

CONGRESS OF INTERNAL AUDIT: DIGITAL FLAVOURS IN LATIN AMERICA

Over 1,200 auditors attended the *Latin American Congress of Internal Audit* in Brazil to hear how the industry is changing. *The Accountant* caught up with two of the speakers, COSO chair and former IIA chairman Paul Sobel, and IIA president and CEO Richard Chambers, to find out what their key takeaways were

The Accountant: What are the growing risk areas that auditors need to be thinking about?

Paul Sobel: The key risk areas which come to mind are, firstly, digital transformation, including artificial intelligence, robotic process automation and Big Data analytics.

Second is distributed ledgers – for example, blockchain – and how these may disrupt how companies operate and, thus, the focus of internal audit.

Third is environmental, social and governance (ESG) risks. ESG risks tend to be long term in nature, but they can be some of the most significant risks an organisation will face. All three of these growing risk areas were discussed at the CLAI conference.

TA: Cybersecurity is something I have increasingly heard described as potentially devastating to a company. Should auditors be taking more interest in it?

PS: Absolutely; cyber-risks are real and pervasive, so internal auditors cannot really say they are risk-based if they are not considering these types of risk.

Internal audit should focus on the ability to prevent and detect cyberattacks, how the organisation monitors changes in the environment that may lead to new or increased penetration attempts, the process to update and patch existing software – frequently a root cause of cyberincidents – and crisis management when an event occurs.

TA: Auditors are traditionally trained in financial rather than cyber matters, so how should the industry adapt to this new threat?

PS: Most internal auditors do not have the training or experience to audit many of the technical aspects in a cybersecurity review.



INTERNAL AUDITORS ARE KEENLY AWARE OF THE DEMANDS BEING PLACED ON THEM

Therefore, it has become common for internal audit functions to outsource or co-source resources for these reviews.

However, some of the potential audit objectives can be completed without deep technical expertise, such as understanding the process for implementing software updates and patches, and evaluating the crisis-management approach.

TA: Are any big regulations coming into effect, in any market, that you

think will have a particular impact?

PS: I believe privacy regulations will become more common around the world, similar to GDPR in Europe. Also, consistent with the increased focus on ESG risks, I believe we will see more regulations related to climate change.

TA: Are there any risks that you feel sometimes get overlooked? Why is this the case, and how can we change it?

PS: I am not sure that they are overlooked, but I believe risks related to the workforce of the future may need to be prioritised higher.

With digital transformation occurring, organisations may not be prepared for the impact on the workforce – such as the ability to attract, train, develop and retain people with the right skills; succession planning; and an aging workforce in many parts of the world. There will be plenty of jobs in the future, but that does not mean people will have the right training to do those jobs.

TA: Are there any risks specifically related to the Latin American market?

PS: While not unique to Latin America, the risks related to privacy and climate change will likely be just as significant in Latin America as other parts of the world.

TA: What were some of the key themes that came out of the conference?

Richard Chambers: There is an awareness of the kinds of expectation for internal audit, particularly when it comes to dealing with some of the disruption that is driven by technology.

A lot of presentations focused on how internal audit has to be more capable at addressing technology risks, and how internal audit can use technology to ensure it is more effective and efficient in the ways it examines companies.

TA: Could you give a high-level overview on how the audit profession is developing?

RC: The internal audit profession in Latin America is developing very impressively. We have seen growth in the internal audit ranks through all of our affiliates across the region.

We see internal auditors are keenly aware of the demands being placed on them. They understand that all the disruption that companies face means they have to continue to elevate their skills and capabilities.

Internal audit seems to be much more important when it comes to how audit



Paul Sobel, COSO

committees and others get information perspectives. Internal auditors provide both assurances and advice, and I think audit committees rely very heavily on the assurance; management relies on the assurance and the advice.

TA: Have there been any regulatory updates in any markets? What have been the impacts?

RC: The big regulatory impacts we have seen around the world when it comes to audit have been in the financial services industry.

Since the onset of the global economic crisis in 2008, we have seen a lot of post-mortem analysis of what caused the financial sector to have so many problems, in terms of risk management and failure in governance and controls.

What we have seen around the world is that regulators in financial services have said that they need to ensure that these things do not happen again, so there is a much greater emphasis on the risk management and control environment in financial services organisations.

Regulators have put a lot emphasis on making sure that internal audit in financial services is independently organised or aligned, and that it reports to the CEO and to the board. They have also been striving to make sure internal audit is properly staffed and able to carry out its work, free from interference from anyone in the organisation. Regulators have really started to look to internal audit as a source of insight on the effectiveness of the organisations.

TA: Brazil has had corruption problems over the years. Auditors have their root in ethics, so what have they done to combat this? Can they do more?

RC: We think of internal audit as the third line of defence. The first line of defence is that management has an obligation to correctly assess risks and identify, design and implement the appropriate controls to mitigate those risks. For the second line of defence, management has a responsibility to monitor how effective their controls are. Then we see internal audit as the third and final line of defence within the organisation.

We see external auditors as those who sit outside those three lines of defence. We are trying to make sure with the three-line-defence model, that the value of the organisation is protected through a strong and effective oversight of risk management and internal controls.

TA: What are the biggest disruptors in the Latin American audit market?

RC: They are same disruptors we see as we look around the profession around the world. Think about technology, and the fact that technology can, in some ways, replicate what internal auditors and accountants do – things like robotic process automation, the ability to automate routine tasks that auditors might



Richard Chambers, IIA

wisely.

TA: What key themes do you expect over the next 12 months?

RC: We are looking at some of the global risks that are emerging – certainly the risk from these trade disputes, particularly between the Americans and the Europeans and some countries in Asia.

We were encouraged to see the resolution

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spend days or weeks working on gathering data and analysing it; robotics process automation allows for the automation to be done much faster.

More strategically, we are seeing a lot of conversation around artificial intelligence, and if AI presents a threat to audit or an opportunity. I think the answer is, potentially, both. It presents an opportunity for internal audit and accountants because, if we use AI wisely, going forward we will be able to use it to augment or supplement what we do.

AI will be very effective at looking behind, looking in hindsight. I think it may not be as effective going forward. That is where professional judgement of accountants will be important. Both those things have the potential to be very powerful capacity multipliers for internal audit, if we use them

of some of these disagreements between the Americans and the Canadians and Mexicans, through a new NAFTA treaty, but we see a lot of risk as we look ahead around the impact of what trade wars mean to economies and companies and industries.

We continue to watch very closely what the risks are related to cybersecurity. Cybersecurity breaches continue to present a lethal risk, in some cases, for organisations. Internal auditors play a very important role when it comes to assessing the effectiveness of cybersecurity.

So if I look forward to this over the next year, certainly cybersecurity, the continued rise of regulatory pressures, demands from the markets to be efficient, and for companies to meet the expectations they outline. All those create important risks for organisations, and opportunities for internal auditors. ■