Internal Audit: Friend or Foe of Innovation in an Organization: Case of Czech Banking Sector

Vladimír Petrík[a]

Department of Marketing and Management, Czech University of Life Sciences Prague,
Kamýcká 129, Prague, Czech Republic

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Abstract: Internal audit should provide objective assurance services regarding the fulfilment of the bank's objectives and its management and administration, based, among other things, on risk assessment. The aim is to identify, describe and analyze the current state of application of innovation audit performed by the internal audit department in banks operating in the Czech Republic. Methods of qualitative research, analysis of bank documents and interviews with internal audit managers are used. The result of the research is the identification and description of the current state of tasks and the role of internal audit in relation to innovation management in banks. Banks in innovation management have been found to face various barriers based on legacy of unconnected information systems, low innovation appetite (non-perception of competitive threats), unexposed innovation processes and low decision-making flexibility. It was found that banks do not identify innovation risk as part of their risk assessment and do not apply specific control processes to it. These facts have practical implications following the recommendation to systematize the innovation process in banks, to include innovation risk in the bank's risk assessment and to use the possibilities of the bank's internal audit department to eliminate this risk and assess related processes.

1 INTRODUCTION

Financial sector and banking sector are recognized as sector undertaking significant changes in relation to a disruption challenges and processes. Disruption is mainly connected to the digitalization of financial sector (Lee & Shin, 2018; Chanson et al., 2018). It increases the competition within banking sector and puts banks' profits at risks, especially in long-term horizon (McKinsey, 2016). Digital competitors, generally known as FinTech, BigTech and platform-based entities bring many innovations in recent years with relevant impact on sector, customers and also regulation. Disruption in financial markets is a matter of discussion on various international bodies, incl. OECD or EU. Although new (mainly digital) solutions and competitors to traditional banks still have a lack of various aspects in their business, e.g. brand recognition (OECD, 2020), they provide new, state-of-the-art alternatives to services provided by traditional banking sector, current situation imposes for banks new strategic risks of not adaption to the market and losses (Dietz, Khanna, Olanrewaju, & Rajgopal, 2016). Zalan & Toufaily (2017, p. 416) assert that "*it is precisely this profitable, fee-based, part of the bank's value chain that is most vulnerable to disruption*." Natural answer of banks to disruption of financial sector is their own way of improving services, processes and digitalization, through series of heterogeneous innovations of their governance, digitalization and business model (Staschchuk & Martyniuk, 2021). While this innovation activities are being planned and executed, traditional banks face their own set of specific innovation problems and barriers. Within each bank various departments are included in innovation and besides them, required by the law and regulation, there is also internal audit department. By its definition, internal audit should focus mainly on providing assurance regarding accomplishing bank's goals (The Institute of Internal Auditors, 2017). The main focus of the article is to discuss, whether internal audit, while providing aforementioned assurance regarding accomplishing

[a] https://orcid.org/0000-0002-2162-1434

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bank's goals, fulfils its mission in the area of bank's innovation efforts.

The first part of the article concentrates on the theoretical background. This, second chapter of the article describes methods used for the research. Next, third chapter of the article provides summarized description of applied methods and results. Fourth chapter aims at discussion part of article based on comparing our results with other research, stating also opportunities for future research and research limitations. Last, fifth part of the article consists of inductive conclusion and generalization of the identified results not only for the banking sector.

1.1 Internal Audit

To define and describe internal audit and its role, functions, missions and other relevant aspect, globally recognized The International Professional Practices Framework (hereinafter as "The IPPF"), issued and maintained by The Institute of Internal Auditors, Inc. ("The IIA"), is used. The IIA, as the standard-setting body for the internal audit profession globally, provides this authoritative guidance, The IPPF. Besides general definitions, this chapter focuses also on aspects of internal audit that are connected to the innovation in an organization.

According to the Definition of Internal Auditing, part of The IPPF's Mandatory Guidance, internal auditing is "*an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*" (The IIA, 2017). In addition, the Mission of Internal Audit is "*to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight*" (The IIA, 2017).

One of the core principles for professional practice of internal auditing is internal audit to be "*insightful, proactive, and future-focused*" and promoting "*organizational improvement*" (The IIA, 2017). The interpretation of The IPPF's Performance Standard 2000 states that the internal audit activity is effectively managed, when "*it considers trends and emerging issues that could impact the organization*" (among others conditions) (The IIA, 2017).

Performed by professionals with an in-depth understanding of the business culture, systems, and processes, the internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met (Petrík, 2017).

Christ et al. (2021) stated that "*internal audit provides useful and valuable services to organizations, and academic research has established its importance in improving corporate governance*". It is a central pillar of good corporate governance (Gramling et al. 2004; Anderson & Christ, 2014).

It is important to stress out that emphasis of internal audit does not lie solely in "*assurance of the company's financial records, but also deliver insights into the business, which may be leveraged to improve business processes or gain a competitive advantage*" (Elst, 2022).

With the existence of an adequate internal audit function, the oversight mechanism for corporate governance is maximized to increase transparency and effectiveness of management performance. Berglund, Herrmann & Lawson (2018) stated that the effectiveness of management performance can improve managerial capabilities so that there is no doubt about the company's ability to maintain its life in the future. The internal audit function is important to minimize the occurrence of fraudulent financial statements and provide assurance and independent consultation for decision-making (Dzikrullah, Harymawan & Ratri, 2020).

Regarding body of research and knowledge in the area of internal audit, several authors argue, that it focused on less applicable and very specific areas, not applicable for internal audit functions (Dechow et al., 2018; Kaplan, 2019; Burton et al., 2021a, 2021b; Rajgopal, 2020) and concluded that body of research in internal audit is insufficient, indicating scarcity of academic attention (Christ et al., 2021; DeFond & Zhang, 2014; Behrend & Eulerich, 2019).

1.2 Innovation and Innovation Risk

The large body of knowledge is available regarding innovation. Various authors concluded that innovation plays a crucial role in the sustainable growth, success and competitiveness of organization or indicated positive relationship between innovation and organizational performance (Ho et al., 2018; Anderson, 2020; Anh, Nguyen & Tran, 2021).

Desyatnichenko et al. (2017) believe that innovations in banks are innovations in all areas of banking business with a certain positive economic and strategic effect, i.e., a new banking service, a product/technology provision, a new/modernized process. The implementation of innovations implies having a positive economic effect achieved by means of modern technologies.

Financial and banking services are specific type of service, but by its characteristics, it might be still considered as a part of service industry. Tether (2005; in Anh, Nguyen & Tran, 2021) mentioned that innovation in organizations of service industry is different from manufacturing industry. Service industry organizations were "*less likely to acquire knowledge and technology through 'hard' sources such as R&D and the acquisition of advanced equipment, and will be more likely to source knowledge and technology through 'soft' sources, such as cooperation with suppliers and customers.*" For example, Seiler and Fanenbruck's (2021) customer-oriented survey regarding German "robo advisors" (digital investment services) resulted into high customer perception of usefulness and privacy as the most decisive factors.

Nonetheless, disruption in banking sector is not based only on non-technological service innovation. The effectivity and effectiveness of banking services are directly influenced and based on the state of used technology. Vital role plays use of new technology, e.g. big data, artificial intelligence, cloud computing, etc. (Markert, 2014). A significant barrier of technological innovation in current banks is the "*legacy of spaghetti-like information systems*" (Westerman, Soule & Eswaran, 2019, p. 64), what Orton-Jones (2021, p. 16) calls "*catchy name for a terrible problem*", when various, often independent applications and systems at traditional banks are patched together and tangled by data streams.

Bouguerra et. al. (2022) indicates that traditional banks might have also other issues in innovation efforts that lies in innovation absorptive capacity. As there are two core components of absorptive capacity - potential absorptive capacity and realized absorptive capacity, their research states that there is a need for collective effort and complementary learning processes to yield high results.

Considering current state of disruption, academic and professional expectations of situation development and uncertainty of market conditions, researchers focus like Dodgson (2000), Sinkey (2016), Omarini (2017) pay special attention to the banks' innovation risk.

Nazarenko (2014) assesses the innovation risk level by the degree of uncertainty for attainability of banks' innovative evolution goals and losses caused by the deviation from the identified goal. According to Eroshkin (2013) innovation risk means the probability of undesirable deviations from the targets identified for newly introduced products (services), which were indicated by the bank for a specific period of time and further. The comparison of the actual and planned values of indicators obtained as a result of introducing innovations in a bank is the parameter that evaluates risks. Eroshkin (2013), identifying strategic parameters of innovation activity, admits that banks' innovative activity may serve in both helping to meet regularly changing market requirements remaining in demand among clients, and to "*work for the future*" in a regular mode, increasing its competitive advantages over time.

According to Manuylenko et al. (2021, p. 118): "*Innovation risk in banks, in our opinion, is a possibility of wrong strategic innovative decision making, i.e., taking a wrong choice and the implementation of a financial and innovative strategy that excludes dynamic opportunities and flexibility*".

1.3 Innovation Audit

Most of research (out of still not "well-knit" body of research) in the internal audit is focused on specific areas of training and competences of internal audit.

Regarding relationship between innovation and internal audit, research is dominated by "internal audit innovation", implementing innovative procedures, methods and approaches in internal audit, typically the use of data analysis and computer-aided audit tools (known as "CAATs").

In this article, the object of research is not focused on abovementioned relationship between innovation and audit, comprehending internal audit innovations, but it is focused on internal audit of innovation within an organization (known as "innovation audit"). Several authors contribute towards the innovation audit body of research.

Innovation auditing is a well-established practice used by managers to identify strengths and weaknesses in organization's innovation (Frishammar et al., 2019).

According to Bjorkdahl & Holmén (2016), an innovation audit allows firms to create and sustain competitive advantage by building innovative capabilities. There are several frameworks of innovation audit, introduced by academics or practice-oriented entities, usually advisory and consulting firms (A.T. Kearney's, McKinsey, KPMG, etc.). According to Frishammar et al. (2019), the early and important contribution to this area of knowledge was made by Chiesa et al. (1996) who identified four core processes to audit, supported by three enabling processes.

Radnor and Noke (2002) developed an auditing tool named "innovation compass", which was formulated through research and aims to understand innovation process within organizations.

The majority of frameworks originate in technological innovation or new product development (Hallgren, 2009), while later studies have expanded original approach, but innovation process was still the core of the innovation audit framework.

Tidd and Bessent (2009. 2014) has presented an auditing tool which looks at the organization from five factors that affect innovation management capability: Learning, Strategy, Linkages, Innovative Organization, and Innovation Process. Their method was based on a questionnaire composing 40 questions. It was used in later study by AlZawati, Abdelrahman & AlAli (2017).

Burgelman et al. (2009) proposed a framework consisting of resource availability, technological environment, strategic management capacity, structural and cultural context, and competitors' strategies and industry evolution.

Abdel-Razak & Al Sanad (2014; in AlZawati, Abdelrahman & AlAli, 2017) stated that innovation audit is defined as a tool that can be used to reflect on how the innovation is managed in a firm and is a significant breakthrough in the area of technological innovation management. Goffin & Mitchell (2016) suggested that innovation auditing should focus on the innovation process from idea generation to implementation supported by three core themes: innovation strategy, people, and organization.

Bjorkdahl & Holmén (2016) suggested different approach in opposition to structured, predefined audit aspects from previously mentioned framework – it begins with active innovation problem screening and by contextualization of identified shortcomings auditor proceeds to analysis and evaluation.

Probably newest research by Frishammar et al. (2019, p. 151) argues that "*existing auditing frameworks fail to account for recent transformations in how innovation is being pursued by firms. This transformation is driven by three trends: toward more open innovation; toward increased servitization; and toward a more digitalized world*". Moreover, it provides description and analysis of additional approaches to aforementioned review of innovation audit frameworks.

Blackbright (2019) adds process perspective to innovation management self-assessment audits.

Kovács & Stion (2016, p. 229) defined possible areas of innovation audit:

- "*Analyzing the current innovation practice and performance.*
- *Identifying the differences between the current and the targeted practice and performance and the reasons for them.*
- *Increasing an organization's innovation power.*
- *Dismantling barriers to innovation.*
- *Ensuring the necessary motivation for the innovation activity.*
- *Encouraging the creativity of those involved in the innovation process.*
- *Making an action plan about the directions of the necessary changes.*"

Therefore, according to Frishammar et al. (2019, p. 152), innovation audit should "*complement and improve existing innovation auditing practices, thus allowing managers to assess and evaluate their innovation activities more effectively against the new innovation landscape. As such, it may help firms and managers improve innovation auditing and, by extension, improve innovation management.*"

Based on literature review, there are studies, definitions and frameworks to conduct innovation audit in an organization, but innovation audit is not reviewed, interpreted and researched in a connection to internal audit function within an organization. Studies present it as a stand-alone audit activity, often executed by unspecified organization's managers or third party advisors rather than intentional scope of internal audit function and part of internal audit activity.

2 MATERIAL AND METHODS

The goal of the paper is to identify and analyze current state of innovation audit conducted by internal audit departments of banks providing banking services in Czech Republic.

As the goal is mostly related to mapping current situation of internal audit of innovation in banks in Czech Republic, the paper utilizes mainly exploratory research. The article is practice-oriented.

The novelty of this paper lies in research focusing through lens of three specific conditions: a) geographical focus on Czech Republic; b) focus on internal audit role, function and activities within general "innovation audit"; and c) focus on banking entities, as parts of specific, highly regulated and significantly disrupted financial service industry.

According to the data of Czech National Bank, there were 44 banks providing banking services in Czech Republic, consisting of 22 banks that have been granted local single passport in financial services under the Czech legislation and 22 banks that have been granted single passport in financial services from other member state of the EU or by third-country access to the single market of financial services in the EU.

Under the provisions of Act no. 21/1992 Coll. on Banks as amended, internal audit department and audit committee are always part of the bank. Therefore, it is reasonably expected that all 44 banks have internal audit department providing internal audit functions to these banks and theoretical population parameter of research is 44 internal audit departments. As 2 or more entities with banking license in Czech Republic are part of one banking group, the population of audit departments is smaller, because internal audit for these banking entities sharing one ownership is provided by one internal department within financial group (e.g. 3 subjects from the list are the part of the same group sharing the one internal audit function).

Research question is following: How are internal audit departments of banks in Czech Republic included in banks' innovation? Methods of qualitative research approach were chosen for this article.

- *Document Analysis (Phase 1):*
- Analysis of internal legislation of 3 different banks with local banking license in order to identify innovation procedures or innovation audit procedures;
- Analysis of internal audit plans for years 2020 and 2021.
- Conducted in November 2022.
- *Semi-structured interviews (Phase 2):*
- Semi-structured interviews;
- Digital means of video conferencing;
- 3 internal audit managers from 3 banks from phase 1 (n=3);
- Conducted in December 2022.

In order to characterize general model of innovation internal audit assignment, the chosen methods were applied in three different companies. As the article includes business-sensitive information about internal processes, the banks remained anonymous.

Research sample included 3 banks from Czech Republic. These banks service more than 5 million clients in total. In total 7 banks were addressed with an opportunity to participate at research, 4 of them refused and 3 agreed (included in the sample). Available sampling was applied. The sample of 3 banks in comparison with 44 subject in the population might seems as strongly inappropriate, but at least 13 subjects from the population do not provide services to general public and retail and have more the character of specialized geographically oriented banks helping with penetration of local markets (e.g. China or Japan) and several subjects share one internal audit function (department), the sample is sufficient for exploratory research as banks in the sample are amongst top 5 banks by assets and customer base in Czech Republic.

- Respondent applicability conditions were:
- Internal audit management experience at least 5 years;
- Current position in internal audit management at least 3 years.
- General internal audit experience at least 10 years. These conditions and thresholds were applied to include only respondents with significant, both expert and managing, experience. Respondents are on positions of higher internal audit management in banks that decided to participate in research.

Semi-structured interviews were conducted in 3 parts:

- In part 1, respondents were asked to describe innovation policy and strategy in their banks and its relation to internal audit, than if they participated directly or indirectly in innovation process, conducted innovation audit, general and specific details on involvement of internal audit in innovation within a bank, etc. Questions were mainly open-ended.
- Part 2 focused on gaining deeper and detailed insights into current state of including innovation practice of a bank to internal audit functions, role and mission. Additional questions were formulated and clarified via e-mail or by phone.
- In part 3, survey responses were coded, analyzed and by generalization formulated into results. Following Barrett et al. (2005, p. 2), the analysis "*is not intended to celebrate the empirical detail*" but rather to identify new and emerging issues for study. Valuable insights to guide additional research investigation are provided through this data collection procedure, including surveys, interviews, and discussions.

3 RESULTS

This chapter provides a summarized view on results obtained by applying research methods.

3.1 Document Analysis

Analysis of internal legislation led to following aggregated results for all 3 banks:

- Innovation process is not governed by one single part of internal legislation providing "umbrella" approach. Innovation areas are divided into several internal legislation acts (typically development of new product, development of new application/IT system). These acts are more focused on compliance issues (ensuring control over process and documenting its features for possible regulatory supervision). For instance, in case of development of new investment product, the emphasis is put on compliance issues like product governance regulation or managing of conflict of interests. At the top level of internal regulation (strategic level), the general commitment to innovation and competitiveness is absent.
- Innovation process, scattered to various organizational lines and flows, as it was mentioned in previous paragraph, does not necessarily share same process steps and level of monitoring.
- There is no formal coordination between innovation processes of various products, it is based on knowledge and effort of dedicated project manager, although bank-wide implications of innovation are considered in project meetings.
- Internal audit plans did not include any direct innovation related audit.
- Indirectly, some aspects of innovation process in banks were included in various internal audit assignments, considering documentation of this process in line with rules stated in internal legislation.
- Focus on innovation performance, innovation motivation and innovation barriers was not covered.
- Full picture regarding bank's innovations was not assessed.
- Innovation risk was absent form risk mapping, risk identification and audit plans.

3.2 Interviews

Analysis of interviews with internal audit managers provided following aggregated results for all 3 banks:

- Respondents stated that innovation is a core part of banks' business. Banks are aware of disruption of highly competitive market, but on the other hand, their innovation appetite is focused solely on incremental innovations. Radical innovation are not in the focus of banks.
- Regarding barriers to innovation, respondents generally defined following barriers:
- Legacy of existing information systems – the change of existing, especially core systems, would bear huge costs and risks), therefore core systems are not a subject to innovation, banks focus more on innovation of user interface of existing systems;
- Low innovation appetite – despite statements of respondents that they are aware of disruption in financial services, they do not consider current level of disruption as significant real threats to existing of bank;
- Implicit perception of innovation risk – very low risk-appetite towards any significant change of internal processes and organizational structure that may bear significant financial losses from such innovation.
- Slow decision-making regarding innovation connected to foreign ownership.
- Generally, thinking within barriers of traditional banking business, without will to "think-out-of-the-box".
- There is no clear department dedicated to innovation. Innovation ideas come usually from various sources:
- External sources: competition and market monitoring, other decision from financial ownership group;
- Internal sources: IT project managers, marketing departments;
- Considering size of potential investment into innovation implementation, the main decision maker is usually at the level of board of directors.
- Standard innovation process in banks differs, in line with results of document analysis, depending on the topic of innovation.
- Innovations implemented, but also needed in current banks, have both technological and non-technological character. Non-technological innovation prevail and technological innovation are usually necessary adjustments in IT infrastructure.
- Innovation risk is not directly monitored or measured within self-risk assessment of a bank. It is understood in decision making and as in any project, it is considered in feasibility study. It is usually considered as a financial loss from unsuccessful project.
- There was no direct innovation audit regarding innovation process, innovation performance or innovation barriers.

- Innovation motivation, translated as "will to share innovative ideas for improvement", was indirectly and very slightly part of human resources audit.
- All 3 respondents expressed opportunity, based on their participation in interviews, to include innovation governance to audit assignment. Through "follow-ups" (follow up of recommendations for improvement of auditee), internal audit can identify potential for innovation within a bank. Moreover, by specifically focused internal audit assignment on innovation, the governance, control and performance of innovation within a bank can be identified and shared.
- One respondent indicated that consideration of innovation potential within audited areas might be a part of internal audit reports.
- None of internal audit departments of interviewed respondents provided innovation-related consultancy service.
- According to respondents, internal audit's added value lies in internal auditors themselves, as they have great working knowledge of bank processes, incl. law and regulatory requirements. Internal auditors have, according to respondents, sufficient knowledge to help innovation initiative within a bank.

On the other hand, respondents stated, that innovation internal audit assignment would require not only good working knowledge of bank itself and deep expertise, but also an open-minded thinking and possible orientation within state-of-art innovation knowledge, incl. multidisciplinary thinking. Current internal auditors are not fully prepared in these topics.

4 DISCUSSION

In the current economic climate, businesses face major competitiveness challenges. Banking services are not an exemption, in contrary, disruption is typical for today's financial services. Banks need to respond flexibly to the changing business environment and customer requirements. Meeting such variable requirements brings constant pressure on innovation.

While there is much apocalyptic hype about financial services industry "disruption" by FinTech in the media, we have little doubt that digital entrants will change the industry in profound ways (Mills & McCarthy, 2017). One of the key issues at the heart of current academic, practitioner, and policy debate on banking and FinTech (Chiu, 2016; Gurdgiev, 2016; Zetzsche, Buckley, Arner, & Barberis, 2017) is whether these new entrants will eventually displace traditional banking institutions much in the same way as digital media has disrupted traditional publishing and advertising or, alternatively, hurt banks' profitability, as is currently the case with online education eroding higher education industry profits.

While results of Zhao et al. (2022, p. 456) show that FinTech innovation truly reduces profitability of traditional banks, according to these authors banks have their own FinTech capabilities and focus more on "*the rising capabilities of FinTech technology than its difficulties and what the competition is doing*". Even in conditions of banking sector of Czech Republic it might be truly seen that "*small banks can particularly achieve business process reengineering and innovation more reliably by actively cooperating with FinTech companies.*"

Own set of innovation barriers in banks has been described in the article. The key areas/themes identified from the document analysis of audit plans are in the Table 1.

Table 1: Key areas identified by analysis of audit plans.

Area	Commentary
Innovation focus	Missing umbrella approach; fragmented innovation process, lower level of fostering culture of innovation.
Lack of strategic commitment to innovation	Notable absence of a general commitment to fostering innovation and competitiveness within the organization.
Innovation process	Weak formal coordination between projects.
Limited role of internal audit in innovation	Internal audit plans do not explicitly include audits related to the innovation process. While some aspects of the innovation process may be indirectly included in various internal audit assignments, these typically focus on documenting the process in accordance with internal regulations rather than assessing innovation performance, motivation, or barriers.
Oversight of innovation performance and risks	Comprehensive evaluations of the bank's innovations, encompassing innovation performance, motivation, and barriers, are not conducted. Innovation risk is not incorporated into risk mapping, identification, or audit plans, indicating a gap in recognizing and managing potential risks associated with innovation activities.

In banks, both technological and non-technological innovation (Camisón & Villar-López, 2011, 2014; Gunday et al., 2011) are relevant and needed to cope with competition emerging from financial market disruption. Without technological innovation, in our opinion, banks will not be able to overcome legacy of tangled and problematic information systems (Westerman, Soule & Eswaran, 2019). Banks have focused mainly on customer-oriented non-technological innovation, what corresponds with opinion Aboal & Garda (2016) that non-technological innovation played more important role in service sector.

Since banks will be probably, based on aforementioned opinions, sooner or later forced to innovate, the question is whether these innovations will be successful. Innovation activities of banks, just like any other activity, bears a special type of risk, an innovative risk. Although the term innovation risk has become a part of risk-related research (Manuylenko et al., 2021), our research shows it has not been incorporated to risk assessment and risk mapping of researched banks and was also missing as scope of internal audit assignments.

In our view, the fact that internal audit departments were not involved in mitigation of innovation risk is a lost opportunity for business and also internal audit profession. Innovation internal audit department might increase added value of internal audit to business and also help to mitigate this risk for bank. Internal auditors are, after all, risk professionals with strong emphasis on governance processes (The IIA, 2017).

Absence of researched connection between internal audit and conducting innovation audit and mitigation of innovation audit was palpable, but not unexpected. Christ (2021) and other authors like Dechow et al. (2018) concluded, that body of knowledge of internal audit is in its infancy. Hazaea et al. (2021, p. 287) added that "*literature did not contribute significantly to the knowledge of IA functions in the form specified by the Institute of Internal Auditors.*" Authors argue that current state of literature did not contribute significantly to the knowledge of internal audit functions in the form specified by The IIA and while descriptive research was prevalent, interpretative research focused mainly on case studies, questionnaires and interviews, although share of empirical, interpretative research was scarce. Our literature reviews confirms these statements. For instance, innovation audit is an object of research of several authors (comprehensive study provided by Frishammar et al., 2019), but it has not been sufficiently approached through lens of internal audit functions, although, in our opinion, it is internal audit that should deal with conducting innovation audit in an organization.

Respondents identified that internal auditors have good working knowledge of company itself and its processes and goals, but they might be missing broader innovation-oriented vision. The key areas/themes identified from the interviews are in the Table 2.

Table 2: Key areas identified by interviews.

Area	Commentary
Innovation strategy and focus	Banks recognize innovation as a critical component of their business strategy, yet their innovation efforts are primarily geared towards incremental rather than radical innovations. This highlights a cautious approach to innovation, prioritizing enhancements within existing frameworks over groundbreaking changes.
Barriers to innovation	*Legacy Systems*: The high cost and risk associated with changing core banking systems discourage innovation in these areas, leading banks to focus on user interface improvements instead. *Low Innovation Appetite*: Despite acknowledging the disruptive potential in the financial sector, banks do not see current disruptions as significant threats, reflecting a complacency or risk-averse stance towards innovation. *Perception of Innovation Risk*: There's a general aversion to undertaking significant changes in internal processes and organizational structures due to the potential financial losses from failed innovations. *Slow Decision-Making*: Innovation decisions can be delayed due to foreign ownership and the associated bureaucratic processes. *Traditional Mindset*: Banks often operate within the confines of traditional banking business models, showing little willingness to "think outside the box".
Sources of innovation	Usually it is the market and competitive pressure that lead to innovation activities instead of internal effort.

Table 2: Key areas identified by interviews (cont.).

Area	Commentary
Innovation implementation	The process of innovation varies depending on the focus area, with a mix of technological and non-technological innovations being implemented. Non-technological innovations predominate, and technological innovations are often adjustments in IT infrastructure. There is no significant (radical) innovation focus.
Risk management and internal audit	Innovation risk is considered in decision-making processes and feasibility studies but is not directly monitored or measured as part of the bank's self-risk assessment. Additionally, there has been no direct innovation audit on the process, performance, or barriers to innovation.
Innovation governance and internal audit role	There's an opportunity for internal audit functions to include innovation governance in their audit assignments, potentially enhancing the bank's innovation capabilities by identifying and sharing insights on innovation governance, control, and performance. Internal auditors, with their in-depth knowledge of bank processes and regulations, are seen as valuable assets for supporting innovation initiatives within the bank, despite the current lack of innovation-related consultancy services provided by internal audit departments.

Innovation internal audit assignment will require new set of skills from auditor to be able think outside-the-box. Betti & Sarens (2021) stated, that there is a new set of skills need from internal auditors considering changing business, and therefore also, an internal audit landscape, as they identified the new scope of internal audit assignments and demand for consulting activities performed by internal auditors to come.

This practice-oriented exploratory research was supposed to open research of internal audit functions in banks. The answer to stipulated research question: "*How are internal audit departments of banks in Czech Republic included in banks' innovation*?", it could be concluded, that internal audit was quite indifferent to innovation processes in researched banks. Therefore, in words of a title of the article, internal audit was neither friend, nor foe of innovation in Czech banks, but our research indicated that it under including properly trained internal auditors to mitigation of innovation risk and assessment of governance of innovation process, internal audit could become an enabler of innovation.

5 CONCLUSION AND FUTURE RESEARCH

Article focused on relation between internal audit of 3 banks in Czech Republic and innovation processes of these banks. Acquired results indicated that internal audit departments do not monitor innovation risk as part of risk evaluation and assessment and did not directly and intentionally focused scope of their mission on innovation processes and innovation governance.

Article includes entrance to the internal audit as a research object under conditions of banking system of Czech Republic. By usage of qualitative research it proposes future, more detailed, research, as there were identified several limitations of conducted research. Despite that, by its form of exploratory research, it brings proposes several new findings worth future research. In future, it recommends several changes to research approach to ensure objective findings, especially triangulation of research methods and enlargement of sample of banks.

Regarding generalization of research findings, by application inductive method, it could be asserted that internal audit department should expand its scope significantly towards innovation efforts in any type of organization and ensure monitoring of innovation risk.

Maybe there is one pressing question to answer and it is why bank's audit committee (internal audit function) should even focus on internal audit assignment of innovation in a bank? The audit committee and internal audit function of a bank should focus (or be present) on innovation for several compelling reasons like ensuring risk management, regulatory compliance, operational efficiency, strategic alignment, safeguarding assets and sustainability and ethics concerns.

Pertinent to presented research, there are several research limitations in this research:

- Potential lack of training and knowledge – despite the fact that author studied required literature to conduct the research, there is still a possibility of lack of training and knowledge to provide deep results as in case of scientific teams. Potential misunderstanding and lack of interaction – we tried to provide help and better description of questions, but considering the broad scope of the topic, some respondents could not understand it properly.

- Small sample – we are aware of small sample which did not represent the whole population of banks, but in line with the intention and objective of research provides some initial information on the topic for further investigation.
- Lack of confidence - the majority of the businesses are of the viewpoint that, researchers can misuse the data given by them. As a result, they're unwilling to reveal information about their business.

First areas of future research opportunity lies in mitigation of research limitations mentioned previously:

- Enlargement of sample is needed and ensuring representative sample.
- Implementation of triangulation of qualitative research and strengthen the validation of research – besides document analysis and interviews, it is expected to conduct also questionnaire survey.
- Elimination of non-responsive bias and socially-desirable bias.

To suggest real topics for future research, not based on only alleviation of research limitations of this paper, it seems that suitable areas of research are:

- Interplay between jurisdiction audit committee and innovation in banks.
- Error management climate in a bank and its influence on innovation activities.
- Designing and testing of internal audit assignment in the area of innovation.

The inclusion of internal audit departments in banks' innovation processes should reflect an evolving approach towards integrating risk management, regulatory compliance, and strategic alignment into innovative practices. Traditionally, internal audit functions in Czech banks have focused on ensuring compliance, assessing risks, and evaluating the operational effectiveness of various banking processes. However, with the rapid pace of technological advancement and the increasing emphasis on digital transformation within the financial sector, the role of internal audit departments should expand to encompass innovation activities more directly.

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