The Road to Continuous Assurance
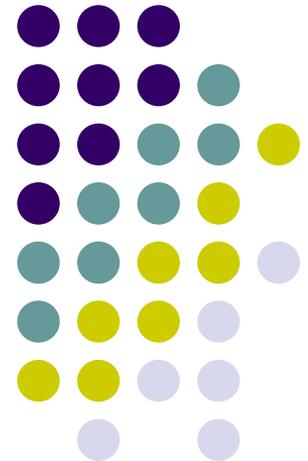
Jason A. Gross, CPA, CIA, CFE, CISA, ACDA

Vice President, Controls Management
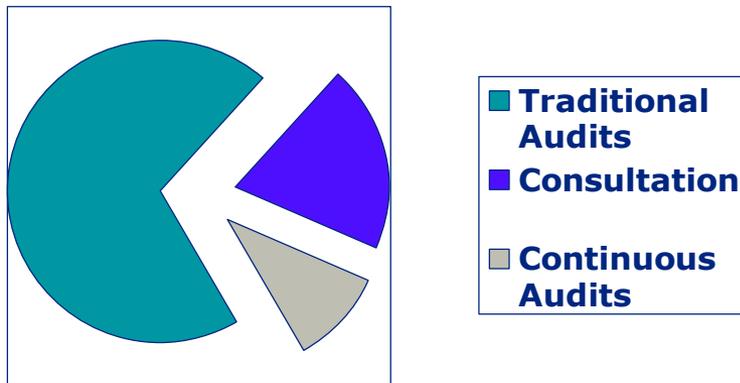Siemens Financial Services, Inc.

Agenda

- Key Drivers for Successful Implementation

- Technology Tools -- Vital for Success

- Challenge Statement

- Continuous Controls Monitoring (CCM) Implementation

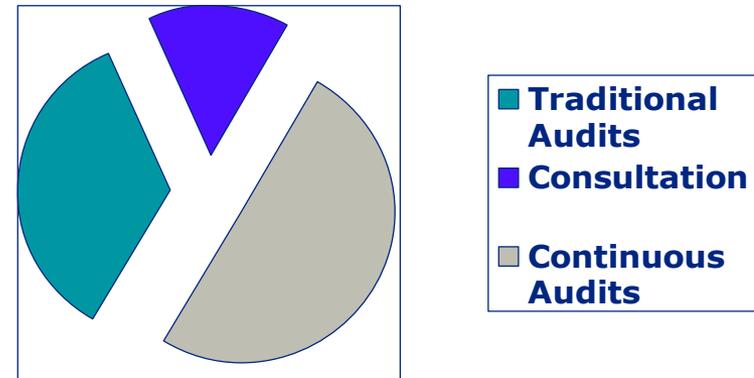- Build the Bridge to Continuous Assurance

- Conclusions

Leveraging Continuous Auditing to Promote Best Practices in Internal Audit

Audit Plan - Today

- Traditional Audits
- Consultation
- Continuous Audits

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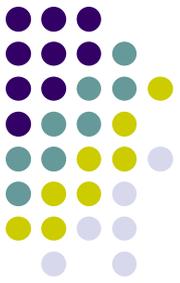
- Traditional Audits
- Consultation
- Continuous Audits
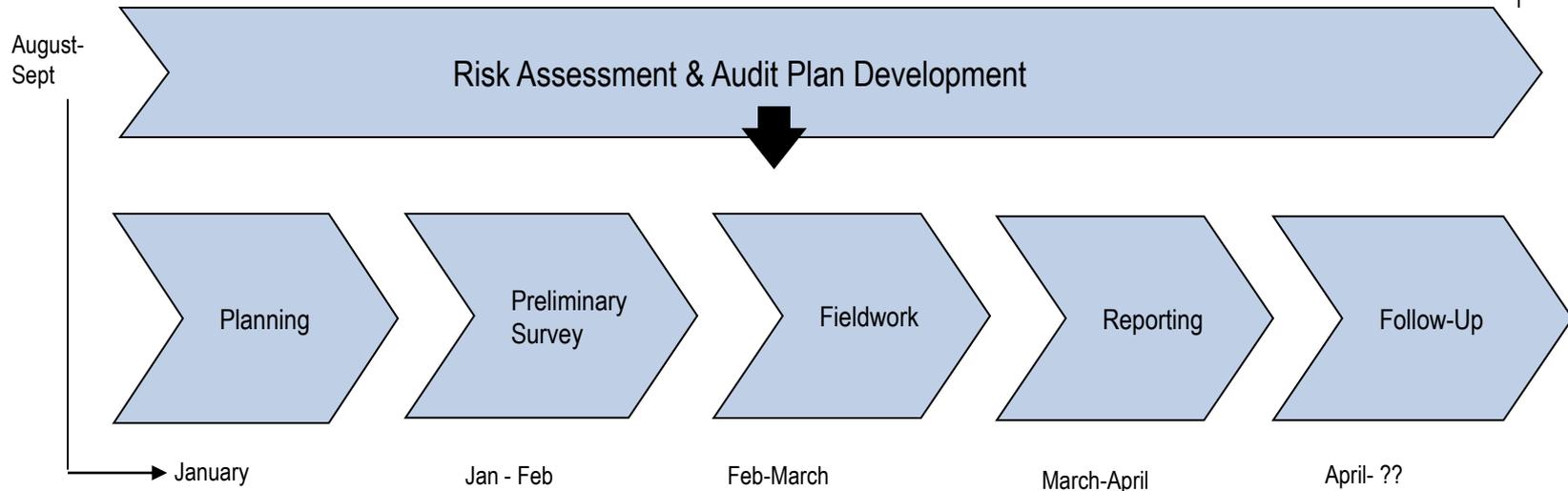
Audit Plan should define optimal mix of traditional audits, consultations, and Continuous Auditing topics for the Organization; with Audit Committee approval. As methodology matures over time, Continuous Audits should comprise a greater portion of the Audit Plan.

Traditional Internal Audit Process

August-Sept

Risk Assessment & Audit Plan Development

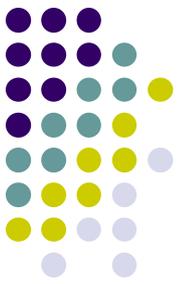| Planning | Preliminary Survey | Fieldwork | Reporting | Follow-Up |

January

Jan - Feb

Feb-March

March-April

April- ??

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
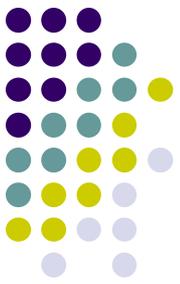
Key Drivers for Successful Implementation

- 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
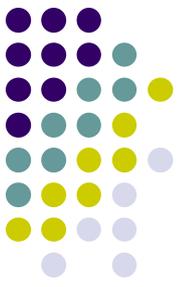
Technology Tools -- Vital for Success

- 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
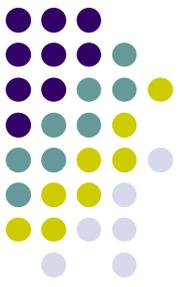
Challenge Statement:

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
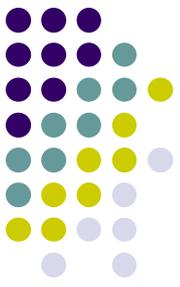
CCM Implementation:

- 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
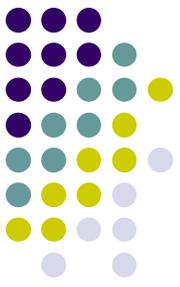
CCM Implementation:

- 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:

Source Data
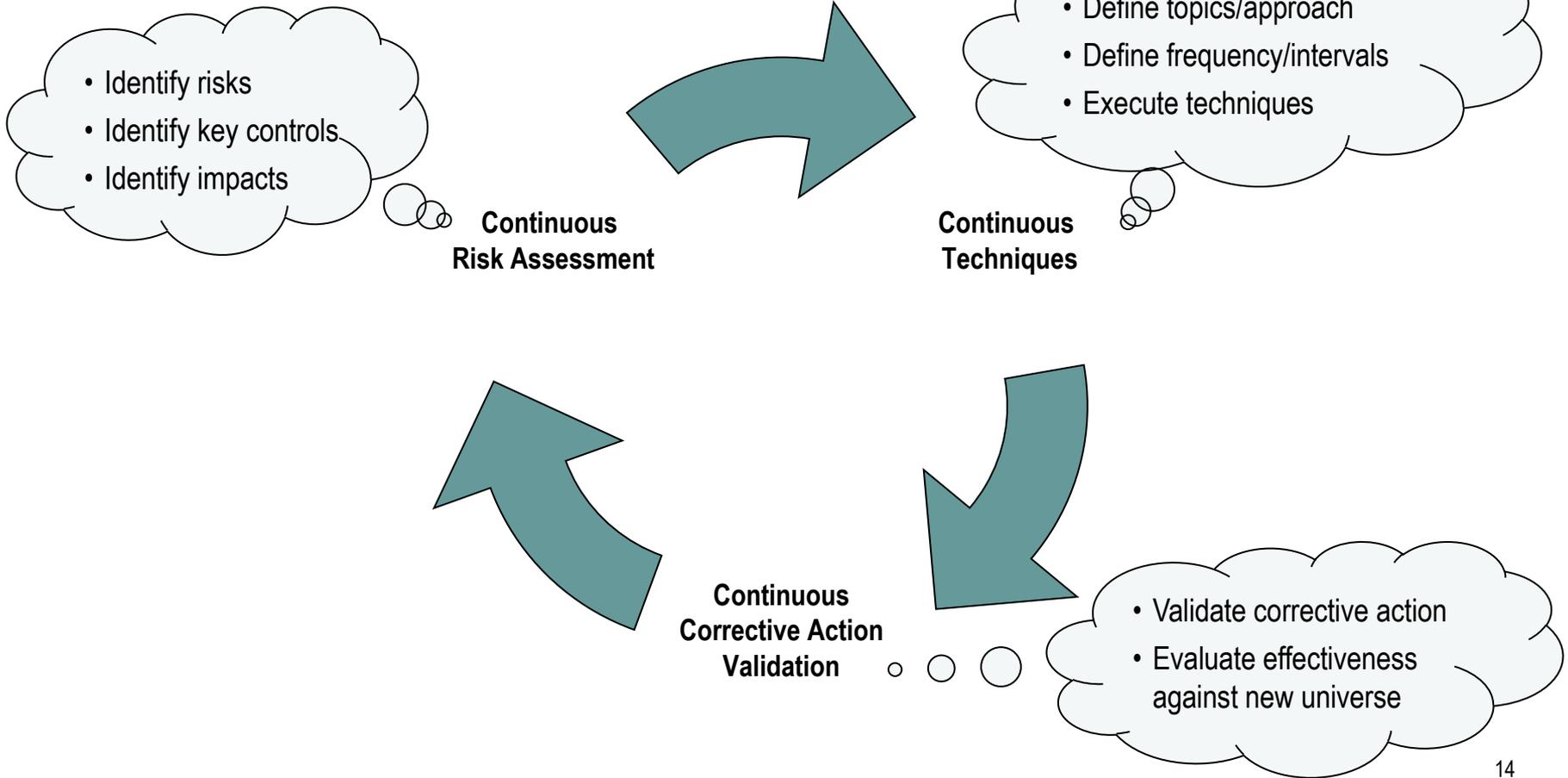
Exceptions Published From Data Analytics
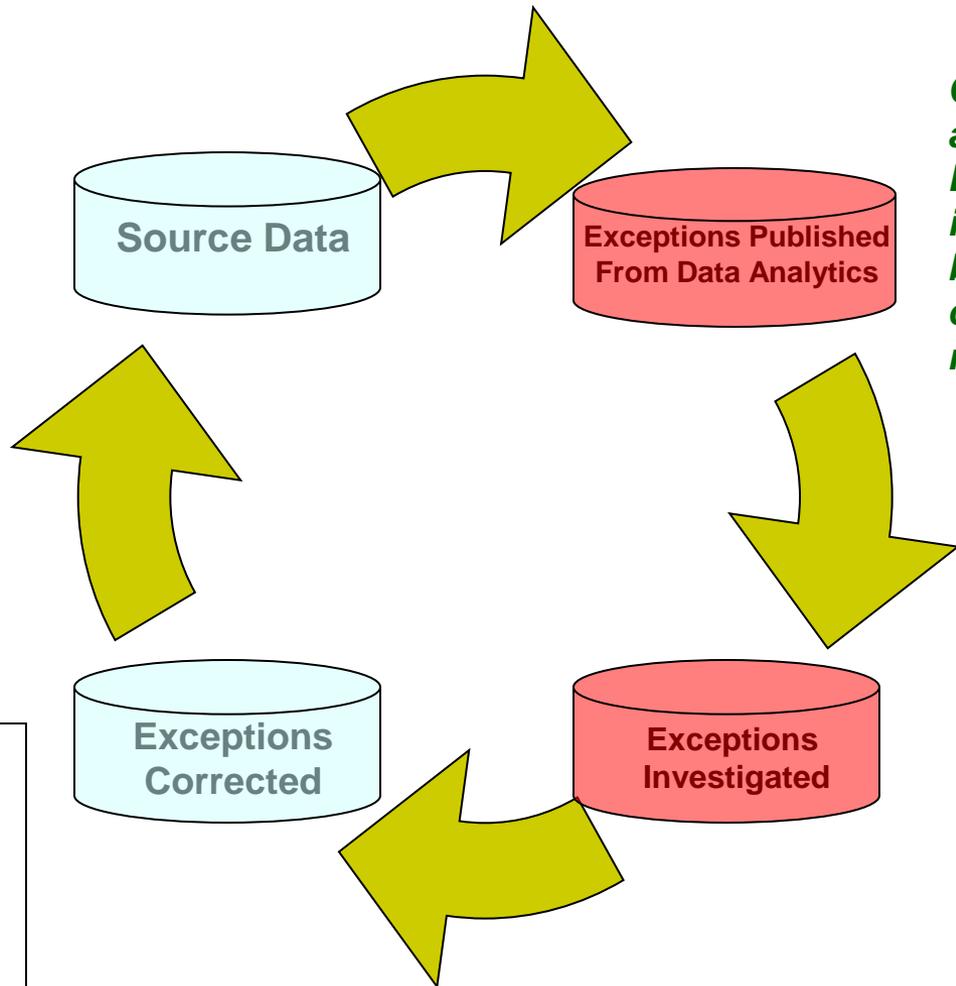
CCM Program automatically Re-Publishes Exceptions to website if items closed on website but source data not corrected, all without manual intervention !!

Exceptions Corrected

Exceptions Investigated

Legend:

Source Data

Exceptions Website

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Continuous Methodology

- Identify risks
- Identify key controls
- Identify impacts

Continuous Risk Assessment

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

Continuous Techniques

Continuous Corrective Action Validation

- Validate corrective action
- Evaluate effectiveness against new universe

Build the Bridge to Continuous Assurance

Sponsorship	Strategy	Partnership	Coordination	Continuous Assurance	Technology	Integration	Communication	Oversight
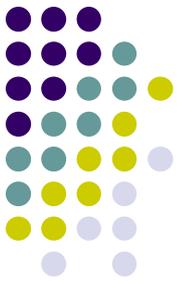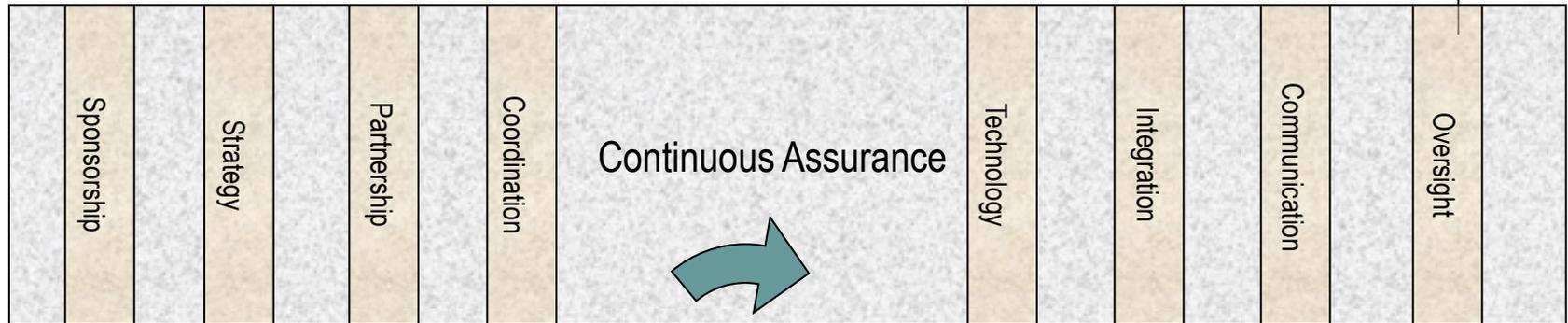
Continuous Monitoring

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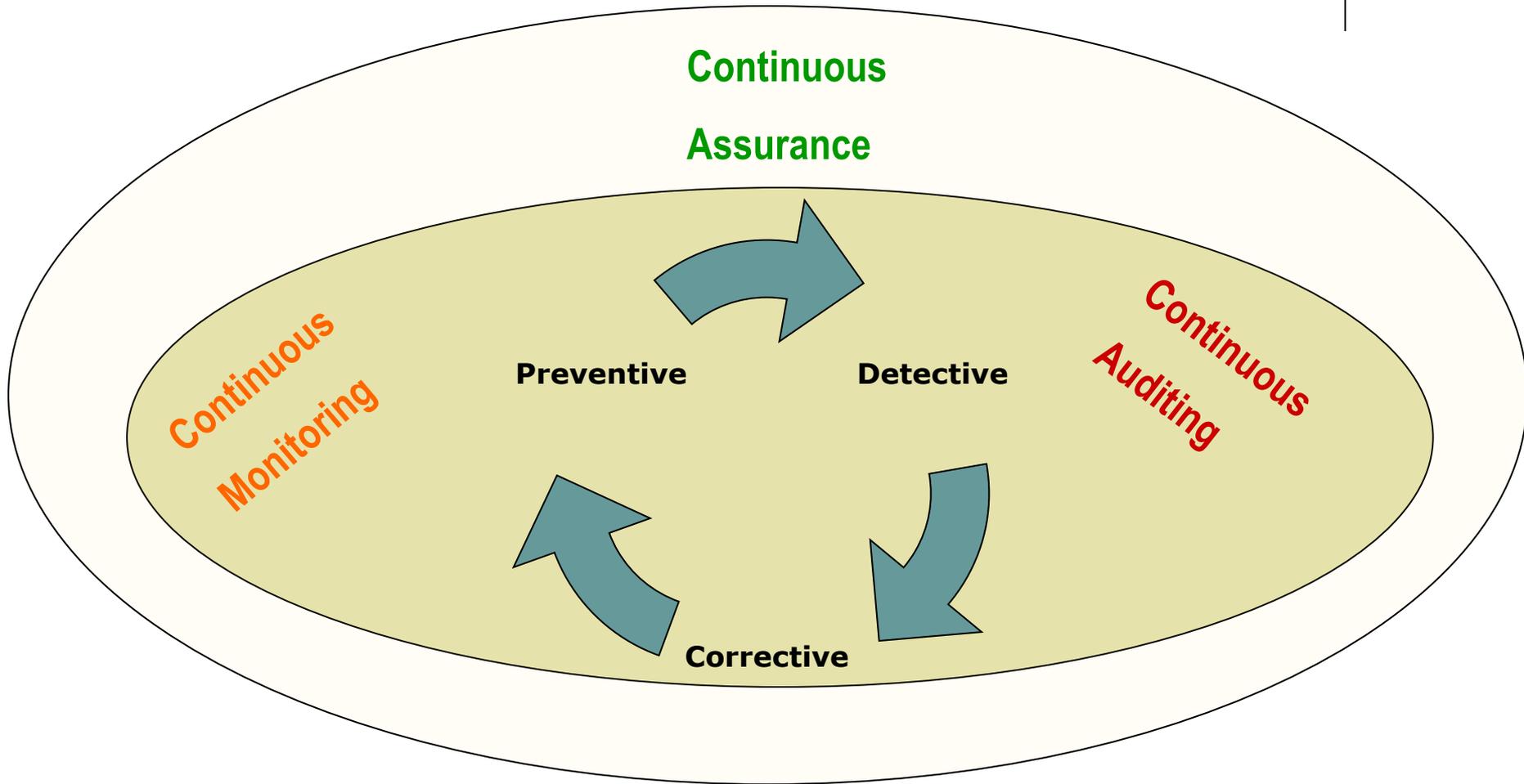Continuous Monitoring and Continuous Auditing

Continuous Assurance Attributes

Authorization	Data Completeness	Table Maintenance	Edit Checks	Calculation Verification	Data Integrity

Change Management
Trending & Analysis

Finding the Right Mix…

Evolution to a Continuous Methodology

Isolated Detection → Prevention ↔ Corrective Detection

Event Driven → Continuous Monitoring

Reactive → Proactive

Manual intensive → Automated & Sustainable

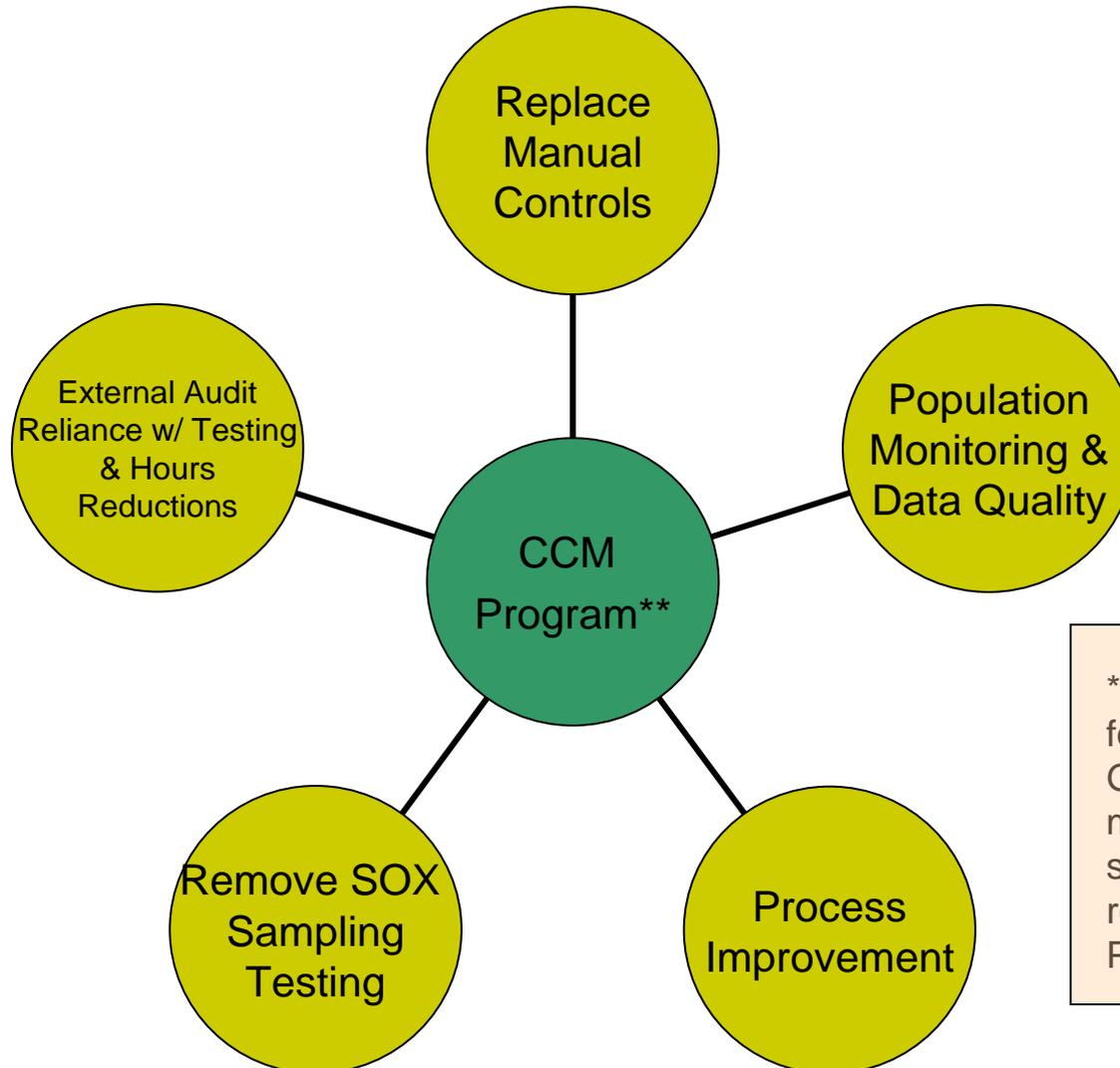Ad hoc → Repetitive → Continuous

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

External Audit Reliance w/ Testing & Hours Reductions

Population Monitoring & Data Quality

CCM Program**

Remove SOX Sampling Testing

Process Improvement

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

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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…

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