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GLOBAL PERSPECTIVES ON RISK, CONTROL, AND GOVERNANCE

A Stronger Relationship

For communication to flourish between internal audit and the audit committee, trust and credibility must be the basis of ongoing conversations.



Internal Auditor

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Closing the Analytics Gap

Audit departments can boost their performance by following a five-level model for using data analysis technology.

BY PETER MILLAR

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VIEWING EVERY PURCHASE THAT AN organization made over the past quarter, seeking compliance with internal controls, and verifying that errors, omissions, and fraud haven't occurred is impossible given the time allocated in the organization's internal audit plan — or is it?

It would be impossible if auditors conducted the review manually by examining paper copies of the transactions. But by leveraging audit analytics technology effectively, it becomes far more efficient and highly achievable. One way to improve internal audit's use of data analysis technology is by following the five-level Audit Analytic Capability Model.

LEVEL 1: BASIC AUDIT ANALYTICS

The first level is characterized by the basic use of data analysis technology to perform queries and analyze data in support of a specific audit objective. Activities typically include statistical analysis, classifications, or summarization of data. By using analytics, auditors gain a better view of risk and control issues within a given audit area to identify inefficiencies, control weaknesses, or errors. Usage typically is limited to a small number of auditors in an ad hoc fashion.

Invariably, at this stage there is room for improvement, which requires an investment in changing audit processes and educating audit staff in the concepts of data analysis and the technology itself. By focusing on improving people, processes, and technology, internal audit departments can increase the effectiveness of audit analytics at the basic level.

PEOPLE Train the audit team. Although data analysis is not difficult to use at a basic level, training is important and beneficial. An effective training regimen should

include not only how to use the technology, but also where it fits into the audit process and how to leverage the technology to make audit plans more efficient.

PROCESSES Start with a simple plan. Identify where to use data analysis, the audit objectives that should be supported, the period to be covered, and the time frame in which the work will be performed. Work with the IT department to identify and gain access to the appropriate data.

TECHNOLOGY Select data analysis software that not only is effective at the introductory level but also can support future growth. Ensure hardware systems can store and process large volumes of data.

LEVEL 2: APPLIED ANALYTICS

Building on the basic level, internal audit at the applied analytics level integrates data analysis into targeted audit processes. Audit planning takes audit analytics into account and scripted tests may be created, used, and reused in subsequent audits.

At this level people and processes become increasingly important. Audit management needs to provide direction and support, and may assign a data analysis specialist to oversee the development of analytic projects and procedures. For audit managers, training in audit analytics becomes invaluable. To maximize the effectiveness of audit analytics at this level, internal audit should consider several actions.

PEOPLE Assign overall responsibility for the success of an audit analytics program to someone with the appropriate skills. Audit management should remain closely involved in reviewing objectives and progress. Keep in mind the need to

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merge technical and audit expertise when determining audit team roles. Proficiency in data analysis technology and in auditing are both required to ensure success.

PROCESSES Define goals and objectives for using analytics and establish a realistic estimate of resource and investment requirements. Develop a strategy that can evolve to meet the audit department's current and future needs. Start with key audit objectives and determine which can be achieved most efficiently and effectively using analytics.

TECHNOLOGY If data access challenges exist, consider specialized data access technologies to enterprise resource planning and other core business systems. This will help overcome data access obstacles and assist in better understanding and documenting the data that reflects the business processes being scrutinized.

LEVEL 3: MANAGED ANALYTICS

The managed level is characterized by the use of structured, server-based, audit analytics technology. In this more organized and controlled approach to data analysis, audit departments store tests, results, audit procedures, and workpapers in a centralized repository. Access to, and use of, this content is aligned with key audit procedures and is controlled and secure.

Central management of data analysis can increase audit teams' efficiency and make the process more sustainable. Analytic procedures at this level are well-documented and centralized in a way that makes review by management more efficient. Internal audit should consider several areas to improve the effectiveness of audit analytics at the managed level.

PEOPLE Implementation of the managed level of audit analytics requires overall leadership and direction by audit management. Designate a repository administrator to manage access to, and the content within, the repository. This will ensure greater organization and version control over what is housed in the repository. This individual does not have to be a technical specialist, but does need to understand the audit processes.

PROCESSES Structure the audit analytics repository so that content can be leveraged efficiently. Carefully consider account

access, security, and control requirements, ensuring that only those who are qualified or need to know have access to the data and analytics contained therein. Confirm the completeness and validity of data and implement standardization of data, tests, and analytical procedures.

TECHNOLOGY Ensure that the technology selected is designed to manage and control audit analytics content and support efficient access to, and refresh of, data. Deploy server hardware to support the managed analytics platform.

LEVEL 4: AUTOMATED

The building blocks established at the previous levels form the basis for increased automation of analytic processes and, where appropriate, implementing continuous auditing. By this stage, the audit function should have developed, tested, and put in place comprehensive suites of tests in a central, controlled environment.

Departments that plan to implement continuous auditing must address issues beyond technology; they must significantly shift their audit processes to perform control and risk assessments automatically and on a more frequent basis. These departments may start continuous auditing in one area and then expand to additional areas. A continuous audit approach allows audit management to provide more thorough reporting to the audit committee and management. There are several ways internal audit can improve analytics effectiveness at the automated level.

PEOPLE Designate a continuous audit program manager to be responsible for leading and coordinating efforts across people, processes, and technology. Modify work processes so that an individual's continuous audit responsibilities fit in with other audit roles. With a continuous audit approach, the exceptions identified need to be communicated to management and followed up timely. What these continuous audit results reveal also needs to be assessed. Are they indicating an improved control environment or are they pointing toward elevated levels of risk?

PROCESSES Develop a prioritization plan for the business areas that require continuous auditing. For example, should continuous auditing first be applied to common business process areas such as

purchase-to-pay, procurement cards, or travel and entertainment expenses? Or should it be applied to complex areas of greater risk?

TECHNOLOGY Most often, technology issues relate to getting the appropriate data on an automated basis. When issues exist, start by confirming that the right data is available, then create, schedule, and interpret the results of automated data analysis routines and manage the findings and issues these tests uncover.

LEVEL 5: CONTINUOUS MONITORING

Internal audit often is in the best position to demonstrate to management the value of data analysis to detect control problems and improve operational performance. By encouraging and supporting the implementation of continuous monitoring, the benefits of data analysis techniques become evident. Continuous monitoring also can become an important part of an organization's risk management processes.

Although continuous monitoring is a management responsibility, internal audit should independently assess the impact of this activity. Under this approach, the desired outcome can be a combination of continuous auditing performed by internal audit and continuous monitoring performed by management.

ENHANCING AUDIT PERFORMANCE

Armed with this road map on how to close the audit analytics performance gap, auditors need to be mindful to define and document short-term and long-term objectives for the audit analytics program. Internal audit should determine where it is on the capability model, versus where it would like to be. The audit team should discuss with management and IT both the opportunities and barriers that may exist in moving forward. From there, it should develop a plan with related milestones for tracking the department's progress. Finally, internal audit should identify when new technology may be necessary to move to the next stage and budget accordingly.

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