2020 and the Impact of COVID-19 has advanced the Internal Audit profession into a world that has very high expectations of our profession. Boards, Audit Committees and Executives have all experienced significant pressure and change over the past year. This has equally translated into a need for the Internal Audit profession to adapt and step up to assist as that agile trusted advisor.

Unfortunately, many Canadian Internal Audit functions did not have the chance to prove this, and have been displaced by cost reduction and restructuring initiatives.

We are now in a different world, and therefore Internal Audit leaders and staff must also evolve to meet the current expectations; some of which involve learning new strategies, business models, technology and regulation in order to remain relevant.

The following are just a few examples of what has either changed forever or is now new to our profession.

**Remote “Virtual Testing and Auditing”:** This has required some internal audit functions to be very creative. For example, some industries or businesses with remote manufacturing or operations have acquired virtual video and cell technology. This allows the internal audit team to instruct front line industry workers to act as virtual auditors to collect information required for an audit, while following instructions from internal audit staff; such as instructing a remote manufacturing employee to conduct a physical inventory count.

**Increasing Reliance on Systems, Data, and Artificial Intelligence for Real Time and Continuous Monitoring:** Past audits which identified issues with regards to violations of the code of conduct or specific rules related to health and safety have driven new projects to leverage technology to implement
continuous monitoring systems. Essentially these continuous monitoring systems know what the acceptable range is for every metric that is being tracked. When the actual metric ventures outside this range it is then flagged for immediate review. One could call this an early warning system to prevent issues from growing into very material problems. For example, expense report continuous monitoring is becoming very common. Artificial Intelligence is advancing this monitoring to another level of higher accuracy.

**Utilizing Applied Data (Risk Analytics) to Solve Material Issues:** Analytics have been proven to be very effective at finding solutions to complex problems and identifying issues early with exact precision. A simple rule of thumb is that it does not take much in terms of volume of transactions or complexity in testing for a data analytics approach to prove to be exceedingly more efficient and accurate than a manual, human testing approach. For example, it is common now for large scale capital construction projects to utilize analytics to test vendor billing accuracy, and to claim back for overbilling.

**Outsmarting the Sophistication of Hackers Attempting Cyber Crime:** Easier said than done. Many hackers never stop innovating and finding new ways to break through even the most advanced security systems. I think it is certain that cyber security will never stop being a material issue for business and government. For example, hackers know the COVID-19 pandemic has expedited change, and digital transformation, all of which can weaken cyber security controls. It is not a surprise that there has been a significant increase in hacking attempts using ransomware since the pandemic began.

**Optimizing Human Productivity by Replacing Manual and Repetitive Tasks with Robotic Process Automation (RPA):** As the world continues to rely on technology that collects data, the more we are able to leverage systems, the internet of things and the cloud, and to have bots replace repetitive manual labour tasks. Resources are being asked to move towards higher skilled roles that add even more value. The bots are quickly replacing the boring and repetitive tasks that most humans were not excited to have to do anyway.

**An Entire New Code of Conduct for Remote Virtual Workers and Related Fraud Investigation Techniques:** As the world has moved to working remotely, and not be monitored in person during the day by anyone, it has opened the door for many new issues to arise. For example, is it possible for employers to know if remote working employees are taking drugs or consuming alcohol during work hours? Can they access and distribute confidential, private or restrictive data remotely? Companies must be aware of the most common scenarios and adapt to create new policy and controls that will minimize risk in the future. Also, fraud investigators relied heavily on in person, face-to-face interview techniques. Today, this has been replaced with virtual interviews. Time will tell if this can be an effective way to conduct a fraud interview. Many companies are turning to technology to assist with fraud investigations, such as using data analytic and AI systems designed for this.

**Dealing with the Side Effects of Expedited Digital Transformation:** The more extreme the change caused by digital transformation, the greater the chance historical controls may no longer be effective or efficient. There is also the subject of whether or not businesses have sufficient data governance and
management practices and controls in place to maintain the integrity of data and the quality of related decisions driven by it. Some businesses which have had to quickly implement new systems to maintain or enable supply chain or online sales models, have seen many of their controls become ineffective immediately. This then requires the establishment of a whole new set of controls in order to maintain positive audits from the regulators or external auditors.

**Emerging Critical Reporting Areas such as Environment, Social, and Governance (ESG):** For many, this is not a new subject. The biggest change is that this is now of significant importance to investors, capital markets, and most consumers. Many companies are scrambling to understand the expectations of investors, regulators, customers, and partners. In some industries and public companies, it can mean demise over time as capital is no longer available. There is also a growing focus on ESG reporting and compliance to formal ESG reporting standards that will be enforced at some point in time. It is quite probable that companies will need annual ESG assurance audits in the future. For example, both International Financial Reporting Standards (IFRS) and Securities Commissions are looking at formal ESG reporting standards around the world. This may become as material as the Sarbanes-Oxley (SOX) Act.

**The Critical Need for Data Governance, Management and Security (Avoiding data breaches of privacy data):** Companies, organizations, and individuals are all exposed to the risk and liability associated with violating laws related to data; such as a hacker breaching the privacy data stored by your organization. Governments, regulators and law enforcement are all implementing rules, laws and penalties related to allowing a data breach to happen, because of insufficient controls. Every organization should be asking what level of controls is considered reasonable. For example, does your organization have an inventory of where all restrictive, confidential and privacy data is stored?

**A Never-Ending World of Training, Education and Upgrading Skills:** The pace of change has now exceeded what companies, governments and others are doing to help employees stay on top of critical skills and current needs. The positive is that there is a significant way to detect these requirements by tracking related data to communicate issues that may need attention in the short-term.

The world within which we live today will never go back to exactly the way it was before COVID-19. Internal Audit must, therefore, change equally or greater to remain relevant, and be able to maintain the role of being that agile trusted advisor.

I look forward to what 2021 will bring to The IIA Canada, as an organization, and to all internal auditors. 2021 will offer the internal audit profession immense opportunities as the need for the internal audit function has never before been so important. The IIA Canada stands committed to serving the internal audit community as it seizes these opportunities and rises to the challenge.

Sincerely,

Richard Arthurs,
Chair, The IIA Canada Board