

ACL launches new Audit Analytic Capability Model

Guidance for internal audit looking to maximize value

ACL has released the Audit Analytic Capability Model, a framework for the use of audit analytic solutions. The model was formally launched at The Institute of Internal Auditors' (IIA) General Audit Management conference in April, where more than 900 chief audit executives and audit leaders gathered.

Today's business climate has put pressure on internal audit groups to provide greater insights into business risk, and industry surveys have identified

the use of audit analytic technology as a top-five enabling strategic priority. However, only 20% of respondents in PricewaterhouseCoopers' 2010 *State of the internal audit profession study* placed themselves in the two most mature categories when describing their departments' use of data analytics technology.

While the technology exists to automate audit processes and analyze vast amounts of data, the reality is that many internal audit groups struggle to align their resources and capabilities to realize the full potential of audit analytic technology.

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Lafarge streamlines complex data extraction and analysis with ACL

Lafarge North America is the largest diversified supplier of construction materials in the U.S. and Canada. The company produces and sells cement, ready-mix concrete, gypsum wallboard, aggregates, asphalt, and related products and services. The products are used in residential, commercial and public works construction projects across the continent. Lafarge operates from 3,500 locations throughout North America with annual revenues of more than US\$4 billion.

Objective: Enhance regulatory and taxation compliance

Lafarge's processing environment generates over 120 million General Ledger transactions per year. It represents a complex, mission-critical piece of the business. The company recently implemented a unified ERP system, but still needed a solution that could access disparate legacy systems (including archived data, tools and processes) in order to satisfy audit, government reporting and regulatory requirements.

To safely deliver data to off-site auditors, unions, and tax authorities, Lafarge accountants had to encrypt extract files and physically ship them in courier boxes. It was an expensive, time-consuming process that left the company vulnerable to financial penalties, non-compliance fines and security breaches.

Automating data extracts from disparate systems

After considering several options, Lafarge chose to implement ACL AuditExchange™ (AX).

Lafarge IT specialists began by working with ACL's Professional Services Group to establish an effective technical infrastructure for the AX rollout. Ongoing communication between IT and the ACL consultants ensured a smooth implementation tailored specifically to fit the company's needs. ACL consultants also provided hands-on user training – demonstrating the logic behind data tests and ensuring staff were prepared for diverse analytic scenarios.

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» Lafarge North America streamlines complex data extraction and analysis with ACL



The Lafarge AX solution provides a platform to extract and manipulate large data volumes and deliver complete, valid files to third-party users. Ad-hoc reporting requests (for investigative purposes) are quickly translated into ACL analytics and housed in AX for future use in a secure-access repository that can also be accessed by internal teams working in different locations.

“ACL AuditExchange delivers secure data access with top-notch quality assurance. It’s helping us to improve efficiency and cut costs.”

Gerrit Buitendag, Director of Accounting

The robust AX extraction and scheduling function regularly pulls data from disparate systems to anticipate future needs. It’s a proactive approach that has cut extraction times from as much as 20 days down to several hours – without IT intervention. Once analyzed, ACL ensures the validity of data sent to outside bodies, such as auditors and tax authorities, and provides tighter control over sensitive information.

Lafarge’s auditors were already using ACL so the AuditExchange platform implementation has established a common language between audit, accounting, IT and finance teams. Now, Lafarge accountants can also use AX to compare category codes against reporting rules and track transaction processing trends and characteristics. Analytics also pinpoint accounting issues and reconcile control accounts.

Results: Secure collaboration and significant cost savings

Lafarge has used AuditExchange to:

- Cut extraction times from as much as 20 days down to several hours
- Prevent and minimize major non-compliance penalties
- Share data securely with internal teams and appropriate third parties
- Enhance collaboration without travel costs
- Access and analyze data from disparate legacy systems.

Despite a growing physical distance between the accounting and audit teams, AX provides secure data access for virtual collaboration. There’s no need to ship data files, which minimizes business risks and saves hours of unnecessary labor. The controlled virtual collaboration has also reduced travel costs.

For Lafarge, anything less than total compliance with tax and legal regulations can lead to severe financial penalties. When management compared the total costs from previous years with the potential cost savings of a managed analytics program, they quickly determined that AX provided a significant return on investment.

Internal business units are also using AX to minimize their reliance on IT resources. Before, extracting data from the ERP and multiple legacy systems was costly and took a long time to complete. Now, standard extractions can be turned around in less than 24 hours and stored in the AX repository to meet the needs of multiple users. The extracts are also scheduled at off-peak hours to prevent system disruptions.

On-site Training. We come to you.

On-site training is a convenient and cost-effective alternative to receive education without travel expenses or loss of time in the office. With a lower average cost per participant, on-site training eliminates the need to travel for training and offers the opportunity to maximize ACL training for your team.

If there are more than five people who require training, it’s less expensive for a certified ACL trainer to come to you than for you to send each of them to open enrollment classes. And on-site training provides a unique forum to address your customer-specific challenges using your data.

“Thanks to a successful, cost-effective training experience and hands-on support from ACL Consulting Services, the AAA NCNU audit department is well-positioned to strengthen its performance, deliver higher-quality audit work based on full data coverage, and promote a tighter control environment across the enterprise.”

American Automobile Association of Northern California, Nevada & Utah

» To book your next training course, contact us at training@acl.com

Strategic fraud analysis with ACL solutions



“ ACL technology has been a tremendous asset for RLI. We’re less dependent on sampling and provide greater assurance by embedding analytics in each and every audit project. ”

Seth A. Davis, CFA, CIA, CPCU, Vice President, Internal Audit Services

Founded in 1965, RLI Insurance is a specialty insurance company that offers a diversified portfolio of property and casualty coverage and surety bonds serving niche markets. Products include contractors’ general liability, earthquake coverage for commercial properties, oil and gas surety bonds, and directors and officer’s coverage. With headquarters in Peoria, Illinois, RLI operates from over 35 office locations in all 50 states across the U.S.

RLI is focused on profitable growth and bottom-line results and requires all departments, including internal audit, add value to the organization. For the company’s small audit team, ACL analytics provide broad coverage and significantly reduce the risks associated with manual sampling. The RLI audit group implemented ACL technology and worked closely with ACL’s expert support services to effectively access files, scrub data, develop extracts and analyze results.

Targeting fraud and lost revenue with repetitive analysis

Armed with a clear mandate to become more effective and focus primarily on fraud and lost revenue, the RLI internal audit department leveraged the ACL solution to develop a fraud indicator approach that looks for red flags such as P.O. box payments and missing tax ID numbers to highlight anomalies. As the team gained greater comfort with the data, they created a weighted analysis system that prioritizes transactions with the greatest propensity for fraud. This strategic fraud analysis has cut review times by at least 25% and helps to minimize false positives.

Each new audit now begins with a three-week planning phase, throughout which the team develops narratives, workflows, risk assessments, audit programs and performs a walkthrough to explore all related risks and controls. Each test must leverage ACL analytics – or provide justification for their exclusion.

For the next three weeks, auditors apply the technology to quickly extract files, conduct targeted testing and review the results.

Every employee undergoes ACL training to ensure they have appropriate skills and the knowledge to develop innovative new analytics. At the end of each audit, the team evaluates the testing and migrates the most valuable analytics into repeatable routines.

The audit group initially focused on areas in claims, which are high risk, such as missed subrogation, payee matches and personal mailboxes. They also expanded their focus on fraud and fund leakage to examine Accounts Payable (AP) data, Procurement Card (P-card) transactions and journal entries. AP tests include over 30 analytics that identify single vendors with different phone numbers, addresses or tax ID numbers. The P-card analytics highlight instances where the cardholder and approver are the same person, plus inappropriate procurement transactions and split billing to avoid authorization limits. Other tests examine journal entries made by an executive, entries that affect payroll, write-off journal entries, and more. The analytics extract data overnight and flag anomalies for monthly review. The results can then be summarized and presented to senior management and the RLI audit committee.

Results: Identified \$100,000 in annual funds leakage

RLI Insurance has used ACL solutions to:

- Design 115 repeatable analytics focusing on fraud and funds leakage and targeting missed subrogation, irregular payments to claim adjusters and other potential business issues
- Identify over US\$4 million in missed billings
- Reveal US\$100,000 in yearly funds leakage for a 400% annual ROI
- Provide greater assurance through full population testing
- Deliver more valuable results with repeatable analysis.

With a focused mandate and repeatable analytics, the RLI audit group has used

ACL to uncover conflicts of interest, missed subrogation, and abuse of company assets. Most dramatically, the team used ACL technology to recreate a flawed liability deductible query that revealed over US\$4 million in missed billings, a large percentage of which were successfully recovered. The audit group worked with management to strengthen the associated controls and has created a monitoring routine to ensure the problem does not occur again.

In addition, RLI continues to identify over US\$100,000 a year in revenue leakage. By embedding ACL analytics in each audit project, the team is less dependent on sampling and can deliver more meaningful results to senior management.

RLI[®]
DIFFERENT WORKS

How did RLI Insurance use ACL to recover nearly \$4 million in lost deductibles?

PODCAST

Learn how they used scripting along with an innovative “red flag theory” to account for false positives. Uncover some of the important lessons learned from their revenue leakage audits. Run Time: 10 minutes

» Listen Now! www.acl.com/podcasts

» ACL Launches New Audit Analytic Capability Model

Visit the **Audit Analytic Capability Model knowledge center**, a resource for learning about the five levels and the practical steps required to expand your use of audit analytics.

Resources include a whitepaper, webinars and customer case studies. Learn more from those who have progressed toward greater audit coverage and proactive risk management.

» Visit www.acl.com/steps

KNOWLEDGE CENTER

“The ACL Audit Analytic Capability Model provides the kind of practical guidance many organizations are looking for today. The audit profession understands the value of analytic technology but thus far has lacked a clear roadmap that outlined the steps required to integrate it into their audit processes. This model helps do that, addressing not only the technology but also the people and processes that are critical to success,” says Dave Coderre, president of CAATS.

The Model maps internal audit’s journey from basic data analysis to continuous monitoring

into five steps. By progressing through the stages of the ACL Audit Analytic Capability Model, organizations can benchmark their progress towards greater audit coverage and proactive risk management.

“The Audit Analytic Capability Model provides clear guidance for organizations looking to improve their use of analytics,” commented Theodore K. Walter, CPA, manager, financial audits at Scripps Health. “It’s how to talk to the business about the value of audit.”

“I often see organizations that want to jump right into continuous monitoring. But when they have no experience with automation – maybe they’re doing basic data analysis, but not continuously and not with high visibility throughout the organization – they are often disappointed because the organization isn’t prepared.

From an internal audit perspective, I like the Model because it shows the necessary progression. If organizations are trying to achieve continuous monitoring, it needs to be built progressively.”

Anthony Chalker, Managing Director, Protiviti

“Listening to the presentation on the ACL Audit Analytic Capability Model, it’s extremely helpful for us in our stage of development. I realize we need to create the roadmap for all five levels in order to allow the business/management to see and buy into the long-term benefits of continuous monitoring.

We see there are big benefits from monitoring operational risk for Basel, and ongoing internal control reviews. So as an audit team we’d like to clearly communicate those benefits, taking the key points from the model, to develop a paper for the Board to review. The Audit Analytic Capability Model will support that presentation and I’m sure it’s going to get used by many audit teams to make the business case for increasing analytic testing throughout the organization.”

Barry M. Jones, Senior Audit Manager, Large & Major Corporate, Central Region, Lloyds TSB Commercial Finance Limited

“By taking a step-by-step approach, internal audit functions can use this model, operate with greater analytic sophistication and provide increasingly valuable information to the business. For example, using audit analytics throughout the audit cycle will reduce fieldwork and help identify emerging risks more effectively.

Overall, this capability model supports making the business more aware of the benefits of advanced auditing techniques with technology – as well as helping audit become more aligned with the business.

This is right on target.”

Joel F. Kramer, CPA, Managing Director of Internal Audit Division, MIS Training Institute

“The ACL Audit Analytic Capability Model is a good model and it’s accurate; it represents the maturity that companies have to go through.

From my experience, it is reasonable to say that you can draw a dotted line at Level 3; if improving the use of analytics is a long-term strategy, companies should set a baseline to strive to get to at least Level 3.”

David Brand, Managing Director, Protiviti

INDUSTRY
Buzz

Mapping ACL solutions to the Model

By John Verver, CA, CISA, CMC, Vice President, Services & Product Strategy, ACL Services, Ltd.

As internal audit grows more sophisticated in its work and data analysis capabilities, it can move from primarily providing information about the past, or hindsight, to providing information about the present, or insight, and, even more valuable, by providing foresight – information that helps the business better anticipate and respond to future events.

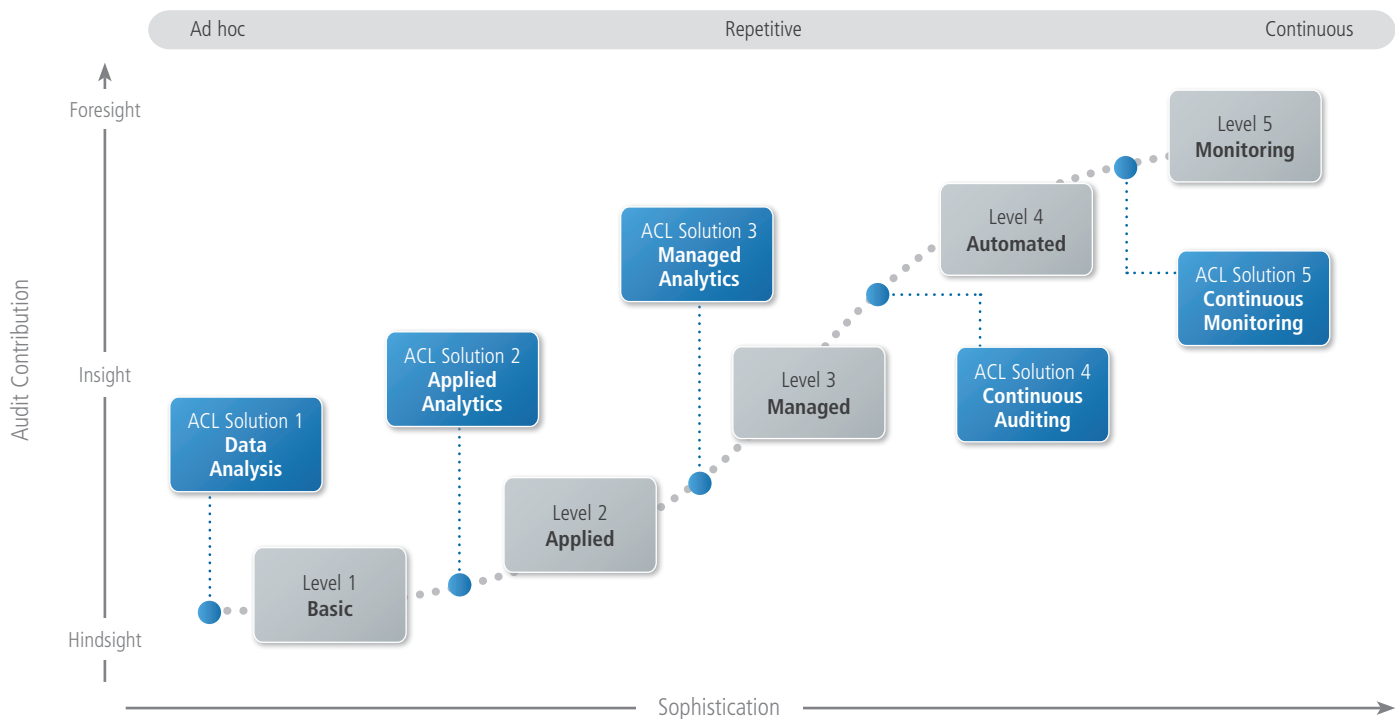
By working through the five analytic capability levels in the model, internal audit can enhance the hindsight it needs to provide, with the addition of more valuable insight and foresight, including information that sharpens senior management’s view and understanding of organizational risk.

The ACL Audit Analytic Capability Model is certainly not a rigid requirement; it’s a road map. A small number of companies may be able to successfully achieve continuous auditing and monitoring much more quickly than their competitors. However, most organizations – particularly those that seek to achieve

comprehensive analytic capabilities – really need to take this one step at a time. There are always exceptions. A company might achieve the final two levels simultaneously, for example.

ACL’s intention is to be practical and realistic to help companies succeed. It would be a shame if some companies lost confidence in the value of continuous auditing technology because they tried it and the effort did not work out the way they wanted it to.

As a result, ACL developed unique solutions for each level of the Model to help organizations effectively integrate their use of audit analytics.



The Audit Analytic Capability Model with corresponding ACL solutions

Solution 1: Data Analysis

Improve your audit coverage and productivity

“ACL technology equips you to pull in all the data and focus in specifically on the anomalies.”

– Caesars Entertainment

Solution 2: Applied Analytics

Enhance quality and consistency by embedding analytics into audit processes

“There is no way we could have been as successful assessing risk and detecting fraud without using ACL.”

– Dollar Thrifty Automotive Group

Solution 3: Managed Analytics

Conduct more efficient, secure and faster analysis

“ACL delivers secure data access with top-notch quality assurance. It’s helping us to improve efficiency and cut costs.”

– Lafarge North America

Solution 4: Continuous Auditing

Gain more timely insight into fraud, errors and inefficiencies

“ACL technology has transformed how we assess risk in our organization.”

– Fidelity National Financial

Solution 5: Continuous Monitoring

Reduce risk, lower costs and increase organizational performance

“ACL will fundamentally transform how we manage spending and evaluate compliance.”

– Dun & Bradstreet



First steps for FCPA compliance: You don't need to boil the ocean

By Steve Biskie, CPA, CITP, CISA, Customer Solutions Director, ACL Services, Ltd.

You may already know that you need to establish a *Foreign Corrupt Practices Act* (FCPA) compliance program. But how do you become more efficient and effective at addressing FCPA requirements? Internal audit is uniquely positioned to help business leaders understand and navigate the risks of FCPA across the organization. Effective data analysis techniques utilized by internal audit departments raise visibility around potential violations and can help management focus attention on the right places.

A technology-enabled strategy

It's risky to rely on "policies" alone – companies need to actively monitor transactions to ensure compliance with those policies. A technology-enabled strategy using audit analytics is a cornerstone of an effective and efficient FCPA compliance program.

Audit analytics and continuous auditing can help internal auditors monitor FCPA-related internal controls to prevent and detect violations that could open the organization to broader repercussions.

I'm sometimes asked "Why audit analytics – can't Enterprise Resource Planning (ERP) systems do the job?" While ERP systems may have certain capabilities to prevent fraud and errors from occurring or to flag exceptions, most compliance professionals find that ERP systems are not sufficient to effectively trap the typical problem transactions that occur. ERP systems are generally not good for getting data out, and aren't built to efficiently analyze and monitor transactions (especially structured transactions intended to mask specific activity). Additionally, warning messages are often ignored or certain control settings are turned off to increase efficiency. And you may also need to be analyzing data across multiple systems, including both ERP and legacy systems, which don't typically talk well to one another.

That's where specialized audit analytics technology comes in – it allows you to look at EVERY transaction instead of just a sample and, using both custom rules and fuzzy logic, flag those transactions that may require further investigation. And it runs independently from the various ERP systems, yet can easily correlate the different data sets.

Comparing apples and oranges, over hills and plains

You may have global offices around the world, working with different systems. This may also create a challenge for you to get access to all the relevant data you need so that you can run audit analytics to ensure your company is FCPA compliant.

In some cases, such as with a large international organization, centralizing data probably wouldn't be practical and possibly not even legal. Certain countries have privacy laws that prohibit the transmission of data outside that country (or in some cases, even the capture and correlation of certain data).

If it isn't possible to centralize your data due to specific privacy laws, there are technology strategies to ensure that you remain compliant with respect to those laws but can still access the data required to ensure your FCPA compliance across multiple jurisdictions – for example, by having multiple servers. Different organizations require different practices. You need to consult with your technology provider and consider involving your privacy officer and/or legal team to help determine the right approach.

Where to start?

Prioritize. And take one step at a time. Your first steps need only be to implement a handful of properly deployed analytics to pinpoint areas where more analysis is required. Use what you learn to prioritize and take a targeted approach. Here's what that might look like:

- 1) Define the red flags and compliance questions that are most important to your FCPA compliance efforts.
 - For example:
 - Payments made to high-risk vendors
 - Payments to government contractors
- 2) Get the data you need to answer your questions.
 - For example:
 - Vendor data
 - Payment data
 - PEP (Politically Exposed Persons) list, OFAC (Office of Foreign Assets Control) list, etc.
- 3) Run analyses. Push results out to the right people. Automate the process.
- 4) Build from there...
 - As you take one step at a time, you will build on increasing success, momentum and credibility. And as your business and external factors change, you – and your technology – need to be able to respond quickly and be easily adaptable.

» Resources now available to guide internal auditors. For a complimentary eBook, webinars and other materials, visit: www.acl.com/fcpa

The number of FCPA enforcements jumped 85% in 2010, with nearly US\$1 billion in penalties distributed, as well as more than US\$500 million in corporate settlements. Additionally, regulators are increasingly seeking jail time for individuals.

High-visibility risk mitigation through continuous auditing



Fidelity National Financial, Inc. (FNF), through its subsidiaries, provides title insurance, specialty insurance, and information services. As the largest title insurance company in the U.S., the company provides title insurance, escrow, and other title-related services, including collection and trust activities, trustee sale guarantees, recordings, and reconveyances. FNF also offers specialty insurance products, such as flood, home warranty, homeowners, automobile and personal insurance products. Headquartered in Jacksonville, Florida, FNF has 17,000 employees and US\$5.6 billion in annual revenues.

Objective: Timely detection of fraud, errors and control gaps

The FNF Audit Services Department (ASD) is responsible for auditing direct title operations, agency title operations, and the wide-ranging corporate function. The team has successfully applied ACL analytics to all three areas. Direct title operations, however, represent the highest level of business risk with the greatest potential for process improvements. To mitigate this risk ASD wanted to move from managed analytics to continuous auditing in this area.

Throughout a real estate transaction and the process of securing property titles, FNF escrow and closing services securely hold customer funds in trust. FNF currently relies on eight production systems in 200 title offices across the U.S. and Canada. FNF processes approximately 200,000 new title orders each month, which generates a large volume of critical data. Above all, FNF must properly manage this data to protect funds held in escrow from employee theft, parties masquerading as buyers and sellers, fraudsters, unethical mortgage agents, and more.

In the past, ASD selected a sample of escrow/title orders for each office and manually investigated the files on-site. The team was eager to implement continuous auditing with full-population data analysis and selected ACL AuditExchange™.

Automating data analysis with full-population coverage

The ACL analytics investigate escrow files for fund misappropriation, suspicious ledger activity, and patterns of known fraud schemes. The tests also evaluate compliance with regulations and company policies. Fraud analytics focus on parties involved with the transaction (primarily buyers and sellers) and parties receiving financial disbursements. For example, Fidelity employees should never receive funds from an

escrow transaction, so the analytics use pattern matching to highlight errors, misspellings and intended variations in name records.

Each analyzed file is automatically assigned an overall score, which is matched against a risk tolerance matrix. If a test score exceeds a designated threshold or an individual test with a high risk factor reports an exception, the anomaly will be flagged for follow-up and resolution.

Results: 24/7 auditing of escrow orders, payroll entries and AP transactions

FNF has used ACL technology to:

- Detect fraud, fund misappropriation and errors
- Analyze complete data populations for full operational visibility
- Ensure regulatory compliance and strengthen internal controls

The title insurance industry is regulated at the state and federal levels. Rule violations can lead to significant penalties and compromise the company's ability to sell title insurance. Fraud and inefficient business processes can also create revenue leakage and expose FNF to unacceptable risks. With automated analytics, the ASD team has moved from a manual sample process to complete coverage of the company's escrow operations. The solution has identified inappropriate disbursements to employees and has flagged potential violations of regulatory rules or company policies. Full-population visibility enables the audit team to see ongoing issues, avoid errors and detect potential fraud schemes on a near real-time basis.

The continuous auditing solution runs 24 hours a day, seven days a week to analyze escrow orders, payroll entries and accounts payable (AP) transactions. Field auditors simply

“ACL technology has transformed how we assess risk in our organization. ACL is here to stay and will continue to make substantial contributions to our improved performance in the months and years ahead.”

David Riddell, Automated Audit Solutions Manager

need a secure Internet connection to access approved analytics, view results and use the data to perform their on-site work. Business stakeholders in AP and payroll are also using the ACL solution to review anomalies and work with ASD to resolve exceptions and improve business processes. This cooperative environment promotes a positive working relationship between auditors and business units, while positioning the ASD as a trusted corporate partner.

The ASD team is also leveraging ACL technology to aggregate findings and sort data by geographic locations and business areas, and spot trends as they develop. With deeper business insight, FNF can encourage cross-department synergies and promote cost savings. Scheduled, automated audit analytics have helped the ASD to focus its expertise by researching issues, studying exceptions and resolving control gaps, rather than poring over paperwork that represents a tiny fraction of corporate data.

Interview with David Riddell, Automated Audit Solutions Manager

PODCAST

Learn how Fidelity National Financial uses ACL to mitigate business risks such as mortgage fraud. The audit team has created the analytics required to detect and report fraud and built a workflow engine that enables them to take appropriate action across an organization of 17,000 employees. Run Time: 12 minutes

» Listen now at www.acl.com/insurance

ACL News

ACL User Groups: For users, by users

Joining or starting a User Group is an opportunity to connect with peers while improving your technical expertise with the help of colleagues. ACL User Groups are user-run and user-administered. Membership in the Group ranges from 15 to 150, and most meet face-to-face quarterly or bimonthly and/or communicate online. Many Groups are not led by one person but by a team of people sharing the responsibilities.

ACL's User Group support website includes information on starting or locating a User Group, sample by-laws and FAQs. The site serves as a resource for customers to connect and network within their local communities.

ACL also provides incentives and assistance to established User Groups – including training discounts, emails to customers on their behalf,

incentives for the ACL Connections user conference, and onsite support such as ACL speakers.

Currently, there are 45 ACL User Groups operating throughout North America, the United Kingdom and Germany. There continues to be enormous interest at the grassroots level throughout the United States, Canada, Europe, the Netherlands and Australia.

» For more information on starting up a User Group or to locate one near your area, visit www.acl.com/usergroup

7 Seven Steps

to Jump Start Your **Anti-Fraud Program**

Does your organization have early warning systems in place to uncover and prevent fraud before the loss occurs? This was the topic of a recent Association of Certified Fraud Examiners Webinar, **Follow the Money: Data Analytics to Prevent Fraud**. Visit our Fraud Resource Center to review the recorded webcast, as well as a collection of fraud detection resources to help you take more action this year.

www.acl.com/fraud