



GLOBAL KNOWLEDGE BRIEF

FOUR STEPS TO STARTING INTERNAL AUDIT'S DATA ANALYTICS JOURNEY

Demystifying the world of data analytics



Global

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INTRODUCTION

Changing at the speed of risk

The world is always changing, but these days it seems to be changing faster than ever. Culture, technology, even the environment and how society must try to preserve it are changing. And as any internal auditor knows, with change comes the potential for risk.

Auditors must stay abreast of ever-emerging risks to meet obligations to both their department and organization by helping to identify such risks and supporting efforts to proactively mitigate them. One way internal audit functions across the globe have done this is by embracing the use of data analytics.

There is growing support within the internal audit community to adopt technologies such as data analytics to drive efficiency, enhance coverage, and in some scenarios allow for the consideration of continuous auditing. However, many audit functions have understandable reservations about beginning such a journey. One reason is strictly financial; according to The IIA's 2021 North American Pulse of Internal Audit, 36% of survey respondents reported budget cuts to their internal audit functions in the wake of the COVID-19 pandemic. For some, these cuts are significant enough to view adoption of anything perceived as costly — from a technology standpoint as well as staffing and training standpoint — as unrealistic, at least until the business landscape stabilizes.

This viewpoint, however, is misguided. For internal audit leaders willing to do a bit of due diligence, data analytics adoption — and all the benefits it offers — is more than realistic, according to some experts.

This Global Knowledge Brief will highlight four steps internal audit functions should consider to ensure their data analytics journey is as seamless as possible. A number of internal audit leaders discuss some of their experiences navigating these key steps, while data analytics tool provider CaseWare describes how IDEA — its data analysis tool specifically designed for auditing, accounting, and other finance professions — works to guide internal audit functions along the way.

1. INTRODUCE ACHIEVABLE DATA GOVERNANCE GOALS

Changing your mindset

Don't start with perfect

There is a lot that goes into establishing strong data governance within an organization. Data classification policies, collaboratively developed master data management systems, unified data dictionaries, and much more play a part in a strong data governance strategy. Once a strategy is in place, the organization must do the hard work of classifying all data and information assets so that they can later be mapped to primary and secondary storage locations. While critically important, this part of the process can also be overwhelming.

The key at the beginning is to view data governance with the proper mindset. Instead of considering data governance as something that must be perfect from the outset, consider data governance as a journey — one that never really ends. Although it should not be undervalued or taken lightly, it also need not be an excuse to delay data analytics implementation. Perfection is not a starting point, but an end goal that can only be reached after the first step is taken.

“I think data governance can be a big tripping point, because you could take it too far,” says Nathan Anderson, senior director, internal audit, McDonald's. “If your audit function has specific goals and outcomes in mind, and several analytics-based projects to deliver, you could easily get stuck on data governance and almost never get off of it. I actually think it's good to just go right after it, to start chasing the data analytics goal immediately. As your data literacy improves, the mistakes will decrease. I would rather my team come up with some insights with data we found later to be inaccurate than not do anything, trying to adhere to strict data governance.”

In the beginning, although mistakes and oversights can happen, it shouldn't be a hindrance to developing valuable insights or creating client trust. “I would be very lean on data governance principles at first,” says Anderson. “I feel we should be able to state some important facts, but only what is absolutely necessary to establish client comfort. For example, if the data in a loyalty audit does not exactly match the data that the client has, you at least should understand why. Maybe we didn't consider some filters or some parameters that skewed the data so it didn't quite arrive the way it should have. However, if you at least know this, you'll be able to make the client comfortable enough with your assumptions to consider them, and then use the experience to continually improve alignment with business rules.”

CaseWare's IDEA platform is designed to mitigate these concerns. Conceptualized as a central hub for information, it can extract data from multiple platforms and formats, including QuickBooks, Excel, and Access. IDEA allows the user to manipulate the data, stratify it, categorize it, even graph it, but it makes sure the underlying data is not changed. That way, regardless of the test or analysis, the data imported will remain consistent, allowing it to align with even the most intricate data management systems.

2. CREATE A PLAN TO OBTAIN THE DATA

If you want it, you can find it

A little can say a lot

Even the most airtight data governance strategy is not very useful without data to govern. As an internal audit leader begins to dream about the possibilities of data analytics, those dreams can quickly dissolve in the face of questions regarding exactly where all this data is going to come from.

However, what might be overlooked is how much an internal audit function can do with the data it already has at its disposal.

“People will complain that they can't get data, and I almost always say BS,” says Anderson. “If there isn't data, you can create data. I once read a book by a former statistician at KPMG who said with a sample of five, you can determine a lot about anything. It may not be a statistically significant sample, but if the sample is truly random, there's so much you can learn.”

Laurie Flandrau, GM Financial's AVP of internal audit, says a function can start by cataloguing information it collects from past audits or audit clients. “You can begin building a catalog of this information with something as simple as an Excel spreadsheet, making sure to include what it is, what you were working on when it was obtained, where you got it, who the contact is that provided it, and, of course, when you got it,” she says. “Then, when you come back a year later and someone mentions that the client uses reports from systems X, Y, and Z, you can say, ‘Oh, wait, I know about systems X, Y, and Z.’ Just like that, without becoming paralyzed by vast quantities of unstructured data, you are incorporating basic data analytics practices — even if you don't realize it.”

Critical to this approach is the dedication to indefinitely maintaining the integrity of the data through appropriate documentation. “Data acquisition really overlaps with your data governance strategy,” says Nick Rodrigues, data analytics manager, vice president, Citizens Bank. “On any given day, data, even new data just received, can become obsolete. Through experience, an internal audit function must become confident in where it's [the data] coming from and how it's interpreted.”

The use of a software platform also significantly reduces this burden. For example, from the instant data is imported, IDEA tracks and saves both the origins and every manipulation that is made to it. This history can then be easily viewed by an auditor, manager, or whomever is responsible for due diligence. As fields are expanded, combined, or removed, the history will ensure all is properly accounted for.

To further bolster confidence, Rodrigues emphasizes the importance of collaboration, not just within the internal audit department, but with the clients and departments to operate as sources for the data. “We

prioritize building partnerships with the business line,” he says. “We ask them for permission to use their data, and then stay connected with us to make sure that we hear of any changes. In my organization, we’ve built a couple of application programming interfaces (APIs) with some of our business partners, who include us whenever they make a change. This is awesome because I get to say, ‘Yes, this impacts my API and I need to adjust’ or, ‘No, I don’t.’ That’s, to me, a sign of healthy communication with business line partners.”

But even in cases where there is no data to be had from clients, internal audit functions can generate their own. “Let’s say you want to audit something and there’s no data,” says Anderson. “So, let’s create a questionnaire that will produce data we can study. That’s all it takes. When data doesn’t exist, you can always get it. Internal audit has to be tenacious.”

3. DEVELOP SKILLS TO READ, INTERPRET, AND EVALUATE DATA

Resources abound in a data-driven world

Breaking the technical illusion

Of all the objections an internal audit function might have to embracing data analytics, this might be the most significant — at least at first. As technology continues to advance and evolve, a persistent mysticism shrouds it and gives the impression that only the most highly skilled are capable of navigating it. Under this perception, internal audit is seemingly left with two options: hire new talent — talent that would presumably ask for top dollar — or invest in training to develop the necessary skills in-house. Both options require a substantial investment of time and resources, which in the era of COVID-19 may be beyond the capabilities of many.

This is but an illusion. Although it is true that skillsets need to be developed, in the era of ubiquitous online information, training resources can be found by those who seek them out.

The key is education,” says Flandrau. “The trick, really, is just exposing it, and in today’s world that’s actually a lot easier than when most of us started our journey. We are in a data-driven world now, and there’s really no way you can ignore it.”

“There are some great resources online,” adds Rodrigues. “LinkedIn Learning can be used to develop a foundation. That’s a great place to start.”

However, with data analytics encompassing such a broad field with its many branches and disciplines, some focus is needed on what skills will prove most valuable. “I would recommend learning a programming language, as goofy as it sounds,” says Rodrigues. “I don’t care what level or language, but concentrate on learning how to program something, ideally from a coding academy. It’s the same logic as wanting to understand how the business lines we audit operate. If you can understand how a computer interprets inputs, how it thinks, you’re already leaps and bounds ahead of other people, because you’re thinking about things a little differently.”

Software platforms also can be valuable tools for learning. CaseWare IDEA, armed with its own algorithms, has the ability to flag imported data anomalies without guidance from the user. With the use of IDEA’s innovative Discover feature, the platform takes any areas of interest and illustrates them across the user dashboard, from which the user can then drill down into the data or customize the visualizations to meet their needs. IDEA in its base form is capable of more than 100 audit functions with no prior user experience necessary, other than maybe a basic understanding of Excel principles. Dozens of free add-ons are available

to download for specific analytics tests, video tutorials, white papers, and even training classes for certifications. All that is required to get value from a data analytics excursion is a desire to learn and explore.

But personal drive is only part of the learning experience. Just as with all other elements of the data analytics journey, collaboration is critical. This is true within an organization — audit clients can be fantastic sources capable of walking the auditor through the data they provide — but it is equally true within the internal audit community as a whole.

You can always ask around,” says Anderson. “Even business competition can be valuable — even ideal if the organization is of comparable size and structure. We’re all auditors, we’re all on the same team. I’m a huge believer in that. Recently, I talked with the chief auditor of a competitor who handled data analytics, and she guided my team on rolling out our own data analytics plan. She even shared a white belt, yellow belt, black belt training she built that formed the basis of my team’s training curriculum. It was an incredible experience.”

4. CREATE A STRONG BUSINESS CASE

The value of organizational buy-in

Tone starts at the top

Substantive organizational change is scantily possible without strong buy-in, starting with the tone at the top. While it may be the last point listed in this brief, when taking the first step, it is arguably the most important — and where any data analytics journey should begin.

“In my experience, I see teams that are actually more committed to data analytics than their leader,” says Anderson. “Sometimes analytics-driven ideas are presented to leadership, and they may like what they hear, but it gets buried in current projects and deadlines. And then, one day, they might ask whatever happened to those data analytics plans, and then the full picture begins to set in. What’s the cost? How hard will it be to get the data? How much is this going to cost? What do we need to design? All of the objections come up all at once, and before even starting the process, the idea is abandoned.”

“Incorporating data analytics into the Audit process becomes easier when the department has management buy-in,” agrees Flandrau. “If your Chief Executive believes in it, then you have the groundwork to be successful. But if they don’t, a strong, value-focused and goal-focused business case must be presented to muster that excitement, that demand. The ideal situation is for management to be onboard on the onset.”

Anderson recommends creating one sheets to articulate the business case concisely. “As soon as you start trying to use data, it’s an investment,” he says. “And that leads to thoughts about how big is the investment going to be, what tools do you need, or if you really have time for this. To overcome this, you need a strong, properly vetted ‘So What?’ One sheets did this for us at McDonand’s — we actually took the concept from another department. The idea was, ‘Let’s take these one-sheets to the Chief Audit Executive so she can’t just scrap it if a project comes overdue.’ The drive in effect comes from the team itself so that the tone at the top mirrors the tone at the bottom.”

CONCLUSION

A risk worth taking

Internal auditors are fundamentally risk-averse, and while that is appropriate for their role in the organization, this mentality can sometimes work against them. This is especially true when adopting something new, even something widely accepted as beneficial. Any such change, small or large, is a risk by definition.

In the case of data analytics, the risk is well worth taking.

“You’ve got to be willing to take on risks, which is a little bit unique for audit because we typically don’t like to take on risk,” says Rodrigues. “I think it’s about managing that risk and developing a foundation so that everyone understands, ‘Yes, there will be some risks.’ But, as long as you’re honest about where you are in your function’s maturity, you are capable of building the right kind of environment that will create success. Start with the purpose, with why this is important, and go from there.”

It is okay to be critical, even apprehensive, but there really isn’t a reason to stop moving forward in your function’s data analytics journey. Today is a good day to take that first step.

About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

About CaseWare

CaseWare International Inc. (CWI) develops cutting-edge software solutions for accounting firms, corporations, and governments. It continually works to produce a stream of successful product improvements, innovations, adaptations, and extensions that will change the future of audit, financial reporting, and data analytics. CaseWare Working Papers, IDEA, and Cloud platforms use artificial intelligence and machine learning to change the way we think about and work with data. The result: measurable returns on efficiency, quality, and value for firms and their clients. Leading the industry of over 30 years, more than 500,000 users in 130 countries and 16 languages use CaseWare Solutions. For more information, visit <https://www.caseware.com/>.

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