



# Death of the tick mark

How to prevent internal audit  
becoming obsolete

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# It started with a **Winnebago**

*Well, kind of...*

Early in my career, I was in the Risk Advisory Services practice of EY. One of my biggest clients was a chain of Midwestern US hospitals, and every year we developed an annual audit plan that we thought would deliver real value and important assurance for management and the board.

But when we presented our plan to the CFO, including the risk areas, and which hospitals we'd cover in our reviews, he barely paid attention.

As we left the meeting, he stopped me in the doorway and joked: "You know how we could really save? Instead of flying you auditors all over the place to stay in overpriced hotels, maybe we could rent you guys a Winnebago and you could drive the audit RV across the country!"

I realized that after all the hard work and time we'd invested, our presentation hadn't resonated at all. The CFO wasn't interested. He was more concerned about how to minimize expenses in this "cost-center-we-have-to-tolerate" function of internal audit and compliance.

Ouch! This is exactly why auditors need to change the perspective on auditing and emphasize the value they deliver.

In this eBook, I'll share my views on how the internal audit profession could be heading for extinction—and how auditors can become more proactively valuable to their organizations. I'll also outline some inspiring stories from Galvanize's global customer base, and examine what separates forward-thinking teams from audit groups that remain focused on the tick mark.



# Tough questions I had to ask

*“The traditional auditor is barreling towards obsolescence and most don’t even realize it.”*

Those were the words from an analyst at one of the world’s leading enterprise technology analysis firms. Her argument was two-fold:

- + Auditors are rarely focused on the problems that really matter.
- + Auditors are being systematically replaced by automation as big-data technologies continue to advance. It’s an aggressive stance, but it was also a wake-up call that helped me think about how I’m supporting the audit profession—and how I can help make sure it doesn’t become obsolete.

*My epiphany: Eradicating the tick mark, and what it symbolizes, is our first step in making serious progress toward industry-wide transformation.*

As I began to think about why we need to change our perspective on auditing, and how to drive real and quantifiable value, I wondered about two things:

## 01 Do we need to do what we’ve always done?

During my audit career, I spent countless hours creating detailed workpapers with vast documentation and endless tick marks. I also spent hundreds of hours writing and editing traditional audit reports.

But nobody cares about your detailed working papers—if they did, then why are auditors the only ones creating them? Why are we writing reports, when it’s metrics that management actually cares about?

## 02 Have we truly embraced the possibilities that technology now offers?

Are we approaching day-to-day activities in the most impactful, repeatable, and efficient ways possible?

I would argue that data analytics is, by far, the most under-used technology in audit, but I’m also thinking about the role of mobile and social platforms in transforming the way we work.

# The **origin** of the tick mark

Google “audit tick marks.” Most results (and even the *Auditing for Dummies* textbook) are related to financial statement auditing—no wonder **we have trouble adding the deep value stakeholders expect!**

Let’s take a moment to review the official definition of internal audit from the Institute of Internal Auditors:

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*

This is important work and it impacts an organization’s entire operations. So, why is much of our time, as a profession, spent in granular, low-impact financial areas? I’d argue that this level of granularity (and the ridiculous tick marking and documenting that goes with it) isn’t required by our professional standards, as long as our conclusions are supported.

Much like stenography stepped aside with the arrival of the personal computer, it’s time for old-fashioned workpapers and tick marks to get out of the way of internal audit’s new future. A future that is heavily centered on automation.



# AI & automation: Changing audit for the better

*Emerging technologies are having an enormous and **very positive impact** on internal audit.*

A World Economic Forum report<sup>1</sup> examined the future impacts of emerging technologies, like artificial intelligence (AI), robotic process automation, and machine learning on a range of different careers. The report identifies internal audit as a profession being heavily impacted by these technologies.

But it's not the doomsday situation that's been widely portrayed. As reported by Gartner<sup>2</sup>, robots and automation bring many opportunities for the audit profession. To stay relevant, internal audit will have to adapt and embrace these technologies and opportunities. Basically, it comes down to this: you're either the one creating automation or you're the one being automated.

There's not an audit team on Earth that has an adequate number of people to look at all key aspects of risk with a manual approach—and there never will be. It's critical we extend our reach through data and automation. Data analysis allows a single auditor to analyze billions of bits of information to gain real insights. Data automation puts the low value but “must watch” areas on auto-pilot so we can refocus our time and energy where it really matters. But even as automation grows and is adopted in many organizations, some auditors say they're frustrated with the technology. But that's because they're approaching it differently.

An auditor who sits back and just watches new tech roll in and waits for instruction, is very different from one who takes an active role in developing the technology within an organization. Which one would you want on your team?

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<sup>1</sup> World Economic Forum, 2018, The Future of Jobs Report

<sup>2</sup> Gartner, 2017, Gartner says by 2020, artificial intelligence will create more jobs than it eliminates

# Increase internal audit **value** ...

... *by spending time on what really matters.*

Internal audit can use data and automation to deliver a perspective that's much broader and more objective than what other organizational areas can provide.

Here at Galvanize, we choose which areas we want to spend time on based on what our data tells us. We developed a research project to examine the top risk factors disclosed in Form 10-K reports from the Fortune 500.

We wanted to answer "What does management disclose to the investing public as the most impactful, most relevant risks within their organizations?"

Not one of these organizations referenced the inability to accurately report financial results.

By contrast, we see the following top three risk disclosures in nearly all Form 10-K reports:

- + The ability to attract and/or retain top talent
- + Pressure from the competition
- + Product quality and customer satisfaction.

I wondered: "How many audits did I conduct in any of those three areas, given they're the key risk areas for the world's largest organizations?"

The answer is a gut-wrenching zero.

# Vanderbilt University

*How real risk assurance made a big difference.*

A few years ago, I heard about a physician at Vanderbilt University Medical Center whose wife was a patient. During the wife's time in hospital, the physician noticed many employees caring for her weren't consistently washing their hands. He observed 60 instances where a lack of hand washing could have spread communicable diseases and threatened the quality of patient care.

He took the problem back to the staff and worked with many different stakeholders to explore how hand washing could become an area of compliance. The team developed a way to observe, monitor, and capture hand-washing data. They learned that staff were only following the medical policy 58% of the time. So they created training and communication initiatives, and developed accountability assessments for individual departments.

Three years after this program began, hand-washing compliance at Vanderbilt increased from 58% to 97%. That's a fantastic improvement, but the outcomes were even more impressive.

Hospital-contracted diseases, such as urinary tract infections from catheters and pneumonia acquired from ventilators, had dropped by 33% and 61%, respectively. In this case, risk assurance had a material positive impact on the organization.

I love this Vanderbilt story, because it opens a new world of thinking (and opportunity) for internal audit—it challenges us to find and target the real risk areas.



# Real-life examples

Here are *some inspiring stories* from the worldwide Galvanize customer base. They show us the incredible impacts that real risk assurance can have.

## MITIGATING BANK ROBBERY RISK

A major bank examined their data for indicators of past and potential branch robberies. They ran analytics to determine where future robberies were likely to occur and then changed their policies to reduce those risks. As a result, they've built an additional risk management program into branches that are statistically more likely to experience robberies.

## STOPPING CHILD LABOR & AVOIDING CONFLICT MINERALS

Another customer used supply chain data to remove vendors that were engaging sub-vendors involved in using child labor. Not only does this work have great social impact, but it also eliminates the organizational risk of a child labor disclosure in the supply chain. They also found indicators in their supply chain of raw materials coming from war-torn regions in Africa. Knowing this, they were able to remove the risk of acquiring conflict minerals that might be supporting war and atrocity.

## FREEZING TERRORIST FUNDING

In the financial sector, our customers have identified suspicious patterns and behaviors. They were then able to freeze funds that would have supported terrorist sympathizers, drug dealers, and other organized crime.

## ASSESSING ARMED FORCES DEPLOYMENT READINESS

A national government defense department's internal audit team considered the process for determining operational readiness for soldier deployment. The audit analyzed key data on equipment condition, spare parts inventories, training statistics, and other points to build a risk profile that measures whether teams are truly ready for deployment.

# In the **past** year ...

... *have you done an **audit that mattered?***

I love this analogy from a marine biologist: “Why spend precious limited time counting how many individual fish have expired, when you can focus on finding out what’s killing the fish in the first place?”

Progressive auditors use data to look forward.

The next generation of audit techniques and technologies that drive real value include:

- + Data analytics
- + Mobile devices as core audit tools
- + Continuous auditing/monitoring
- + Real time, automated, assurance-related reporting and dashboards.

Why would we continue to pick samples of 25 and make 10 tick marks at a time when we can do billions all at once?

That’s the power of technology and automation!

## **DATA PAYS DIVIDENDS (DIRECTLY INTO YOUR BANK ACCOUNT)**

If nothing else motivates you to think about broad data applications, consider the salary advantages. According to a major US recruiter, an analytics expert or data scientist commands almost 50% more pay than an auditor with average experience.

The same patterns apply on a leadership level. If you compare your typical audit leader salary to those who lead teams of analytics and data science experts, the pay difference has completely outpaced traditional audit—a clear referendum from executive management on the value of those skill sets.



# How we use data for business impact ...

*... and to get a seat at the executive table.*

At Galvanize, our CEO is consistently surprised by the chasm between how the world views CEOs (and the C-suite in general) and how the world views audit and risk professionals. Yet, both of those groups:

- + Set objectives
- + Identify what could go wrong
- + Add controls
- + Evaluate their effectiveness with data
- + Change behaviors.

Maintaining independent oversight doesn't mean that agendas shouldn't overlap. Both CEOs and risk professionals need to be pointed at the critical, strategic risks and opportunities.

## SO WHAT WOULD HAPPEN IF WE APPLIED AN AUDIT & RISK APPROACH TO THE PROBLEMS OF A CEO?

To find the answers, we needed to go well beyond the basic financial analysis that would be done primarily with ERP system data. We used our HighBond platform to join our financial (ERP), customer relationship management (CRM), and product usage data for analysis.

This helped us get a full data picture that we could use to monitor our most important business conditions.

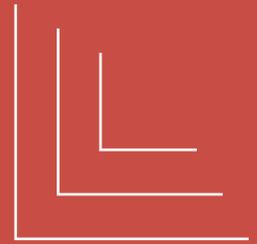
As an example of what we can do with data, let's consider the single most important thing at Galvanize: customers like and actually use our software. But how do we make sure it stays that way? By monitoring the data, of course!

We built data analytics that we call the Index of Customer Engagement, which audits and monitors customer experiences. The index was based on product usage, support levels, and training. We evaluated how deeply customers were engaging with our product and how much value they were getting.

We then correlated this engagement measurement to the contract value and other relevant financial measures for each customer to risk-score them. We added risk triggers to notify Galvanize staff to get in touch immediately to make sure each customer receives full value from the software.

We developed an overall storyboard that explains customer engagement levels to executive management. That storyboard completely replaced the need for an audit report and helped us by being up to date—in real time—at all times.

We did all of this with the same technology every HighBond user has at their fingertips.



Unleashing audit and risk management power on strategic corporate challenges has earned us a seat at the executive table. We're able to answer our CEO's questions that can only be answered with our data analysis. Fully automated key risk and performance metrics have also made it possible to shift Galvanize's focus (and time) with the board to more strategic conversations.

# Where is audit technology headed?

*And what does it mean for you?*

At Galvanize, we're creating a world where governance, risk, and compliance (GRC) professionals are the most sought-after people in their organizations. We believe that audit technology is always evolving to help auditors better serve their organizations.

Here are some technology trends that are providing huge opportunities to increase audit value:

**01** Standardized analytic apps. These are apps that are pre-configured with the knowledge to extract and analyze data for specific risks. They can easily be added if you have a standardized data source like a major ERP system in place.

**02** More powerful analytics that can make use of less structured, and dirtier data.

**03** Textual analysis that uses linguistic sentiment knowledge to identify discussions of interest and find other meaning in large bodies of text.

**04** Easier-to-implement statistical tools that make analytics more predictive and forward-looking.

Technology is getting increasingly sophisticated in these areas—but next-generation tools aren't the only things that can create billions of dollars in impact.



We need to create value by re-imagining how we approach audit resource challenges.

### RE-FRAMING THE PROBLEM

When I lived in New York City, I heard the story of an office building where tenants often complained about the slow elevator. Management decided to look into the problem and found that a full fix would cost over \$10 million—and that wasn't in the budget. So, they hired an independent, objective professional who asked, "If I could solve the problem, would you pay 10% of that \$10 million?" Management said yes.

A week later, the consultant brought in \$10,000 worth of materials and quickly solved the problem. How? The team installed mirrors in the elevator. Soon, everyone was so busy straightening their ties and fixing their hair that they stopped worrying about the slow elevator ride. That's a great example of re-framing the problem.

# Think differently

## *Reconsider your approach to workpapers, tick marks, and audit findings*

I'll leave you with IIA President and CEO Richard Chambers' five imperatives for enhancing internal audit's perceived value (as outlined during an IIA General Audit Management Conference).

I thought these were well articulated and serve as great guidance in developing big-picture goals for your internal audit team:

**01** Assess and address the gaps in stakeholder expectations of internal audit's focus and capabilities.

**02** Develop and implement robust talent acquisition and knowledge sharing.

**03** Implement or enhance methodologies for assessing risk continuously.

**04** Assume a leadership role in coordinating and aligning activities in the organization's second line of defense.

**05** Find innovative ways to enhance audit efficiency.

Spending more time on those imperatives and less time on menial work like tick marks and detailed workpapers will help all of us change our profession for the better.

# If I could do it all again ...

*Thinking back to when the CFO could barely bring himself to pay attention to the audit plans we had spent so much time developing, I realize:*

We were uninteresting because we only talked about audit stuff and failed to put it in the context of what the organization actually cared about.

If I could re-do that day all over again, here's what I would do now:

**01** Reposition the whole discussion to be based on what was laid out in key corporate objectives.

**02** Arrive equipped with a visual map of corporate strategy, mapped to major risk areas.

**03** Back up every risk area with key risk indicators (KRIs) that the CFO didn't yet have. So, rather than saying, "We think IT outage might be a major risk," instead we could say, "We aggregated all system uptime logs and we batted 98.7% last year on clinical systems, but see leading indicators that it could slide. Let's discuss our risk appetite."

**04** Run through each KRI, and point out which areas are being audited, and which areas are currently exposed—so we could determine where to add coverage.

**05** Rather than delivering a static, one-off annual audit report, I'd instead give them a real-time assurance dashboard to provide a single, interactive view of everything that needs attention throughout the year.

**06** Finish the agenda with a conversation about how proactive they want to be—so we could go back to the office and build a notification system when thresholds are crossed.

The most important thing I learned—which underpins how I approach auditing and audit technology—is that continuing a traditional approach to auditing makes audit choices seem like an academic "we do this because we have to" activity, without strong grounding in the reality of running an organization. Meaningful, impactful KRIs would have changed the conversation.

# Put down the pencil!

## *Stop detail-documenting your workpapers.*

Pick up any kind of data analysis tool, and automate the higher-level review of whatever you were working on in that workpaper.

For example, are you reviewing payments? Skip the samples and analyze all payments to profile wasteful payments. Look at the full data population and create a meaningful statistic about what would indicate risk in those payments. Create a KRI to monitor going forward and drill down a level within the risky payments to profile further. If there isn't material value, put the pencil down and move on to a more risky business area.

Developing those risk profiles across multiple processes is far more meaningful than handing in a testing lead sheet of 50 payments and the associated invoices—full of tick marks—so you can find one or two payments where someone bypassed a control.

Are you afraid of what might happen without tick marks? I know, I know ... it's the best guide to how you should be doing your job, right? The easy choice in getting guidance is to look at workpapers from the last time an audit was done. This is really a broken

approach to auditing, as it only perpetuates outdated thinking.

If you missed a big risk because you only looked at 50 payments, how do you explain that? You're not doing your job. Sure, you may have been doing the job when everything was on paper. But today, every major enterprise is digital.

Nor does electronic workpapers necessarily mean you're doing an audit for the digital age. The digital age means you've audited all the data. If there are 20 risks around payments and one is huge and the rest are small, it's better to know about the one risk for the process versus each individual activity. It's not about whether one purchase order wasn't approved correctly—it's about the risky areas in the process.

For audit to cement its place as a strategic advisor to executive management, it must think bigger, and get on board with strategic goals. And the first, powerful, game-changing step is bidding farewell to the tick mark—and the overly detailed, nit-picky approach to analyzing risk that it represents.



**Ready to find out  
how **AuditBond**  
can help you add  
value, better  
manage your audit  
workflow, and  
deliver strategic  
insights?**



For an assessment of how your organization can integrate Galvanize technology to transform your team's value delivery, call 1-888-669-4225, email [info@wegalvanize.com](mailto:info@wegalvanize.com), or visit [wegalvanize.com](http://wegalvanize.com).

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## ABOUT GALVANIZE

Galvanize, a Diligent Brand, is the leading provider of GRC software for security, risk management, compliance, and audit professionals. The integrated HighBond platform provides visibility into risk, makes it easy to demonstrate compliance, and helps grow audit, risk, and compliance programs without incurring extra costs.

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