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2023 Study on the State of Internal Audit in CARICOM (The Caribbean Community and Common Market), Central America and the Caribbean

August 10, 2023

Content

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1. Participants

RISCCO is pleased to present the study "2023 State of Internal Audit in CARICOM (The Caribbean Community and Common Market), Central America and the Caribbean (Dominican Republic and Puerto Rico)".

With the results we seek to know the reality about the management of the Internal Audit units in the region so that organizations can benchmark with their peers.

Participants by region

34% — CARICOM
66% — Central America, Dominican Republic and Puerto Rico
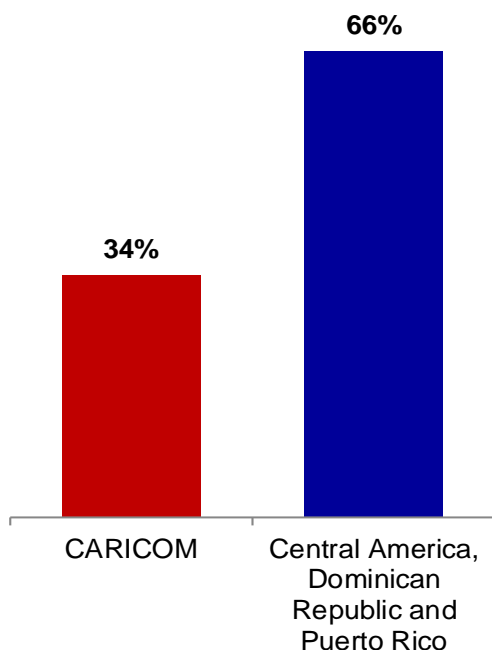
Employees in the Organization

<100	17%
100 – 250	10%
251 – 500	15%
501 – 1,000	14%
1001 – 2000	10%
2001 – 4000	18%
>4,001	16%

Participants by type Organization

Financial Services	46%
Trade (Detail, Distribution)	6%
Professional services	2%
Energy, water, and construction	4%
Digital transformation	1%
Manufacturing or Industry	5%
Health	5%
Tourism or Hospitality	2%
Government	25%
Other	4%

199

participants from CARICOM, Central America and the Caribbean

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Section 2

Executive Summary

2. Executive Summary

The results of the study "2023 State of Internal Audit in CARICOM, Central America and the Caribbean", allow us to conclude that the Internal Audit function for some areas has favorable and/or positive results. However, for other areas, there seems to be a disconnect between the Internal Audit function and operating in a digitally interconnected society. Our assertion is based on:

1. **Despite the usual difficulties that Internal Audit units face, there are visible signs of a desire to strengthen management among participants.**

   - 88% have an Audit Committee or similar oversight body.

   - 26% indicated that staffing increased and 56% remained the same as the previous year.

   - 74% perform consulting work (advisory, training, facilitation, others).

   - 65% indicated that remote audits (Zoom, MS Teams, etc.) have been generally successful or very successful.

2. **It is a great challenge to hire professionals with the skills and competencies required to strengthen the management of Internal Audit. This is making it necessary to improve training strategies and training of staff.**

   - Regarding the hiring of personnel, 58% indicated that they do not find candidates with the required competencies, and 50% that the candidates do not have experience in Internal Audit.

   - 56% indicated that the staff remained the same, probably because of the previous point.

   - Training in the last twelve months has been focused on: (64%) risk-based internal audit; (45%) cyber risk; (45%) technology audit.

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2. Executive Summary

3. **Internal Audit management efficiency among participants can be increased with a greater commitment to adopting data analytics.**

    - 61% of participants indicated that they perform data analytics. Given that most of the key controls are in the organizations' information systems, this percentage appears low.

    - Only 26% indicated that the use of information technology in internal audit management processes is high.

    - Only 7% indicated that the use of continuous auditing (also called Data Driven Audit) to automatically test controls and/or identify fraud/errors is high.

    - Only 10% indicated that they use artificial intelligence/machine learning to perform data analytics.

4. **Internal audits to measure the effectiveness of cybersecurity in the organization is an area that requires significant improvement.**

    - Only 25% indicated that effective cybersecurity audits are being conducted.

    - 47% indicated that the area of high or very high risk is cybersecurity and/or technology, however, cybersecurity and/or technology audits are not a priority.

    - Among the five types of audits planned for 2023, there are no audits related to cybersecurity and/or technology.

Note: It is important to highlight that, given that 32% of the participants indicated that they do not have internal technology auditors, this has an unfavorable impact with respect to items No. 3 and No. 4 above.
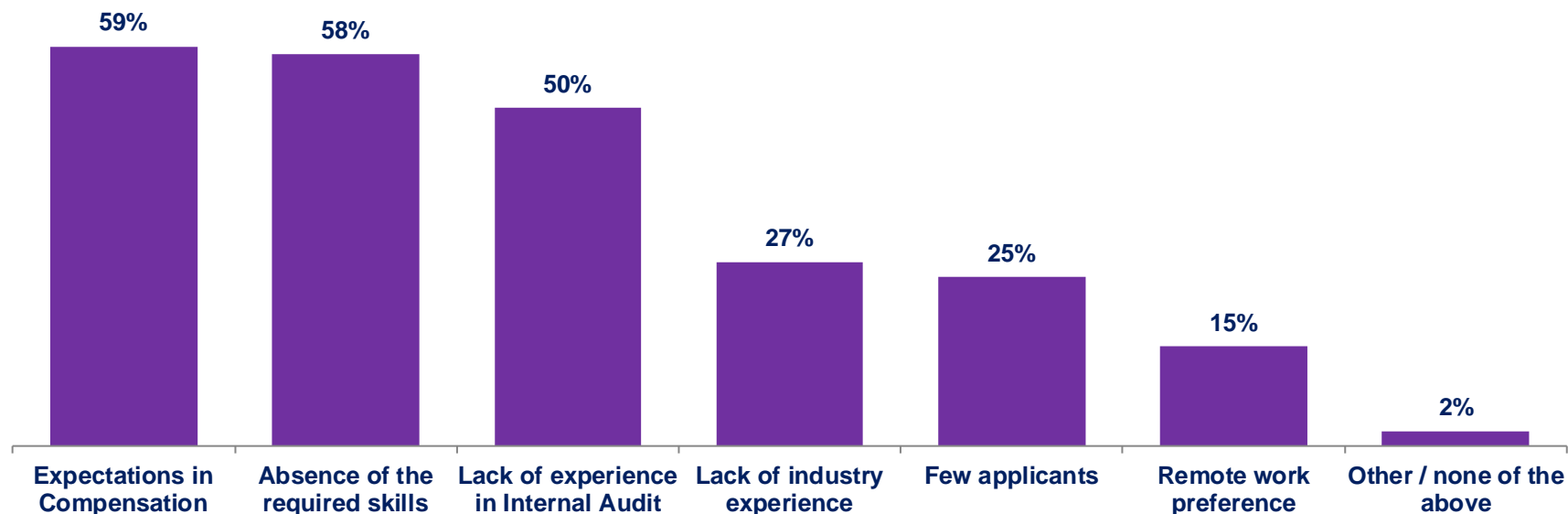
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Section 3

Personnel & Training

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3. Personnel & Training

56% of the participants indicated that in 2023 the number of auditors remained the same as in 2022. Probably because among the three main challenges to incorporate new resources are the lack of competencies (58%) and lack of experience in internal auditing (50%). Finding professionals with competencies and skills is not an easy task today. It is striking in the results that despite the fact that most of the participants are from the financial services and government sectors, 32% indicated that they do not have technology auditors.

Main challenges experienced by Vice Presidents, Directors or Internal Audit Managers when hiring staff

Expectations in Compensation	Absence of the required skills	Lack of experience in Internal Audit	Lack of industry experience	Few applicants	Remote work preference	Other / none of the above
59%	58%	50%	27%	25%	15%	2%

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What is your role in the Internal Audit Department?

VP/Manager/Director in Charge of Internal Audit	29%
Area Manager	16%
Supervisor	7%
Senior Auditor	21%
Auditor	18%
Other	9%

Number of Professionals in the Internal Audit Department

1-3	18%
4-9	34%
10-25	32%
26 – 40	7%
>40	9%

In relation to the year 2022, the number of staff of the Internal Audit Department?

Increase: 26%
Decreased: 18%
stayed the same: 56%

3. Personnel & Training

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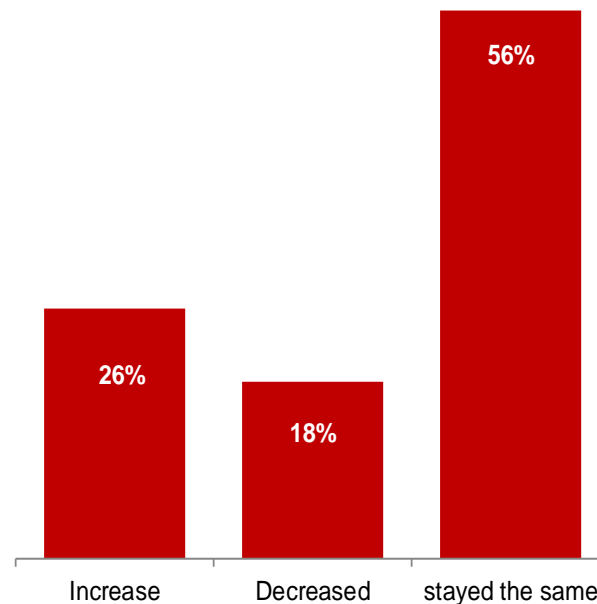
Number of Internal Auditors in the organization vs total employees
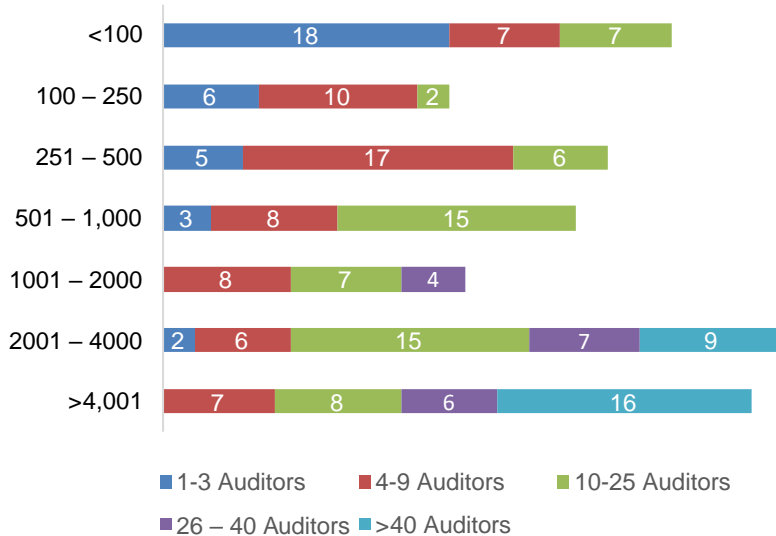
Number of Internal Technology Auditors in the organization vs total employees

Left chart — Number of Internal Auditors:

Employees	1-3 Auditors	4-9 Auditors	10-25 Auditors	26–40 Auditors	>40 Auditors
<100	18	7	7		
100 – 250	6	10	2		
251 – 500	5	17	6		
501 – 1,000	3	8	15		
1001 – 2000		8	7	4	
2001 – 4000	2	6	15	7	9
>4,001		7	8	6	16

Right chart — Number of Internal Technology Auditors:

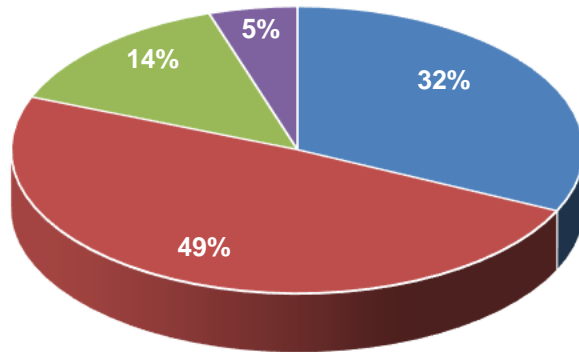| Employees	0 Technology Auditors	1-3 Technology Auditors	4-6 Technology Auditors	More than 6 Technology Auditors
<100	21	10	1	
100 – 250	9	10	1	
251 – 500	10	16	2	1
501 – 1,000	8	15	3	
1001 – 2000	6	8	5	1
2001 – 4000	5	16	13	3
>4,001	12	16	3	4

The two graphs above have a clear, not positive, message that requires attention. As employees in the organization grow, the number of internal auditors grows, but not so, the internal technology auditors.

The graph on the left shows the total number of internal auditors (by segments) vs the total number of employees in the organization. As can be seen, the greater the number of employees, the participants indicated that the segments of internal auditors of 10-25, 26-40 and >40, increase. This makes sense.

The graph on the right shows that although the organization's employees increase, internal technology auditors do not grow in equal proportion. In fact, for organizations with more than 4,000 employees, twelve participants indicated that they did not have internal technology auditors.

3. Personnel & Training

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Information Technology Auditors in the Internal Audit Department

Areas in which Internal Audit Department professionals have received training in the last 12 months

- 0 Auditors
- 1-3 Auditors
- 4-6 Auditors
- More than 6 Auditors

Area	%
Risk-Based Internal Audit	64%
Technology Audit	45%
Cybersecurity / Cyberisk	45%
Risk Management	41%
Internal/External Fraud	40%
Money Laundering Prevention	32%
Soft Skills	29%
Finance/Accounting	28%
Local Regulations	28%
Leadership	27%
Digital transformation	26%
Data Privacy	24%
International regulations	20%
Technology/Artificial Intelligence/Machine Learning	19%
ESG (Environmental, Social, Governance)	17%
International Accounting Standards (NIIf´s)	17%
Other	13%
Organizational Resilience	8%
Digital Products / Digital Business	6%
None	6%

3. Personnel & Training

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Section 4

Operations and Audit Plans

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4. Operations and Audit Plans

In a global economy that is entirely dependent on information technology, it is striking that cybersecurity-related audits are not among the top three most frequent types of internal audits. In addition, for audits planned for 2023, cybersecurity-related audits are not among the top three.

Perhaps this is the basis for only 25% of participants indicating that they are conducting effective cybersecurity audits. This is an area that requires immediate attention. The level of complexity and frequency of technological threats demand it.
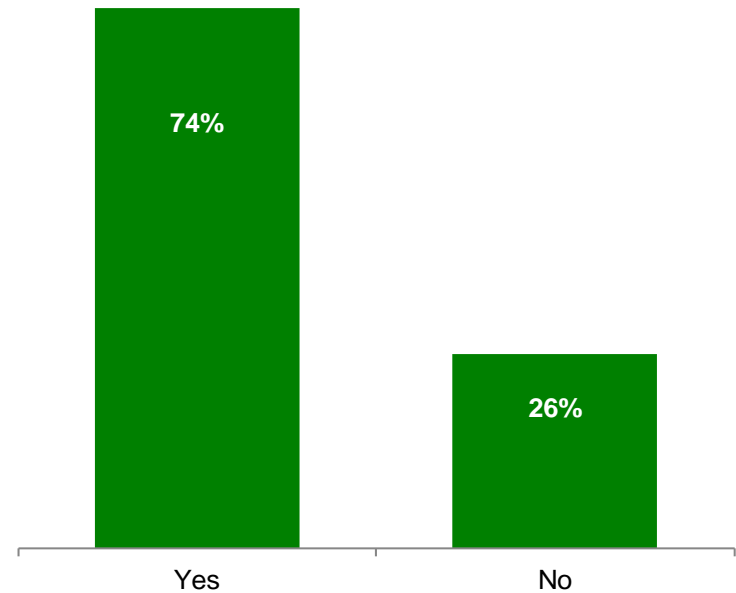
How often are the following assurance services (Audits) performed?

	Continuous or annually	Every 2 to 5 years	Upon request by risk level	Rarely or never
Financial reports, Operational and/or Sox	70%	12%	6%	12%
Regulatory/Compliance	80%	10%	9%	1%
Cybersecurity and/or Technology	58%	21%	13%	8%
ERM y procesos relacionados	47%	24%	18%	11%
Fraud and/or Costs/expenses	55%	17%	23%	5%
Audit Processes, Financial, Operational, or business	77%	15%	8%	0%

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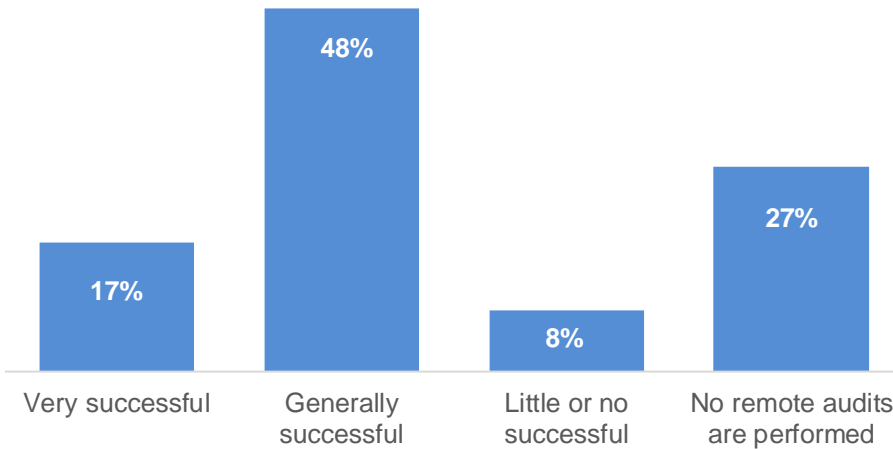**For the 2023 Internal Audit Plan, in which areas are the assurance services (Audit) focused?**

Does the Internal Audit Department perform consulting work (consulting, training, facilitation, others) in the organization?

Operational	**72%**
Regulatory/Compliance	**66%**
Audit of Financial and Operational Processes	**66%**
Business Process Audit	**47%**
Financial reports	**47%**
Cybersecurity	**43%**
Fraud	**42%**
Governance	**42%**
Technology (not covered in other options)	**39%**
ERM and related processes	**25%**
Costs/expenses	**20%**
Third-Party Risk Management	**19%**
Sustainability / ESG (Environmental, Social, Governance)	**8%**
Others	**7%**
Sox	**3%**

74% Yes

26% No

4. Operations and Audit Plans

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Given the complexity and frequency of technological threats, do you think effective cybersecurity audits are being conducted in your organization?
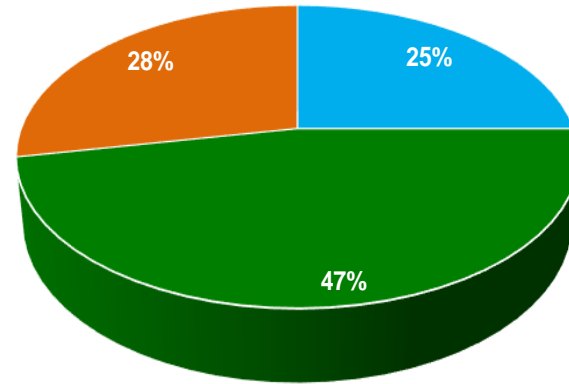
- Sí - Parcialmente - Probablemente no

28%

25%

47%

48%

27%

17%

8%

Very successful | Generally successful | Little or no successful | No remote audits are performed

What has been your experience in conducting remote audits using technologies such as Zoom, MS Teams, etc.?

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Section 5

Technology and data Analytics

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# 5. Technology and Data Analytics

61% of participants indicated that they use data analytics for testing controls, which is good, but we feel it is not enough. Our statement is due to the dependence that organizations have on information technology today.
It is satisfying to see that participants indicated that the main driver for using data analytics is to improve audit efficiency (85%). In addition, only 7% indicated that the implementation of Continuous Audit is high.

Given the increasing ubiquity of artificial intelligence in business, Internal Audit needs to incorporate the use of artificial intelligence in analytical testing. Only 10% indicated that they use artificial intelligence to perform analytical testing.

Do you use software to perform data analytics and validate the effectiveness of controls, and identify fraud or errors?

No — 39%

Yes — 61%
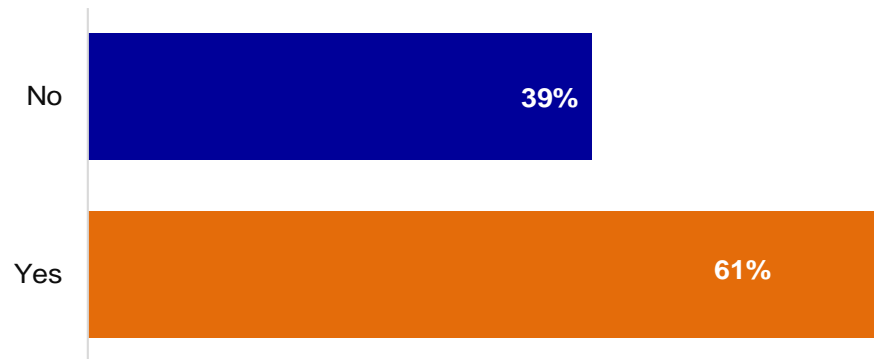
**Excluding MS Office What is the degree of use of information technology in internal audit management processes?**
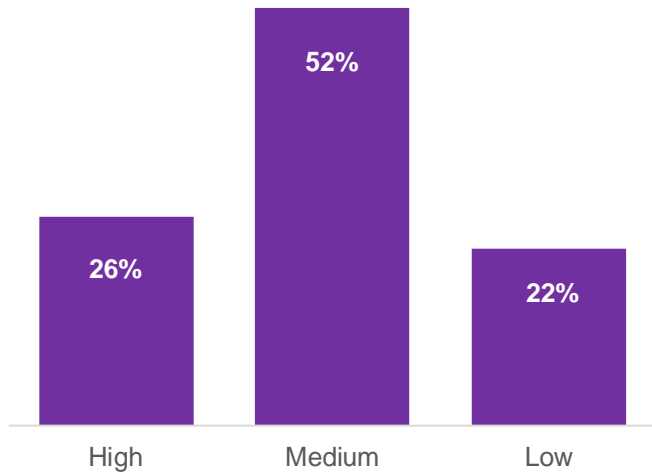
What are the key drivers/results that the Internal Audit function has been trying to achieve through the use of data analytics?

Improve Audit Efficiency	**85%**
Improve the Audit process (The audit process is simp	**71%**
Identify atypical data (transactions) (Fraudulent or aty	**70%**
Reduce audit time (Field work time is reduced)	**56%**
Reduce costs (personnel or time)	**52%**
Access better and/or more data	**46%**
Audit scope is more consistent	**34%**
More audits can be done	**33%**
Other	**6%**

**To perform data analytics and/or continuous auditing, do you use artificial intelligence/machine learning schemes?**

5. Tecnología y Analítica de Datos

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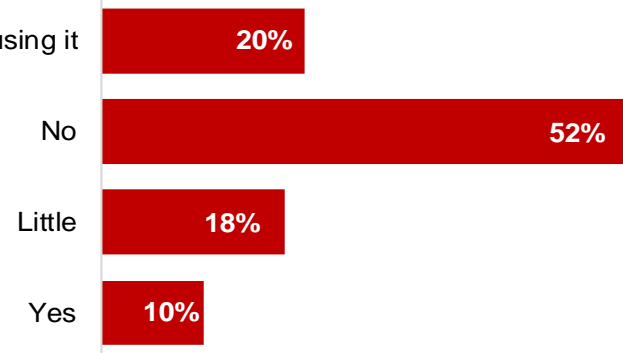
In which activities do you use data analytics?

During fieldwork	**74%**
As part of audit planning	**45%**
For continuous audit	**43%**
Fraud detection	**40%**
For continuous risk assessment	**34%**
Assurance about the effectiveness of internal controls	**32%**
To create audit reports	**32%**
As part of audit planning	**30%**
Agile and/or smart audit	**24%**
To prepare reports to the Audit Committee	**24%**
Otro	**8%**

What is the level of continuous audit implementation to automatically test controls and/or identify fraud/errors?

High Level	Medium Level	Low Level
7%	49%	44%

5. Tecnología y Analítica de Datos

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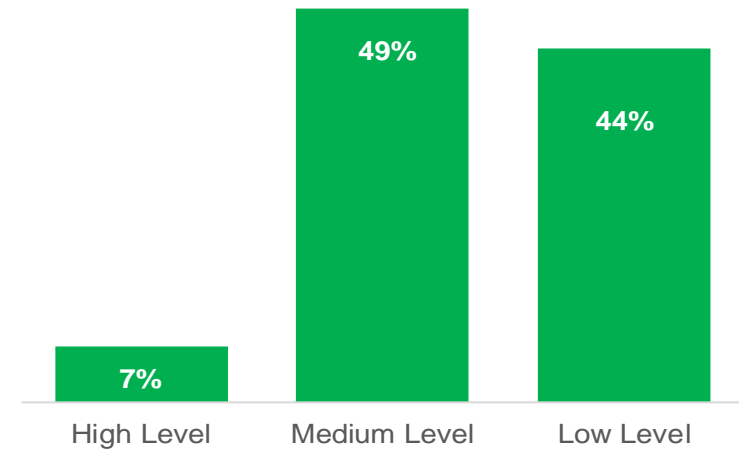
Section 6

Risks

6. Risks

Of the risk areas, included in the Survey, according to the participants, Cybersecurity and/or Technology was rated as the highest high/very high risk.

Technological risks and threats have and will continue to have the attention of organizations. That the study confirms this is very positive. What is worth analyzing is why, among the participants, 32% do not have systems auditors and among the audits planned for 2023, Cybersecurity and/or Technology is not among the top three.

How would you describe the level of risk in your organization in the following areas?

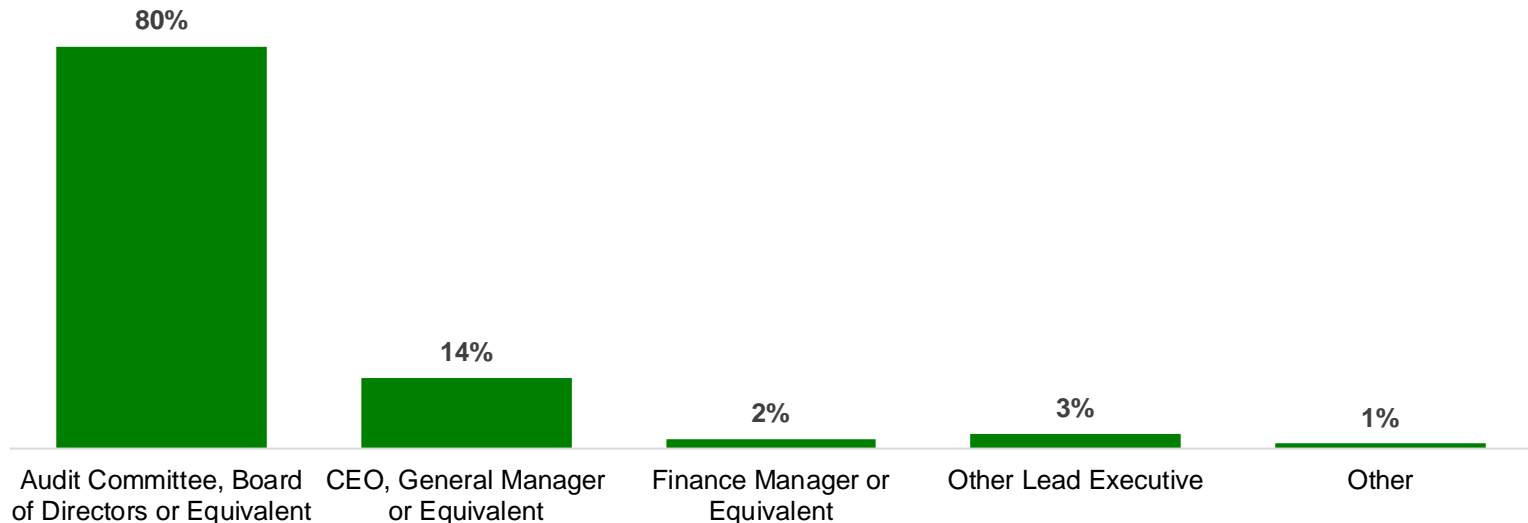|	High/Very High Risk	Moderate Risk	Low/Very Low Risk
Financial reports, Operational and/or Sox	22%	56%	22%
Regulatory/Compliance	28%	49%	22%
Cybersecurity and/or Technology	47%	46%	7%
ERM and related processes	17%	69%	13%
Fraud and/or Costs/expenses	29%	52%	20%
Audit Processes, Financial, Operational, or business	20%	69%	11%

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Section 7

Leadership and
Governance
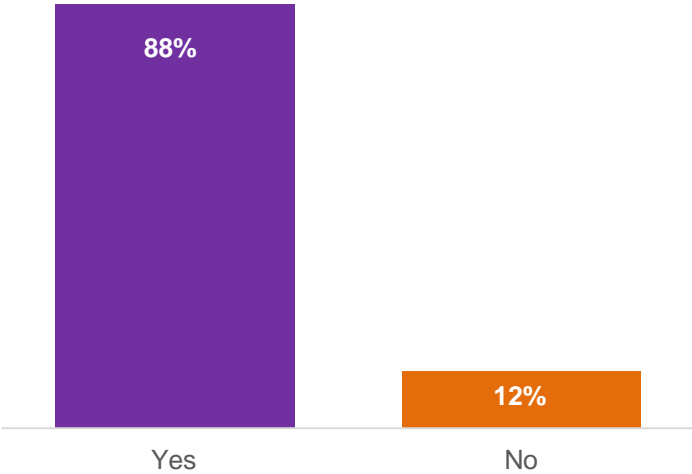
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7. Leadership and Governance

It is very positive that 88% of the participants indicated that the organization has an Audit Committee, Board of Directors or other oversight body for the Internal Audit function. More favorable that 80% will indicate that the first functional reporting line of the Internal Audit Director/Executive is the Audit Committee or Board of Directors.

The areas of technology (73%) and education/training (70%) were the top two areas to address should the Internal Audit area receive additional funding in 2023 or 2024. This could indicate that Internal Audit Departments recognize that they need to improve the use of technology in their management.

What is the primary functional reporting line for the Chief Audit Officer or Chief Internal Audit Officer in your organization?

Audit Committee, Board of Directors or Equivalent	CEO, General Manager or Equivalent	Finance Manager or Equivalent	Other Lead Executive	Other
80%	14%	2%	3%	1%

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Does your organization have an Audit Committee, Board of Directors, or oversight body similar to the Internal Audit function?

88% Yes
12% No

With respect to the year 2022, the budget of the Department of Internal Audit for the year 2023?

35%
54%
11%

■ Increase ■ Decreased ■ Stayed the same

If the Internal Audit Department were to receive additional funding in 2023 or 2024, which areas do you consider to be priorities for such funding?
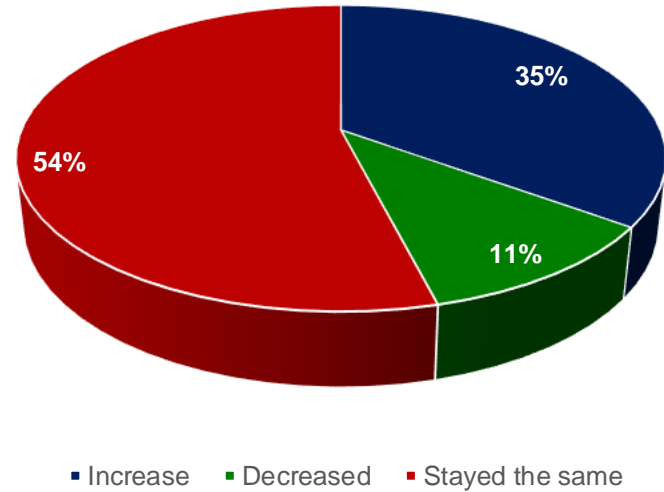
Technology	73%
Education/Training	70%
Hire more Auditors	39%
Increase Compensation	37%
Consulting	11%
Auditors Outsourced	10%

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It is an independent regional company dedicated exclusively to helping organizations meet their challenges in GRC (Governance, Risk & Compliance) and ESG (Environmental, Social & Governance); composed of professionals with the knowledge and credibility necessary to translate very technical aspects into a simple language with business sense. With fourteen (14) years of having started operations, RISCCO has in its client portfolio private companies and Government Institutions in the region leaders in their field.