



Internal Audit's (IA's) Role in Driving Diversity Equity & Inclusion (DEI)

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- **DEI today**
- **Common pitfalls**
- **IA's role in DEI**
- **Illustrative assessments**

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DEI: The time is now

The world has changed, and the marketplace and its consumers are demanding organizations **prioritize diversity and inclusion as the new normal.**

The call to action around **social justice** and the **COVID-19 pandemic** has accelerated companies' needs to **adapt to new concepts of work, workforce, and workplace.** And at the center of navigating this new reality are increasing **social and business imperatives for diversity, equity, and inclusion.**

I N S O C I E T Y

In serving our workforces, communities, and customers, organizations have the platform, power, and means to enact change and drive racial equity.

“
In a racist society, it is not enough to be non-racist. We must be **anti-racist.**”

- Angela Davis

¹ Deloitte 2017 Human Capital Trends Report / Bersin by Deloitte

² Bourke, Garr, van Berkel, and Wong, "Diversity and inclusion: The reality gap."

³ Aguirre, D, Post, L, Hewitt, S.A "Talent Innovation Imperative." Strategy+Business. Issue 56. Autumn 2009.

⁴ Smith, Christie, and Stephanie Turner. "The Radical Transformation of Diversity and Inclusion | Deloitte US | Inclusion." Leadership Center for Inclusion. Deloitte Consulting, 2015.

⁵ Herring, C. (2009). "Does Diversity Pay? Race, Gender, and the Business Case for Diversity, American Sociological Review,

⁶ Cumulative Gallup Workplace Studies, "Business Case for Diversity & Inclusion"

I N O R G A N I Z A T I O N S

80%

of the world's talent source is made up of **women and people of color.**³

83%

of millennials are **actively engaged** when they believe the organization fosters an **inclusive culture.**⁴

15x

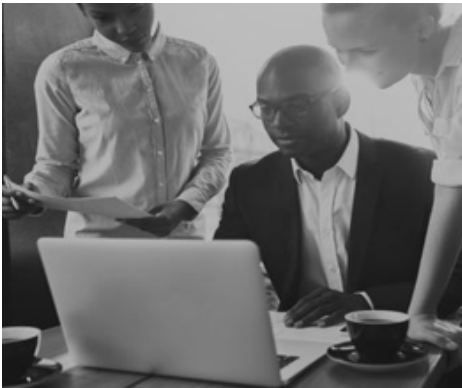
Organizations with high levels of racial diversity have **revenues and sales** 15 times higher than companies with lower levels of racial diversity.⁵

39%

higher **customer satisfaction** for organizations with inclusive cultures. These organizations also have 27% **higher profitability** and 22% **greater productivity.**⁶

Common DEI pitfalls

There are 7 common DEI pitfalls that may prevent companies from realizing change and meaningful outcomes:



Talent Data

Incomplete or inconsistent data inhibits rich analysis that uncovers root cause findings. Similarly, unwillingness to include certain data in analysis prevents needed analysis to drive a targeted approach

Company Ambition vs. Investment

Struggling with constraints on budgets and resources can make the best intentions and strategies fall short



Leadership Engagement

Leaders need to set the tone at the top to ensure DEI values are embedded into organizational culture.

Flash vs. Impact

Focusing on visible gestures vs. long-term systemic change

The “HR Problem”

Classifying DEI work as a Human Resources Problem or responsibility, instead of a company-wide effort



Mistaking Exploration for Action

Performing assessments and explorations into organizational opportunities, but not building an action plan to address findings

Viewing DEI Programmatically

Seeing DEI work simply as a program instead of embedding it within the organizational strategy

DEI maturity assessment

Analyze an organization’s DEI maturity across 8 inter-connected activators – bringing in a holistic approach and leveraging both qualitative and quantitative insights:

Infrastructure

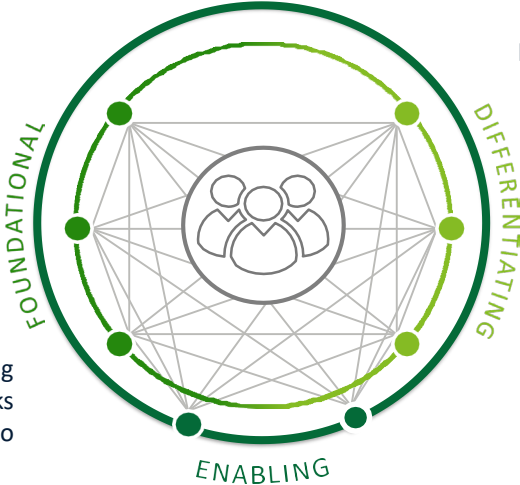
Set the groundwork required to promote, support, and activate inclusive strategy, culture, and behavior

Talent

Create an equitable playingfield for employees of all identities and backgrounds to succeed through talent programs and processes that mitigate bias

Culture

Decentralize the approach for cultivating culture, relying on natural influencers to activate a culture that sparks diversity of thought and invites complex identities to work together and spur innovation



Analytics

Drive organizational accountability using analytics that paint a picture of the organization’s inclusion practices that maximize human potential

Leadership

Ignite leaders’ inner transformational activist and sponsor self expression, driving authentic connection and innovation

Customer

Match insides to outsides by engaging business leaders in inclusive decision-making to reflect insights about and values of customers and partners

Community

Unite with purpose – align values to partnerships and community action to maximize mutual benefit and support broader goals

Brand

Look inside out – and outside in – to define an aspirational brand rooted in DEI values, touting inclusion consistently and widely

IA's typical approach to incorporating culture into an internal audit plan

Standalone Reviews

Standalone assessments can help understand appropriate policy, control landscape, and responsibilities around culture as of a point in time



Integrated Audit Approach

Embedded approach should be used as pulse check on the business as part of any audit performed to ensure DEI centric behaviors and activities are being appropriately conducted



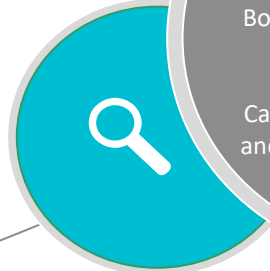
Typical Culture Audit Focus

Board and senior management accountability
Capabilities to prevent, detect and evolve predictive views on misconduct



Conduct-focused Reviews

Deep dive focus can provide valuable assurance on key conduct area, where stakeholders have concern, or where risk appetite is low

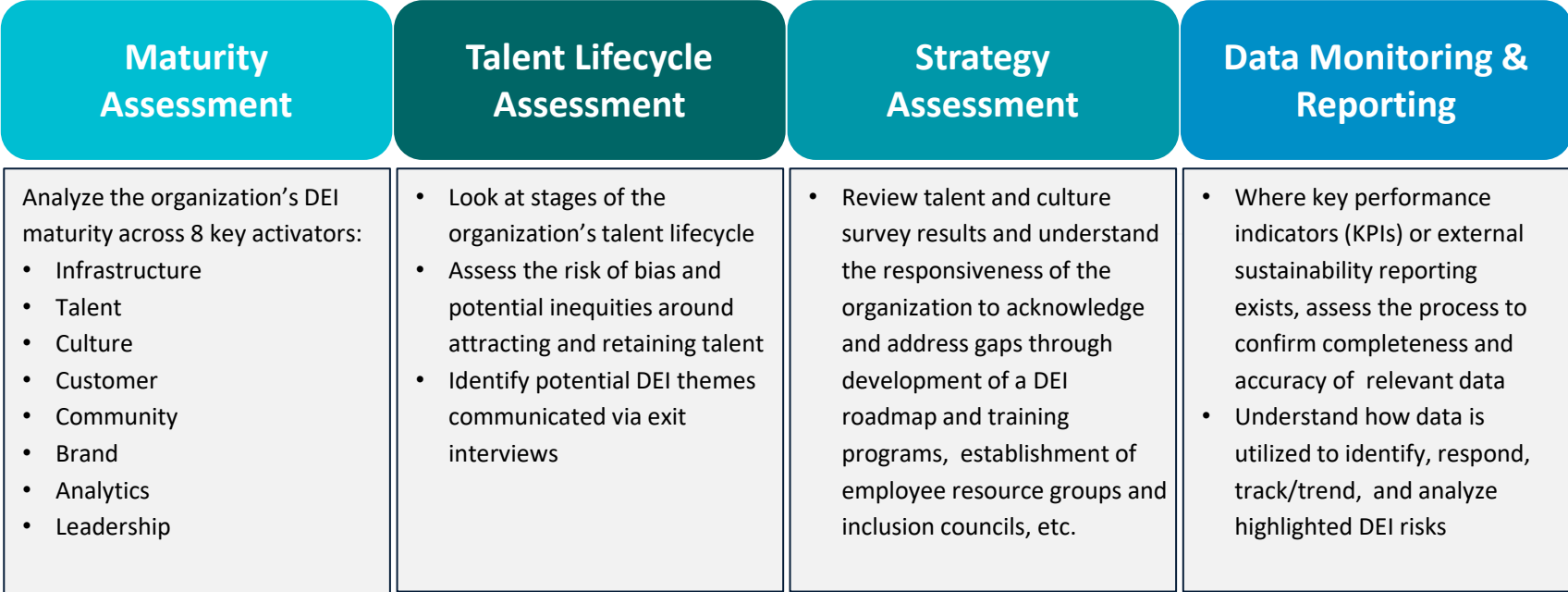


Risk Assessment

Conduct interviews with a diverse subset of employees to understand current state



How to measure DEI



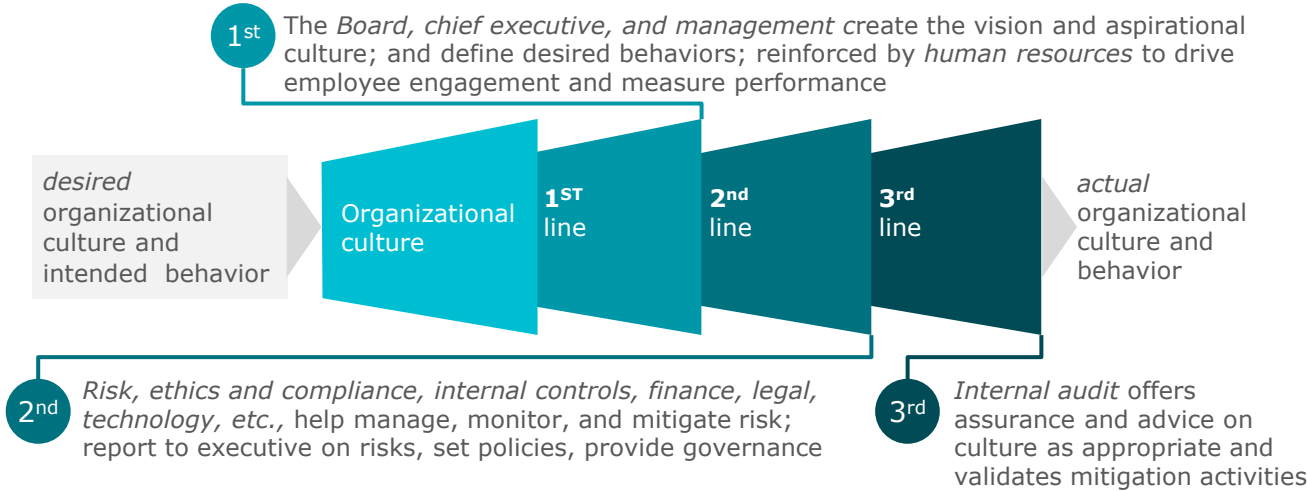
Proactively manage DEI risk

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

Responsible Parties

Roles across the organization have a responsibility to manage culture risk and drive organizational alignment.



Talent lifecycle assessment

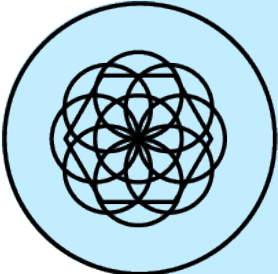
Look at stages of the organization's talent lifecycle, assessing risk of bias and potential inequities around attracting and retaining talent. Identify potential DEI themes communicated via exit interviews:



Business units should focus on opportunities to lead while aligning with their broader organization.

Special Use Case: Artificial Intelligence (AI)

AI encompasses many technologies that work together to build innovative solutions...



Machine Learning (ML) *Predictive Analytics* *Neural Networks*
Virtual Assistants *Natural Language Processing (NLP)*
Intelligent Automation *Deep Learning* *Speech Recognition*
Unsupervised Learning *Computer Vision*

And it helps us solve some foundational problems:



Anomaly Detection

Uncover unexpected events within a sea of data



Insights & Pattern Recognition

Identify common traits amongst vast data sets



Context

Reduce a complex idea to its essential elements to generalize capabilities



Abstraction

Stitch data together to provide perspective and assist interpretation




Smart Routing


Intelligently automate tasks and processes to improve productivity and speed of execution


Deloitte surveyed 2,500+ executives about their organizations' practices regarding AI technologies

Out of the 2,500+ global participants, 47% were IT executives and 70% were C-level executives.

While adopters continue to have confidence in AI's ability to drive value and advantage...

- 

83% of adopters say **AI will be very or critically important** to their business success in next 2 years
- 

39% are focused on modernizing data infrastructure and **accessing the newest AI technologies**
- 

71% of adopters expect to **increase their investment** next fiscal year (by an average of ~26%)



...there is a "preparedness gap" within the organizations that spans strategic, operational, and ethical risks related to AI.

- 

95% of adopters have **concerns around ethical risks** arising due to AI
- 

More than half of AI adopters share **major concerns** related to **ethical risks**, while only 4 of 10 adopters are fully prepared to address AI risk
- 

Over a quarter of seasoned adopters have **an executive in charge of AI risks**

As more organizations adopt AI, it is re-shaping organizations' technology and risk landscapes

As businesses increasingly rely on AI to make critical decisions (e.g., loan approvals, healthcare decision making), several important considerations are taking the centerstage.

1

Reputational impact of AI gone wrong

Undesired outcomes of AI algorithms have drawn severe consumer backlash and regulatory scrutiny

2

Heightened regulatory activity around AI

Regulators are increasing scrutiny of AI applications and voicing concerns around use of AI through additional guidance and proposed regulations

3

Need for executives to get ahead of their AI exposure

Lack of visibility and governance over the increasing adoption of AI across the organization is leading to unknown and unaccounted for exposure

Microsoft's disastrous Tay experiment shows the hidden dangers of AI

How Amazon Accidentally Invented a Sexist Hiring Algorithm

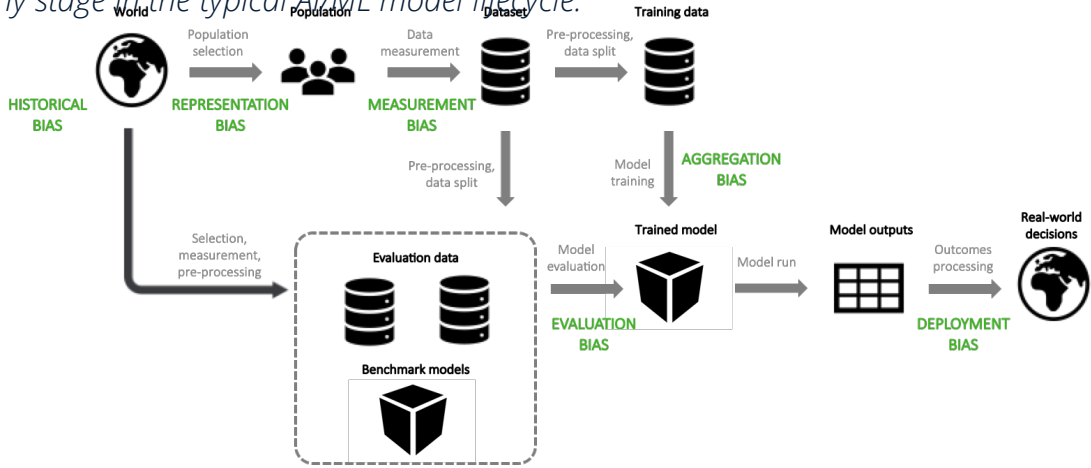
Proposed Algorithmic Accountability Act Targets Bias in Artificial Intelligence

AI vs. GDPR: Finding the Balance Between Ethics and Innovation

CFPB 2020 fair lending report highlights adverse action notices when using artificial intelligence

Sources of Unfairness in AI

- Model bias is commonly thought to occur primarily in the data collection step. Recent research suggests that it can be introduced at any stage in the typical AI/ML model lifecycle.



Design	Data Collection	Feature selection	Model build	Model evaluation	Productionization
Historical Bias	Representation Bias	Measurement Bias	Aggregation Bias	Evaluation Bias	Deployment Bias
Historical bias is the existing misalignment between the world as it is and the values or objectives that are required from the AI/ML model.	Representation bias arises when defining and sampling a development population if population under-represents and/or fails to generalize for groups in population.	Measurement bias stems from choosing, utilizing and measuring features and labels.	Aggregation bias happens during model development when different populations are inappropriately combined.	Evaluation bias occurs during model fitting and evaluation.	Deployment bias occurs when model is used or interpreted in production inappropriately.

1. Suresh, H. & Guttat, J., A Framework for Understanding Unintended Consequences of Machine Learning (2020). Available at <https://arxiv.org/pdf/1901.10002.pdf%20%E2%80%8B>.
 2. Lee, Michelle Seng Ah and Singh, Jatinder, Risk Identification Questionnaire for Unintended Bias in Machine Learning Development Lifecycle (January 31, 2021). Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3777093.
 3. Image: British Medical Journal

AI Strategy & Governance

Create an AI risk management strategy and governance structure to manage the associated risks and enable compliance



Governance considerations for organizations actively pursuing AI

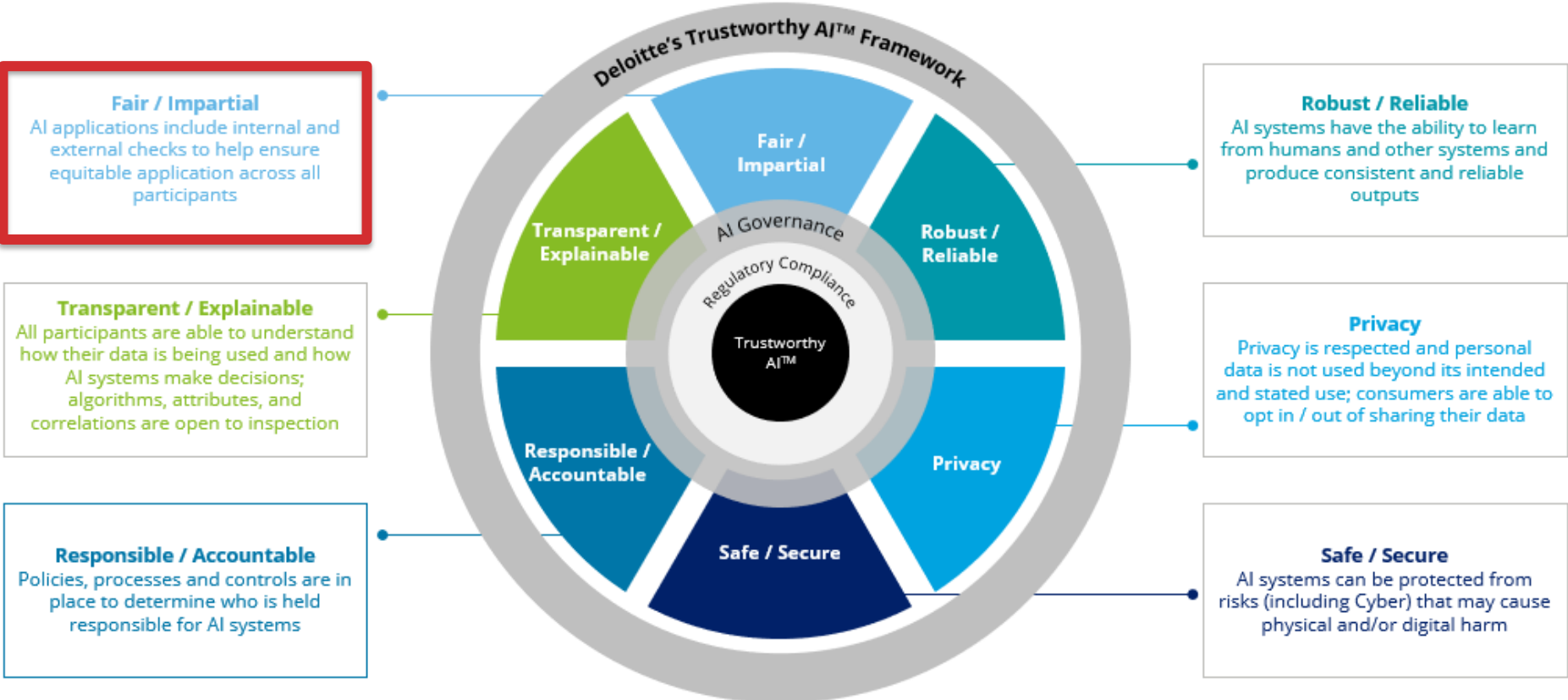
- ❑ **Ownership and governance of AI risks**
- ❑ **Roles of the three lines of defense over AI models/algorithms**
 - Business groups
 - Risk office / Data office
 - **Internal Audit / Independent Review**
- ❑ **Building trust around the use of AI**
 - Code of conduct (principles, policies, training)
 - Risk and other disclosures
 - Explainability
- ❑ **Cybersecurity of AI applications and platform**
- ❑ **Compliance with Privacy and other regulations (GDPR, CCPA)**
- ❑ **Market approaches to AI Governance**
 - Technology industry
 - Financial Services industry



Expected outcomes

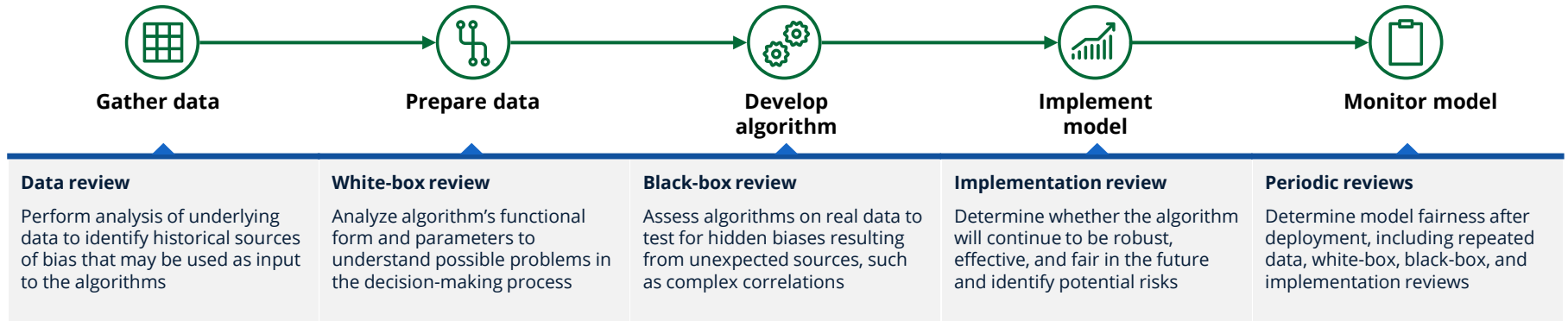
❖ AI taxonomy and inventory
❖ AI risk catalog
❖ AI risk strategy
❖ AI governance and controls framework
❖ Protocols and policies
❖ Op model design & playbook
❖ Board oversight and reporting
❖ Regulatory compliance
❖ Cybersecurity considerations

Using the Trustworthy AI™ Framework to Manage AI Risks



Assess and oversee model data and functioning to ensure alignment with the approved intended and implemented model functionality

Deloitte's comprehensive approach to analyzing algorithms and identifying possible sources of bias:

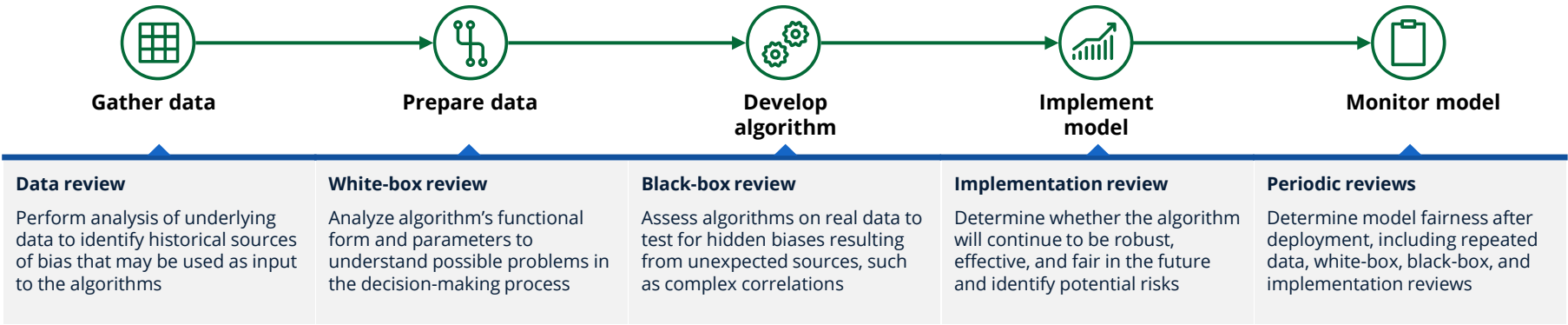


Expected outcomes:

- Test of design, implementation, and operating effectiveness of AI controls
- Monitoring and testing of AI applications for potential adverse outcomes (bias / fairness, trust, safety, etc.)
- AI explainability (XAI) review
- Security monitoring and maintenance of AI solutions

AI monitoring, testing, and assurance

Assess and oversee model data and functioning to ensure alignment with the approved intended and implemented model functionality

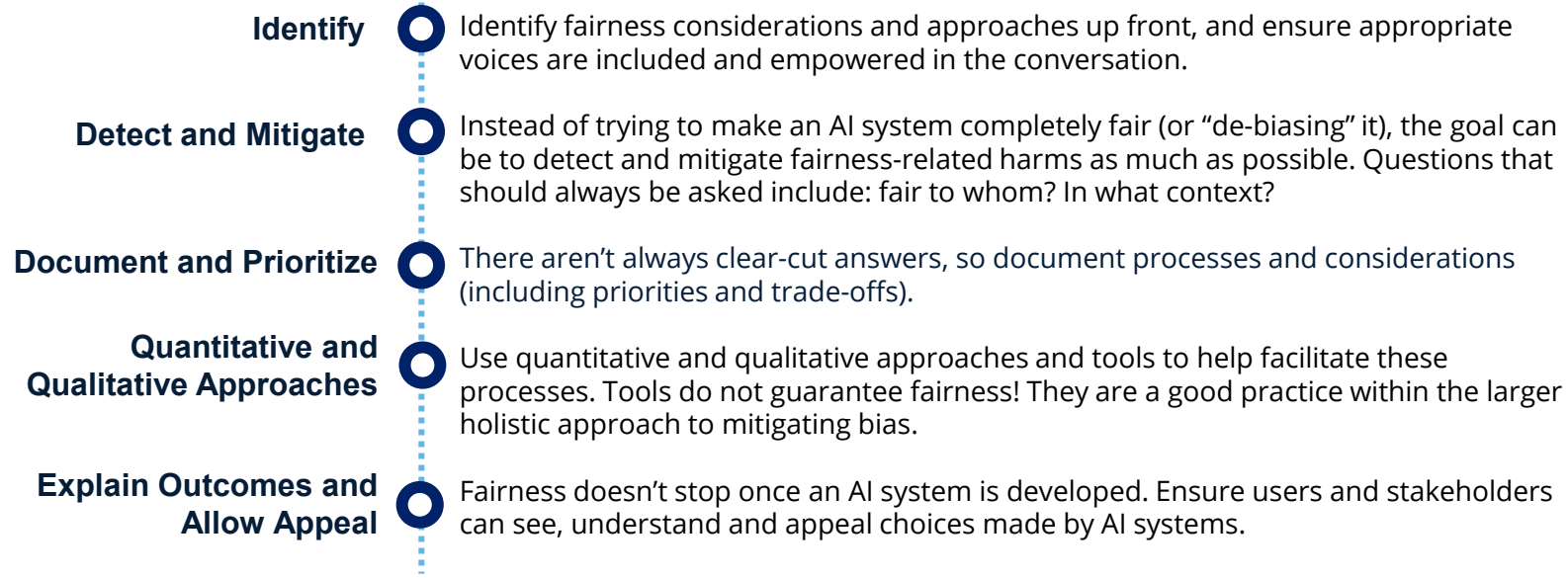


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Operationalizing Fairness in AI

- Operationalizing fairness does not imply making a system completely fair, but rather to pool relevant expertise available in a concerted effort to prioritize fairness considerations early on in AI development. This includes selecting suitable methods and policies to mitigate harms.



¹ Deirdre K. Mulligan, Joshua A. Kroll, Nitin Kohli, and Richmond Y. Wong. 2019. This Thing Called Fairness: Disciplinary Confusion Realizing a Value in Technology. Proc. ACM Hum.-Comput. Interact. 3, CSCW, Article 119 (November 2019),



Q&A

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