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# Automation in Internal Investigation Methods for Effective Corporate Governance

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## ABSTRACT

*Internal investigations are part of the fabric of corporate governance. They ensure that organizations remain transparent, accountable, and fair. The issues covered include corporate fraud, corruption, sexual harassment, and compliance failures, thus protecting stakeholder interests and strengthening organizational integrity.*

*Traditional manual techniques lead to inefficiencies, data silos, and human errors when implementing internal investigations. In comparison, modern, AI-based techniques are increasingly applied due to technological advancements within a company. Automation increases efficiency and ensures confidentiality while decreasing risk, simplifying data analysis even for large datasets with many complexities. Tools such as digital forensics and data analytics play a critical role in identifying patterns, predicting risks, and maintaining compliance with stringent laws like GDPR and the Whistle Blowers Protection Act.*

*Key regulatory frameworks in India include the Companies Act, SEBI regulations, and the POSH Act which mandates robust internal investigation mechanisms. Data overload, cybersecurity risks, compliance complexities, and resistance to new technologies create hindrances in an effective investigation. AI deals with all these issues through increased compliance, better management of data, and more potent cybersecurity.*

*Modernizing internal investigations is a must for cost savings, improved risk mitigation, and long-term sustainability in the face of a rapidly evolving business environment. By integrating AI and automation, organizations can transform their investigative processes to uphold corporate governance principles while protecting their reputation and stakeholder interests.*

**Keywords:** *AI, Internal Investigation, Corporate Governance, Company Law, Corporate Law.*

## I. INTRODUCTION

The corporate governance principles make it compulsory for the company to adhere to the principles of transparency, accountability and fairness. To adhere to these core principles of

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corporate governance and other regulations pertaining to the same, the companies need to involve proper mechanisms of auditing and investigation.

The internal investigation pertains to those activities that involve investigation within an organization or an enterprise that addresses core and sensitive issues like corruption, corporate fraud, sexual harassment, policy violations, failure in compliance, etc.<sup>2</sup>

In order to fight these corporate evils, the corporation needs to adopt effective mechanisms of internal investigations. Enterprises frequently need help adhering to complex regulations and promptly managing these investigations. This is where the use of technology becomes handy.<sup>3</sup>

This article delves into the relevancy and needs for effective internal investigations, methods of investigation, laws & regulations, challenges in practicing the investigation, and technological integration.

## **II. RELEVANCE OF INTERNAL INVESTIGATIONS IN CORPORATE GOVERNANCE**

Corporate governance refers to the set of rules, regulations, and principles that make the company transparent, accountable, and fair. These regulations are formulated to protect the interest of the stakeholders which include shareholders, investors, consumers, and so on. When a company functions, there may be several risks involved and these risks if not addressed will be crucial to the company's sustenance and also sever the rights of the stakeholders.

Internal investigations are thus carried out to identify and mitigate risks pertaining to corporate fraud, corruption, sexual harassment, other corporate crimes, and non-compliance. Once the investigations are carried out in an effective manner, the company will be able to identify the key risks and mitigate them by taking appropriate measures.

The adherence to corporate governance principles makes the company more accountable to the general public. It makes them reap profits by taking into consideration the people. Similarly, the proper internal investigation methods will ensure the companies are fair, transparent, and accountable to the stakeholders and also protect the company's image among the general public. Furthermore, the right way of internal investigation and prevention of adverse effects will boost investment.

Issues like corporate fraud, corruption, sexual harassment, and so on are controversial ones and they can bring down even the corporate giants. Hence, it becomes crucial for the companies to

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<sup>2</sup> Bartsiotas, George A., and Gopinathan Achamkulangare. "Fraud prevention, detection and response in united nations system organizations." Jenewa: United Nations (2016).

<sup>3</sup> Moeller, Robert R. Executive's guide to IT governance: improving systems processes with service management, COBIT, and ITIL. Vol. 637. John Wiley & Sons, 2013.

advance their game in the internal investigation through proper methods adhering to the corporate governance principles.

### **III. THE PROCESSES OF INVESTIGATION**

#### **1. Understanding the Scope and Objectives of the Investigation**

When an organization decides to have an internal investigation done, it needs to first evaluate the need or requirement for the investigation. Only if proper goals and objectives are set and the scope of the investigation is identified, can it effectively work towards the same.<sup>4</sup> Different objectives should be addressed through different action plans. The questions that need to be addressed include: Why the investigation is being conducted? How it should be carried out? What are the issues to be addressed?

#### **2. Planning and Methodology of Investigation**

Planning comes before the execution. Proper planning needs to be carried out and the stages of investigation should be figured out beforehand to avoid any sort of confusion that would arise during the process. Planning should be made in relation to the team selection, confidentiality, and escalation index. The team should consist of individuals with a proper understanding of the law and its application and they possess the necessary skills for carrying out the investigation.<sup>5</sup> Another key aspect is to maintain confidentiality during the entire process. The escalation map should also be prepared to avoid conflicts and to understand the proper channels for communication.

#### **3. Execution of the Plan**

The execution of the pre-designed plan is the most important step. It is crucial for a company to execute the investigation in an effective manner. The execution stage involves evidence collection, the necessary interviewing of the persons involved and others, and maintaining confidentiality. The execution when carried out through manual processes may lack precision and create chaos in the investigation process.

#### **4. Assessment and Disposition**

The internal investigation will not be completed once the examination or inquiry is over. Moreover, the internal investigation will be completed only when the evaluation or assessment is completed properly. The assessment is necessary to determine whether the results or findings of the investigation are accurate, and whether or not the corrective measures or disciplinary

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<sup>4</sup> Michels, Kevin H. "Internal Corporate Investigations and the Truth." *Seton Hall L. Rev.* 40 (2010): 83.

<sup>5</sup> Pickett, KH Spencer. *Internal Investigations: A Basic Guide Anyone Can Use*. John Wiley & Sons, 2009.

action was taken promptly and rightly. It also evaluates the disciplinary actions taken, the compliance mechanisms, and whether the policy changes required are framed accurately or not. It also helps the company in identifying the long-term and short-term actions to be taken as a consequence of the internal investigation.

#### **IV. LAWS AND REGULATIONS ABOUT INTERNAL INVESTIGATION**

Internal investigations are one of the key aspects of compliance. It has been made mandatory for a company to follow through several legislations. Some key provisions relating to the internal investigation are discussed here under,

##### **A) Companies Act, 2013**

- **Audit Committees - Section 177** of the **Companies Act of 2013** <sup>6</sup>holds for the setting up of audit committees for the process of supervising financial reporting and also to investigate any financial irregularities
- Similarly, **Section 447**<sup>7</sup> explains what fraud is and provides stringent punishments for the same.
- **Section 212** <sup>8</sup>provides the provision relating to the investigation by the **Serious Fraud Investigation Office** concerning any suspected fraud. The findings of internal investigations will lead to support the **SFIO** findings.
- The Act also provides provisions for the vigil mechanisms processes for employees and directors.

##### **B) Securities and Exchange Board of India (SEBI)**

SEBI also provides for provisions concerning internal investigation. SEBI upholds the importance of corporate governance in the protection of stakeholders. SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and SEBI (Prohibition of Insider Trading) Regulations, 2015 are two major regulations by SEBI that showcase the importance of Internal Investigation.

SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 requires companies to disclose material events that affect the performance of the company. This also includes the internal investigation reports. It also provides for corporate governance requirements like board composition, audit committee requirements, and related party transactions which are all key

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<sup>6</sup> Section 177 of the Companies Act of 2013

<sup>7</sup> Section 447 of the Companies Act of 2013

<sup>8</sup> Section 212 of the Companies Act of 2013

aspects when it comes to an internal investigation.

SEBI (Prohibition of Insider Trading) Regulations 2015 allows companies to establish internal systems that will prevent insider trading including the internal investigation mechanism. It also uplifts the whistleblower mechanism so that the employees freely report any violations.

### **C) Sexual Harassment**

Sexual Harassment is a heinous act that needs to be prevented. The Sexual Harassment of Women at Workplace (Prevention, Prohibition, and Redressal) Act, 2013 is popularly known as the POSH Act and requires that an organization must have adequate complaints redressal mechanisms in place for sexual harassment at the workplace. Key provisions are as follows:

**Internal Complaints Committee (ICC):** The section is stated that every organization having 10 or more workers must establish an ICC to investigate complaints relating to sexual harassment. Furthermore, the ICC shall be independent with an external member of it who should have knowledge of, or practical experience in dealing with work-related issues of sexual harassment.

### **D) Whistle Blower's Act**

The Whistle Blowers Protection Act, 2014 protects people who expose an organization to corruption, misappropriation of power, or any fraudulent practices. The mechanism is available for reporting such malpractices in such a way that it guarantees confidentiality and protection against victimization. A strong framework on whistleblowing within the organization is also required under the Act for transparency and accountability. This system allows workers and stakeholders to blow the whistle on the wrongdoing, while the organization should ensure no retaliation against the whistleblower. This law reiterates the importance of an internal investigation as a valuable tool to handle complaints and preserve organizational integrity.

### **E) Prevention of Corruption Act**

The way organizations handle business operations has changed significantly over time. Organizations dealing with internal investigations are making use of dynamic processes that change with time. Internal investigations refer to the process of monitoring and analyzing different concerns, events, and violations of policies and regulations within the organization.

With ever-evolving technology, we can explore how the methodologies for carrying out internal investigations have also changed. Thus, an organization needs to keep updated about the changing landscape and move with it through the proper implementation of these modern technologies.

## **V. EVER-CHANGING INTERNAL INVESTIGATION MECHANISMS**

As stated above, internal investigations changed over time. Earlier, it was a manual, paper-based process that made use of manual labor. These traditional processes consumed time and energy and were unproductive. The quality of the output was not as efficient as it should have been due to the data silos. The use of technology was very minimal, and the methods used to investigate fraud or compliance breaches took most of the time.

Now that globalization has fueled technological adaptation in organizations, we can see that they are employing modern solutions to tackle issues of fraud, misconduct, or compliance breaches.<sup>9</sup> Most organizations have shifted to using digital platforms to carry out internal investigations and ensure efficiency, accuracy, and swiftness<sup>10</sup>. The shift from manual to technology-driven tools in internal investigations is growing at a rapid pace. Hence, an organization needs to level up its internal investigation processes.

### **(A) What are the Modern Internal Investigation Methods?**

As stated above, modern organizations have shifted to the use of technology in their internal investigations. Technology-driven tools and platforms are being implemented to ensure efficiency. Modern processes are data-driven which helps to analyze and identify the oddities in a particular set of data, portraying the unforeseeable and invisible risks and compliance issues.<sup>11</sup> Another vital role is carried out with the help of AI tools. AI tools help analyze a vast volume of data swiftly, which in turn will diminish the burden of volumized data on humans. Moreover, technology-driven tools aid in identifying similar patterns and prospective risks.

Modern technology streamlines the entire process of internal investigations, reduces costs and time, and makes the entire process more efficient.<sup>12</sup> The use of digital forensics in modern processes aids in collecting and analyzing structured as well as unstructured data, rendering crucial pieces of information such as evidence relating to data protection or intellectual property threats.

## **VI. COMPLEXITIES FACED IN INTERNAL INVESTIGATIONS**

1. Compliance with data privacy laws - The data privacy laws are getting tougher day by

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<sup>9</sup> Jackson, Kevin T. "Global corporate governance: Soft law and reputational accountability." *Brook. J. Int'l L.* 35 (2010): 41.

<sup>10</sup> Alliou, Hanane, and Youssef Mourdi. "Exploring the full potentials of IoT for better financial growth and stability: A comprehensive survey." *Sensors* 23.19 (2023): 8015.

<sup>11</sup> Hu, Jian, and Zhihua Xu. "Leveraging Information Systems, Big Data Analytics, and AI for Energy-Efficient Design of Rural Residences." *Journal of Information Systems Engineering and Management* 8.4 (2023): 23205.

<sup>12</sup> Bortolotti, Thomas, and Pietro Romano. "'Lean first, then automate': a framework for process improvement in pure service companies. A case study." *Production Planning & Control* 23.7 (2012): 513-522.

day. As we can see, the advent of comprehensive data protection laws like the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) makes it mandatory for organizations to follow secure privacy practices across the organization, contrary to which fines are imposed. The internal investigation needs to comply with data privacy principles to avoid heavy fines and reputational harms

2. **Data Overload** - In this world of information silos and ever-increasing vast amounts of data, organizations find it difficult to manage and implement the right technology tools for carrying out internal investigations efficiently
3. **Cybersecurity Risks** - When technological tools are implemented to carry out internal investigations, cybersecurity risks and vulnerabilities spike. Thus, protecting private and sensitive information becomes a paramount responsibility for an organization.
4. **Providing training on usage** - Most of the employees taking part in these internal investigations need to be educated about the usage and improvisations of modern technologies. A lack of proper knowledge on how to properly use and implement the technology will lead to chaos in the whole process.
5. **Adopting new changes** - Adopting these tools by replacing the traditional methods is a difficult and cumbersome task. This requires time and money.

**(A) How does the intervention of AI help in tackling the challenges?**

1. **Enhanced Compliance** - AI has the power to analyze and integrate large amounts of data. Thus, the use of AI will help an organization understand gaps in compliance, potential risks, and similar patterns. It ensures proper control over the volume of data.
2. **Tackling Cybersecurity Risks** - AI helps in predicting the potential risks involved and aids in analyzing and monitoring sensitive information, thereby preventing potential cybersecurity risks.
3. **Efficient Process** - Automation or implementation of AI-driven technology in internal investigations will aid in boosting efficiency. It streamlines the process and makes it seamless, irrespective of the huge data size.

**VII. THREE REASONS TO MODERNIZE INTERNAL INVESTIGATION NOW**

1. **Enhanced Efficiency at Reduced Cost** - With the right technology-driven tools, the whole process of internal investigation can be carried out efficiently with reduced cost and time. It utilizes human-less processes, which in turn reduces errors and complexity of the work.



2. Improved Confidentiality and Risk Mitigation - Technology helps in identifying similar patterns among the data and aids us in finding risks and potential threats involved. Moreover, it helps identify personal data and its trajectory. The AI tools also aid in staying in compliance with complex regulations across the globe.
3. Enhances Reputation and Ensures Competitive Advantage - When an organization makes use of the best available technology in carrying out internal investigations, the image and reputation of that organization are upheld in the eyes of its customers or clients. This showcases the commitment of an organization to strive toward progression.

## **VIII. CONCLUSION**

The organizations are required to step up their game of fairness, transparency and integrity, for this effective internal investigation methods are indispensable practices. Using of AI will undoubtedly reduce the complexities involved in regulatory compliance, helps in mitigation of fraud, anomalies and corruption. By integrating modern AI driven tools,

Modernizing internal investigations is a step in keeping with the principles of corporate governance, where stakeholder interests are protected, organizational reputation is preserved, and trust is developed. Though barriers such as data privacy, cybersecurity, and the difficulty of acceptance are faced, the advantages outweigh the drawbacks, such as improved efficiency, confidentiality, and competitive advantage. Organizations adopting these technologies are better prepared to face the complexities of the contemporary corporate world and become an example for effective governance and sustainable growth.

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