

Factsheet: Using Internal Audit Data

What is Data?

Data can be defined as:

Facts and statistics collected together for reference or analysis. (Lexico, n.d.)

Data analytics can be defined as:

Test of controls to validate that business risks are managed. This would generally occur at a point-in-time when an assurance activity is scheduled. Rather than test a number of transactions, the entire population of transactions can be reviewed for greater coverage. Data analytics includes automated tools such as generalised audit software, test data generators, computerised audit programs, specialised audit utilities, and computer-assisted audit techniques (CAATs). (The Institute of Internal Auditors - Australia, 2020)

Data mining can be defined as:

An efficient way for analysing large amounts of data through data manipulation techniques for example filtering, sorting, pivot tables, and formulas to pinpoint areas requiring additional audit focus and identifying trends and abnormalities for detailed testing. (The Institute of Internal Auditors - Australia, 2020)

What is Internal Audit Data?

Internal Audit Standard 2500 'Monitoring Progress' requires the chief audit executive to "establish and maintain a system to monitor the disposition of results" while Internal Audit Standard 2500.A1 requires "a follow up process to monitor and ensure that management actions have been effectively implemented". Thus, where an internal audit function has been established for a number of years, it should have access to its own internal historical and current data concerning such things as:

- › The control environment.
- › Organisation risks.
- › Potential organisation 'hot spots' that may be suitable for internal audit focus.

This could be called 'data within the internal audit function' or simply 'internal audit data'.

The 'International Professional Practices Framework' (IPPF) (2017) issued by the Institute of Internal Auditors (IIA) defines the mission of internal audit as:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

To discharge the internal audit mission, valuable analysis can be achieved beyond undertaking internal audit engagements by using internal audit data.

What to do with Internal Audit Data?

As there should be a systematic and disciplined approach applied to the way internal audit work is performed, internal auditors should have a wealth of acquired data. This data should allow internal auditors to determine the root cause of control or process deficiencies identified as part of undertaking audits. There can be times where the value of internal audit will come from an introspective evaluation of its own data. This evaluation can:

- › Drive discussions at the executive management level.
- › Identify the most common causes of audit observations which can then assist in improving organisation controls or informing training.

An added advantage of this approach is that it is proactive and goes beyond delivering audits. Over time this provides metrics to measure the impact of internal auditing on the organisation. This approach increases the value internal audit has delivered to the organisation, with results reported in a more meaningful way in the internal audit annual report.

At the same time, by analysing internal audit data and developing reports, internal audit can:

- › Increase the internal audit skillset (Internal Audit Standard 1210 'Proficiency').
- › Ensure there is more internal audit quality data (Internal Audit Standard 1300 'Quality Assurance and Improvement Program').
- › Show Internal audit as a leader in utilising data which can directly improve business processes.

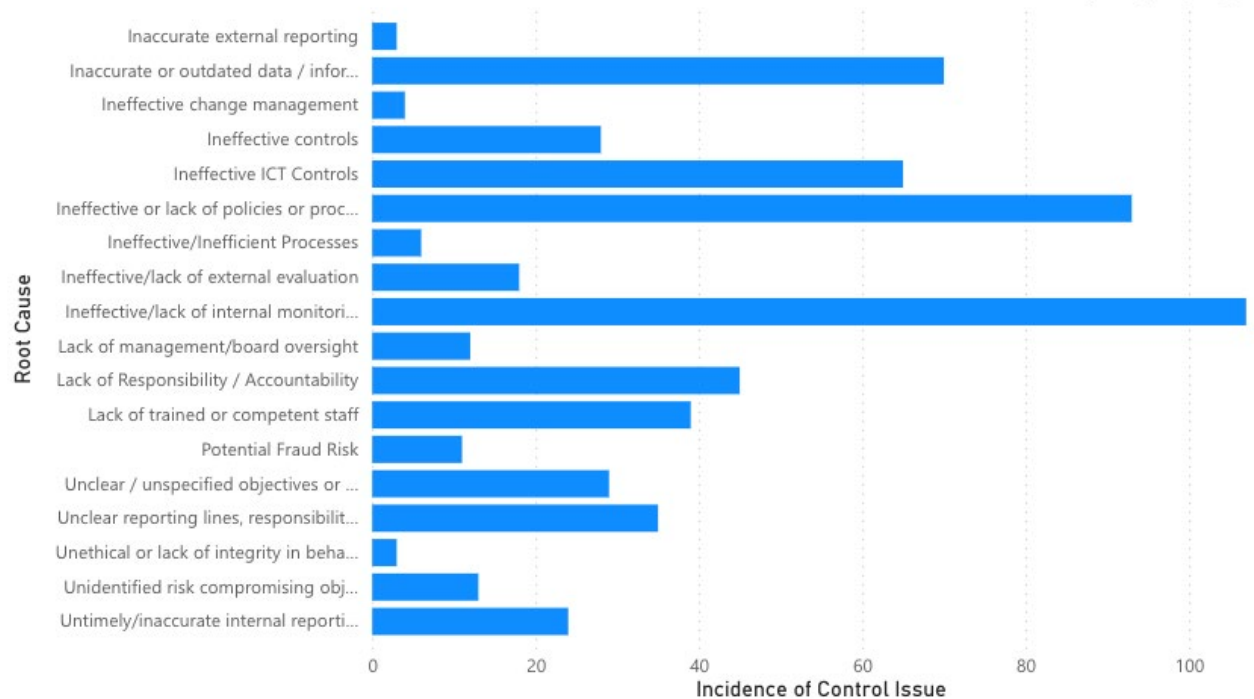
Some organisations may not have the systems or budget to be able to mine historical internal audit data. A future IIA-Australia Factsheet discusses the concept of creating your own internal audit data collection system.

If internal audit data is appropriately captured and stored, it can be linked into online reports and dashboard reporting that can be provided to the board, audit committee and executive management in an agile and timely way. Through appropriate and controlled sharing of data, the internal audit profile can be elevated and highlight the proactive internal audit work undertaken. Internal audit can also encourage management to improve their control environment through real-time data analytics.

Using Internal Audit Data – an Example

Utilising historical organisation data linked to internal audit data, a summary of audit observations grouped by root cause might show:

Incidence of Control Issue by Root Cause

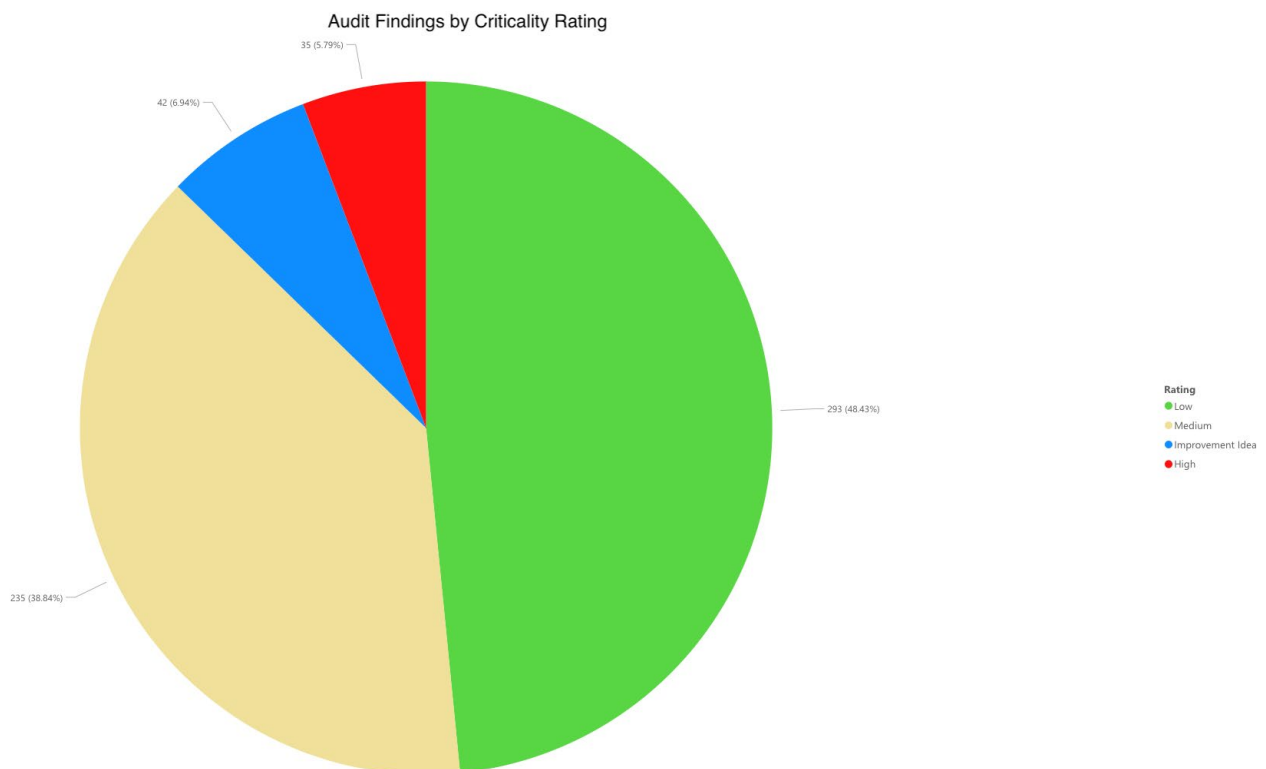


In the diagram above there are 605 historical internal audit observations showing root cause from three primary causes:

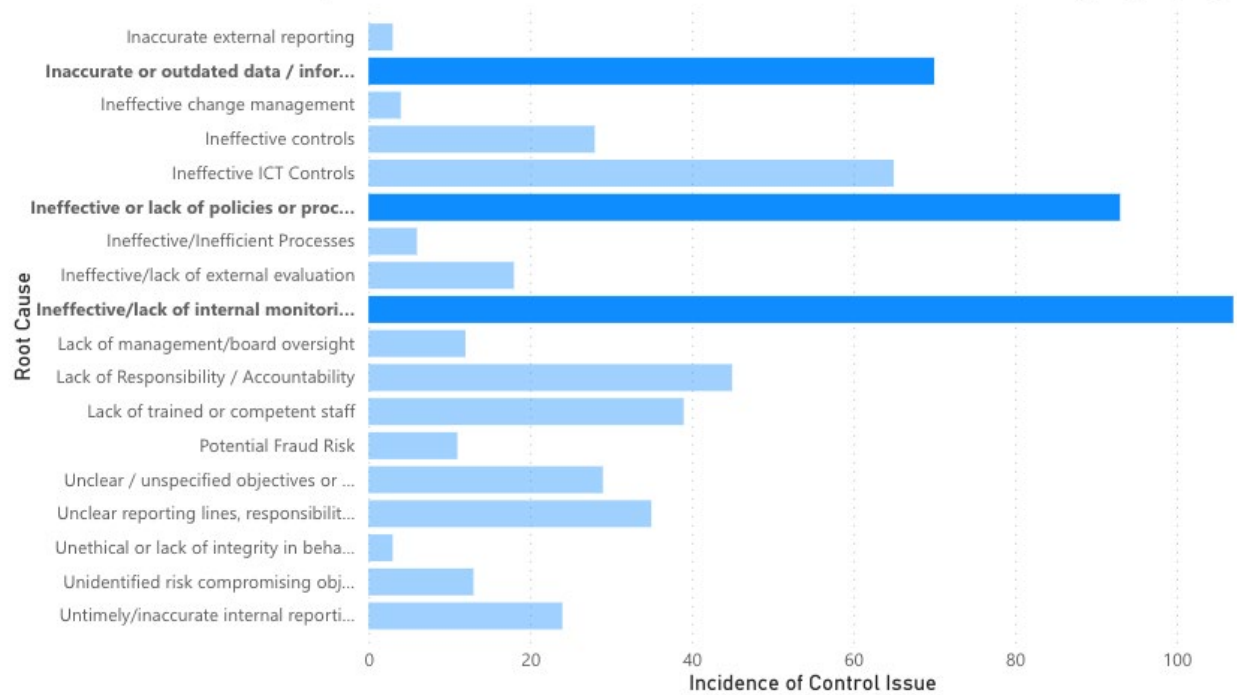
- › Ineffective / lack of internal monitoring / review – 107 observations.
- › Ineffective or lack of policies or procedures – 93 observations.
- › Inaccurate or outdated data / information – 70 observations.

These three root causes contribute to 44.62% of the internal audit observations throughout the organisation. This may suggest training could be facilitated including as part of staff induction. If this included how to identify and address control weaknesses based on historical data, then the overall control environment could potentially be enhanced.

If internal audit reports are constructed appropriately, there should be examination of the number of observations and also the criticality of observations. This would enable analysis of the distribution of criticality for all observations:

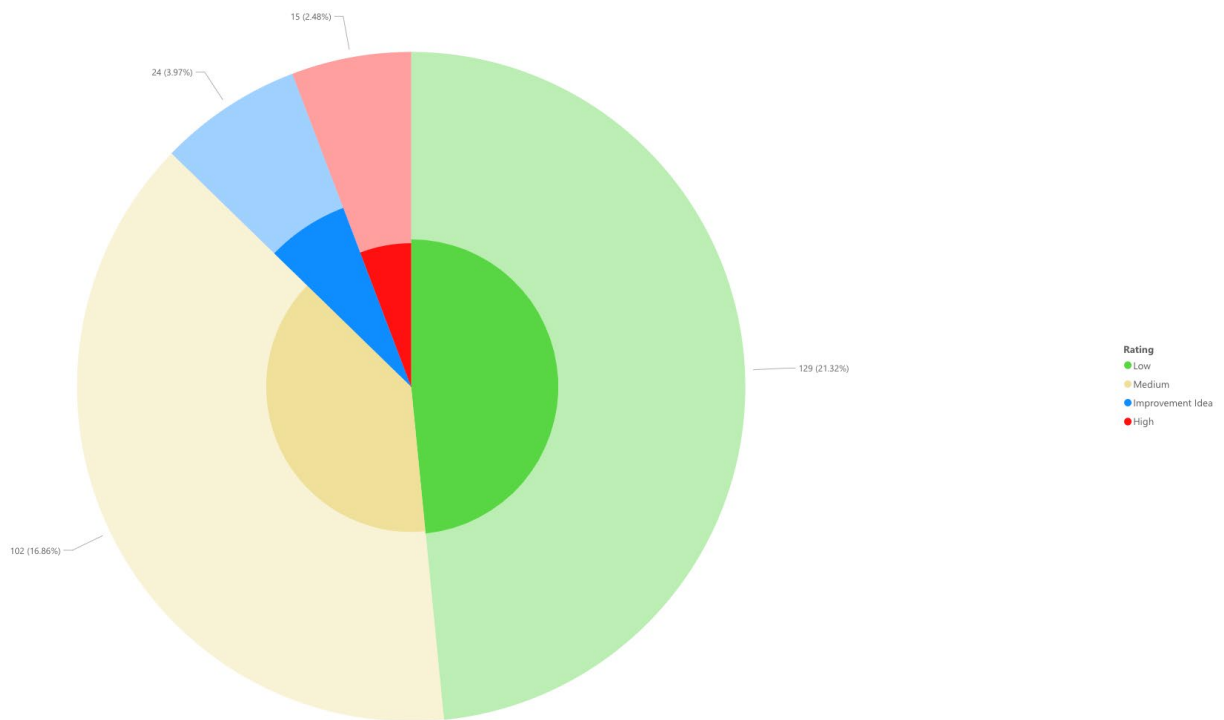


Incidence of Control Issue by Root Cause



Through development of an appropriate reporting mechanism, change in criticality of the three root causes can be highlighted.

As they are explored, it may be determined that 'High' observations are over-represented under 'Ineffective or lack of policies / procedures'. If the root cause of 'Ineffective or lack of policies / procedures' is addressed, this will reduce the 'High' rated internal audit observations (historically representing 8 out of 35 observations or 22%).



Conclusion

Your internal audit data may enable you to provide deeper insights for the board, audit committee and executive management and may help line management to focus their activity for the overall benefit of the organisation.

Acknowledgement

The content of this Factsheet has been informed by Dr Peter McLeod at the University of Southern Queensland in Toowoomba, Queensland, Australia.

Useful References

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