OpenPages Internal Audit Management: Internal audit and its evolving role in GRC

Creating an integrated partnership with the business

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Audit evolution

The internal audit profession continues to evolve from its traditional role of record examination and identification of policy violations to a role that is more consultative and proactive and aimed at risk mitigation. As part of this evolutionary process, internal auditors are focusing more of their efforts on the risk assessment process and a top-down approach to audit scoping to ensure the most current risk landscape is reflected.

To facilitate top-down risk management, internal audit is moving away from a focus on documents and toward a focus on data. This data-centric approach brings technology to an enterprise-wide risk management program and supplements periodic or annual audits with continuous auditing that reflects the dynamic risk environment of the modern organization.

New technologies are increasing the speed of delivery and enabling better business insights for the profession. For example, the use of technology is increasing the impact of audit findings through data visualization, and other techniques are making reports more timely and accessible. Continuous auditing, for example, examines accounting practices continuously throughout the year. Executives can therefore pinpoint and act on a multitude of business issues in near real time instead of relying on the quickly outdated annual audit scoping process to identify key issues.

Analytics technology can help internal auditing and the broader business by automating the collection, formatting and mapping of key organizational data, and applying various tools to analyze and interpret data more effectively and meaningfully. The result is a a more focused audit process with the ability to home in on specific areas of risk, prioritize them and better focus audit and management efforts to mitigate risks. For example, predictive modeling and regression testing enable auditors and financial stakeholders to quickly identify potential risks and react accordingly before they happen. Specifically, advanced analytic and data modeling techniques that use self-learning algorithms can automatically categorize risks within a wide range of variables to identify higher risk audit entities.

Independent assurance versus integrated partnership

Although audit departments provide a critical function to the business, an adversarial relationship between other departments and upper management is possible. The oversight element is a necessary and desired component of corporate culture; however, audit has the opportunity to forge a more productive, collaborative and consultative relationship. A more proactive, collaborative approach to risk and compliance management can help bring this to reality.

Traditionally, internal audit has focused on assuring that internal policies and procedures are being followed and that the business is in compliance with external regulations. Internal controls are monitored and assessed and issues raised during auditing are tracked. The methodology tends to be bottom-up, check-the-box, account-based auditing intended to provide independent assurance that the business is operating as designed with as much transparency as possible. However, audit is now increasingly becoming viewed as a key player in the context of corporate governance, risk and compliance (GRC) objectives.

Internal audit is now being increasingly asked to provide not only operational business insights but also strategic insights to the organization, a far cry from its traditional compliance days. It is being brought into the center stage to empower organizations to address key business risks and enable them to deduce emerging risks that the organization might face based on its business strategies and continued global expansion.

The PricewaterhouseCoopers 2014 state of the internal audit profession reveals that internal audit is adept at delivering a "trusted advisor" level of service when stakeholders demand more. The benefits that followed were:

- Performance on key attributes such as quality and innovation, business alignment, risk focus, service culture, technology, cost effectiveness, stakeholder management and talent model is better—by a wide margin—versus functions that deliver at an "assured provider" level of service.
- The function is valued by stakeholders at more than twice the level accorded to assurance providers.
- Stakeholders believe the benefits of these internal audit departments far exceeded their costs by nearly 40 percent over assurance providers.[1]

Internal audit is well placed to bring to the business best practices for measuring, managing and prioritizing risks that can become part of effective management techniques and internal controls throughout an enterprise. At the same time, breaking down silos in the organization provides visibility into redundancy and inefficiency, such as duplicate systems of record for managing issues and assessment data.

One of the key roadblocks to integrating the internal audit function is the sheer complexity of data gathering and management. In the past, a tremendous amount of effort was required for internal audit to collect relevant information and to govern access to that information securely. However, a centralized platform for identifying, assessing and monitoring risk and controls presents a unique and unprecedented opportunity for internal audit to help the business focus on making risk decisions based on management's risk appetite and tolerance. This common framework can transform the business by providing greater predictability in meeting financial and management objectives and helping managers anticipate major risk and control problems. As a partner in managing risk, internal audit can be a driving factor in evaluating technological and process-based changes and evolving the organization's risk management practices.

"Docu-centric" to "data-centric"

Not very long ago, auditors would come into the business for the annual review armed with bulky three-ring binders and plenty of pencils. These binders have largely given way to electronic document management systems, which in turn are being supplanted by audit solutions with a structured architecture for data collection and management.

An unstructured, document-centric approach offers auditors a scalable process for writing up opinions and issues. However, efficient and accurate business reporting becomes difficult if audit is using documents and spreadsheets at times with different formats and structures.

Analyzing information is much easier and more efficient with structured or semi-structured data. Further, a data-centric approach enables data collection to be standardized with greater security and data integrity. With meaningful data structure, management and measurement can be aggregated and correlated consistently throughout the enterprise. Historical trending can also be more readily presented to management and regulators, thereby reducing the interdependency of file-stored documents such as spreadsheets.

Traditional internal audit methods have served their purpose well for decades. However, the business landscape is changing at a rapid pace and has become increasingly complex. Organizations have shown keen interest in adopting advanced business analytics solutions to not only sift through mountains of data and focus on key and inconspicuous risks but also to gain deeper insights into the organization. Innovative internal audit solutions include data mining technology and data visualization tools to deliver invaluable data-backed insights into an organizational risk continuum. Analytics holds incredible potential, especially when embedded into the internal audit culture and aligned with the planning process and overall organizational operational and strategic objectives.

Continuous auditing

Continuous auditing enables auditors to review, analyze and report on events and issues in the business in a near real-time environment. The notion of continuous auditing is by no means new, but most internal audit departments in companies both large and small utilize more traditional audit models that rely on periodic assessment and evaluation. Such models tend to result in a significant lapse between the completion of fieldwork and issuance of the audit reports, which can result in reported information that is less useful and actionable.

The historical nature of the information in the periodic report might not reflect current events, the reality of the control environment or the state of issues and actions that could materially affect the original audit opinion.

By using a method or framework that is supported by a robust technology platform with push-button reporting capabilities, auditors can forge a partnership with the business that will yield meaningful decision support in a much shorter timeframe. A continuous audit capability provides more timely assurance that objectives are being met, along with insight into the issues related to areas of concern or opportunities for improvement.

Although continuous auditing is an objective of many audit departments, some prerequisites are necessary to ensure success. Strong processes, systems and controls can help auditors reduce the amount of actual testing required. They also eliminate redundant controls, close control gaps and eliminate needless reports. Traditional audit methods and tools are too time-consuming to be employed continuously. With the right technology, internal auditors can easily access data for analysis and testing while maintaining the security of proprietary information.

Continuous auditing can enable an enterprise to:

- Eliminate inefficiency that results from traditional auditing practices.
- Shorten audit cycles.
- Generate customized reports for internal use or for auditing firms.
- Analyze accounts and financial data thoroughly while taking advantage of flexibility in reporting.
- Increase the level of risk mitigation for business risks.

Beyond the continuous auditing capability, internal audit can use a technology-supported risk mitigation framework to help the business as a whole:

- Focus on identifying and understanding changes in risk.
- Support proactive management.
- Engage business units in active risk management efforts.
- Encourage business units to identify risks on their own and discuss risks openly with auditors.
- Employ metrics and active risk monitoring techniques.

Audit and risk mitigation synergy

Risk mitigation is a key element for meeting GRC objectives. Risk mitigation enables organizations to deal with enterprise-wide business uncertainty and the associated risk and opportunity by integrating disciplined risk and compliance management programs into everyday business processes to optimize business performance.

An enterprise GRC platform can provide a common repository that enables a company to objectively compare risks in support of its risk management goals. Audit can then use this data-centric information to help allocate resources where they are needed most and collaborate continuously with the business in an integrated partnership model.

Under an imperative for increased collaboration with the business, auditors can form a mutually beneficial relationship with risk managers. At the same time, audit can provide the independent assurance that is the bedrock of the profession, along with valuable input as consultants with core skills and knowledge of the business, documentation and communication.

This approach can help eliminate duplication of effort and provide a comprehensive view of risk in the enterprise. In turn, risk mitigation programs can help drive accountability to the appropriate owners of risk and help them better manage according to the organization's risk tolerance.

Role of technology and analytics

Organizations tend to adopt software point solutions to meet specific needs, and audit is no exception. This can foster asynchronous electronic processes and result in unstructured data that leads to mounting inefficiency. To ensure consistency and enterprise-wide visibility into the state of risk and compliance, everyone should be working from the same sets of rules, standards and information in a single system of record.

Also, collaborative solutions facilitate these integrated partnerships and continuous auditing aspirations by allowing different users (risk managers, auditors, business owners and others) to easily access consistent data at any time from any point in the organization.

Further, several factors have enabled analytics to become a key aspect of enterprise risk and compliance management:

- The explosion of data volumes has led to a revolution in the way data is captured, analyzed and presented.
- Key stakeholders expect innovative ways to assess and manage risk and enhance performance. The current global business environment is a complex one involving multiple stakeholders. They require deep and clear insights to make decisions. Analytics helps identify those broader patterns and trends of risk.
- Risk and internal audit managers require data visualization solutions that provide simple interactive illustrations of petabytes of data and can help them discover new insights and associations.

Analytics can provide information to decision makers from three main perspectives: historical, current and future. In today's complex business environment, all pertinent aspects of organizational data should be accessible for analysis. Analytics can help shift the movement of internal audit from sporadic to consistent, continuous and complementary.

IBM OpenPages GRC Platform

IBM® OpenPages® Internal Audit Management is a solution that provides internal auditors with a uniquely configured view of organizational risk and compliance that can supplement and coexist with broader risk and compliance management activities. OpenPages Internal Audit Management can be integrated with:

- Financial controls management
- IT risk and compliance management
- Policy and regulatory compliance efforts
- Operational risk management programs

As part of the IBM OpenPages GRC Platform, OpenPages Internal Audit Management is a key building block in implementing enterprise-wide risk management. It empowers the internal audit department to champion risk management while acting as a strategic partner to management. This integrated, closed-loop approach to risk management can help drive visibility and confidence in organizational risk posture.

Conclusion

As a key stakeholder in the implementation of GRC strategy and technology, audit can work as a fully integrated partner to business stakeholders based on the specific needs of the audit department or a specific audit.

The OpenPages Internal Audit Management solution can help internal auditors:

- Deliver more satisfying assurance to executive management and add value to the enterprise.
- Take a risk management, business-centric approach that forges a meaningful, productive relationship with the business where the goal is continuous improvement and greater transparency.
- Implement continuous audit based on changes in risk profiles to deliver real-time intelligence to management that can facilitate crucial, time-sensitive decision making.
- Migrate from document-centric approaches to rich, data-centric solutions for a much higher level of standardization, efficiency and quality.
- Use a proven risk mitigation framework that can help reduce workloads, support business assessments, consolidate risk and compliance challenges, and facilitate planning and prioritization.
- Enable repeatable, standardized, less resource-intensive audit processes that ultimately provide executives with operational, financial and regulatory visibility into the state of the business.

About IBM Business Analytics

IBM Business Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

Business Analytics solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals. For more information about Business Analytics software, see: **ibm.com**/business-analytics

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1 “2014 state of the internal audit profession study: Higher performance by design: A blueprint for change,” 2014. PriceWaterHouseCoopers. Accessed 30 Sep. 2014 from http://www.pwc.com/en_M1/m1/publications/documents/pwc-state-of-the-internal-audit-profession-2014.pdf

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