Internal Audit

Enhanced Auditing or Auditing with Technology

See page 2 for restrictions
Manager – IBM Internal Audit CCM/EA Team

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- 17 years experience in internal audit
- CIA and CISA
- Developed global CCM and EA initiatives for IBM’s IA organization

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Auditor’s Gremlins

Mismanagement
Waste
Fraud
Audit Environment

- Reduce resource!
- Improve efficiency!
- Identify Substantive Findings!
What to Do? if you don’t want bats in your belfry
IBM Two Track Enhanced Audit Model

**Broad (O2C) approach**
“using advanced analytic technology to aid in periodically analyzing and identifying high risk in Order 2 Cash space to determine control effectiveness.”

**Specific event process approach**
“using CEP rule based technology to monitor in real time predefined activity in target process (ex - netting in AR) indicating potential control deficiencies”
IBM Technology

By scoring
By specific event

Tools can be used together or separately

EA
- Risk and Compliance Analysis Tool
- Algorithmic and visual data mining combined to identify patterns, relationships
- Routines utilizing technology developed by Internal Audit and are not shared

CCM
- Lightweight and agile complex event processing engine
- Developed proactively for use by line management
- Technology managed by Internal Audit
- Results provided to line management
1. Unique approach - SME is the Business Process Owner

2. The SME can introduce new\update risks essentially on the fly via collaborative model with Internal Audit and R&D.
Continuous Controls Monitoring

Deployed in AR process globally
- Some countries for Business Partner and Procurement processes
- Other processes for consideration include Accounts Payable and Payroll

Monitoring 427 rules (attributes)
- 291 fraud
- 136 operational
- Results incorporated into IBM’s overall framework of controls

Improving line and audit efficiency and effectiveness
- Preventing control circumvention
- Detecting control deficiencies real-time and reducing time for remediation
- Eliminating opportunity for fraud
- Confirming controls operating as intended (not sampling – 100% tested)
- Significantly improving allocation of resources during audits to areas of greater risk
- Input for audit planning, resource allocation for future audits, continuous auditing
- Preventing potential damage to IBM’s image
- Preventing continuation of inappropriate behavior
- Avoiding rework cost to reverse unauthorized transactions
**Win-Win Value Proposition**

### Audit

**Results can be used**
- when performing current audits for scope and staff reduction,
- improved focus
- for annual planning to extend duration between reviews
- for coverage claiming
- to improve resource allocation
- to reduce audit impact on line units
- to reduce travel
- to improve relations with line units

### Line

**Results can be used**
- to identify and remediate control deficiencies as the occur
  - reduces risk of negative image
  - reduces exposure to rework costs and loss of productive time
  - reduces bad behavior through continuous oversight
- provides continuous confirmation of control health
- reduces need to allocate constrained resource to manual testing
- for input into control framework
- reduces impact of audits by extending time between inspections and support during engagements
Deployed in North America Order-to-Cash
- Customer Relationship Management
- Transaction Pricing
- Fulfillment
- AR

Porting to EMEA and AP Currently

**TRADITIONAL AUDIT**

**Data**
- Push
- When requested
- Single source (Requires reconciliation)
- Risk Based Analysis

**Coverage**
- Cyclical (generally every 3 years)
- “Go” Model
- Audit resource – 13 to 20 person-weeks/review
- Client impact – Significant

**EA APPROACH**

**Data**
- Pull
- Immediate When Needed
- Multiple “trusted” sources
- Total Universe Analysis

**Coverage**
- On demand
- Remote Model
- Audit resource – 2 to 5 person-weeks
- Client impact - Minimal

**VALUE PROPOSITIONS**

Confirmed
- improved audit efficiency and effectiveness
- improved executive oversight
- reduced audit and line cost
- reduced audit impact on respective line organizations

Enhanced Auditing
Build the team!!!

- **Determine the right participants**
  - Process owners
  - IT owners
  - Internal Audit
  - Technology Provider

- **Get the buy-in**
  - What is the benefit to the non-audit organizations?
    - Reduced audit duration?
    - Less frequent audits?

Determine “Specific” Objective

- **Establish priorities**
  - Fraud detection
  - Mismanagement
  - Bad behavior

Attention! It’s All About The Data

- **Determine Accessibility**
  - Data warehouse, not production
  - Connections available and authorized

- **Determine technology**
  - Scalable
  - Adaptable
  - User friendly

- **Determine the scope or focus**
  - Ex. AR
  - Ex. Expense management
  - Ex. Asset