TONE at the TOP ®

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

The Data Dilemma: Empowering Internal Audit's Use of Technology

Knowledge is power, and in a modern business context that means leveraging technology for effective use of data in planning, strategizing, and decision making. Unfortunately, organizations may not be benefiting from all the advantages that advanced technologies can offer to support their goals. When internal audit is outpaced by other parts of the organization in embracing technology, the valuable assurance and advisory services it can provide may also be lagging.

Technology can help internal audit teams balance resource constraints while still providing coverage over traditional high-risk areas, according to a KPMG report.[1] However, proven technologies "continue to be aspirational for internal audit teams and are yet to see extensive usage."

Boards should be mindful of their internal audit function's relationship with technology, ensure sufficient resources to acquire needed technology, and push internal audit leaders to embrace data analytics.

A Range of Benefits

Speed of access, easier identification of valuable data, simplified monitoring of important indicators, and overall enhanced audit quality are among the major advantages technology offers internal audit. Enhancements available to internal audit when using data analytics, artificial intelligence (AI), robotic process automation (RPA), and other technologies include:

Timely metrics. Real-time information delivered by advanced technologies can put companies in a better position to track performance and quality and make necessary adjustments and remediation. Real-time indicators make it possible to better align internal audit goals with the company's strategic objectives as well as its main threats and opportunities. At the same time, the elimination of manual and repetitive tasks enhances productivity and frees internal audit professionals to provide higher-value insights.

Better use of data. Because of the large volume of data being produced, organizations may find themselves with a great deal of information but not necessarily as much knowledge. Given its holistic knowledge of the organization, internal audit is well suited to use these tools to translate data into business insights. As organizations gather or gain access to more detail, automated analytics tools make it feasible to perform more comprehensive and focused reviews that are more likely to deliver useful insights for decision making. For example, data analytics can be effective and useful in expenditures, payroll, and accounts payable. "These areas are highly transactional and policy driven, and can provide opportunities for cost recovery," according to ACCA Global. In addition, billing data can be mined to ensure that it jibes with contract terms.[2]

Faster risk identification. It often requires poring over an enormous amount of data to identify anomalies that can indicate fraud, errors, or other issues to be addressed. Advanced technologies can automate such reviews to help highlight anomalies or other risk considerations, leaving internal audit better able to make data-based identifications of high-risk areas. In addition, when auditors can easily select high-risk samples, they spend less time testing and cause less disruption to audit clients, according to Muhammad Hassan Rizvi in *Internal Auditor* magazine.[3]

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Continuous monitoring. A data-driven audit can define thresholds that will trigger alerts for fraud, tagging items by a certain number, amount, category, or frequency of transaction. An example would be an instance when there are two invoices from one supplier for the same materials within the same month. Finding these cases can enable internal audit to identify potential breaches in authority, policy, or procedure on a proactive, automated basis, Rizvi noted.[4]

Ease in sharing data. Once data has been gathered and analyzed, readily available software tools make it possible to create dashboards and data visualizations that communicate results easily and effectively. Instead of columns of data or complicated charts, facts and trends can be shown in digestible pieces. These graphics can also be tailored to each audience, providing a concise overview for the board or senior management and allowing for a deeper dive into the business unit being audited. Stakeholders can also receive these reports more quickly than in the past. "The data visualization and reporting techniques developed by AI will present new opportunities for the transformation of corporate governance," according to an Information Systems Audit and Control Association article.[5]
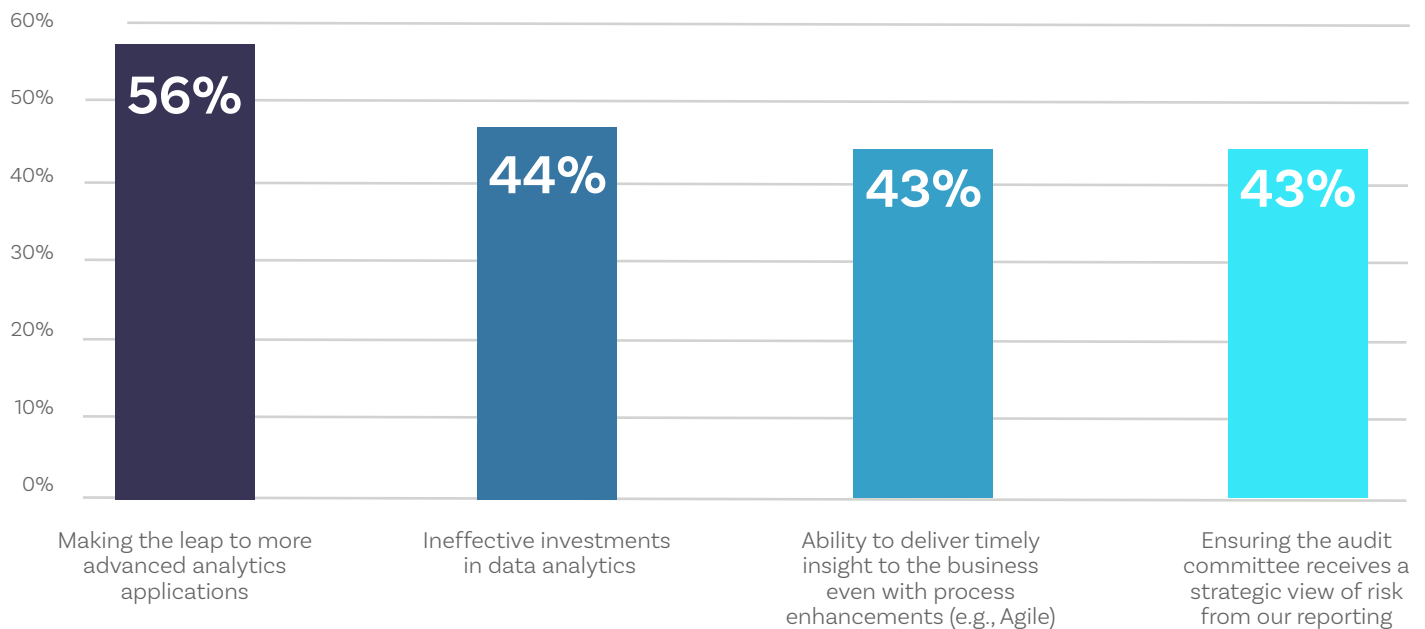
Barriers to Overcome

Despite these benefits, many organizations face challenges in putting these technologies to work to best advantage. Some of the chief hurdles they may face include:

Insufficient investment. As noted, although technologies such as data analytics and AI have received a great deal of attention, internal audit functions may not yet be able to make the best use of them. That's backed up by a recent survey of chief audit executives by The Institute of Internal Auditors (IIA). When asked what types of technology they would spend money on if their budget was increased, the highest percentage (68%) chose data analytics software.[6] When Gartner selected the top 12 challenges for internal audit leaders this year, there were several related concerns (see Figure 1).

The need to upskill the team. Proficiency in the use of data analytics goes beyond simply learning a new program. Instead, internal audit functions need team members who have the data science and IT skills to put data analytics to work. However, according to Gartner research, only 16% of audit leaders thought they would be able to quickly bring audit staff up to speed on targeted knowledge areas needed to execute in-year audit plan changes. Clearly, team training and development are integral to making the best use of existing innovations and leveraging new ones.

Figure 1: Data-related Challenges for Audit Leaders

56% Making the leap to more advanced analytics applications	**44%** Ineffective investments in data analytics
43% Ability to deliver timely insight to the business even with process enhancements (e.g., Agile)	**43%** Ensuring the audit committee receives a strategic view of risk from our reporting

Source: Gartner Top Priorities for Chief Audit Executives in 2022

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Continuous Improvement

"Internal audit maturity" measures an internal audit function's progress from the initial stages of development to one that is optimizing value with continuous improvement for both internal audit and the organization. When internal audit leaders were asked to indicate which types of support would most help their internal audit functions with increasing or maintaining maturity, technology tools were their top choice (56%), according to The IIA.[7] Using advanced technologies in the internal audit function provides a wide range of benefits to the company. Internal audit teams can eliminate low-value activities and work smarter in their selection and accomplishment of audits, as well as deliver enhanced insights and assurance.

One of the board's roles is to ensure that internal audit has sufficient resources to provide objective assurance and insight. Data analytics and AI are two good examples of such critical resources. Data-powered audits can clearly drive positive change.

[1] Technology enabled internal audit: 2022 and beyond, KPMG, 2022.
[2] "Data analytics for internal auditors," ACCA Global.
[3] "Data-enabled Internal Auditing," Muhammad Hassan Rizvi, Internal Auditor, February 21, 2022.
[4] ibid
[5] "Artificial Intelligence Adoption in Internal Audit Processes," Shinde, ISACA, December 1, 2021.
[6] 2022 North American Pulse of Internal Audit: Benchmarks for Internal Audit Leaders, The Institute of Internal Auditors, March 2022.
[7] ibid

Quick Poll Question

Overall, how would you rate the value that has been created from internal audit's use of data analytics or automation at your organization?

◯ Very high value
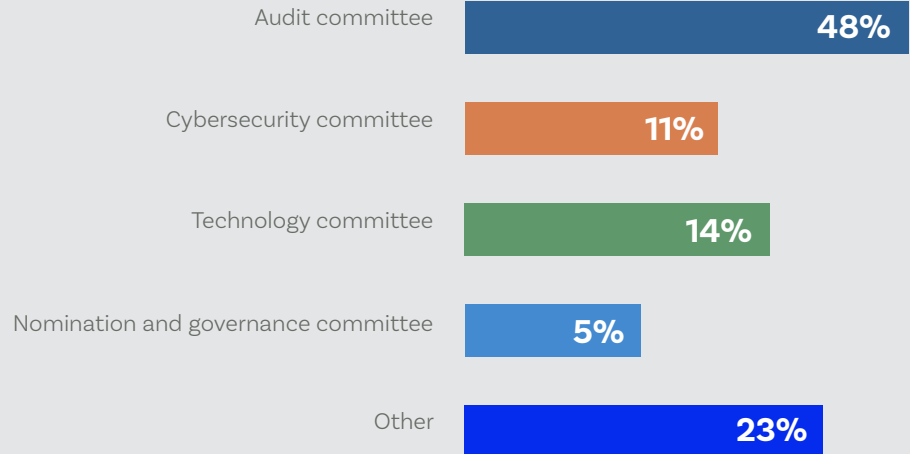
◯ High value

◯ Moderate value

◯ Little value

◯ No value

Visit theiia.org/Tone to answer the question and learn how others are responding.

QUESTIONS FOR BOARD MEMBERS

» What benefits would there be to greater use of advanced technology tools such as data analytics, artificial intelligence, robotic process automation, and machine learning in internal audit?

» What is the potential ROI for these tools?

» What are the risks of not fully implementing them?

» How are our competitors and other organizations in our industry using these tools?

» What upskilling or added resources would we need to make the best use of them?

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QUICK POLL RESULTS

What board committee is charged with overseeing cybersecurity risk management for your organization?

Audit committee **48%**

Cybersecurity committee **11%**

Technology committee **14%**

Nomination and governance committee **5%**

Other **23%**

The Institute of **Internal Auditors**