Seven Tips

for Building the Business Case for Data Analytics

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DATA RISK

Introduction

Chief Audit Executives (CAE) are expected to do more than ever before. With a diverse group of internal audit stakeholders, today's CAE typically has to wear multiple hats to satisfy their demands. Key responsibilities can include managing compliance initiatives, assisting with the prevention and detection of fraud, driving and/or facilitating enterprise risk management, ensuring internal controls are effective across the organization, identifying potential operational improvements, and driving enterprise value in general. Across all of these areas, Boards of Directors, Audit Committees, and chief executives are expecting more detailed reporting and valuable insights into risk management. These expectations place a tremendous and often unrealistic burden on CAEs.

More and more CAEs are turning to a secret weapon – data analytics – to help meet these expectations and generate extra value from the Internal Audit (IA) function. Introducing data analytics into internal audit, however, can be a tremendous challenge. It can require a reformation of business culture, an initial and ongoing investment in technology and resources, and often a data analytics evangelist to sell it through the organization. With the weight of internal audit on their shoulders and mounds of data at their fingertips, CAEs often become that evangelist, serving as the most vocal proponent of data analytics in the company.

Selling Audit Committees and other executives, including CEOs and CFOs, on the value of data analytics is often the first and most difficult step. At its core, resistance stems from a misunderstanding or lack of understanding of the role of data analytics. Without a proper understanding, C-suite executives can be hesitant to approve budget for a data analytics implementation.

This guide presents seven tips for overcoming these challenges, arming CAEs with the knowledge and strategy to make the business case for data analytics.

1. Spend time preparing and strategizing.
2. Look from management's perspective.
3. Illustrate how IA will better align with organizational objectives.
4. Identify pain points within Internal Audit.
5. Discuss specific opportunities for improvement.
6. Pitch projects with immediate ROI.
7. Consider co-sourcing as a cost-effective approach.

These tips will help you win over skeptical executives and take the first steps into incorporating data analytics within internal audit.

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Do Your Homework.

Know your audience.

CAEs traditionally report to an Audit Committee or Board of Directors, who approve the Internal Audit budget. That said, it is important to have management on your side when implementing a data analytics initiative. When approached with a proposal for data analytics, executives tend to skip the value proposition and head right for the budget line. Budget is always at the forefront of executive management's minds. To see the value in data analytics, most Boards or CEOs need to be educated on the benefits of the tool and the process, so present the pros of data analytics from their perspective. What's in it for them? Be prepared to discuss how data analytics can support enterprise objectives and how it can provide insights into the risks that boards and executives care about most.

Know your data.

Companies are dealing with unprecedented quantities of data, and they are implementing more and more systems and tools for gathering, processing, and storing it. Before taking your request to executive leadership, spend time gathering high-level intelligence on what data you have, how internal audit is using it, and what systems are involved. When evaluating your data universe, key questions to consider are:

- How heavily do you rely on data currently?
- What systems gather this data?

- Are the data and systems complex?
- Is your data generally clean?
- Are your systems integrated with one another?

Determine the answers to these questions in advance, and you will be prepared for the data-focused questions you are sure to receive.

Know your pain points.

Every Internal Audit function has challenges. Data analytics can help IA overcome many of these hurdles, so don't be ashamed to discuss them with management. Proving that there is a need for analytics within IA should be the first step. Before presenting your case, pinpoint problem areas within internal audit operations that could be improved with data analytics.

Stand in Their Shoes.

To make the business case to executives, you will need to present the value from their perspective. Keep the focus on value to the organization. Practical case studies, such as those that demonstrate an immediate cost recovery through analytics, will be useful as you build your case. Before you pitch analytics to your organization, get into the mindset of your fellow executives.

First, realize that most leaders are already relying on data to make decisions. However, most do not feel comfortable with the level of visibility they have into the data or the reliability of the data. Because of this, they hesitate to use this data as the basis for key strategic and tactical decision making. Whether it's revenue leakage or data manipulation, they know there are risks and errors within the organization that they're not getting to see. What they want are reports that target critical risks within the company and identify trends in the data so they can set organizational goals to proactively manage enterprise risk. This is a chance to explain how analytics will give them an independent opportunity to view their data, and supplies them with confidence that the data they rely on is accurate and complete.

Next, highlight that with better data management and improved risk identification, you will be able to align IA's audit plan with enterprise objectives for risk management. Each organization has a different focus and mandate for Internal Audit. In highly regulated industries, maintaining compliance is typically the main role of Internal Audit. For companies struggling financially, cost recovery can be a key focus. Fraud is a primary concern for almost every organization. Understand the objectives your Board has set around enterprise risk management and discuss how analytics will allow Internal Audit to align its audit plan with the organization's objectives. To accept analytics into the organization, executive leadership must see how it will directly support organizational risk management and/or the achievement of organizational goals.

And finally, don't be afraid to compare your company to the market. Do your homework: What are your competitors doing? Where could you gain a competitive advantage? Come prepared with industry insights that put your organization into a larger context. For example, a recent Bain & Company study found that companies with advanced data analytics capabilities are:

- twice as likely to be in the top quartile of financial performance within their industry,
- five times as likely to make decisions faster than market peers, and
- three times as likely to execute decisions as intended.[1]

Talk about this potential end state, where data-driven decisions elevate your company above its competitors, as you sell data analytics to your organization.

[1] http://www.bain.com/publications/articles/big_data_the_organizational_challenge.aspx

Change the Plan.

Hinge your pitch on how data analytics will allow Internal Audit to improve enterprise operations, starting with the Internal Audit plan. The key to a healthy audit plan is a comprehensive, detailed risk assessment, but this assessment is traditionally based on conversations with management around "perceived" risk or the evidence provided through sample testing. This approach does not provide a complete picture of the enterprise risk universe. Data analytics can provide the IA function with a more robust view of where risk may actually exist throughout the organization, allowing IA to develop an annual audit plan focused on the most critical risks.

> "Everything that internal audit does needs to be risk based and needs to help the company achieve its strategic objectives. Data analytics is no different. Focus your analytics on high areas of risk."

Bring up specific ways data analytics would improve your audit plan for the year. For instance, companies with multiple locations across the country, like retailers and restaurant groups, typically rely on sampling to determine which locations to audit each year. A retailer with hundreds of stores may only have resources and budget to do a comprehensive fraud audit of a handful of locations, leaving plenty of opportunities for fraud to go unhedged. Leveraging data analytics, Internal Audit can get a view of the data for every store and detect potential patterns and anomalies where unusual activity may be occurring. Based on these outputs, they can decide to target the locations with higher probability of fraud occurrence.

Executive management needs to know that Internal Audit shares its objectives for risk management and has the capabilities to target these risks. So be direct about how data analytics will allow you to provide greater value to the organization by identifying risk patterns within the organizations that result in more targeted audits.

Talk about the Problem.

Demonstrate Internal Audit's need for data analytics. It isn't enough to show the features of a tool – you must demonstrate the value of the process. Executive leadership needs to see that Internal Audit has identified critical responsibilities that could be handled more efficiently or activities that would promise a high return on investment. In addition, an assessment of these critical areas will be helpful when determining where to begin your data analytics implementation. Common issues many IA functions are facing that could be resolved with data analytics are:

Disparate systems and data.

While many of the systems and applications gathering data are designed to make life easier for each department, they often make things complicated for Internal Audit. It is very common for organizations to have multiple, disparate systems that address varying operational processes/needs in addition to large and complex ERP platforms. In most cases, these systems are not fully integrated with one another, and when Internal Audit accesses information in them for different audits, they generate duplicate data, or discover some of the data is "dirty" or unreliable. If IA is relying on the data in these disparate systems to perform audits, then they are likely missing errors or opportunities for efficiency across the function.

Sample testing and missed opportunities.

Traditional audit methodologies make it nearly impossible to identify all errors and inefficiencies within an organization. Without a data analytics tool, Internal Audit must rely on sample testing in order to complete all audits in the annual audit plan. Complicating the issue, sampling balances on the professional judgment of the auditor choosing the sample and the quality of evidence gathered from the sample set. When conducting a fraud, waste, and abuse audit, for example, sample testing is unlikely to cover all, or even most, of potential loss.

Cost and maintenance of compliance.

With the constantly evolving world of regulatory compliance, Internal Audit functions must dedicate a greater focus on compliance audits. Organizations in most industries are faced with growing regulations over business operations, and Internal Audit is often tasked with the constant and repeated evaluation of internal controls to meet their compliance requirements. Because of this, compliance auditing can often be time intensive and costly.

Find the Solution.

After bringing up IA's pain points, move from explaining the need to discussing the solution. Executives will want to see exactly how analytics will solve the issues you are facing.

Data aggregation.

A data analytics tool can funnel all data coming from disparate systems through a single tool. This streamlines the audit process, so your team doesn't have to obtain access and search through multiple systems and databases for each audit. A data analytics tool gives the IA function the ability to filter data in a number of ways so they can see as little or as much data as they need. The capability to pull data from multiple systems using one tool increases IA's efficiency and could also support other data initiatives throughout the organization. For example, accounting and finance teams may be interested in ways that filtering clean data through an analytics tool could speed up month and year-end close processes.

Full population testing.

Data analytics provides Internal Audit with the capabilities to test thousands of records in an instant and see patterns that reveal duplicate payments, fraudulent activity, or revenue loss as examples. Cost recovery and fraud identification are two of the most common expectations for IA beyond compliance, so a discussion of the benefits of full population testing is imperative. Data analytics provides Internal Audit with the luxury of testing full data populations and dramatically increases the likelihood of uncovering errors/fraud. In addition, the ability to perform full population testing on data from multiple systems makes it possible to identify behavioral trends, spending habits, and other data anomalies that would otherwise likely go undetected with a traditional sampling methodology. Analytics removes the concern of human error around sample selection and gathering reliable evidence. While traditional auditing methods like sampling can give a reasonable assessment of control risk, full population testing with data analytics will give your team an unbridled view into transactional risk and will allow IA to quantify the impact of control weaknesses.

Compliance testing efficiency.

To reduce the cost and time spent on compliance, many CAEs are beginning to automate controls testing, especially around routine IT general controls (ITGCs) and business process controls. Continuous auditing tests the entire data population faster than sampling and quickly recognizes poorly designed controls as well as any suspicious behavior or errors that are often missed by sampling. By automating controls, Internal Audit gains more time to develop innovative designs for ineffective controls and to focus on more technical control testing. Automating certain types of control testing is likely to reduce your dependence on manual testing, freeing up your auditors to pursue other value-add audits for the organization.

Pitch the Right Project.

If management is still hesitant to jump into a data analytics investment with both feet, propose a simple initiative, like an audit of duplicate payments or travel and expense (T&E) spending, that will have a high likelihood of findings and a high return on investment as a test-run for a full data analytics implementation. Many boards reject data analytics because they are not ready for a big investment in an unproven program. Starting small with a pilot program is a good way to introduce analytics to the company, build trust in data analytics, and showcase the potential value for the organization. A pilot program allows the CAE to focus on a single audit area that promises a good return, without making a long-term commitment to data analytics. A pilot program, which can be run by an outside group to reduce the burden on internal audit staff, often uses relatively standard analytics scripts to identify common errors and recover revenue. By starting with smaller data analytics projects, management throughout the organization will begin to see the benefits of a small investment in analytics, and a culture of trust in data analytics will begin to develop.
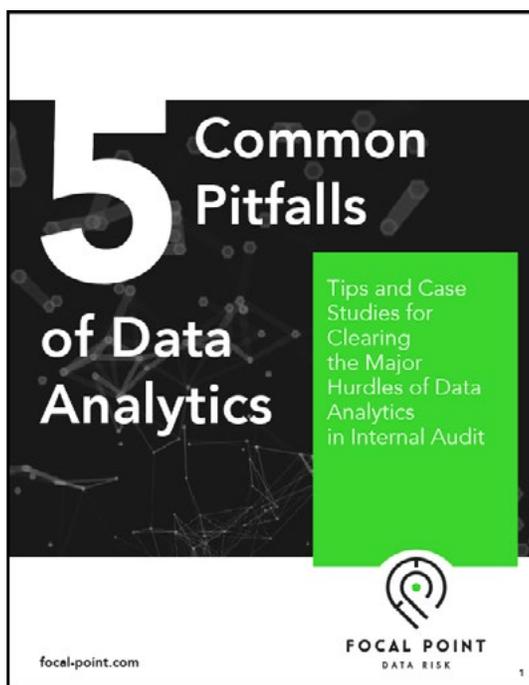
Interested in reading more about building the right data analytics team and getting executive buy-in? Download our white paper with tips and case studies for clearing the major hurdles of data analytics in internal audit here.

Weigh Your Options.

If you are among the majority of CAEs that don't have the luxury of data analytics resources on your team, finding and hiring the right analytics experts will be difficult and can be very expensive. The data analytics job market is saturated with open positions. For many companies on the verge of implementing data analytics, co-sourcing with an outside firm can be a viable option. Co-sourcing offers a gradual approach to analytics, where tools and processes can be implemented according to your budget and business needs. Rather than immediately investing in both technology and a team, Internal Audit is able to bring in resources as needed. The co-sourced firm may also offer options for hosted analytics to avoid the upfront cost of investing in data analytics software. In addition, many co-sourcing firms provide training during the engagement so Internal Audit can begin to develop their own in-house data analytics skillsets. Ultimately, co-sourcing lowers the barriers to entry, accommodates cost-conscious executives, and minimizes the strain on already tight audit budgets. As you work to build buy-in for data analytics, including a co-sourced model as an option for your executives may tip the scales in your favor.

Conclusion

The key to a successful data analytics initiative is creating a culture that is receptive and excited about the change analytics can bring to the organization. The best way to create that culture is to spend time crafting the way you'll present the business case for data analytics to executive management. Enterprise-wide acceptance of analytics starts at the top, so acquiring buy-in from your Board or Audit Committee is critical. Take the time to prepare your case for data analytics, looking carefully at how your organization uses data, considering leadership's perspective, and identifying key pain points within your IA operations. Start your presentation with an honest discussion of how analytics will allow IA to align with organizational objectives and how you can improve problem areas within the audit function. Talk to improved reporting and better visibility into data and the risk universe, two key interests for executives and boards. Close with how you can implement analytics in a cost-effective way. Suggest starting with small pilot programs that will generate high ROI as well as using a co-sourced approach that will supply you with the experts you need. Leveraged effectively, data analytics is a powerful tool that can improve Internal Audit capabilities by leaps and bounds and generate tremendous value within your organization.

About the Author

Corey Wells, Partner
Data Analytics & Southwestern U.S. Internal Audit
602.540.6075 | cwells@focal-point.com
Connect on LinkedIn

Corey leads Focal Point's national Data Analytics practice and manages our Southwestern U.S. Internal Audit practice. He is a Certified Internal Auditor (CIA) and Chartered Financial Analyst (CFA) with over 15 years of experience in internal audit and risk management in both industry and professional services. Over the past seven years, Corey has advised many internal audit executives, CFOs, and audit committees on governance/compliance matters and currently holds Chief Audit Executive (CAE) responsibilities for many of Focal Point's internal audit out-source clients. Corey presents regularly at industry events/conferences and is widely viewed as a leading practitioner in the area of corporate governance and internal audit. His experience as both a CAE and advisor to multiple Fortune 1000 organizations, has afforded Corey a unique insight into the best-practices of world class audit departments. Prior to joining Focal Point in 2005, Corey was the Chief Audit Executive at WestJet Airlines, where he initiated, developed, and grew the audit and advisory services practice to 10 professionals over a five-year period. Prior to WestJet, Corey spent the first half of his career in the financial services industry in a variety of managerial capacities.

About Focal Point

Focal Point Data Risk is a new type of risk management firm, one that delivers a unified approach to addressing data risk through a unique combination of service offerings. Focal Point has brought together industry-leading expertise in cyber security, identity governance and access management, data privacy and analytics, internal audit, and hands-on training services, giving companies everything they need to plan and develop effective risk and security programs. By integrating these services, we provide our clients with the flexible support they need to protect and leverage data across any part of their organization. Simply put, Focal Point is the next generation of risk management.

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