

IIA HUNGARY INTERNATIONAL CONFERENCE OF INTERNAL AUDITORS – NEW TRENDS, VIEWS AND TOPICS

After a 2-year gap due to COVID, IIA Hungary organized an international conference on September 15, 2021, entirely online and exclusively in English.

Our first speaker, **Ramses Gallego**, joined us with his usual dynamics and smile. He bombarded the audience with lots of information in his typical, overwhelming style in the live broadcast. The title of Ramses' presentation was "It's not a digital transformation, its radical innovation," in which he showed the audience that developments no longer point in the direction of digital transformation of existing business processes. Still, we can see more and more radical innovations as a result of the developments. It has been argued that the main direction of development is artificial intelligence (AI), including various types of machine learning. According to Ramses, the methodology of cyber-attacks is now widely known, and professionals can prepare for defense on this basis. It also sounded shocking that technology is no longer a barrier to innovation today. It is mostly hampered by finan-

SUMMARY

Key words: Digital transformation, artificial intelligence, company ethics.

The quality of speakers and topics of their presentation was an excellent introduction to new views of the current business environment and related tasks for internal auditors.



¹ Dr Márton Gajdos CIA, CISA, CFE, President of IIA Hungary, Budapest.

cial/budgetary constraints. Ramses also pointed out that training the workforce is also essential because technological innovation can only be realized with the help of well-trained colleagues. At the end of his presentation, he said goodbye by promising to return to interested members of IIA Hungary as part of a more extended educational program in the spring.

This very inspiring presentation was followed by a presentation by **Karem Obeid**, who joined us from the United Arab Emirates, Dubai and debated whether internal audit had already reached the level of development we would currently expect. The rapporteur explained that internal audit started in the 1940-the 50s with compliance audits and then, through process audits and risk-based audits, it reached the level of value-based, partnership-based internal audit. The top global risks include infectious diseases, viruses, crises in the cost of living in certain regions, extreme weather conditions, cyber security events, and inequalities in access to digitalization. New technologies are also significantly impacting the risk universe and rewriting the business environment, such as more and more online shopping, AI, digital, contactless payment, 3D printing, robots and drones, and 5G.

The second block of the conference was spiced with ethical issues and dilemmas revolving around digitalization.

Martin Wiederman (Partner, EY) presented the possible future of internal audit and the possible division of labor between man and machine. Title of his presentation: “Digitalization of IA - the new split of work between the Human and the Machine.” According to Martin, gathering information currently accounts for 75% of the time spent on internal audit work. Increasing efficiency in this area represents the most significant added value for digitization. In 5-8 years, maybe half as much time will be done to collect and analyse information during the audit. Digitalization does not mean that human resources need to be replaced, tasks will be transformed, and as a result, they can be shared efficiently. The goal is the most efficient combination of human and technological resources. In the longer term, the goal at the company level can be monitoring and managing all risks of the organization with technical tools, which results in fast reactions, flexible management, quicker and more precise detection of new threats. Example: Vendor compliance review - are discounts paid timely, or is liquidity endangered? By analyzing the examination of the entire account population, they came to utterly new information than would have been possible with a process audit (without digital analysis).

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Matej Drašček, Ph.D. (Chief audit executive, Hranilnica LON d.d. bank) spoke about the challenges of audits focusing on ethics and corporate culture in its presentation “The Blind Spots of Auditing Ethics in an Organization.” He started with ethical dilemmas, such as, can a person be sacrificed if we save five? With these, he pointed out that the essence of ethics is a difficult decision in sensitive situations. He then broke down some of the beliefs that live in most of us. E.g., the Code of Conduct promotes the ethics of the organization.

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In contrast, as experienced, sometimes it, unfortunately, worsens it because people think that if something is not directly described as prohibited, then it is allowed. Good practice: Managers should actively declare that the decision is in line with the Code of Conduct for each major decision. Also: whistleblowing helps to report unethical behavior. This may be true if: there is no “staring effect” or Genovese syndrome within the firm, meaning that the more people are present during an emergency or, the more the bystanders are, the less is the proportion of the individual responsibility, and the less is the motivation to intervene. Created unethical situations can be the subject of the audit tests for such occasions. Another myth is that challenging goals help the development of the company.

In contrast, many examples (Wells Fargo / Enron) show that often a bad target alone is the cause of inappropriate behavior. Especially the character of persons can't be changed much. Whoever tends to break the rules cannot be “brainwashed.”

The last speaker was **Gergő Barta** from Deloitte (Manager, IT Risk Advisory), who spoke about truly cutting-edge technology, artificial intelligence (an AI-based approach to detect internal control deficiencies). For AI, there are plenty of definitions depending on area or application. In Gergő's reading, one part of MI is machine learning, of which deep learning is also a part. (In the case of machine learning, the machine itself forms the rules from the data and answers.) What does this mean for internal auditors? MI can help you go beyond traditional auditing by sample testing (due to limited budget and time a full population-wide test by MI-supported solution), by differences/anomalies being searched by predefined rules (faster recognition of new rules due to continuous learning). He then presented a model in which MI is used to try to detect possible future control gaps. The hybrid model included deep learning, boosting, and collaborative filtering solutions

for the most efficient operation. He concluded that we could win a battle with innovation, but in the long run, we need an innovative mindset.

The next presentation was mine (**Dr. Márton Gajdos**), making my dream come true: combining my love of internal audit with my passion for military history. As business sciences have learned a lot from military strategies, I thought the same could

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apply to internal audits as well. The presentation focused on how out-of-the-box strategies can win battles but also how constant innovation is needed to win wars. I started by describing the so-called “phalanxes,” a military structure developed by the ancient Greeks, as an innovation arising from different social and economic circumstances. The soldiers (so-called hoplites) stood side by side in the phalanx, holding their shields, forming a real war machine. With the shields in the left hands, the most vulnerable point of the phalanx was the right side, so usually, the best soldiers were fighting on the right-wing. As all armies used the same strategy when two phalanxes met, the strong part faced the weakest part of the enemy (and vice versa), which generally caused an anti-clockwise motion on the battlefield. This led to the innovation of the Thebes, to set up the army in a completely different way in the battle of Leuctra, in which the leading forces were placed on the left, and the phalanx on the left was made stronger by consisting of more rows than the traditional phalanx. Fifty people stood behind each other in a column, resulting in a “super phalanx,” kind of a “hammer”. This resulted in the inferior Theban troops overcoming the mighty Spartan army despite being outnumbered. Several things can be learned from such an example, including: we need to be ready to play different roles and also that we need to focus resources on the most important issues.

The following presentation was held by **Tomáš Pivoňka** (Head of Audit and Compliance at ČEZ), focusing on the circumstances that led to the changes in risk management. According to him, changes in our external environment are causing changes within companies and in internal control and risk management. Circumstances that are evolving very rapidly and remarkably and leading to significant changes not only in our corporate lives but also in our personal lives include the digital revolution, climate change, government and investment pressures, societal expectations of corporate behavior, and natural and pandemic disasters. These changes fundamentally generate the need for new, more flexible and effective risk management. According to Pivoňka, internal audit (IA) can be defined

at three levels: (1) activity level, where internal auditors, as “firefighters”, without any idea, jump from one fire to another, (2) process level, where internal auditors control processes and improve rationalization; and (3) company/holding level, where internal auditors can play a strategic advisory role. According to Pivoňka, a good leader of IA works at all levels and holds all three roles. He reiterated that the most valuable role of IA is to provide support to management in decision-making under challenging situations, such as complex cases.

The third topic of this block was a presentation by **Craig Wright** (Partner at KPMG UK) on third-party risk management (TPRM), referring to KPMG UK’s global survey of senior risk management professionals from 1,100 companies in 14 countries last year, which provided an excellent overview of the topic. The presentation covered three areas: (1) the definition of third parties and TPRM, (2) changes in the related circumstances affecting TPRM, and (3) the role of internal audit in TPRM. According to the survey, only 41% of respondents are sure that they have agreed on the definition of third parties within their company. The survey also found that data security and data protection, as well as cyber risks, are the most important factors for third-party activity, yet only 54 percent of respondents consider data/data protection as a priority. Key issues of TPRM include an increase in regulatory requirements, increasing dependence and poor risk management, complex operating models, the processes themselves (e.g., weak experience, too long risk assessment), and finally, technology and data. Internal audit can focus on four interrelated components to analyze design and effectiveness throughout the TPRM lifecycle: (1) management and program design (program-level considerations), (2) review of TPRM application (specific aspect), (3) commitment, and (4) third party review.

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In the next block, **Charles CALOVICH** (WORKIVA) talked about “Increasing Resilience in Operation”. According to our rapporteur, the answer to the constantly present challenges affecting companies can be the appropriate flexibility of operation. Firms need to change their way of thinking about risks, starting with reviewing risk assessments. It is crucial to think about which data predicts uncertainty, the occurrence of risks, and how to assess them properly. Data quality and analytics should also be handled with priority in decisions. Of course, WORKIVA offers a usable solution for collecting and analyzing data, either carrying out a risk assessment or preparing or executing audit engagements.

This was followed by an exciting panel discussion with **Jasna Turkovic** (HR), **Tomas Pivonka** (CZ), and **Jean-Pierre Garrity** (BE). All of them have long professional experience in internal audit. For Jasna, it was not only the COVID epidemic that was the only extraordinary change during this period, as their company size - the financial sector -, their international reach and the number of auditors changed dynamically more than fivefold. They had to introduce new processes with remote audits, adjust the work plan to financial transactions changed due to the epidemic, and hold team-building online discussions to form more personal connections within the 16-member new audit team. The department of Tomas was in a fortunate position, as their company, an energy supplier, uses fully digitalized solutions, highlighting the fact that working efficiently at home has been a challenge for several of their colleagues. The biggest challenge in the audit area will be to examine the implementation and execution of the new corporate strategy (introduction of the ESG program). Jean-Pierre highlighted that very rapid changes had taken place in the public sector, and the epidemic has intensified and accelerated the rate of digitalization, which is a positive effect. At the same time, “home-office” also poses challenges to work efficiency. The disadvantage of remote (online) audits and interviews was that, for example, the observation of body language is not possible, as this additional information can support or refute what was said, or due to caution (not everyone can hear/record the online discussion) no transfer of information takes place. Regarding “new normal” work (office vs. home), they all indicated a half-to-half ratio.

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The closing presentation of this block was given by **Eduard Kan** (KZ) on behalf of REFINITY. He pointed out that internal control must continue to provide assurance in an increasingly dynamic environment. This requires IT solutions that support internal auditors. These solutions can lead to savings, for example, in the preparation of the audit report and in the follow-up of the problems identified. Three different levels of IT solutions (Point Application; GRC System; Integrated Risk Solution) were presented, which differed in their functionality, flexibility, customizability, time to deploy, and pricing.

In the last section of the presentation, we first heard a presentation by **J. Michael (“Mike”) Peppers** CIA, QIAL, CRMA, CPA, Head of Internal Audit at the University of

Texas System (formerly president of IIA Global for a year), “Make your message count!” (in free translation: “Make sure your message is heard!”). Mike, who personally visited Hungary as President-in-Office (and long before the COVID epidemic) and then also spoke at our conference this year, said earlier in several forums that Budapest had had the greatest impact on his travels during his presidency and how well he felt at our place. In his presentation, he drew attention to the much greater impact it would have if the internal auditor did not “just” send his report but presented the results in a presentation. And if you do, do it right: Mike has listed the main rules of the presentation, what to do and what not to do, down to the seemingly small but important questions of how to organize or tidy the auditorium and how to make sure of it technically. that the performance will be smooth. He spoke explicitly about the specifics of online presentations and shared helpful tips with students at our conference. Mike closed his presentation with “You can make that presentation!”.

The last speaker at the conference was **Richard F. Chambers**, CIA, CRMA, QIAL, the outgoing CEO of IIA Global, who quoted his recent book, “Agents of change - internal auditor in an era of disruption” – that is, to say, “internal auditors in an era of turmoil”. We had long wanted to invite Richard to a regional conference, and it was a particular pleasure for us to have him attending this time. In his presentation, he outlined arguments for internal auditors as to be agents of change, the most important of which was the message that those who act as catalysts for change not only protect but also create value through their activities. In addition to why, he also talked about how we can be agents of change, what qualities are needed for this: he highlighted a deep understanding of the business (our organization’s core business), strategic thinking on the part of internal control, openness to networking with an innovative attitude. At the end of his presentation, he stressed that the agent of change should not be a “secret agent”. The internal auditor should be visible and audible at different levels in the organization, especially for the senior management. “If you do so, you can be the internal auditor of the organization not only as a change but as an agent of the future!”

II MAĐARSKA MEĐUNARODNA KONFERENCIJA INTERNIH REVIZORA – NOVI TRENDovi, STAOVI I TEME REZIME

Ključne reči: Digitalna transformacija, veštačka inteligencija, kompanijska etika.

Kvalitet predavača i tema njihovih izlaganja bio je odličan uvod u nove poglede savremenog poslovnog okruženja i odgovarajućih zadataka za interne revizore.