The Road to Continuous Assurance

Jason A. Gross, CPA, CIA, CFE, CISA, ACDA
Vice President, Controls Management
Siemens Financial Services, Inc.
Agenda

- Key Drivers for Successful Implementation
- Technology Tools -- Vital for Success
- Challenge Statement
- Continuous Controls Monitoring (CCM) Implementation
- Build the Bridge to Continuous Assurance
- Conclusions
Leveraging Continuous Auditing to Promote Best Practices in Internal Audit

Audit Plan should define optimal mix of traditional audits, consultations, and Continuous Auditing topics for the Organization; with Audit Committee approval. As methodology matures over time, Continuous Audits should comprise a greater portion of the Audit Plan.
Traditional Internal Audit Process

Continuous Auditing Needs to Be Added to the Mix to:

- Reduce time interval between recurring audits
- Reduce audit cycle times
- Achieve timely impact of corrective action implementation
Benefits of Data Analytics

- Analysis is more objective, less subjective
- Examine populations of transactions, not samples
- Analyze data from disparate systems
- Unlimited transaction sizes
- Less risk of data integrity issues
- Examine transactions, with greater confidence
- Auditor independence across data analysis workflow:
  - Greater control & independence over testing/analysis
  - Greater assurance
- Maintain audit logs of testing performed
Key Drivers for Successful Implementation

- Define Continuous Auditing/Monitoring objectives
- Obtain support & commitment from Audit Committee and Management
- Continuous Auditing should complement the Audit Plan
- Identify key audit/monitoring topics
- Start small; build from success
- Automate/leverage from well-defined periodic audits
Key Drivers for Successful Implementation

- Migrate from testing of samples to testing of universe
- Timely evaluation of activity
- Define responsibility between continuous monitoring and continuous auditing
- Gain reliance by external auditors and add value
- Formalize continuous audit approaches and methodology
Technology Tools -- Vital for Success

- Embrace and invest in technology tools and solutions
- Data analytics is at the heart of ‘Continuous’
- ‘Continuous Assurance’ is still possible with technology products even without ‘Continuous’ in the name!
- Optimize current data analytic scripts and schedule routines on a ‘continual’ basis
Challenge Statement:

Implement a CCM program for the Organization that offers flexibility in the definition of analytics that can be custom tailored to fit the needs and changing parameters of our business which includes a workflow system such that owners can update the status of exceptions via a web-based interface that provides real-time statistics and transparency across the Organization of open and closed items of which is readily auditable and can be relied upon by internal/external auditors.
CCM Solution Incorporated the Following:

- ACL Desktop
- ACL AuditExchange
- ACL AX Exception
CCM Implementation:

- Integrated CCM program design….’engine’ calls analytics
- Open framework…custom defined ‘engine’ and analytics
- Cumulative versus Differential analytics
- Exception versus Alert analytics…dual purpose for CCM!
- Personalized Email notifications of new exceptions to owners
- Script change management logging and email notifications
- Master table change management and email notifications
- Entire data analytic process is mechanized; no manual intervention
- CCM routine publishes only new or changed exception items
CCM Implementation:

- Self validation of corrected exceptions & false positives
- Web-based customized Workflow process to handle exceptions…un-validated items require 4-eye approval
- Daily and Cumulative Reconciliations (analytic vs. website)
- Rollforward Summary (open + new items – closed items = outstanding items)
- Status Update reminders and tracking email notifications
- ‘CCM engine’ portability to other parts of the Organization
- Fully logged and auditable
Closed Loop Exceptions Validation Mechanism:

Legend:
- Source Data
- Exceptions Website

CCM Program automatically Re-Publishes Exceptions to website if items closed on website but source data not corrected, all without manual intervention!!
Continuous Methodology

Continuous Techniques

- Define topics/approach
- Define frequency/intervals
- Execute techniques

Continuous Risk Assessment

- Identify risks
- Identify key controls
- Identify impacts

Continuous Corrective Action Validation

- Validate corrective action
- Evaluate effectiveness against new universe

Evaluate effectiveness against new universe
Build the Bridge to Continuous Assurance

Continuous Assurance-
Built Upon the Two Pillars of Continuous Monitoring and Continuous Auditing

Continuous Monitoring
- Owned by Management
- Is a Management activity
- May be preventive, detective and corrective in nature
- CM is a control itself

Continuous Auditing
- Owned by Internal Audit
- Is an Audit activity and responsibility
- Independent of the control; therefore should not be preventive in nature
- IA should evaluate CM activities, trending and change management
## Continuous Assurance Attributes

<table>
<thead>
<tr>
<th>Authorization</th>
<th>Data Completeness</th>
<th>Table Maintenance</th>
<th>Edit Checks</th>
<th>Calculation Verification</th>
<th>Data Integrity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Change Management**
- **Trending & Analysis**
Finding the Right Mix…

Continuous
Assurance

Preventive
Detective
Corrective

Continuous Monitoring
Continuous Auditing
Evolution to a Continuous Methodology

Isolated Detection → Prevention ← Correction Detection

Event Driven → Continuous Monitoring

Reactive → Proactive

Manual intensive → Automated & Sustainable

Ad hoc → Repetitive → Continuous
Continuous Monitoring

- Real-time identification of control breakdowns
- Valuable mechanism for testing controls
- Test transactional data against expected limits and parameters
- Automated exceptions and reporting; less manual intervention
- Proactive; less reactive
- Sustainable as a program
- Improves risk management practices
Benefits of Well-Controlled CCM Program

- Replace Manual Controls
- Population Monitoring & Data Quality
- Process Improvement
- Remove SOX Sampling Testing
- External Audit Reliance w/ Testing & Hours Reductions

** Requires well-controlled foundation with strong IT General Controls (change mgmt, user access, security, etc.) to ensure reliance upon the CCM Program.
Opportunity Areas

- Accounts Payable
- Accounts Receivable
- Cash Disbursements
- Claims
- Credit Card / Procurement Card
- Deposits

- Expenses
- Inventory
- Investments
- General Ledger
- Loans
- Payroll
- PP&E
- Purchases
- Procurement

- Retail Transactions
- Revenues
- System Maintenance
- Travel & Entertainment
- Vendor Management
Conclusions

- Implementation launch in Feb 2010 was a success >>> currently 80+ analytics in production and growing!
- CCM was used in high profile project to satisfy auditors that remediation activity was successful and comprehensive
- Increased demand and utilization throughout business
- Requests for more analytics outweigh existing resources to develop new analytics – dedicated resources now added!!
- Developed policy & procedures manual for CCM program
- Replaced manual controls and manual SOX testing with CCM Analytics
- Achieved formality of external auditor reliance on CCM Program
Questions and Discussion...

Contact Information:
Jason A. Gross, CPA, CIA, CFE, CISA, ACDA
Vice President, Controls Management
Siemens Financial Services, Inc.
Tel# 732-476-3480
Email: jason.gross@siemens.com