Connecting the Dots: Building Internal Audit Value

Using technology to optimize internal audit processes and increase audit’s relevance to the business and C-suite

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EXECUTIVE SUMMARY

The role of internal audit has evolved considerably in recent years. There are increasingly demanding expectations around the value that internal auditors should deliver to their organization. Many audit leaders are up for the challenge and want to “earn a seat at the executive table.” As with any critical function in an organization, technology can play a vital role in enabling success. However, many internal audit departments are simply not using technology at the level needed to deliver what is expected.

There is a serious technology performance gap. Many audit teams are relying on outdated technology and processes which limit their ability to function at an optimal level and deliver far greater insights and value.

There are a number of factors that must be addressed in order for internal audit to transform its effectiveness through technology. These include:

- leadership declaring technology as a strategic imperative
- managing technology implementation in the same way as any critical project
- designing an end-to-end audit process that makes best use of current technologies
- understanding the practicalities of integrating analysis and automation into the audit process
- moving beyond a silo approach and aligning audit’s use of technology with that of risk management and compliance

At ACL, we believe strongly in the power of technology to help internal auditors realize their full potential as highly valuable professionals that are sought after throughout the organization.

In this eBook, we’ll look at how internal audit can build value, executive alignment, and relevance by “connecting the dots”:

- Connecting the dots across separate audit, risk management, and compliance processes taking place across the organization.
- Connecting the dots among the audit team and business unit contributors and stakeholders through collaboration in a single system.
- Connecting the dots directly from factual data to big picture risks and objectives.

And, Connecting the dots within the auditor’s workflow, by pulling together pieces of the audit process previously scattered across shared drives, spreadsheets, email, and various other technology.
Then...
In most organizations the role of internal audit has changed tremendously in the past decade. Look back to the early 2000s and the world was pretty different. The typical focus was on completing the traditional cyclical audit of specific financial and operational areas. The approach was predictable with little change in procedures from one audit cycle to another. Auditors dutifully followed a well-established audit program, with heavy reliance on internal control process walk-throughs and sampling. It was OK to get hold of the prior audit working-paper file and just do what was always done.

Internal auditors were typically seen by senior management as something of a “necessary evil”: diligent, detail-oriented and responsible professionals, with an obsession about matters that really were not expected to contribute much to the overall business objectives of the organization.
And now...
Roll forward to today and the internal audit function of many organizations has either evolved considerably or undergone a complete transformation.

In addition to its assurance functions, expectations are now that internal audit be heavily involved in the assessment of the risk management function and as value-adding advisors in many aspects of an organization’s operations.

The opportunity for internal audit today is more exciting than ever before. The internal auditor is in a unique organizational position, with a mandate that provides access to an incredibly broad and varied range of people, processes, systems and data. What other role is better poised to deliver unique insights and contributions to an organization’s success?

We hear frequently that progressive internal audit departments want “a seat at the table,” to be taken seriously by the C-Suite and highly regarded for the value they can contribute.
But wait a moment...
All of this seems fine. Why shouldn’t internal audit be a critical component of the governance, risk management and compliance structure—a component that makes a real difference?

No reason at all. Except that, in practice, very few internal audit departments are really enabled to function as a critical contributor.

Take a look at any critical functional area and it is a good bet that in the past five years there has been tremendous investment in resources and systems. How many businesses have been transformed, in terms of competitiveness and efficiency, through the use of technology? Think of almost any industry today and it is almost always assured that technology now plays a fundamental role—one that is resourced, funded and managed in a way that maximizes the chance of success.

So now let’s look at how technology has impacted internal audit in the past five years.

Well, we have certainly heard in just about every survey and report from the IIA and Big Four firms that technology is expected to play a tremendous role. It is always considered to be one of the top priorities for CAEs.

And yet, unfortunately, there is a sizeable disconnect between how CAEs expect technology to be used in internal audit and how technology is actually used. A recent PwC report shows that only 40% of CAEs considered that internal audit was leveraging technology well. Senior management’s view was even less favorable—only 35% rated internal audit as using technology effectively.¹

¹“Higher performance by design—A blueprint for change - 2014 State of the Internal Audit Profession Study April 2014” webinar presentation by PwC
So, despite the tremendous opportunity facing internal audit today it seems that there is a real problem with how internal audit is actually using technology. The rest of this eBook focuses on some of the key issues that should be addressed in order to arrive at a point where your internal audit department can be rated as fully meeting expectations for leveraging technology. None of these issues are particularly complex or hard to address—but they do require a shift in thinking and approach. They also present a very real opportunity for CAEs and other audit leaders to raise their profile within the organization and to become strong advocates for the role of technology in transforming internal audit processes, as well as taking a more integrated approach to risk management and compliance throughout the organization.
HOW CAN TECHNOLOGY REALLY CHANGE INTERNAL AUDIT?

How can technology be used to really transform the value that internal audit delivers to their organization, while also making sure that internal audit is not building a technology silo that in practice duplicates that of other functional areas.

In this eBook we call it “connecting the dots.”

The objective is to use technology to tie together a range of different internal audit processes into one seamless, interconnected system.
SO WHAT IS WRONG WITH INTERNAL AUDIT’S CURRENT APPROACH TO TECHNOLOGY USAGE?

Well, of course, the answer is that “it depends.” It depends on the history and approach of your own internal audit department. Chances are, though, that your use of audit technology is still built around the traditional processes of audit management and working paper documentation. You may be using dedicated audit management software—many such systems have been available for decades. Or, if you are like approximately 57% of internal audit departments— you rely on electronic work papers and documentation using a combination of Microsoft® Excel® and Word, email and operating system folders for managing file storage, sharing and security.

The challenge of traditional audit management software is that most systems require a high degree of configuration and set up. This may seem to make sense so that technology can support the processes that have been in place for years.

But what if the time has come for a complete re-think of approach in order to reflect the way that internal audit should really work in order to not only maximize the value they deliver, but also to optimize the way they deliver it?

Surveys indicate that many auditors using traditional audit management software find challenges in terms of functionality and ease-of-use.

Of course, one of the most compelling reasons to move to a more modern approach is that current technology can do far more to reduce the risks of financial and reputational damage from regulatory non-compliance or critical control failures.
How does your current dedicated audit management system handle process change?

- How about being able to update and share information from anywhere at any time?
  - Does your CAE have the ability to simply look at an Apple or Android handheld device, from anywhere in the world, and get an immediate view of the progress of every audit project and status of findings and follow up?
  - Is your CAE confident about sharing a dashboard of current quantified findings and risk trends with senior management?

- Do users find software truly intuitive and easy-to-use?
  - How much time and money is spent on software training, only to find that users forget what they learned within weeks?

If your audit technology is still based on Microsoft Office, how much time is spent trying to update, organize, manage and share spreadsheets and Word documents?

- How about review and sign-off procedures—are these really efficient and secure?
  - Do you have a well-managed centralized repository of findings and reports?
  - Do you know how much time is really wasted on tedious low-value tasks and high-risk gaps created with spreadsheets?

- Assuming that data analysis is an important part of your audit approach (as every survey indicates is desirable), how is the data accessed and managed?
  - Do you know whether the data being analyzed is really complete and validated?
  - Can you rely on the integrity of analytic tests?
  - Is the underlying data as secure and well-controlled as any data within core business processes?

Does your use of technology demonstrate to the Audit Committee and C-Suite that you must have a “seat at the table”?

- Internal audit clearly has a unique role and perspective within the organization. Yet how powerfully is this demonstrated within the governance structure and to key decision makers?
- Use of slide decks and manually generated reports is unlikely to impress business leaders that technology is being effectively leveraged.
Top 8 considerations...
Connecting the Dots: Building Internal Audit Value

Successfully Leveraging Technology in Internal Audit Management
START WITH LEADERSHIP & STRATEGY
If technology is truly expected to be a critical component of internal audit, then it needs to be treated as such. This means starting at the top, with internal audit leadership making a clear declaration of the role of technology as a strategic enabler for internal audit.

Unfortunately, in many internal audit departments, technology usage and decision-making issues are delegated to someone who demonstrates some technical interest and aptitude—but often lacks the strategic vision and authority to lead a technology transformation.

Ideally, the strategic declaration from the CAE or audit leader should be aligned with a similar directive from those responsible for the related processes of risk management, internal control, compliance and fraud detection. There is plenty of evidence that this is a critical distinguishing feature of those internal audit departments that are rated highly in the effectiveness of technology use.
SET GOALS, ALLOCATE RESOURCES, MEASURE PROGRESS
Look at how critical technological projects are managed in core business areas.

Chances are that they are properly funded, resourced and well managed. Objectives, plans and schedules are established. People are held accountable for progress and the achievement of measurable goals. The same principles apply to the successful use of technology in internal audit. Again this starts with internal audit leadership, where expectations are set. Most successful internal audit technology initiatives are also led by a “champion” who is appointed by the CAE and has the authority, knowledge and strategic understanding to drive a real transformation. Audit leadership also plays a critical role in communicating the technology strategy and objectives to key stakeholders in the C-Suite and audit committee.
ALIGN TECHNOLOGY SHIFT WITH INTERNAL AUDIT’S STRATEGIC OBJECTIVES
The technology selection process should be driven from the declared goals of technology enablement for internal audit.

While word-of-mouth and peer recommendation are valid data points, selection of specific software should also be based on a forward-thinking approach. After many years of relative stagnation, technology for audit and risk is already beginning to undergo rapid change. Consider what is important for the internal audit team and the way the team will be expected to operate in a one to three-year timeframe.

Technology shifts in areas such as mobile computing, cloud-based software, software-as-a-service and Big Data are having a transformative effect on how organizations operate. Internal audit, perhaps more than any other functional area, has a huge opportunity to benefit from these shifts.

KEY SOFTWARE TECHNOLOGY TRENDS THAT WILL DRIVE INTERNAL AUDIT SUCCESS

- Mobile computing
- Multiple devices
- Cloud
- Big Data
- Visual analysis and reporting
- Seamless workflow
- Intuitive consistent interface
- “Just-in-time” training and support
- Knowledge management
- Digital media
BUILD A SEAMLESS END-TO-END INTERNAL AUDIT PROCESS
Start by looking at all the key components of the internal audit process and how they should ideally fit together.

It soon becomes clear that there is a logical cyclical flow of interrelated activities. This concept is ideal for technology enablement and for achieving breakthroughs in efficiency and effectiveness. Software technology should support this in a seamless, consistent and intuitive way. Expect software to be lean yet comprehensive, but not complex or expensive to implement. It is just not realistic to expect a breakthrough in internal audit performance by continuing to rely on a variety of different generic software tools, however convenient it may initially appear to be.
ABOLISH SILOS
Internal audit needs, of course, to be an objective and independent function.

But this does not mean that it should operate in a technology silo. Internal audit processes clearly interrelate with multiple functional processes, particularly risk and control management and compliance. Consider how both audit and other functions need to be involved in the following:

- Identify and assess risks
- Test controls and adherence to regulations
- Monitor transactions
- Note and investigate exceptions
- Share and respond to findings and reports
- Review, monitor and use dashboards for detailed drilldown

Not only is it disempowering for internal audit to use multiple systems for their role in the above activities, it is also costly and silo-creating for other functional areas to select and use separate systems.

Internal audit can play a strong leadership role by being an advocate for the benefits of integrated technology systems that span multiple areas, reducing costs and bringing a common and aligned perspective to governance, risk management and compliance (GRC) processes throughout the organization.
INTEGRATE DATA ANALYSIS AND AUTOMATED TESTING CLOSELY INTO AUDIT PROCESSES
It is widely recognized that data analysis should play a vital role in internal audit—but it is seldom utilized anywhere close to its full potential.

One of the primary reasons for this is that, just as with audit technology in general, data analysis is often not actually treated as if it were critical to the successful achievement of audit's mission and objectives. Too often it is treated as something of an “add-on” to the audit process—used sporadically and inconsistently—instead of as a fully integrated core strategic component.

Leading modern audit management software enables data analysis to be integrated fully into the internal audit process: from initial risk assessment and audit planning, through detailed control testing and continuous auditing to exception management and quantified findings and reports.
SPREAD THE VISION OF TECHNOLOGY-DRIVEN INTERNAL AUDIT AND GRC
It seems clear that there is a great opportunity for internal audit to get its own house in order and become a leader in the use of technology to transform the value it delivers.

Internal audit has a unique perspective and role. There is also a clear overlap between its own technology requirements and those of risk management and compliance. In combination, there is also a real opportunity for internal audit to drive a vision and be a core part of a strategy for technology-driven GRC within the organization as a whole.

**Realizing a new internal audit vision.**

New technologies now play an essential role in enabling transformation, competitiveness and success in virtually every critical business area. Yet too many internal audit departments, while wanting to transform the value they contribute to their organization, fail to really embrace current technology and take advantage of its benefits. In order to make substantial change in internal audit contributions and effectiveness, audit management should give serious thought to how today’s technology can transform the audit process.

**Sharing the vision on high.**

One of the practical challenges for internal audit to truly leverage technology in transforming audit management and working paper processes is a lack of funding. There is often a big disconnect between expectations around audit’s use of technology and actual budget and resource allocation. The answer to this problem is often to deliver a business case for how technology can transform both audit processes and contribute to risk and compliance processes.
SPREAD THE BENEFITS OF DATA-DRIVEN INTERNAL AUDIT AND GRC
One of the great advantages of data analysis in audit is its ability to provide precisely quantified findings and insights.

A common positive side effect of internal audit presenting its findings to management is a response like:

“How did you get that information? We have always wanted to get an analysis like that.”

Not only can data analysis be applied very impactfully as part of a transformed audit process, but it can also play a highly effective role in quantified risk assessment and continuous monitoring.

And, not only can a data-driven approach change the material impact that audit provides, but it can also present a strong argument for increased funding to continually expand technology usage.
CONCLUSION

There are many issues to consider in order to transform internal audit processes by leveraging technology.

Internal audit is facing a tremendous opportunity to enhance its value proposition to the organization. Through the concepts described in this eBook, we have identified ways in which the power of current technology can be harnessed to truly help build value, executive alignment, and relevance for internal audit.

“Connecting the dots” is really very simple and is all about using the latest technology in a way that enables:

- Intermeshing the disparate audit, risk management, and compliance processes taking place across the organization.
- Collaboration among the audit team and business unit contributors and stakeholders.
- Directly linking transactional data analysis to big picture risks and objectives, for fact-based insight, risk assessment, and performance measurement.
- Integrating the day-to-day workflow of each individual auditor as well as across the audit team, by pulling together pieces of the audit process often scattered over shared drives, spreadsheets, email, and other unconnected technologies.

Hopefully, this eBook has given you some useful ideas on the key issues to address and some new perspectives.

You may also find it useful to read ACL’s whitepaper on “Integrating Working Papers with Audit Management,” which details how to shift from typical “common practices” to best practices.

At ACL, we are strong believers in the power of technology to help internal auditors realize their full potential. We envision an era when internal auditors are recognized as highly valuable professionals and become sought after throughout the organization.

ACL has drawn upon its two decades of experience working with thousands of customers worldwide and developed detailed methodologies and best practices to boost the impact and value of audit, risk management, and compliance processes.

For a free assessment of how your organization can best integrate technology to transform your team’s value proposition, call 1-888-669-4225 or visit: www.acl.com
ABOUT THE AUTHOR

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ABOUT ACL

ACL delivers technology solutions that are transforming audit, compliance, and risk management. Through a combination of software and expert content, ACL enables powerful internal controls that identify and mitigate risk, protect profits, and accelerate performance.

Driven by a desire to expand the horizons of audit and risk management so they can deliver greater strategic business value, we develop and advocate technology that strengthens results, simplifies adoption, and improves usability. ACL’s integrated family of products—including our cloud-based governance, risk management, and compliance (GRC) solution and flagship data analytics products—combine all vital components of audit and risk, and are used seamlessly at all levels of the organization, from the C-suite to front line audit and risk professionals and the business managers they interface with. Enhanced reporting and dashboards provide transparency and business context that allows organizations to focus on what matters.

And, thanks to 25 years of experience and our consultative approach, we ensure fast, effective implementation, so customers realize concrete business results fast at low risk. Our actively engaged community of more than 14,000 customers around the globe—including 89% of the Fortune 500—tells our story best. Here are just a few. Visit us online at www.acl.com.