Continuous Auditing and Quick Response Audits and Activities

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Agenda

- Presentation Objectives
- Defining Continuous Auditing
- The Benefits of Continuous Auditing
- Developing Your Own Program in 10 Easy Steps
- Uses of Continuous Auditing
- Rapid Response Methods

Learning Objectives

At the end of this session, you will:

- Discuss what is meant by continuous auditing
- Realize the benefits of continuous auditing in a cost-effective manner
- Identify ways to be able to start, or enhance, your own program
- Identify how to enable Internal Audit to use continuous auditing to increase its value proposition to the organization
- Explain methods to assess, respond and report in a rapidly changing environment

Defining Continuous Auditing

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Defining Continuous Auditing

"An auditing process that examines accounting practices throughout the year. Continuous audits are usually technology driven and designed to automate error checking and data verification in real time. A continuous audit driven system generates alarm triggers that program advance notice about anomalies and errors detected by the system"
(Source: Investopedia).

The IIA defines continuous auditing as "any methods used to perform audit-related activities on a more continuous or continual basis."

- Continuous auditing can be a manual or an automated process – it is more about the frequency of testing and not the tools
- Real time auditing versus historical data sampling
- Data mining versus alerts
- Continuous auditing versus continuous monitoring

Defining Continuous Auditing
Continuous Auditing vs. Monitoring

There are many definitions but here is how we understand it:

Continuous auditing is a method used by auditors to perform audit-related activities on a continuous basis. Activities range from continuous control assessment to continuous risk assessment. Technology plays a key role in making it a viable option through automation.

Continuous auditing requires you to test data, reports, controls, financial information, etc. It is as the name suggests – auditing.

Defining Continuous Auditing
Continuous Auditing vs. Monitoring

Continuous monitoring is a management process that monitors whether internal controls are operating effectively on an ongoing basis. Higher risk events (e.g., unusual or nonrecurring transactions) can be observed and flagged for additional attention or testing. In addition to continuous monitoring processes, continuous auditing routines developed by internal auditors, when appropriate, may be transitioned to management, in which case they become continuous monitoring procedures performed by management.

The Benefits of Continuous Auditing

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The Benefits of Continuous Auditing

The pressure on audit to do more with less is increasing. Some of the most difficult challenges are for audit to:

- Provide timely assurance on the effectiveness of internal controls
- Better identify and assess levels of risk
- Quickly identify noncompliance with regulations and policies

The Benefits of Continuous Auditing

Key Benefits

- Independence and autonomy
- Evaluation of management's monitoring
- Improvements to financial operations
- Reductions in financial errors and potential fraud
- Increased profitability
- Uncover fraud waste and abuse
- Increased ability to mitigate risks

The Benefits of Continuous Auditing

Key Benefits

- Reductions in the cost of assessing internal controls
- Increased confidence in financial results
- Real time snapshot of risk
- Ability to assess IT controls
- Improve governance
- Efficiencies in auditing

Data Mining

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Defining Data Mining

"The process of collecting, searching through, and analyzing a large amount of data in a database, as to discover patterns or relationships"

(Source: Dictionary.com).

Data Mining Methodology

1. Plan	2. Identify Risk	3. Extract Data	4. Analyze Data	5. Review and Refine Analysis	6. Reporting

• 1a. Discussion of Data Analysis Capabilities
• 1b. Customize Scope to Client Need
• 1c. Schedule Timeline and Agree on Budget
	• 2a. Startup Discussions, Research and Risk Analysis
	• 2b. Brainstorm and Assess Risk with Client/Team
	  • Client Specific Risks
	  • Discuss Relevant Economic Environment
		• 3a. Planning the Data Extraction
		• 3b. Conduct Meeting with Client if Necessary
		• 3c. Prepare the Data Request List
		• 3d. Assist/ Monitor Client Data Extraction if Necessary
			• 4a. Normalize Data to Ensure Proper Import
			• 4b. Completeness Testing
			• 4c. Prepare Data for Analysis
			• 4d. Analytical Procedures
			  • Summarize
			  • Trend
			  • Extract
			  • Join
			  • Append
				• 5a. Identify Anomalies
				• 5b. Corroborate Results to Identified Risks
				• 5c. Assess Need for Additional Analysis
					• 6a. Provide Results to Client
					• 6b. Document Procedures and Results

Data Mining Methodology

Discussion of Data Analysis Capabilities

- Data analysis software is available to analyze virtually any type of financial and non-financial data
- Using a data analysis methodology, professionals are able to analyze 100% of a data population
- The results of the analysis provide the client with recommendations as to the transactions considered to be higher risk
- Often uncovers additional areas that may be of concern to the client

Data Mining Methodology – Identify Risks

Determine what procedures or analyses are to be completed before the brainstorming session:

- Management turnover
- Any recent significant changes in the company's operations
- Other analytical procedures

Data Mining Methodology – Identify Risks

Brainstorm and Assess Risk with Client/Team

- Review materials and information gathered during the startup discussion in preparation for planning and brainstorming
- Discuss the risks and determine the nature and extent of analytical procedures to be performed and methods for evaluating the results
- Assist in determining additional analyses to be performed to address risks identified as part of the planning
- On-going discussions with the client regarding expectations
- Facilitate a discussion by interjecting general and specific fraud risk factors that the client faces
- Discuss degree of involvement the data analysis team will have with advisors, consultants, etc.

Data Mining Methodology – Extract Data

Planning the Data Extraction

Before requesting computer-generated data from the client, you should have the following:

- A basic understanding of the computer system, including the purpose of the system, who uses the system, what data elements (or fields) are available, what reports are routinely generated, and what the data is used for
- A plan for reviewing or testing the data, including why you are testing the data, who will test it, and what other files will be required

Data Mining Methodology – Analyze Data

Completeness Testing

- Does your data tie to bank statements
- Does your data tie to the company's General Ledger
- Does your data tie to the audited financials
- Are there other sources to use for completeness testing

Prepare Data for Analysis

- Data formats (numbers/text)
- Separating data fields
- Separating by department/business segment
- Combining with additional fields available in the system

Data Mining Methodology – Analyze Data

Analytical Procedures

- Summarizing Data – Sum by User, Sum by Account, Sum by Month, etc.
- Trending Data – Trending by User, Month, Product, etc.
- Extracting Data – Transactions in a particular month, payments to a particular vendor, vendors with missing data fields, etc.
- Joining Data – Joining a disbursements file to a vendor master file, looking for employees not listed in employee master file, etc.
- Appending Data – Appending monthly sales data together, appending country sales data together, etc.
- Matching Data – Match vendor addresses to employee addresses.

Data Mining Methodology – Review and Refine Analysis

Identify Anomalies - Preliminary review

- Do the results you are seeing make sense
- Be sure to check that there are no errors in the data

Forensic review of results

- Collaborate with team and/or client to discuss preliminary results
- Interactive/Real-time analysis of results is very effective

Corroborate Results to Identified Risks

- Are the results consistent with allegations
- Are the results consistent with other sources of information (e.g., source documents, interviews, etc.)

Document findings and make proper notifications (legal, Sr. Mgmt.)

Data Mining Methodology – Review and Refine Analysis

Assess Need for Additional Analysis

- Do your preliminary results "ask more questions"
- Extrapolate preliminary results identifying trends and anomalies
- Attempt to identify false positives
- Look for "like-kinds" of transactions
- "Drill-down" into the detail

Customize Additional Analysis Based on Preliminary Results

Data Mining Methodology – Reporting

Provide Results to Client

- Interactive analysis session to display and walk client through initial results. This collaboration between the professional and the client allows for:
  - "Real-time" analysis with the ability to drill-down further into the data and search for unusual transactions or entries
  - Leverage the knowledge of the client to achieve more useful outcome and identify additional anomalies for testing

Developing Your Own Program in 10 Easy Steps

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How to Develop or Enhance Your Own Program

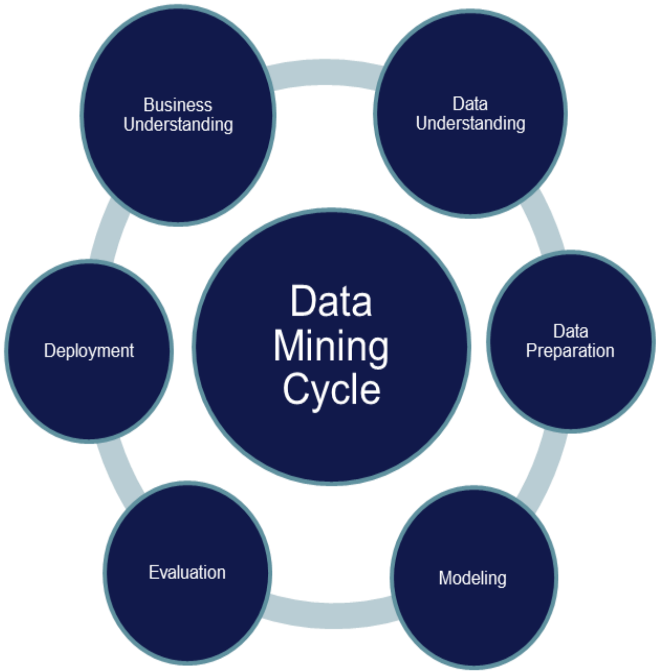
Most audit executives understand the concept of continuous auditing but many don't move past checking for duplicate payments etc.

Why?

- There is no step-by-step manual "how to implement a continuous monitoring program for your business"
- It can be expensive and time consuming to implement
- The benefits are sometimes difficult to measure
- The availability of skilled resources

Developing Your Own Program in 10 Easy Steps

Step	Key Activity
1	Decide What to Monitor
2	Develop Policy Requirements
3	Know What to Monitor
4	Prioritize Your Risks
5	Identify Triggers
6	Determine Monitoring Intervals
7	Obtain Executive Buy-In
8	Execute Your Pilot
9	Refine Your Pilot
10	Manage the Program



Developing Your Own Program in 10 Easy Steps

Step 1 — Decide What to Monitor:

- How to monitor and where to monitor can mean almost anything to any organization's department. So it is important to determine what needs to be monitored and set monitoring policies around those needs.
- Identify what areas you want to focus on (usually risk based). It is critical that you have everyone on board with your program. Executive level support is key to success in the beginning. Anticipate their insights and challenges.
- Develop a plan for implementation including the scope, objectives, timeline.
- Identify resources and partners.

Developing Your Own Program in 10 Easy Steps

Step 2 — Develop Policy Requirements:

A good starting point is to conduct interviews with officials within the organization as well as others in organizations that have similar goals and operations.

Also read reports about incidents that have occurred in the past, collect and review any use cases that have been written, evaluate findings from recent internal and third-part audits and automated assessments, and review and evaluate organizational assets and risk management processes.

The more thorough and accurate the requirements analysis is, the more effective the continuous monitoring effort will be.

Developing Your Own Program in 10 Easy Steps

Step 3 — Know What to Monitor:

Continuous monitoring does not require that everything – all systems, applications, networks, end point, infrastructure, security processes, and so on – be monitored everywhere and all the time. Identify information sources and ensure you have access.

Develop a Pilot:

Start with processes that you know well for example, fraud testing.

Focus on something pretty easy with a good return like duplicate payments. Use the functionality in the existing system. Partner with accounting management. Set a schedule. Partner with a consulting firm who does this full time.

Developing Your Own Program in 10 Easy Steps

Step 4 — Prioritize Your Risks:

Identify a three-tiered impact system – low, moderate, and high impact – to use when developing monitoring policies.

LOW

MODERATE

HIGH

Developing Your Own Program in 10 Easy Steps

Step 5 — Identify Triggers:

Once it is determined what systems and processes need monitoring, policy should include events that would trigger these systems to send alerts.

Developing Your Own Program in 10 Easy Steps

Step 6 — Determine Monitoring Intervals:

Continuous monitoring does not imply true, real-time 24x7, nonstop monitoring and reporting. Instead, it means implementing monitoring and oversight processes that provide a clear picture of security state at a given time, while also providing a mirror of control effectiveness over time.

Developing Your Own Program in 10 Easy Steps

Step 7 — Obtain Executive Buy-In:

It is critical that you have everyone on board with your program. Executive level support is key to success in the beginning. Anticipate their insights and challenges.

Developing Your Own Program in 10 Easy Steps

Step 8 — Execute Your Pilot:

This will enable you to identify your successes and opportunities for improvement. It also allows you to evaluate the skillset level and future direction for education and training. Ensure you have data integrity and have the necessary validation protocols.

Developing Your Own Program in 10 Easy Steps

Step 9 — Refine Your Pilot:

Now you know your successes and flaws, you are ready to remediate, improve your efficiency level and expand your program to your higher risk areas.

Developing Your Own Program in 10 Easy Steps

Step 10 — Manage the Program:

The pilot is a success. Now is the time to manage the CA program and develop your execution strategy. You will be able to inculcate the activities into your Internal Audit plan and specific projects.

Developing Your Own Program in 10 Easy Steps

Once your CA Model is Built:

- Test it extensively
- Revise as needed
- Show management that it adds value through lowered costs or increased findings such as duplicate payments
- Continue to monitor and adapt

After Your CA Model is Built:

- Report the findings whether positive or negative
- Cost justify to management the resources needed to develop a more extensive CA model

Quick (Rapid) Response Audits

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Why Quick Response?

The 2015 Global Pulse of Internal Audit: Embracing Opportunities in a Dynamic Environment cites data from a global survey of internal audit practitioners that found most audit departments are far from flexible in adapting their audit plans to better handle unexpected and fast-paced changes in risks.

Why Have Internal Audit Departments Become Inflexible?

- Internal auditors traditionally developed an annual plan, executed the plan and reported results of point-in-time audits.
- Boards and upper management have not always provided input on the audit plan — leaving internal audit departments to form their own views regarding which objectives/topics to focus on.
- The shift to risk-based auditing and a risk focus at the board level is just beginning to provide internal auditors with a clear definition of the types and amounts of residual risk the company and its board are prepared to accept.
- Internal audit departments have not assessed and reported on risks to the organization’s top strategic/value-creation objectives.

Auditing in a Dynamic Environment

- We can no longer create our audit plans once a year if we are going to audit the risks of today and tomorrow. Boards and management want current information and assessments and recommendations for improvement related to the risks they are managing as they lead the organization today; not the risks as of the end of the prior year.

- Audit planning needs to be as dynamic as the environments that they are assessing. The plans should be continuously updated in response to the changing risks and business environments. Dynamic audit planning requires communication and technologies to monitor the emergence of new risks and to identify changes in existing risks.

Defining The Quick Response Audit

A Quick Response Audit ("QRA") is a single-issue audit with narrow focus to address a specific objective within a short period of time.

When are quick response audits used:

- Performance Audit
- At Client Request
- Known or Suspected Problem/Opportunity
- Limited Objectives
- Time is of the Essence
- Extensive Details Are Not Necessary

Steps for an Audit

1. Scoping	2. Planning	3. Fieldwork	4. Reporting	5. Follow-up
• Determine the scope and objectives for the audit.	• Startup Discussions, Research and Risk Analysis • 2b. Brainstorm and Assess Risk with Client/Team • Determining resources needed. • Timing • Data Needs	• Executing the plan	• Report audit results to the board and management.	• Follow-up to ensure that audit issues have been addressed.

Are Quick Response Audits Different?

Yes and No.

The audit process doesn't change.

The standards don't change.

The scope should change to limit the focus of the audit.

The reduced scope should reduce the time and resources required.

There should be less fieldwork required.

The report should be issued quickly.

Although the process stays the same, with a reduced scope, the timeframe is significantly compressed.

Scope Considerations

How do you limit the scope of the audit?

- Limit Time Period (Last Month Instead of Last Year)
- Limit Number of Locations (One Office or Facility Instead of All)
- Limit Number of Transactions Examined (Use Sampling, Limit Sample Size or Number of Vendors)
- Limit Number of Interviews
- Limit Inquiry to Known Incident (Theft of One Vehicle, Single Incidence of Fraud)

Challenges of Quick Response Audits

- Client request is based on preconceptions
- Independence - Supporting Clients but Maintaining an “Arms-Length” Relationship
- Client may want to Dictate the Scope, Methodology, or Tests and Procedures which May Compromise Due Professional Care

The Goal of Internal Audit

“The greatest danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it”.

- Michelangelo

Thank you!

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