

# Beyond Compliance:

How Internal Audit Strengthens Governance & ESG Readiness

“Positioning Internal Audit as a Catalyst for Ethical Governance and ESG Integrity”

**Volume IV**

Aligning with 2024 IIA Standards and Vision 2030 Priorities

# Internal Audit 2025

Aligning with New Global Standards and Emerging Risks for 2025



# Governance Audits: Updates Under the New IIA Standards

The 2024 Global Internal Audit Standards elevate governance to a core audit responsibility. Internal auditors are now expected to assess the structure, effectiveness, and adaptability of governance frameworks (aligned with Domain V: Performing Internal Audit Services – Principles 13 & 14). This includes evaluating board oversight, ethical leadership, reporting structures, and the alignment of governance with the organization's strategic objectives.

As global governance expectations continue to evolve, internal audit must ensure that organizational frameworks promote ethical conduct, risk-aware leadership, and strong accountability. Auditors are required to examine how governance contributes to long-term value creation, oversight maturity, and alignment with stakeholder expectations and focus on the following:

- **Cybersecurity as a strategic risk**
- **Alignment with Vision 2030**
- **Role of internal audit in digital trust**

Internal audit is no longer just a compliance monitor; it's a strategic advisor. By adopting a forward-looking lens, auditors can highlight governance gaps, drive ethical accountability, and reinforce organizational resilience. This is especially vital in a regional context where governance expectations are rapidly evolving.

## Three Key Focus Areas

### Governance Oversight:

Assess board effectiveness, delegation of authority, and leadership accountability in driving ethical and informed oversight.

01

### Strategic Integration:

Assess how governance aligns with ESG priorities, regulatory frameworks, and long-term value creation.

02

### Information Reliability:

Review the accuracy, timeliness, and consistency of governance-related data and reporting used in decision-making.

03

**At INSIGHTS, we support governance audit transformation through tailored frameworks, governance diagnostics, and board-level advisory. Our approach integrates global best practices with local regulatory needs, helping internal audit functions lead with purpose, integrity, and long-term value creation.**

# Promoting Ethics and Culture Through Internal Audit

The 2024 Global Internal Audit Standards position ethics and culture as central to effective governance. Internal auditors are expected to move beyond policy checks and evaluate whether ethical values are embedded in decision-making, leadership behavior, and employee conduct.

Auditors must assess how organizations promote ethical behavior through incentives, whistleblower mechanisms, and accountability structures. These insights help boards ensure a values-driven culture that supports long-term success:

## **Ethical Culture Assessments:**

01

Evaluate alignment between stated values and real behaviors through surveys, interviews, and behavioral audits.

## **Integrity Framework Reviews:**

02

Audit code of conduct effectiveness, training programs, speak-up systems, and incident response.

## **Tone at the Top:**

03

Assess how leadership models ethical behavior, manages conflicts, and reinforces accountability.

The 2024 IIA Standards call for a deeper, evidence-based evaluation of organizational culture. Internal auditors are encouraged to adopt agile methodologies, behavioral analytics, and cultural indicators to provide real-time insights into ethical climate and employee conduct.

In today's rapidly evolving regulatory landscape, promoting ethical governance is essential. Internal auditors act as trusted advisors, helping leadership interpret cultural and organizational risk signals, drive ethical transformation, and ensure that the organization's values are consistently reflected in day-to-day operations.\*\*



# ESG Assurance: Emerging Regulations and New IIA Expectations

The 2024 IIA Global Internal Audit Standards elevate ESG assurance as a critical priority for internal audit functions. Auditors are now expected to proactively evaluate whether ESG-related disclosures, strategies, and controls are reliable, consistent, and aligned with stakeholder expectations. This shift reflects growing global and regional demand for credible ESG assurance in the face of increased regulatory scrutiny and investor focus.

ESG integration is accelerating through initiatives tied to Vision 2030, the Capital Market Authority's ESG guidelines, and Tadawul's sustainability reporting framework. Internal audit plays a vital role in validating ESG data integrity, evaluating alignment with national and international benchmarks, and identifying greenwashing risks. Under the new IIA Standards, internal audit moves beyond compliance to become a key driver of ESG transparency and performance.

Internal audit's role in ESG assurance supports the IIA's Three Lines Model, reinforcing its strategic function in evaluating sustainability governance and risk. Where Vision 2030 drives ESG integration, auditors help ensure organisations meet regulatory expectations and stakeholder demands for credible reporting.

Internal audit functions must align their ESG assurance practices with applicable regulations, strategic sustainability goals, and emerging global reporting standards. Auditors serve as independent reviewers of ESG governance, providing clarity to boards and executives on ESG risks and opportunities. By ensuring ESG claims are accurate and substantiated, internal audit helps organisations navigate rising stakeholder expectations and regulatory complexity with transparency and integrity.

## The 2024 IIA Standards: Strengthening ESG Assurance and Strategic Sustainability Alignment

<b>ESG Reporting Integrity</b>	Internal audit is expected to assess the accuracy, consistency, and traceability of ESG data, ensuring alignment with global frameworks and local disclosure standards.
<b>Regulatory Compliance</b>	Auditors assess adherence to applicable ESG requirements, such as sustainability disclosure guidelines and national strategic goals, ensuring timely, compliant, and transparent reporting.
<b>Greenwashing Risk Assessment</b>	Internal audit reviews ESG claims for accuracy, ensuring they are backed by actions, policies, and performance. This mitigates reputational and legal risks associated with exaggerated or misleading disclosures.
<b>ESG Governance and Accountability Structures</b>	Internal audit reviews ESG claims for accuracy, ensuring they are backed by actions, policies, and performance. This mitigates reputational and legal risks associated with exaggerated or misleading disclosures.
<b>Supply Chain Sustainability and Due Diligence</b>	Internal audit reviews ESG claims for accuracy, ensuring they are backed by actions, policies, and performance. This mitigates reputational and legal risks associated with exaggerated or misleading disclosures.

# Conducting Sustainability Risk Assessments

To proactively address environmental and social challenges, organizations must integrate sustainability risks into their enterprise risk management frameworks. Internal audit supports this shift by assessing how well sustainability risks are identified, quantified, and managed across functions. This includes evaluating climate-related exposures, supply chain vulnerabilities, and regulatory shifts. Insights helps clients embed sustainability risk indicators into audit plans, strengthen scenario analysis, and promote data-driven ESG decisions. Below are the critical areas to monitor while conducting sustainability risk assessments:

## Key Areas for Sustainability Risk Assessment

Sustainability Risk Area	Description	Assessment Focus for Internal Audit
<b>Climate Risk Exposure</b>	Physical and transitional risks from climate change (e.g., floods, regulation).	<ul style="list-style-type: none"> <li>Review climate scenario analysis practices</li> <li>Evaluate greenhouse gas (GHG) tracking controls</li> <li>Assess resilience planning frameworks</li> </ul>
<b>Supply Chain Disruption</b>	ESG-related supplier risks (e.g., labor practices, raw material sourcing).	<ul style="list-style-type: none"> <li>Review supplier due diligence mechanisms</li> <li>Test ESG audit coverage of suppliers</li> <li>Monitor ESG performance of key vendors</li> </ul>
<b>Regulatory Non-Compliance</b>	Failure to meet evolving sustainability laws or disclosure mandates.	<ul style="list-style-type: none"> <li>Evaluate readiness for new ESG regulations</li> <li>Test internal compliance controls</li> <li>Identify and assess reporting gaps</li> </ul>
<b>Resource Scarcity</b>	Risks from limited access to water, energy, or raw materials.	<ul style="list-style-type: none"> <li>Review climate scenario analysis practices</li> <li>Evaluate greenhouse gas (GHG) tracking controls</li> <li>Assess resilience planning frameworks</li> </ul>
<b>Reputational Risk</b>	Negative public perception due to ESG failures or social harm.	<ul style="list-style-type: none"> <li>Review ESG communication and public disclosures</li> <li>Monitor ESG-related incidents and coverage</li> <li>Assess stakeholder sentiment controls</li> </ul>
<b>Biodiversity Impact</b>	Business operations affecting ecosystems or protected areas.	<ul style="list-style-type: none"> <li>Review environmental impact assessments</li> <li>Assess biodiversity mitigation plans</li> <li>Verify compliance with habitat regulations</li> </ul>
<b>Carbon Transition Risk</b>	Costs or liabilities from decarbonization and net-zero pledges.	<ul style="list-style-type: none"> <li>Test carbon accounting and reporting accuracy</li> <li>Evaluate carbon offset validation processes</li> <li>Assess net-zero implementation readiness</li> </ul>
<b>Social Equity &amp; Inclusion</b>	Gaps in fair labor, community impact, and DEI practices.	<ul style="list-style-type: none"> <li>Audit diversity and inclusion (D&amp;I) metrics</li> <li>Assess community engagement frameworks</li> <li>Review ethical labor and human rights practices</li> </ul>

# Managing Greenwashing Risks with Robust Audits

The global shift toward sustainability and responsible governance is prompting organizations to embed ESG principles across their operations and strengthen long-term value creation. As sustainability reporting and green financing gain prominence, the risk of greenwashing—misrepresenting environmental or social performance—becomes a critical concern. Internal audit must strengthen its role in evaluating ESG claims, ensuring they reflect genuine practices rather than marketing narratives. Robust audit oversight is essential to uphold stakeholder trust, meet emerging regulatory expectations, and align with the Kingdom’s sustainable development goals.

## 01 Inaccurate or Misleading ESG Claims

As investor scrutiny intensifies, organizations face growing pressure to ensure the accuracy of ESG disclosures. Internal audit must verify that reported sustainability metrics—such as emissions, energy consumption, and social impact data—are traceable to reliable operational sources. Evaluating alignment with international reporting standards like GRI, SASB, or ISSB is essential. A robust audit of ESG statements across reports and digital channels helps safeguard against reputational damage and regulatory penalties tied to misleading claims.

## Misalignment Between ESG Strategy and Execution

Symbolic ESG commitments without actionable backing are a key driver of greenwashing. Internal audit must examine whether ESG strategies are embedded in operational planning, resourcing, and performance metrics. Ensuring the presence of clear implementation plans, accountability structures, and stakeholder review processes is critical. This alignment confirms that sustainability ambitions translate into measurable and credible organizational behavior.

## 03 Unverified Third-Party Certifications

Many organizations lean on third-party certifications to validate ESG credentials, but not all verifiers are equally rigorous. Internal audit should assess the credibility of certifiers, their recognition under global ESG standards, and whether ongoing compliance is maintained post-certification. Scrutiny of how these labels are communicated in reports and marketing helps prevent the misuse of ESG badges that could otherwise mislead stakeholders or regulators.

## Misuse of ESG-Labeled Financial Instruments

The increasing adoption of green bonds and sustainability-linked loans raises the risk of mislabeling. Internal audit must confirm that such instruments adhere to frameworks like the ICMA Green Bond Principles. Verifying use-of-proceeds documentation and post-issuance ESG monitoring ensures that financial instruments support legitimate sustainability goals. This due diligence enhances investor confidence and minimizes exposure to “green finance” misrepresentation.

## 05 Rising Regulatory and Litigation Exposure

As regulatory bodies worldwide introduce anti-greenwashing mandates, organizations face heightened compliance and reporting risks. Internal audit plays a proactive role in evaluating ESG disclosures against local laws, such as NCA-aligned sustainability requirements, and assessing legal readiness for investor or stakeholder claims. Reviewing controls for monitoring evolving regulations ensures ESG reporting remains transparent, defensible, and future-ready.

Mitigating greenwashing is not just about protecting brand image—it is about fostering trust, regulatory compliance, and investor confidence. Insights supports internal audit functions by developing ESG audit programs that identify inconsistencies, validate performance claims, and safeguard organizations against reputational risk in an increasingly dynamic sustainability landscape.

# Embedding ESG in + Enterprise Risk Management (ERM)

As ESG risks gain strategic importance, organizations must integrate them into their enterprise risk frameworks. Internal audit ensures ESG exposures such as climate, labor, and governance risks are identified, assessed, and monitored through formal ERM processes. This alignment enhances organizational resilience, strengthens stakeholder confidence, and prepares the organization for regulatory scrutiny. Below are key ESG risk areas and typical internal audit responses:

ESG Risks	Responses and Actions
<b>Inadequate ESG Data Governance</b>	Internal audit flagged fragmented ESG data collection, weak version control, and lack of data validation. The organization responded by deploying an integrated ESG data management system, established verification protocols, and scheduled internal reviews before disclosures.
<b>Misalignment with ESG Strategy</b>	Audit noted a disconnect between the board-approved ESG goals and operational execution. In response, leadership cascaded ESG objectives into departmental scorecards, launched ESG-specific KPIs, and linked manager incentives to sustainability outcomes.
<b>Green Innovation Gaps</b>	Internal audit identified minimal investment in sustainable R&D and no lifecycle sustainability assessment. The company responded by allocating 10% of annual R&D to green initiatives, implemented eco-design criteria, and included ESG reviews at product gate reviews.
<b>Stakeholder Engagement Weakness</b>	The audit highlighted the absence of a formal process to capture and respond to ESG-related stakeholder concerns. Management introduced a stakeholder engagement framework, held semi-annual ESG townhalls, and integrated stakeholder input into the materiality assessment.
<b>Ethical Use of Technology</b>	Audit raised concerns over bias in AI algorithms and insufficient governance over data ethics. The organization issued a Responsible AI policy, conducted bias testing on existing models, and assigned oversight to a new ESG-Tech audit subcommittee.
<b>Carbon Credit Mismanagement</b>	Audit discovered limited due diligence on carbon credit purchases and no tracking of offset effectiveness. The company instituted a vetting process for credit suppliers, implemented audit trails for offset transactions, and began third-party verification of carbon neutrality claims.



# Board and Audit Committee Engagement in ESG Oversight

As ESG regulations and stakeholder expectations intensify, boards are expected to take a proactive role in sustainability oversight. Internal audit supports this mandate by verifying ESG data accuracy, evaluating risk governance, and assessing the strength of controls. With global ESG frameworks and standards in place, audit committees increasingly rely on internal audit to ensure transparency, accountability, and informed ESG decision-making.

Below are key ESG oversight areas supported by internal audit assurance and reporting:

Review the ESG governance framework to ensure the Board and Audit Committee have clearly defined roles, responsibilities, and reporting lines for sustainability oversight.

Assess the integration of ESG risks into enterprise risk management and confirm that material ESG issues are routinely discussed at the committee level.

Evaluate the quality and frequency of ESG reporting presented to the Board, ensuring it supports informed decision-making and meets external disclosure standards.

Verify the committee's access to ESG expertise, whether through dedicated training, external advisors, or specialized board committees, to support effective oversight.

Analyze the alignment of ESG objectives with executive performance metrics and incentive plans, confirming that sustainability performance is tracked and rewarded appropriately.

Examine the Board's engagement with key stakeholders to ensure ESG expectations and concerns are incorporated into strategic decisions.

Review documentation of ESG-related decisions and follow-up actions to confirm that oversight is active, consistent, and aligned with national ESG frameworks and global best practices.

# Leveraging Data Analytics for ESG and Ethical Audits

As ESG reporting and ethical compliance gain urgency, internal audit must adopt data analytics to enhance visibility, objectivity, and assurance. Analyzing trends across emissions, workforce data, and governance disclosures helps uncover anomalies, monitor risks, and ensure integrity.

At Insights, we enable audit teams to integrate analytics into ESG and ethics audits—improving audit precision, stakeholder confidence, and regulatory readiness.

**01**

## Data Coverage Must Be Comprehensive and Reliable

Audit success depends on capturing complete and trustworthy ESG and ethics data. This includes:

- Mapping all relevant data sources (HR, procurement, operations, sustainability)
- Ensuring traceability and validation of ESG metrics across systems
- Eliminating data silos to reduce audit blind spots

**02**

## Analytics Should Drive Risk-Based Insights

Auditors should use analytics to uncover patterns and prioritize focus areas.

This involves:

- Applying trend and outlier analysis to ESG KPIs and ethical indicators
- Automating detection of anomalies, such as unusual emissions spikes or diversity gaps
- Using dashboards to highlight high-risk areas and guide audit scoping

**03**

## Unstructured Data Must Be Analyzed Intelligently

Text analytics can reveal cultural and ethical risks beyond numbers. Key steps include:

- Using natural language processing (NLP) to analyze whistleblower reports and surveys
- Identifying sentiment shifts or recurring concerns in ESG disclosures
- Integrating findings into broader ethics and governance assessments



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