Ten Ways to Increase CAAT Use in Your Audit Department

Are we auditors walking the talk when it comes to using computer-assisted auditing tools (CAAT)?

When performing assurance reviews, most auditors keep an eye out for opportunities to improve the process. What happens to this eye when it needs to focus on internal audit testing and data analytic techniques?

Deloitte Touche defines data analytics as "not technology, but a concept. It refers to the use of certain technologies, skill sets, and processes for exploration, evaluation, and investigation of business operations [...] the disciplines of analytics provide hindsight, insight, and foresight" (White, Neil. "Adding insight to audit: Transforming internal audit through data analytics." Deloitte Touche. 2013. Web. 16 February 2016).

We know the advantages of data analytics are:

- The ability to interpret entire or large amounts of data and use it to reliably diagnose and predict
- More precise analysis
- Faster test results once the scripts or queries are developed
- Reduced audit risk, which enables Management to rely more confidently on audit results

Data mining allows users to process large amounts of data, analyze the meaning, and predict what it could mean in the future. Data analytics is used to describe patterns, predict trends, and forecast.

According to Lenny Block, Associate Vice President of Internal Audit at Nasdaq, Inc., CAAT are a supplement to traditional audit techniques, not a replacement. Traditional auditing is usually for a fixed time period, and CAAT allow a department to set up a continuous monitoring or auditing program to identify red flags. Nasdaq has been using CAAT in some form during the last ten years, and has found that while data is more complex, automated tools have become easier to use.

Computer-assisted auditing tools or techniques have been around for at least ten years. According to Protiviti's 2016 Internal Audit Capabilities and Needs Survey Report, computer-assisted audit tools and data analysis tools have been the highest priority among auditors within the past decade. It has appeared in the number one spot for six of them! This persistence in priority indicates that many audit departments have not optimized CAAT use.

I think we'd all agree that testing the entire population produces more reliable results --- assuming that the test was well-designed, relevant, and well-executed. It's also easier to secure agreement on the facts when discussing the test results with the client if one's testing has encompassed the entire population. Given these benefits, why aren't more audit departments utilizing CAAT? Why are adoption and acceptance taking so long? Moreover, why have CAAT remained a top priority for so long?

Six Barriers to CAAT Usage

Following are typical impediments to CAAT use and adoption.

1. **Absence of senior management support:** Introducing and optimizing the use of CAAT is a change initiative that requires several years to yield results. During the first one to three years, the concept of CAAT needs to be socialized in the department and its use needs to be conceptualized and documented. Teams need to experiment with its usage… and not all of these experiments will be successful. When the experiments result in many hours charged to an audit without concomitant results, how does your organization react? If the reaction is to charge the hours to learning, the auditors will be more inclined to continue to experiment and learn. If the reaction is to punish, then auditors will be disinclined to try to use the software and opt for the tried and true methods….no matter how manual they might be.

2. **Learning curves:** It takes time to learn how to use new software and more time to develop proficiency. I recall reading years ago that most people only utilize 10% of a software package's capability because they are unwilling or unable to attend the training. In short, they are so eager and rushed to get started that they don't or can't make the time to learn the package's capabilities. Moreover, all people do not learn at the same rate and in the same manner. Some people require classroom training while others like to learn through experimentation, or by observing and imitating others.

3. **Time diverted from actual auditing:** The time required to develop a useful query is a barrier to the use of CAAT. Let's face the reality: query development requires planning, time, and testing. However, this effort should be viewed as an investment and an essential step to creating intellectual property that can be used and leveraged by the rest of the department. Furthermore, CAAT use reduces audit risk associated with testing. Of course, in the short run, the time devoted to query development and testing is less time that can be expended on actual auditing, so fewer audits may be completed during year one of CAAT use. However, in successive years, the rest of the auditors will reap the benefits of the seminal work performed during that first year.

4. **Perceptions of cost:** For some audit departments, the cost of the software licenses is the barrier. However, this expense should be viewed within a strategic and long-term context. The initial cost should be viewed as table stakes to the audit department's ability to add value.

5. **Misperceptions regarding maintenance:** Like other applications, you have to be concerned about support, maintenance, and version control. These concerns translate into the need to have dedicated resources or, at least, one person who is the actual, advertised go-to person for CAAT usage…and typically, this person isn't completing the audits. So, the issue becomes how to "sell" the need for additional headcount in a support function. For smaller departments, identifying a dedicated resource can be a real barrier. Typically, budget constraints prevent adding a dedicated data analytics specialist to the team --- especially if this person will not be completing audits. Instead, the individuals who acquire proficiency through experience, self-study, and old fashioned trial-and-error evolve into the department's resident specialist role. These folks respond to others' questions in an informal manner while completing their own audit assignments. This time-share approach slows department-wide CAAT adoption and proficiency, but may be the only available method for budget-challenged audit departments.

6. **The chronically moving target**: We audit in a dynamic environment. Using CAAT requires continual support so that it keeps pace with the changes and the profusion of data that exist in the areas we audit. Consequently, CAAT usage is not a once-and-done endeavor, but an initiative that requires continued attention and a permanent shift in the staffing competency and deployment. Perhaps this factor explains why CAAT has been a high priority for so long.

Actions to Take:

The following are 10 ways to increase CAAT usage within your department whether you are, would like to be, or are asked to be the subject-matter expert (SME).

1. Assess and communicate the value of data analysis and data mining. Talk to your peers in the industry who have experience to gain boots-on-the-ground feedback. Attend conferences, seminars, and webinars on the topic. Use this information to create a vision of optimized CAAT use within your department. Then communicate this vision within your department.

2. Determine your department's implementation and adoption strategy --- and then stick to it. I recall one of our clients, frustrated by the slow CAAT adoption within his department, simply issued an edict. As chief audit executive (CAE) he made individual CAAT use a performance management target for all auditors and mandated that each one use CAAT to complete at least one test in each audit. Within three years, this department had developed a prodigious store of useful queries. Now, this approach may be too directive for your organization's culture or you might not have the clout to do this. As an alternative, identify a senior-ranking auditor to be this project's sponsor or cheerleader.

3. Identify the barriers in your organization and make a plan to address them. Block stresses that departments need to address typical people-related challenges before implementing any tool. Examples of these are a lack of technology skills, inexperience with automated tools, and difficulties identifying the data source.

4. Explain why. When people understand the "why", the shift to data analysis will happen and most of their resistance will subside. Moreover, research in communication indicates that people tend to explain "why" to those they care about and hold in high esteem. They tend to tell "what" to those they care less about or hold in low esteem. Explaining why, therefore, communicates both caring and esteem to those involved in this change process.

5. Provide information. Share as much information as possible on a regular basis and as broadly as possible. In the absence of information, people create their own. Reduce rumors and ambiguity by opening lines of communication, providing factual information, providing personal feedback to those involved, and, especially, celebrating successes publicly. Doing this promotes joint ownership of the change and so invests the team's energy into its success.

6. Build the learning time into the plan. When possible, plan to have at least one training session where the entire department (or team, if you work in a large department) is in attendance so that they can hear the same message at the same time. If you bring in an external consultant to conduct this training because of his or her expertise, determine how you will reinforce this training and follow up to make sure that the concepts become reality. Identify one or more SMEs within your team who can serve as go-to trusted advisors once the training is over.

7. Consider convening periodic lunch-and-learns or other forums so that auditors can exchange ideas and experiences, and learn from their peers.

8. Integrate CAAT in your methodology. For change to last, it must reflect your audit approach to planning and testing. Rearranging structures or reporting relationships will not contribute to long-term success by themselves. CAAT use also triggers the need for additional competency. Consequently, the process of selecting and rewarding people must be updated as well. Concentrate on recruiting people who have data analytics experience. If you are a job candidate, consider honing your skills in this area.

9. Inspect what you expect. Identify the key performance indicators that will indicate successful CAAT integration and measure them. Define a time frame for assessing results. What gets measured gets attention, so make certain that the most critical and the most central factors are measured. Be sure to celebrate successes -- no matter how small – as they occur.

10. Focus on follow-up and accountability. Specify time frames for changes to be completed and develop mechanisms for ensuring that people follow through on commitments and assignments so that change really occurs. Don't let the timeline be open-ended. Set targets for incremental completion.

These action steps will require an amalgam of other competencies – critical thinking, strategic thinking, influencing skills, and channeling confrontational energy. Refer to my previous KnowledgeLeader articles and webinars on these topics for tips and techniques in using these skills.

Adoption and acceptance are indicators that change has occurred. It may not be immediately apparent, and you may have some false starts before finding the right fit for the department – that is ok. If you have to replace one tool for a more suitable one, e.g., Excel to ACL or IDEA, you have already experienced what change feels like. You can leverage your "lessons learned", which will make the implementation and adoption process smoother the next time. View CAAT use as an evolutionary journey, not a revolutionary one.

Using data analysis tools, like any other change initiative, can be intimidating if we allow it to be. Your perception will color how willing you are to accept CAAT use. Much like prescription eyeglasses sharpen vision and allow wearers to see more clearly, CAAT will supplement your existing auditing skills and bring your analysis to the next level.

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