

Regional Reflections: Latin America

GLOBAL
PERSPECTIVE



Fast Fact



Executive Summary

Regional Reflections: Latin America is a customized research report that provides a Latin American perspective on the findings from CBOK 2015, the largest ongoing study of internal audit professionals in the world. Building on the 10 imperatives for internal audit that were presented at The IIA's 2015 International Conference, this report highlights unique concerns for Latin America and provides insights from several internal audit leaders in the region. In addition, an appendix at the end of this report gives key demographics about survey respondents from Latin America.

In many ways, internal auditors in Latin America perform well in comparison with their colleagues around the world. They have strong relationships with stakeholders, often align well with the strategic objectives of their organizations, and have high levels of expertise in automated audit technologies.

Having their performance pegged to the expectations of stakeholders, they are well placed to satisfy their customers

and create real value to the businesses in which they work. However, there are improvements to be made. Too few chief audit executives (CAEs) primarily report functionally to the boards of their organizations, a situation that can compromise their departments' performance. Management stakeholders can have excessive influence over the annual audit plan and how the work of internal audit is perceived. A strong relationship with these stakeholders can be a double-edged sword, causing some auditors to focus too much on compliance and not enough on mission-critical projects.

It is perhaps not surprising that 1 out of 3 CAEs say they have had pressure put on them to alter valid audit findings, and the source of the pressure is usually the CEO. Latin America needs a larger number of boards, and those boards also need to be effective and supportive of internal audit.

If conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is

relatively low when compared to global averages, and the proportion of people who hold IIA certifications is equally low, change is on the way. IIA affiliate bodies are working with the region's governments to reduce the constraints on internal audit exerted by out-of-date regulations. CAEs are educating their boards and management about the value of the *Standards*, and individuals spend more hours in training than almost anywhere else in the world. The region's internal auditors are moving forward.

Section 1: Play a Leading Role

1. Anticipate the Needs of Stakeholders.

If auditors are to play a key role in their businesses, they must know their stakeholders well enough to not only meet but also anticipate their requirements. In Latin America, CAEs score higher than average in ensuring that their audit work fulfils the specifically agreed expectations of their stakeholders (see **exhibit 1**). However, with only one exception, fewer CAEs than the global average establish their annual audit plans using consultations with management, divisional or business heads, or audit committees. This suggests that in many organizations in Latin America, internal auditors are satisfying too narrow a range of stakeholders (see **exhibit 2**).

2. Develop Forward-Looking Risk Management Practices.

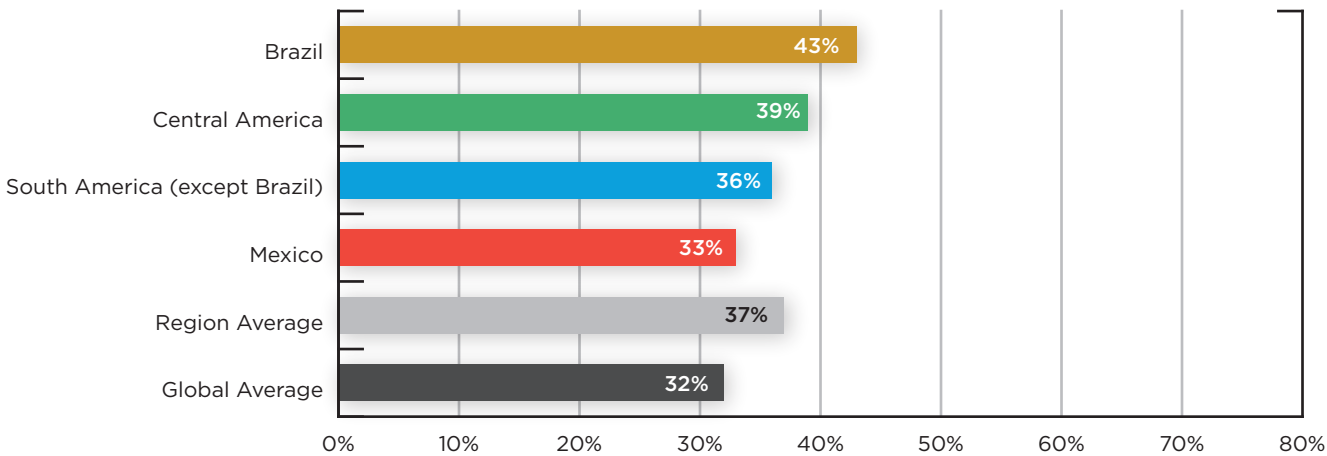
Risk-based auditing enables auditors to focus on those areas that are important to the organization and is a key component in developing forward-looking auditing practices. Yet, 57% of CAEs in Latin America say their organizations' risk management processes are nonexistent or informal, compared to the global average of 47% (see **exhibit 3** for region view). The situation is changing, with more than half of CAEs in Latin America saying they plan to increase audit focus on risk management assurance and effectiveness (Q50, $n = 354$).

ACTION POINTS: RISK MANAGEMENT

1. Review the understanding of risk with the audit committee (or board) and line managers.
2. Help to educate the organization to see risks as opportunities, not just threats.

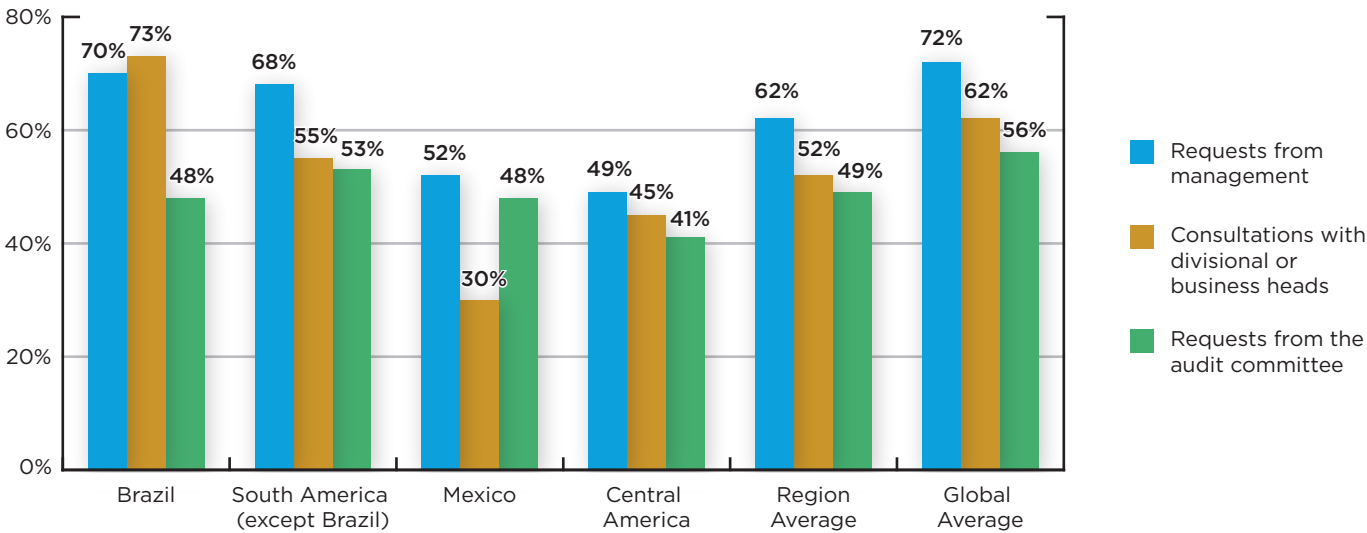
(continued)

Exhibit 1 Performance Measured Against Stakeholder Expectations



Note: Q90: What specific measures does your organization use to evaluate the performance of its internal audit activity? (Choose all that apply.) CAEs only. $n = 318$ for Latin America. $n = 2,637$ for global average.

Exhibit 2 Resources Used to Establish the Audit Plan



Note: Q48: What resources do you use to establish your audit plan? (Choose all that apply.) CAEs only. Only selected response options shown. *n* = 383 for Latin America. *n* = 3,059 for global average.

ACTION POINTS: RISK MANAGEMENT
(continued)

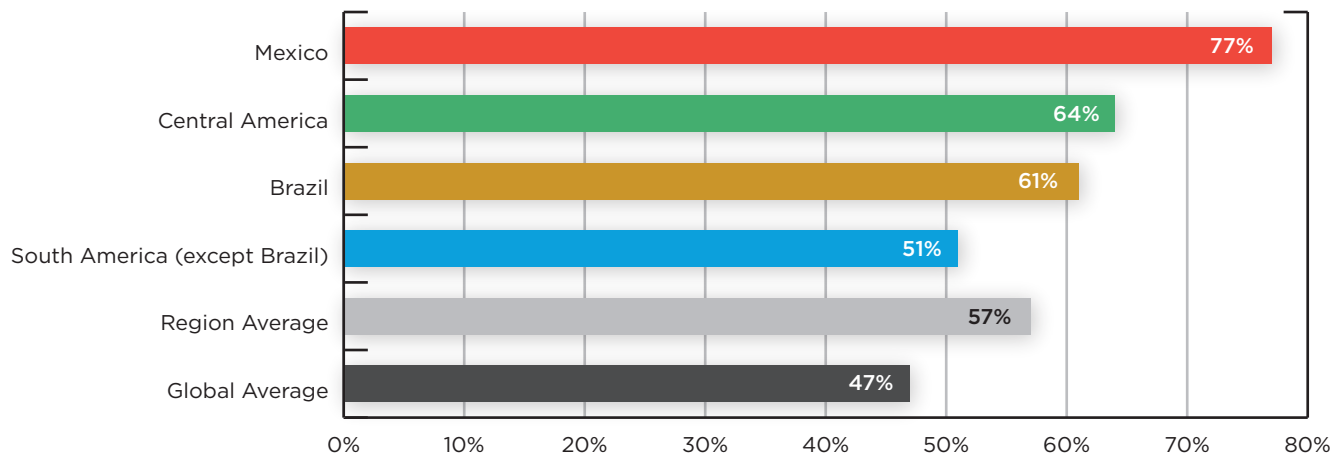
- 3. Understand the strategic planning process and align the internal audit plan with the strategic plan using the Committee of Sponsoring Organizations of the Treadway Commission components; share with management to win sponsorship for a risk-based approach.
- 4. Think strategically. Try meeting with external auditors to share the internal audit strategy and trade key information (e.g., general IT controls) to relay strategy. Allocate time to run some control tests on their behalf.
- 5. Understand the macro process and sub-processes to be audited, and identify the key risk and controls activities that impact the subject area. Make sure the process owners respond to the control self-assessment.

3. Continually Advise the Board and Audit Committee.

In general, a lower proportion of respondents in Latin America say they have audit committees (64%), compared to the global average (75%). In addition, fewer than half (45%) of CAEs in the region report functionally to the audit committee, compared to the global average of 54%. In some areas of Latin America, the gap between having an audit committee and reporting to it is quite high (see **exhibit 4**).

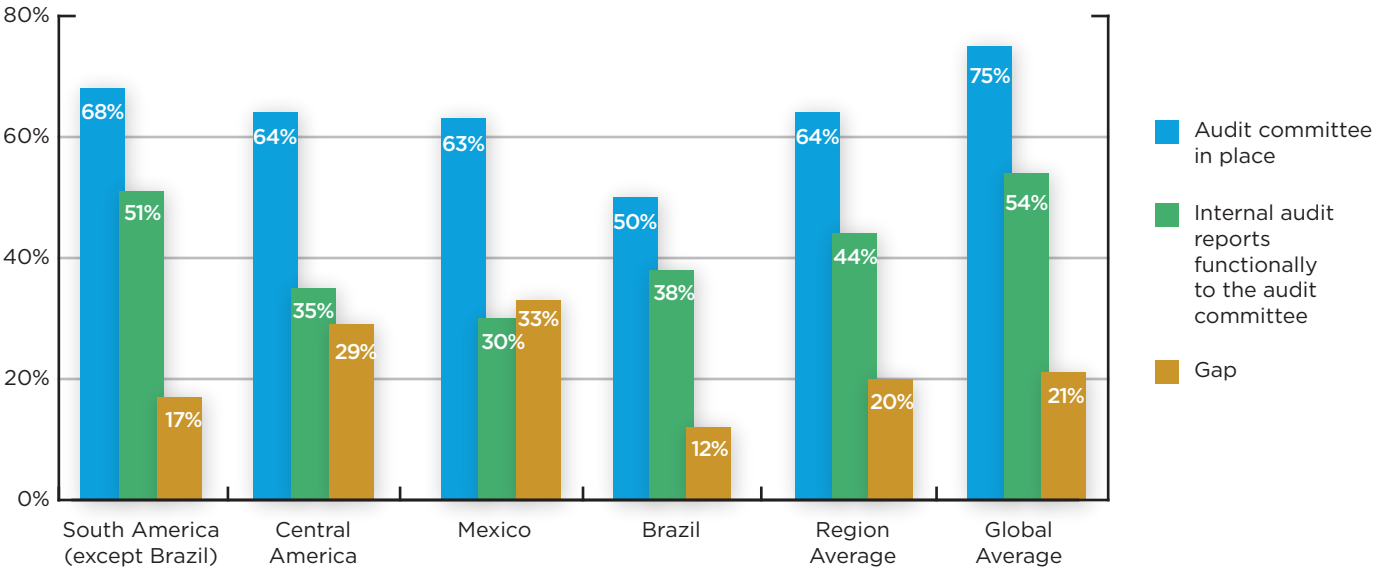
In such circumstances, communication with the audit committee, where one exists, can be challenging. Fernando Mills Moodie, sub-auditor general at Recope Group, San Jose, Costa Rica, says developing good communication channels with the audit committee, board, and executive management is crucial to provide timely input into the audit planning process on current and emerging risk areas. This can be achieved either during formal meetings, regular written briefings, or newsletters about key risks to the organization. In addition, it can be effective to have regular informal conversations where the CAE can raise issues of concern without having to produce a formal report. A CAE who acts as the eyes and ears of the board is an invaluable asset to the organization.

Exhibit 3 Risk Management Nonexistent or Informal



Note: Q58: What is your organization's level of development for its risk management processes? CAEs only. *n* = 336 for Latin America. *n* = 2,675 for global average.

Exhibit 4 Gap Between Audit Committee Existence and Functional Reporting to the Audit Committee



Note: Q78: Is there an audit committee or equivalent in your organization? Q74: What is the primary functional reporting line for the chief audit executive (CAE) or equivalent in your organization? Only responses from CAEs were included in this exhibit. *n* = 324 for Latin America. *n* = 2,634 for global average.

Governance is one topic that is particularly important to the board, says Aixa Serracin, regional internal auditor and deputy general manager at Mitsui Sumitomo Insurance Group, Panama City, Panama. “CAEs must also inform the board of how good governance structures can support the role of internal audit by improving its independence and ability to provide effective and objective assurance.”

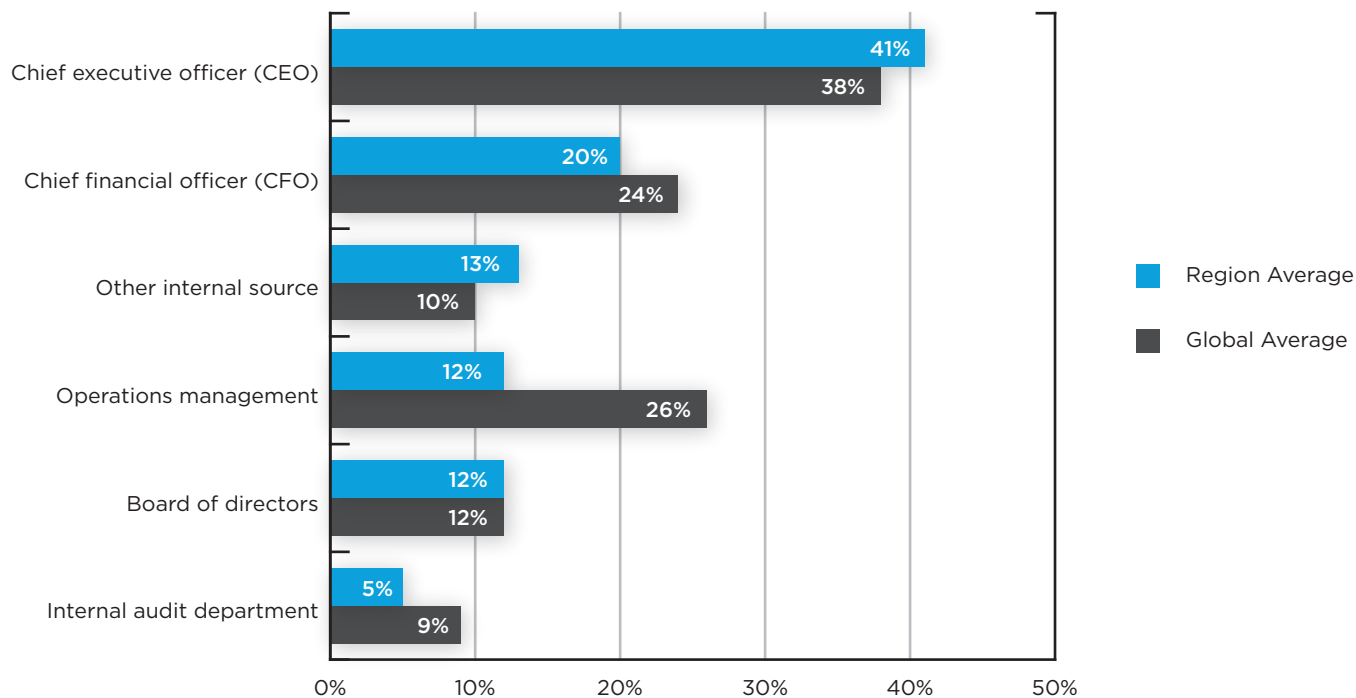
4. Be Courageous.

One out of 3 CAEs say they have experienced pressure during their careers to modify or suppress legitimate audit findings. For CAEs in Latin America, pressure comes primarily from CEOs (see **exhibit 5**). That is perhaps a reflection of the fact that many CAEs in the region report functionally to executive management.

ACTION POINTS: BE COURAGEOUS

- 1. Obtain the support of the board and executive management.
- 2. Have the courage to escalate business critical findings to the highest level.
- 3. Set out a process for resolving important differences of opinion in the audit charter.
- 4. Ensure the audit charter is communicated throughout the business.

Exhibit 5 Sources of Pressure to Modify a Finding or Report



Note: Q77b: What was the source of the pressure when you were directed to suppress, or significantly modify, a valid internal audit finding or report? (Choose all that apply.) n = 86 for Latin America. n = 757 for global average.

Section 2: Beat the Expectations Gap

5. Support the Business's Objectives.

More than 7 out of 10 CAEs in the region say their audit departments are fully aligned, or almost fully aligned, with the strategic plans of their organizations, which is better than the global average of about 6 out of 10 (Q57, $n = 2,717$). Good alignment can help stakeholders and CAEs have the same views about how well internal audit is performing.

“This alignment requires an update on a periodic basis throughout the year,” says Maritza Villanueva, corporate internal auditor, Grupo Unicomer, “which will be duly achieved only when the CAE earns management’s trust to be invited to execute his or her advisor/consultant role with a ‘seat at the table.’”

A thorough understanding of the business at all levels is needed to win that position. “It is critical to understand your customers’ business in terms of function, strategic objectives, and business processes in the context of business risk,” says Gabriel Benavides Ramirez, director of internal control and anti-corruption auditing, general audit office of Mexico City, Mexico. “Successful internal audit departments accomplish this through individual research, training, work experience, sound teamwork, and input from customers.”

6. Identify, Monitor, and Deal with Emerging Technology Risks.

But in some areas—cybersecurity and social media, for example—internal auditors in general are not highly engaged. Similar to their global counterparts, few internal auditors in Latin America say they spend extensive time auditing cybersecurity (19%) and social media procedures (16%) (Q92, $n = 144$). Globally, half or more of respondents say their internal audit departments are planning to increase audits in areas related to technology (Q94, $n = 11,161$).

7. Enhance Audit Findings Through Greater Use of Data Analytics.

Internal auditors in Latin America are more likely to have formal training in technology, with 19% studying

ACTION POINTS: TECHNOLOGY RISKS

1. Take training in cyber risk to understand its impact on the business and inform management of the adverse consequences of not having the right controls in place.
2. Recruit an IT audit specialist and develop or contract IT skills training for the rest of the internal audit team.
3. Recommend that top managers measure their teams’ use of social media and its impact on the business. Develop policies on social media use.
4. Evaluate the way social media policies are implemented and recommend remedial action where necessary.

computer science or technology in college, compared to the global average of 13%. Latin American auditors make extensive use of automated auditing tools, scoring well above the global average in many areas (see **exhibit 6**). (See the CBOK report titled *Staying a Step Ahead: Internal Audit’s Use of Technology* by Michael Cangemi.)

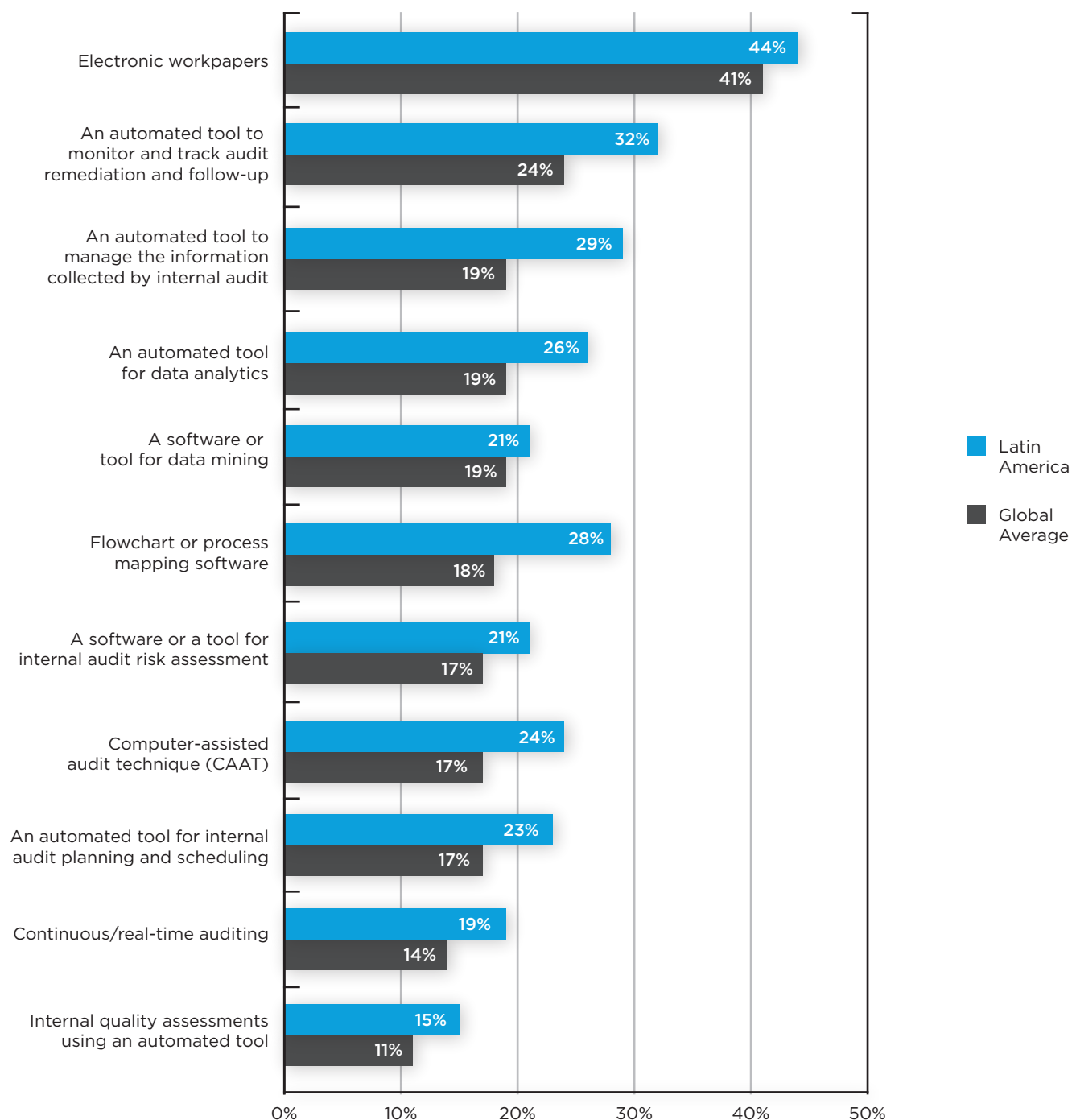
8. Go Beyond The IIA’s Standards.

Only 46% of CAEs in Latin America say they use the full range of IIA *Standards*, compared with 59% globally (Q98, $n = 2,478$). The lower use may be due to some of the *Standards* clashing with local or government regulations.

“In Panama, we are facing confusion in trying to understand how to adapt IIA *Standards* to government regulations,” says Serracin. She says that it is important for the region’s CAEs to educate boards and management about how the *Standards* can help improve the quality and scope of audit work, not just in the public sector, but also in private entities.

In Latin America, there are also relatively lower levels of development for quality assurance and improvement programs (22% reported it as well-defined in Latin America, compared to the global average of 34%).

Exhibit 6 Use of Technology Tools and Techniques



Note: Q95: What is the extent of activity for your internal audit department related to the use of the following information technology (IT) tools and techniques? n = at least 1,309 for Latin America. n = at least 9,832 for global average.

Section 3: Invest in Excellence

9. Invest in Yourself.

Internal auditors need to invest in IIA certifications to have fulfilling careers and contribute effectively to their organizations. In Latin America, 27% of respondents say they hold an internal audit qualification, compared to the global average of 43% (Q12, *n* = 13,142).

On the other hand, hours of training per year rank among the highest in the world (51 hours per year in Latin America, compared to the global average of 45). In addition to technical skills, auditors should not overlook the soft skills—such as communication and business acumen—that are essential to an effective and fulfilling career (see **exhibit 7**).

Exhibit 7 Top Skills CAEs Seek for Staff

Skills	Latin America	Global Average
Analytical/critical thinking	59%	64%
Risk management assurance	52%	42%
Information technology (general)	46%	38%
Accounting	43%	43%
Communication skills	41%	52%
Fraud auditing	31%	23%
Industry-specific knowledge	28%	35%
Business acumen	27%	27%
Finance	24%	22%
Forensics and investigations	23%	15%
Data mining and analytics	20%	31%
Cybersecurity and privacy	14%	14%
Legal knowledge	14%	12%
Quality controls (Six Sigma; ISO)	12%	7%
Other	4%	4%

Note: Q30: What skills are you recruiting or building the most in your internal audit department? (Choose up to five.) CAEs only. *n* = 421 for Latin America. *n* = 3,304 for global average.

10. Recruit, Motivate, and Retain Great Team Members.

“It is very difficult to keep good people because they are looking for better opportunities in other companies,” says Serracin. Well-qualified auditors with good communication skills and business knowledge are in high demand.

Given the fast-paced changes in the business world, CAEs are seeking recruits from a wider range of academic disciplines. “We have accountants, administrators, chemical, industrial, and mechanical engineers, and IT professionals on our team, which permits us to cover different activities of the company and add value to different parts of the organization,” says Moodie.

ACTION POINTS: DEVELOPING THE TEAM

- 1. Develop training programs based on The IIA’s global standards for quality assessment, including a Quality Assurance and Improvement Program (QAIP).
- 2. Introduce rotation for managers to improve diversity and business knowledge in the function.
- 3. Consider flexibility in work arrangements, such as telecommuting and flexible schedules, among others. Employees who have flexible schedules work harder, stay longer, have less stress, and are healthier.
- 4. Exploit The IIA’s website as a daily source for quick training tools: TV channels; periodic publications such as Smart Brief; webinars; and independent tools.

10 IMPERATIVES FOR INTERNAL AUDIT

Play a Leading Role

1. Anticipate the needs of stakeholders.
2. Develop forward-looking risk management practices.
3. Continually advise the board and audit committee.
4. Be courageous.

Beat the Expectations Gap

5. Support the business's objectives.
6. Identify, monitor, and deal with emerging technology risks.
7. Enhance audit findings through greater use of data analytics.
8. Go beyond The IIA's *Standards*.

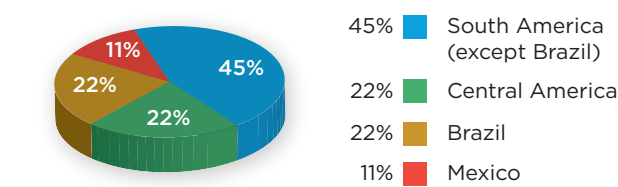
Invest in Excellence

9. Invest in yourself.
10. Recruit, motivate, and retain great team members.

Appendix A

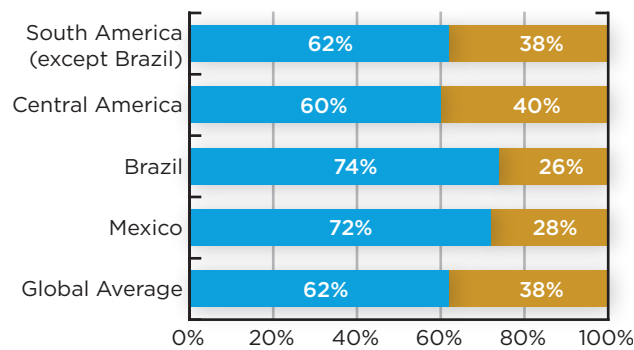
Internal Audit in Latin America

Exhibit A1 Geographic Distribution of Latin American Respondents



Note: Q6: In which region are you based or primarily work? *n* = 1,850.

Exhibit A2 Ratio of Men to Women



Note: Q4: What is your gender? *n* = 1,849 for Latin America. *n* = 14,357 for global average.

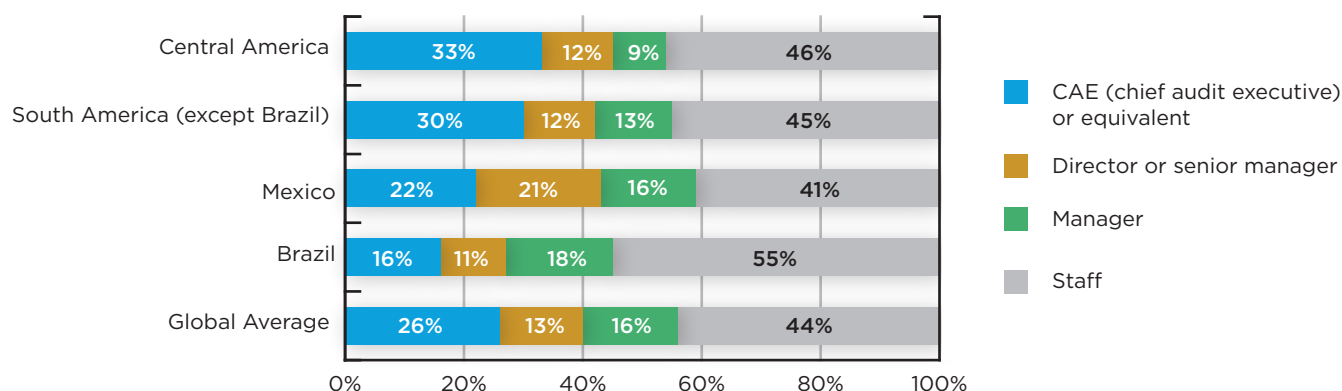
Exhibit A3 Responses Per Country

	Count	% of Region
South America (except Brazil)		
Argentina	173	9.4%
Peru	163	8.8%
Chile	144	7.8%
Colombia	142	7.7%
Ecuador	106	5.7%
Uruguay	49	2.6%
Venezuela	40	2.2%
Paraguay	15	0.8%
Bolivia	9	0.5%
French Guiana	0	0.0%
South America Subtotal	841	45.5%
Brazil	390	21.1%
Central America		
Costa Rica	132	7.1%
El Salvador	111	6.0%
Panama	83	1.3%
Nicaragua	31	0.4%
Guatemala	24	1.0%
Honduras	19	1.7%
Guyana	7	4.5%
Belize	1	0.1%
Suriname	1	0.1%
Falkland Islands (Malvinas)	0	0.0%
Central America Subtotal	409	22.2%
Mexico	210	11.4%
Total	1,460	100%

Note: Q6: In which region are you based or primarily work? *n* = 1,850.

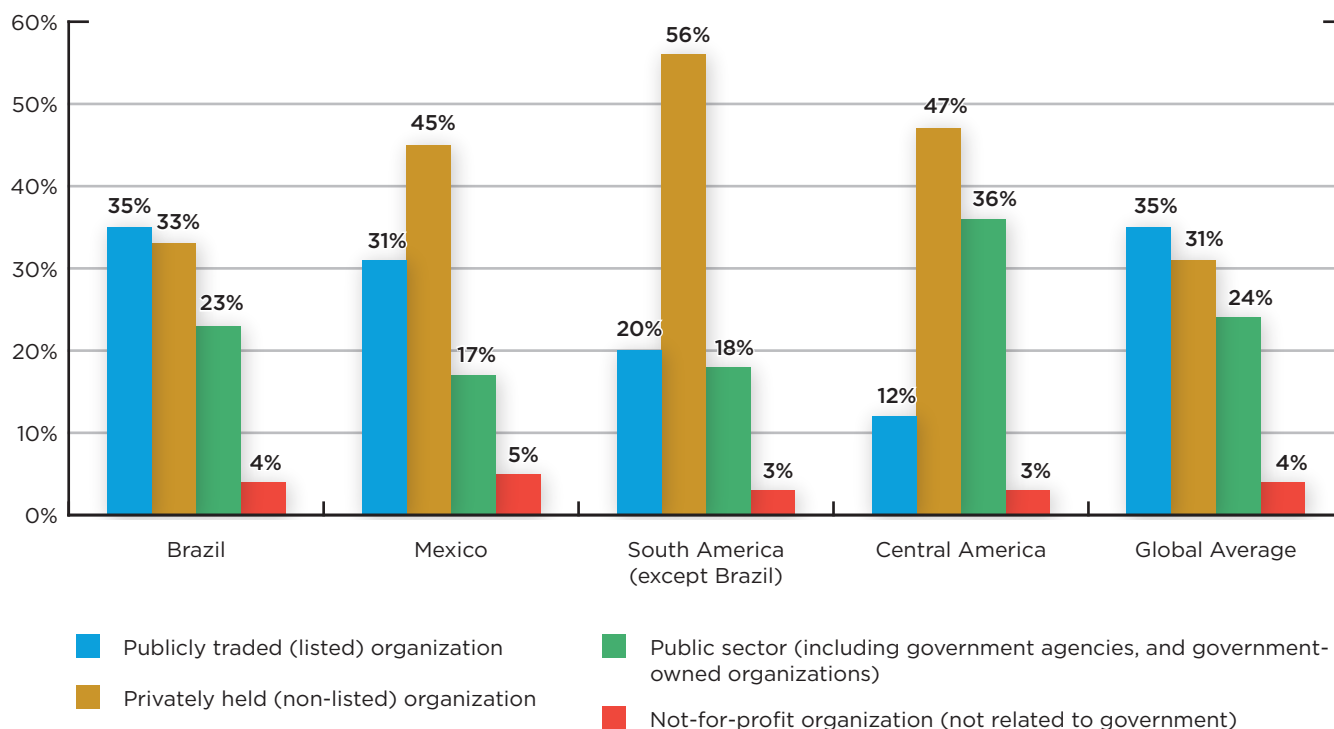
Internal Audit in Latin America

Exhibit A4 Employee Levels



Note: Q9: What is your position as an internal auditor in the organization? $n = 1,595$ for Latin America. $n = 12,716$ for global average.

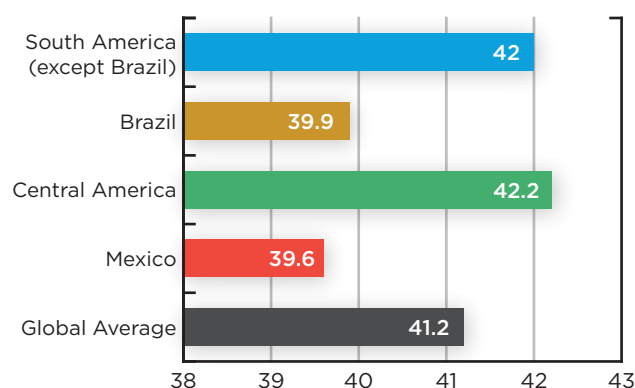
Exhibit A5 Organization Type



Note: Q15: What is the type of organization for which you currently work? $n = 1,643$ for Latin America. $n = 13,032$ for global average.

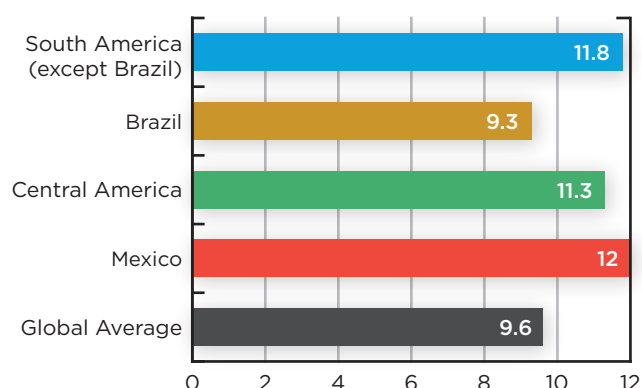
Internal Audit in Latin America

Exhibit A6 Average Age



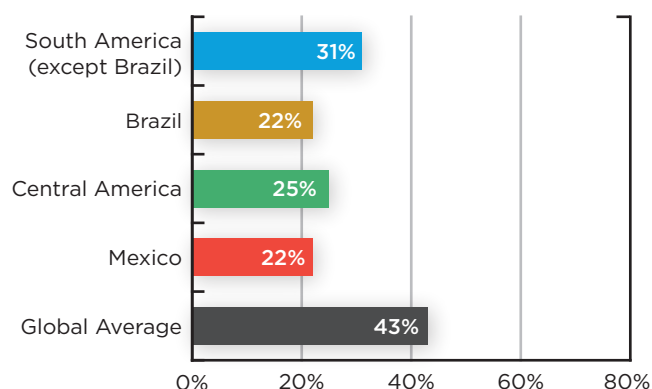
Note: Q3: What is your age? $n = 1,789$ for Latin America. $n = 12,780$ for global average.

Exhibit A7 Years of Internal Audit Experience



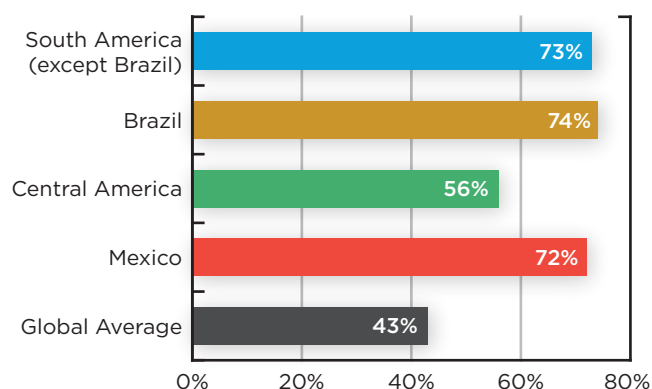
Note: Q10: Approximately how many years of professional experience do you have as an internal auditor? $n = 1,667$ for Latin America. $n = 13,138$ for global average.

Exhibit A8 Internal Audit Certifications



Note: Q12: Which professional certifications and/or qualifications do you have related to internal auditing? (Choose all that apply.) Options were: CIA or other national certification, CGAP, CCSA, CFSA, CRMA, QIAL. $n = 1,668$ for Latin America; $n = 13,156$ for global average.

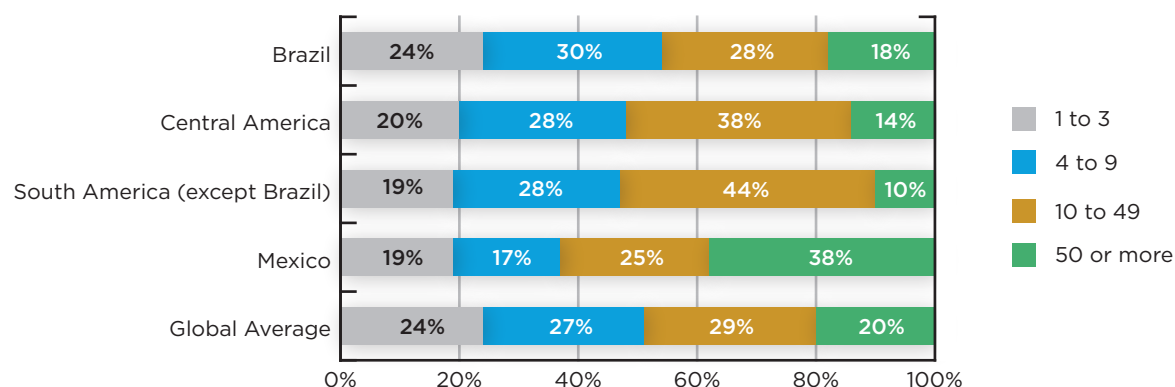
Exhibit A9 Internal Audit Higher Education



Note: Q5a: What were your academic major(s) or your most significant fields of study. (Choose all that apply.) Topic: Auditing (internal). $n = 1,829$ for Latin America. $n = 12,462$ for global average.

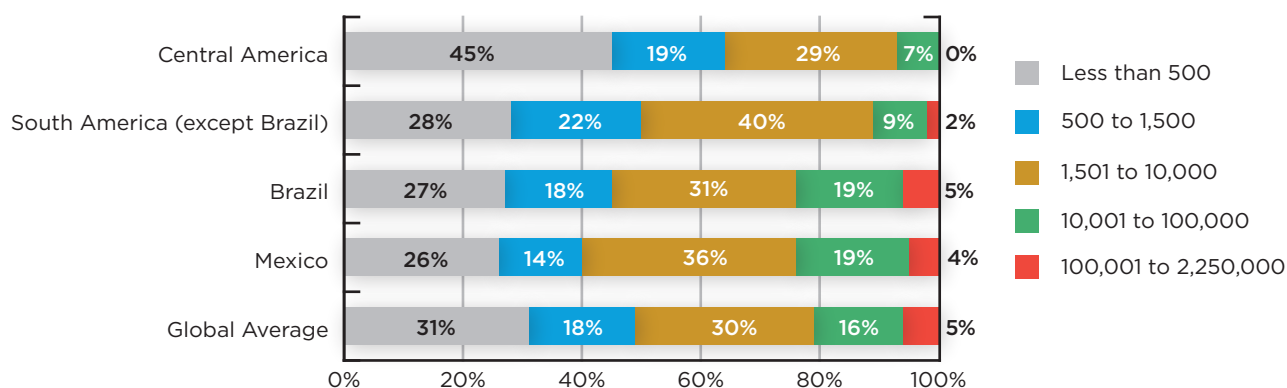
Internal Audit in Latin America

Exhibit A10 Number of Employees in the Internal Audit Department



Note: Q24: Approximately how many full-time equivalent employees make up your internal audit department? Due to rounding, some totals may not equal 100%. $n = 1,569$ for Latin America. $n = 11,761$ for global average.

Exhibit A11 Number of Employees in the Organization



Note: Q19: For the entire organization in which you work, what was the approximate total number of fulltime equivalent employees as of the end of the last fiscal year? $n = 1,642$ for Latin America. $n = 13,014$.

About the Author

Arthur Piper, PhD, is an award-winning writer and editor with more than 20 years' experience specializing in internal auditing, risk management, corporate governance, and emerging technologies. He has been managing director of the editorial services company, Smith de Wint, since 1996. He has been Associate Research Fellow at the University of Nottingham (UK) in the Department of Culture, Film, and Media since 2006, and specializes in the critical understanding of emerging technologies.

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The IIARF also thanks Fernando Mills (Costa Rica) and Gabriel Benavides (Mexico) for providing their insights via interviews.

Acknowledgments

The content development of this report was supported by the Latin American Congress of Internal Audit (CLAI).

About CBOK

SURVEY FACTS

Respondents	14,518*
Countries	166
Languages	23

EMPLOYEE LEVELS

Chief audit executive (CAE)	26%
Director	13%
Manager	17%
Staff	44%

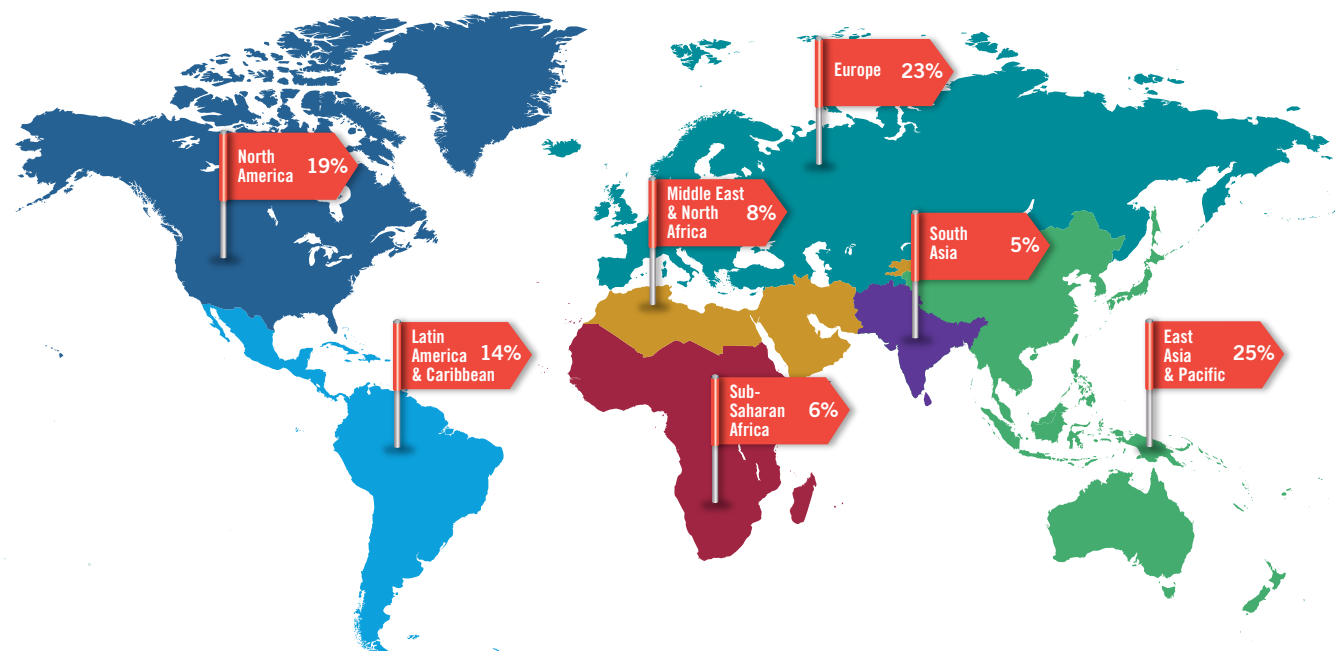
*Response rates vary per question.

The Global Internal Audit Common Body of Knowledge (CBOK) is the world's largest ongoing study of the internal audit profession, including studies of internal audit practitioners and their stakeholders. One of the key components of CBOK 2015 is the global practitioner survey, which provides a comprehensive look at the activities and characteristics of internal auditors worldwide. This project builds on two previous global surveys of internal audit practitioners conducted by The IIA Research Foundation in 2006 (9,366 responses) and 2010 (13,582 responses).

Reports will be released on a monthly basis through July 2016 and can be downloaded free of charge thanks to the generous contributions and support from individuals, professional organizations, IIA chapters, and IIA institutes. More than 25 reports are planned in three formats: 1) core reports, which discuss broad topics, 2) closer looks, which dive deeper into key issues, and 3) fast facts, which focus on a specific region or idea. These reports will explore different aspects of eight knowledge tracks, including technology, risk, talent, and others.

Visit the CBOK Resource Exchange at www.theiia.org/goto/CBOK to download the latest reports as they become available.

CBOK 2015 Practitioner Survey: Participation from Global Regions



Note: Global regions are based on World Bank categories. For Europe, fewer than 1% of respondents were from Central Asia. Survey responses were collected from February 2, 2015, to April 1, 2015. The online survey link was distributed via institute email lists, IIA websites, newsletters, and social media. Partially completed surveys were included in analysis as long as the demographic questions were fully completed. In CBOK 2015 reports, specific questions are referenced as Q1, Q2, and so on. A complete list of survey questions can be downloaded from the CBOK Resource Exchange.



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CBOK is administered through The IIA Research Foundation (IIARF), which has provided groundbreaking research for the internal audit profession for the past four decades. Through initiatives that explore current issues, emerging trends, and future needs, The IIARF has been a driving force behind the evolution and advancement of the profession.

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ID# 2015-1478