including direct communication and feedback between management, mid-management, and employees. Each part of the organization should work together and hold one another accountable in order to succeed. Methodologies that focus on one part of the organization to the detriment of others or that fail to incorporate change management can cause the program to fail.

FOCUS TOO NARROWLY

DEI efforts can falter when diversity alone is considered. A diverse workforce without the proper inclusive and equitable mechanisms in place may not reap the intended benefits of increased productivity and enhanced talent acquisition and retention. Similarly, the insights generated by DEI audits can be compromised by focusing solely on the representation of a specific cohort such as women or racially and ethnically diverse persons.

RELYING SOLELY ON A TOP-DOWN APPROACH

Exclusively taking a top-down approach when initiating the audit plan can produce an incomplete picture of what needs to be examined. When reviewing the current DEI framework and assessing its implementation, participation throughout internal audit and at all levels of the auditable entity is encouraged. While culture can be set from the top down, transformation occurs from the bottom up.

SEEKING A QUICK FIX

Since DEI is a relatively new area for internal audit involvement, audit teams can be tempted to seek a one-size-fits-all framework for the audit program instead of considering customized approaches for different departments or entities. Similarly, impatience and hurried actions can creep into the picture in addressing audit issues identified in the implementation of DEI. Again, organizations and internal audit teams should avoid a one-size-fits-all approach and take the time to develop a customized action plan that incorporates benchmarking and risk assessment.

Activating DEI 101

As a critical factor in organizational performance, DEI is anticipated to grow in importance. Internal audit offers an objective and independent vantage point from which to evaluate culture. It also has the methodologies and the base internal audit skill sets needed to consider DEI program risks and to create effective remediation plans. While internal audit's potential role in fostering a culture of belonging has started to enter the conversation, DEI has yet to become a pervasive part of audit plans for the most part, which requires change. The activation of DEI 101 is quickly becoming an imperative for internal auditors and the business leaders for whom they provide insights. In the post-pandemic world of talent shortages, organizations need to remain competitive by attracting and retaining highly qualified people and empowering them to contribute their full complement of skills and experiences. DEI programs are widely acknowledged as a means to this end, and internal audit is uniquely positioned to assure the effectiveness of DEI programs.

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Endnotes

1. *Fortune/Deloitte CEO Survey No. 3*, January 2021.
2. Deloitte, *"The Equity Imperative: The need for business to take bold action now,"* February 2021.
3. BetterUp, *"The Value of Belonging at Work: New Frontiers for Inclusion,"* pg. 11.
4. Alliance for Board Diversity, *"Missing Pieces Report: The Board Diversity Census of Women and Minorities on Fortune 500 Boards, 6th Edition,"* 2021, <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/missing-pieces-board-diversity-census-fortune-500-sixth-edition.html>, accessed October 25, 2021.

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