

Internal audit's role in NFT implementation

Internal Audit Megatrends | 5x5: Insights and actions



NFTs—non-fungible tokens—are the frequent talk of the tech world these days. But what are they? Sure, they're collectibles and digital artifacts, but they can also be pictures, contracts, or data. NFTs can take a variety of forms and serve many purposes. In short, NFTs are a powerful blockchain-supported technology that stores a bundle of rights within a unique digital asset. NFTs may represent a breakthrough in digital rights management, change how we engage with the digital representations of assets, and redefine digital rights and obligations. In its many forms, NFTs present an opportunity to engage with a tech trend that may help create fresh revenue streams and reach new customers and stakeholders. As corporate leaders consider the possibilities in the NFT space, here are some insights and preliminary actions you can take to begin the NFT implementation journey.

5 insights you should know

NFTs can be a problem-solving tool beyond just the distribution of collectibles, whether it's for document storage and validation, IP distribution, digital identity, access tokens, or another use case.

Understanding the technology and how it drives value can help you to find or **develop those use cases that yield superior results.**

Unlike many digital items that can be infinitely reproduced, **each NFT is unique**—its authenticity and ownership can **only be verified through the blockchain** on which it resides.

NFTs come with new and emerging risks, but with the regulatory environment still in its early stages, the next 12 months should further clarify the regulatory expectations for entities seeking to participate in the ecosystem.

Accounting and tax implications for NFTs are complex and often unclear as they depend on what the NFT is; what it represents; the issuer's role in the ecosystem; the NFT's valuation; and the terms, rights, and obligations attached to the NFT.

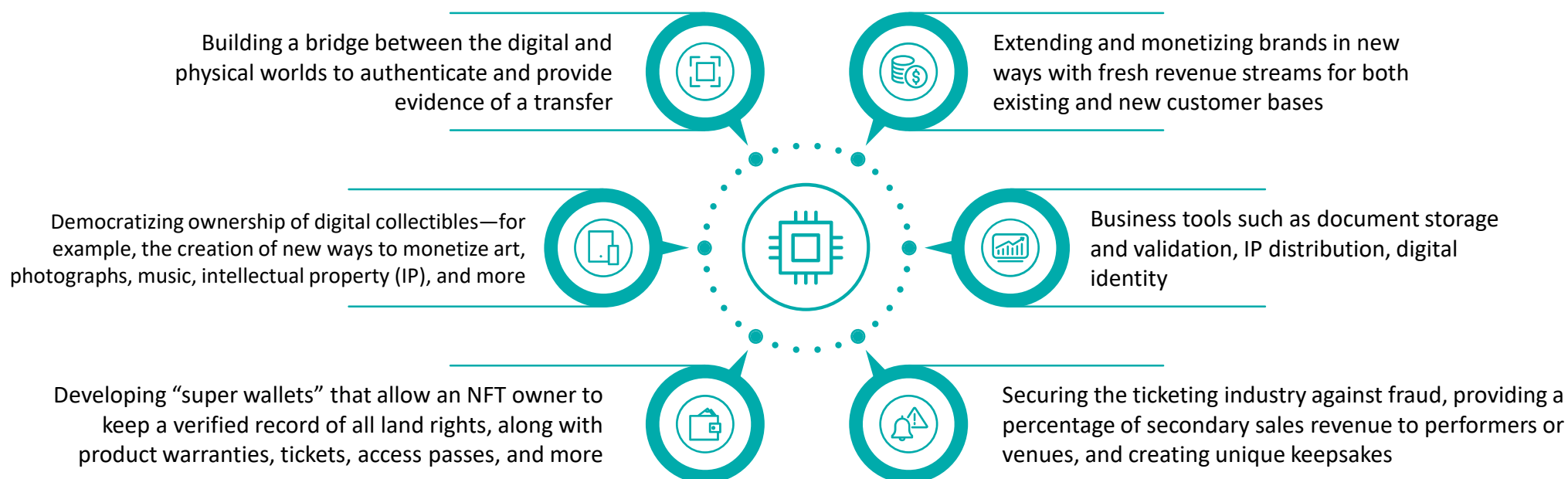
NFTs can empower multiple goals and strategies, including expanding a brand, generating revenue, bolstering customer loyalty, rolling out a marketing campaign, or elevating digitized commercial activities.

5 actions you can take

- 1 The use of NFTs should first and foremost align with the overall business strategy. Audits should be conducted in **alignment with the company's NFT strategy** including a review of the approved NFT marketplace, platform, and cryptocurrency.
- 2 Since a NFT, at its core, is a bundle of rights, it is critical that **auditors focus on understanding the business needs and capabilities**, including licensing content to an NFT issuer, teaming with an existing third-party marketplace or platform, or creating and issuing NFTs on a new, proprietary platform
- 3 Be ready **to shift as regulations are continuing to evolve**. IA should be aware of any new guidance, local / federal / international regulations that can affect your business.
- 4 When it comes to issuing NFTs, IA should **engage vital segments of the business** including, accounting and tax to address some vital questions: How are the NFTs made, held, bought and sold? What internal controls are required to cover the risks related to these NFTs? What rights does the underlying asset convey? What are the rights and obligations associated with the NFT?
- 5 IA should **consider the specific technology, cybersecurity, and fraud risks that can affect your organization's NFT(s)**. Common risks include copyright thefts, fake airdrops, replication of popular NFTs, platform responsibilities and more. Incorporate the relevant risks within your next risk assessment



NFT's in practice:



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[How to make NFTs work for your company](#)

[Internal Audit: Risks and Opportunities in 2022](#)

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