



audit accelerator

Driving productivity with ACL

What's in your company's blind spots?

A closer look at cost management

We sat down with ACL senior product manager Nigel Matthews, CA, to discuss where companies can look for blind spots in cost management:

What are some typical blind spots for cost management in organizations?

With the bulk of business transactions now being conducted electronically, there's no substitute for auditing through systems and through data rather than around the edges. If you are auditing through the data, besides the opportunities to improve the efficiency and effectiveness of your audits, there is great opportunity to uncover cost management gaps that may have been overlooked elsewhere in the organization.

Considering that most business activity relates to transactions with customers, transactions with vendors or transactions with employees, those are the obvious places to look for fraud, errors and abuse. This includes employee transactions, accounts receivable (AR) and accounts payable (AP).

What should companies be looking at in employee transactions?

The most obvious is travel and entertainment (T&E) expenses. Mostly, it's transactions on corporate credit cards that are personal in nature. For example, we've had customers who discovered individuals using corporate credit cards to purchase gas for spouses. It may seem like nickel and diming, but it really adds up – sometimes to cases where people have been into the company for hundreds of thousands of dollars over the course of several years.

When you think that, broadly speaking, a quarter of a company's employees turn-over every year, there is also a lot of opportunity for errors. I have a payroll example from the UK; there's a system where those

» Continued on page 2

- 2 Quick wins with ACL Analytics Essentials
- 3 Accident Fund saves hundreds of thousands of dollars using ACL
- 4 Thomson tightens VAT controls with ACL AuditExchange
- 5 The benefits of technology for governance, risk and compliance
- 6 How First Hawaiian Bank is achieving greater insight
- 7 Freedom from doubt with ACL business assurance
- 7 What auditors can learn from the economic crisis

The economy and audit's role in fraud detection

By **Peter Millar**, Director of Technology Application, ACL Services Ltd.

Statistics tell us that every company is subjected to a certain degree of fraud. The Association of Certified Fraud Examiners (ACFE) estimates that 7% of a company's annual revenues are typically lost to occupational fraud and abuse.

In tough economic times, the pressure for people to get caught up in various fraud schemes is even higher, as people get in trouble with credit cards and mortgages, etc. We're hearing from ACL customers about internal fraud cases such as employee abuse of purchasing cards, large-scale fraud involving high-value contracts and breaches of controls that have led to serious material consequences to their businesses.

Interestingly, more common is not the massive fraud, rather a "death by a thousand cuts" type of abuse. For example, one customer is a retailer with

operations in shopping malls throughout the country. One of their maintenance contractors figured out that he could send an invoice and get paid without actually doing any work. This was detected using data analytics technology. They discovered he had a mass of small invoices accumulating to several hundred thousand dollars over three years. When the accounts payable department was asked about it, they said "we know this guy - we just pay his invoices automatically." So nobody was checking. To deal with the avalanche of invoices, many ERP systems are set up so there's a negative assurance on approving payments.

» Continued on page 3

Audit Accelerator is published by:
ACL Services Ltd.
 +1-604-669-4225
 www.acl.com



» What's in your company's blind spots?



Nigel Matthews, CA, works with clients in North America, Europe and Asia to apply ACL technology to a broad range of business assurance issues. Prior to joining ACL, he was an information systems audit manager and a senior information technology consultant with Ernst & Young.

in key roles who are let go are placed on "garden leave" to go home and sit in their garden for the duration of the notice period – it's a way of preventing employees from taking up-to-date sensitive information with them when they leave. One customer discovered they had several employees who had been on garden leave for years – they hadn't been fully terminated and were sitting at home and receiving regular pay checks.

Where should companies look for fraud, errors and abuse in accounts payable (AP)?

Invoicing is the number one area, and it's an area that everybody struggles with. Even with a well-implemented ERP payment system it's still remarkably easy to pay invoices incorrectly.

First of all, it is quite easy to set up a vendor master several times accidentally – which means payment or invoices from that vendor can be accidentally processed against what the system thinks are separate vendors. So the system won't do any checks to see if it's a duplicate. Secondly, clerical error is always a risk. If you enter an invoice number incorrectly, for example, the system won't immediately detect that it's a duplicate.

“ We believe internal audit leaders should consider dedicating a portion of the company's audit resources to mining all data on a regular basis for predictive red flags, control issues and unusual transactions. ”

PricewaterhouseCoopers, 2009 *State of the internal audit profession study*

Another cost management challenge is exemplified by a client that had a significant number of vendors set up as "pay immediately" due to its use of big ERP systems and automated payments. An invoice would come in and be automatically scooted to the front of the line – the company was actually paying out too early. Since, in total, large sums of money were involved (in this case, \$44 million/year of early payments) the cost of capital over a few days added up to a sizable amount.

What should companies be examining in accounts receivable (AR)?

Particularly in tough economic times, as a B2B customer or a private individual, you're probably going to be paying your bills more slowly. Paying late puts the vendor in a position of loaning money to the customer. Within normal business terms that's perfectly okay, but abuse is a problem. And a lot of businesses aren't set up to understand customer payment patterns and to see changes in those payment patterns on a rapid response basis. If you've got a large AR from a customer, you should be collecting penalty charges if payment is late. In tough economic times, strong credit management becomes increasingly important.

Also, often as a function of managing large ERP systems, customers can be set up in the system with very high credit limits. If there is no system check, they could run up a very large AR balance.

Why are finance and business process owners interested in what internal audit can do?

Though it's unlikely these kinds of inefficiencies would bring a business to its knees – it is money that you can prevent from leaking out. It's low hanging fruit. And it's ultimately easier to implement than any other cost savings programs like closing facilities and laying off staff. Secondly, particularly with fraud, there is reputational risk – some of these types of transactions, if they come to light, have impact far beyond their monetary value.

Controls may not always work as intended. For example, a company with a lot of small branch offices often can't enforce proper segregation of duties because of operational needs or a lack of staff. It is not the auditors that are actually responsible for controls working properly – it's the business process owners.

Particularly in tough economic times, the fittest survive. Cost management isn't the only aspect of fitness – but it's one that deserves attention.

Quick wins with ACL Analytics Essentials

ACL's Analytic Essentials are proven tests based on ACL's 20+ years of experience. Customers can spend more time analyzing data, reviewing results and other important audit functions. The scripts are stored in the ACL AuditExchange repository and can be re-used across the audit department. The first bundle, *Cost Management*, contains powerful analytic tests targeting higher risk areas of the business including T&E expenses, vendor payments, and customer credit. Other bundles include the *Starter Pack* and *General Ledger*.

By automating sophisticated analytics and embedding audit "best practices", the audit team can gain timely insight into anomalies and control breaches, mitigating risks of ineffective or missing controls within systems. With enhanced insight gained by comparing and analyzing data from key risk areas, audit and finance gain independent assurance of the integrity of transactions underlying financial reporting.

» www.acl.com/businessassurance



Accident Fund saves hundreds of thousands of dollars using ACL



Michigan-based Accident Fund Insurance Company of America faces ongoing challenges of maintaining effective controls within an expanding business infrastructure, including those related to vendor management, regulatory compliance, and data quality. The Internal Audit department uses ACL technology to manage costs, identify potential duplicate payments, and continuously audit business processes.

With ACL, Accident Fund has saved hundreds of thousands of dollars, strengthened internal controls, and developed innovative quality assurance programs. The organization applies ACL to special projects involving a wide range of business units, including Claims, Finance, Information Technology, Third-Party Administration, Actuarial, Legal, and Finance.

Challenges: Data access and quality

From an audit perspective, Accident Fund needs reliable data access and analysis capabilities to effectively manage financial and operational risk. Appropriate product pricing and adequate reserve projections are critical to long-term success. Regulatory compliance (including SOX and emerging data risk regulations) adds additional costs and presents management challenges.

Solution: Repeatable audit processes

The Audit department uses ACL software to analyze data for 29 business functions and also to produce reports used during special projects, as well as satisfying requests from business units and external auditors.

In the first six months alone, the audit department assisted the claims department in saving US\$232,000 in averted duplicate payments. In the second year, the department recovered more than US\$250,000 by closing system control gaps to reduce instances of overpayments and other unnecessary costs.

The Accident Fund Claims department continuously audits claims transactions, and takes only minutes to run.

Results: Time and money saved

Accident Fund Insurance Company of America's Audit department employs ACL technology within its formal audits and special projects to:

- Save money lost through control gaps and errors, including nearly US\$500,000 in duplicate payments, overpayments, and cost avoidances within the first 18 months of use
- Quickly test full data populations – instead of conducting time-consuming and inefficient random sampling procedures
- Provide fast, complete answers to external audit requests and lower both external audit and internal IT costs

“ACL has greatly enhanced the efficiency, quality, and consistency of our audit process. We can analyze and test entire data populations instead of relying on data sampling. By acquiring deeper levels of technical and business process knowledge, the internal auditor has also become a more valuable commodity to our organization.”

Thomas Mackie, principal audit consultant

Do you know the 10 Principals of Risk Management for Insurance Auditors?

Download this Complimentary Checklist Today!

You can also download ACL's Insurance Applications sheet which will give you more than 50 ways to gain confidence in your key business processes and financial reporting.



» www.acl.com/insurance

(Continued from page 1) » The economy and audit's role in fraud detection

“Fraud is just a cost of doing business”, “It's not happening to us”

It's not just in Audit but in the business in general that there's a “cost of doing business” attitude towards fraud and abuse. However, in these trying times, things are changing. The threshold for what's an acceptable cost of doing business is falling rapidly. Another common misperception is that people don't believe that it can be happening to their company. Post Sarbanes-Oxley, people have realized that having great controls is one thing, but what counts is making sure the controls are operating effectively. If fraud is going on and the company is losing money to it – it's a big issue.

Internal audit on the case

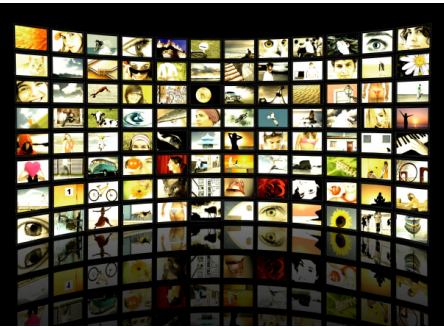
For many organizations, Internal Audit is the go-to department for most fraud detection and prevention activity. Effective fraud detection and prevention is a result of the auditor doing creative brainstorming, looking at how the systems are working, and thinking about where to look and what to look for. Fortunately, there are excellent resources available. For example, the ACFE provides a lot of good information on where to look for fraud and how to set up a good fraud detection and prevention program. The IIA also has an online fraud resource page – and more guidance will soon be available from them in the form

of a new Global Technology Audit Guide (GTAG) on *Fraud Detection and Prevention in an Automated World*.

Auditors have the skills and the technology to provide effective and timely fraud risk assessment, investigation and continuous analysis to alert management to fraudulent activities and control weaknesses. There's no better time to find cost effective ways of managing fraud.

» Download ACL's free “Detecting and Preventing Fraud with Audit Analytics” eBook at www.acl.com/ebook

Thomson tightens VAT controls with ACL AuditExchange



With nearly 25,000 employees in 44 countries, Thomson delivers technology, services and systems to media and entertainment industry customers worldwide – including studios, content creators, network operators and broadcasters. In 2007, the company posted revenues totaling €5.62 billion. The company's internal tax department needed a solution that would help identify and limit risks associated with European VAT collection, a complex system with strict regulations to comply to. The team also wanted automatic, continuous access to large data files without the IT department's intervention.

Challenges: Reduce tax risks and tighten controls

Tax reviews used to follow a four-step process that included trade flow mapping and studies; tax review flow analysis; risk assessment and penalties; and conclusions and tax recommendations. The team needed to find a better way to identify and limit risks and maximize opportunities. Thomson was eager to secure VAT (Value Added Tax) revenues by reducing the possibility of error and fraud, while promoting cash recoveries.

Tax department staff initially applied ACL to analyze data from a French business entity which is VAT registered in several European countries. The CFO quickly saw the value of the findings and as a result, Thomson plans to roll out ACL to other companies within the Group in order to maximize VAT accuracy, correct risks and recover lost payments. The department views ACL technology as the gold standard for promoting audit integrity and strong business controls across the organization.

“ ACL AuditExchange has revolutionized our audit methodology. We can now analyze large data files from SAP and cross-reference the information to find errors and control gaps. ”

Bérangère Jacob, VAT Manager, Thomson

The tax department required an easy-to-use solution that could quickly respond to complex administration issues. Existing spreadsheet software had limited file size capacities, slow calculation speeds, and did not provide Sarbanes-Oxley compliance capabilities. Put simply, it was time for a solution that could meet and even exceed the department's needs.

Solution: Autonomous, seamless data access with ACL AuditExchange

The Thomson tax department first encountered ACL technology during third-party tax audits of internal accounting information systems. After reviewing the market, Thomson chose ACL AuditExchange for its ability to conduct thorough, insightful analyses of large data volumes.

Results: Tighter internal controls and tax administration insight

ACL AuditExchange has completely overhauled VAT audit methodology in the Thomson accounting systems. With ACL, staff can analyze large data feeds from SAP (including logistics and accounting) and cross-reference the data to isolate potential issues among specific business entities. These data extractions and subsequent analytics scripts are stored on the ACL AuditExchange data repository for other users to share. Thomson now has greater control of VAT associated risks and can quickly correct anomalies in the VAT returns – a scenario that helps avoid heavy tax adjustments and penalties.

With ACL AuditExchange, information access is fully autonomous. Data extraction requests no longer require IT intervention and promptly provide reliable data files for each investigation. Information quality is higher, leading to better risk detection and reduction. Using ACL, the tax department has implemented stronger, more airtight controls – empowering stakeholders and improving critical VAT insight.

The benefits of technology for governance, risk and compliance

ACL Services Cited in Industry-Leading Analyst Reports

The global economic downturn has brought renewed attention to governance, risk and compliance (GRC) strategies, as organizations seek to minimize risk and optimize business processes. In a recent report, leading analyst firm AMR Research notes the benefits that technology and software deliver to effective GRC initiatives. ACL Services, the leading provider of audit analytic and continuous monitoring software, is positioned as a key audit software provider in the report.

The recent economic crisis and financial scandals have created new risks and financial pressures for business. Analyst reports recommend companies implement GRC programs to gain greater visibility into possible risk exposures and assurance about the processes used to mitigate them.

Technology for GRC

The reports reinforce the importance of technology to create efficient, reliable and comprehensive GRC programs. "Approximately two-thirds of GRC spending goes toward people-related expenses, including external consulting as well as internal staff time and effort," according to AMR Research. Technology can automate time-consuming and error-prone manual processes, increasing productivity and efficiency. With the advanced analytic capability to sift through the complex and voluminous financial transactions to

isolate problems, audit teams using ACL solutions can devote their time to resolving the underlying issues that confine business performance.

"Transactions are where business happens and where the facts live. This is where internal auditors can play a unique role in the process of measuring and controlling risk in the new economic world," said Harald Will, ACL president and CEO. "They have both the skills, and increasingly, the technology to impart value – to the bottom line through improved operational efficiency, and to the reputation of the organization through ongoing compliance."

New Paradigm of Continuous Monitoring

Measuring risk effectively requires timely, clear insight into the business. According to Gartner, in "Continuous Controls Monitoring for Transactions: The Next Frontier for GRC Automation," "Continuous controls monitoring for transactions (CCM-T) is an emerging governance, risk and compliance technology that monitors ERP and financial application transaction controls to improve financial governance and automate audit processes. CCM-T ensures that business rules and policies are effective, reduce compliance and audit costs, and support risk management."

By performing repetitive and continuous analysis of financial data at the transactional level, the ACL AuditExchange managed analytics platform can provide internal audit and management with timely assessments of company-wide risks and the reliability of controls. This not only helps to ensure controls are working effectively but also provides insight into specific cases of error and inefficiency, or even fraud, that reduce the level of operational performance.

1. AMR Research, "The Governance, Risk Management, and Compliance (GRC) Landscape, Part 2: Software's Integral Role in GRC Automation," by John Hagerty, October 9, 2008

2. Gartner, Inc., "Continuous Controls for Transactions: The Next Frontier for GRC Automation" by French Caldwell and Paul E. Proctor, January 15, 2009



Webinars

ACL has a number of webinars available for viewing at your convenience. Featuring industry experts discussing business issues and challenges faced by today's audit, compliance and financial professionals.

Conversations on Fraud: Mitigating Fraud Risk in a Troubled Economy

This webinar features two data analysis and fraud experts who will help you uncover the truth in your transactions. You will pick up tips on how to mitigate fraud risks inherent in an economic downturn while recovering crucial cost savings. Hear about some recent examples of how fraud risk factors have enabled individuals to commit fraud and find out how to narrow down your key risk areas for a fruitful search and recovery mission using data analysis, among other techniques.

Profit Recovery: How ACL can return money to your bottom line

Organizations around the world use ACL solutions every day to find money lost to error and fraud. Many of these recovery programs are run by auditors who use non-traditional audit processes to identify opportunities. Join us for a webinar where you'll learn about key areas in an organization where you can recover hard dollars, reduce profit bleeding, identify opportunities to improve processes, reduce costs and gain efficiencies.

Audit's Role in a Troubled Economy

What should audit be focusing on right now? Brian Reilly, senior vice president & chief auditor, The Travelers Companies Inc., brings his diverse audit experiences to this session addressing the role of audit during the present economic uncertainty. Find out how your team needs to step up and address key emerging risks while providing ongoing assurance.

» Visit us at www.acl.com/webinars to access presentations like these

How First Hawaiian Bank is achieving greater insight



Founded in 1858, First Hawaiian Bank is the oldest and largest financial institution in Hawaii. The company has 58 branches throughout the state, plus three in Guam and two in Saipan, and provides commercial and consumer banking services; engages in equipment and vehicle leasing; and offers trust, investment and insurance products. With headquarters in Honolulu, First Hawaiian Bank is a subsidiary of BancWest Corporation, a regional financial services company with total assets of more than US\$74.2 billion.

Challenges: Manual audit processes and limited sample sizes

First Hawaiian Bank employs 20 internal auditors who were relying on manual processes, such as testing and random sampling, to monitor critical data. They needed the ability to review full data populations and test 100% of corporate transactions. The team had also been using spreadsheet software to analyze information, and was eager to gain efficiencies throughout the audit cycle.

With their mainframe system outsourced to a third-party operations firm, First Hawaiian auditors have often struggled to access the data they need when they needed it – and to analyze that data in a useable format. The audit team wanted to implement continuous monitoring in several business units, including the credit division and branch operations. They needed a solution that would maintain a reliable audit trail and store critical tests and audit tasks in a secure, well-managed location.

“ ACL consultants helped us overcome our data access challenges with an organized AuditExchange roll-out. Now we know how to prioritize our time and resources. ”

Gina Anonuevo
General Auditor

Solution: Maximize technology with consulting and staff training

Based on their previous success with ACL, First Hawaiian Bank implemented ACL AuditExchange to further enhance productivity and performance. They engaged consulting services to identify and prioritize their next steps. First, ACL consultants helped the First Hawaiian Bank team map the data and created a structure to manage the implementation process. Next they helped the auditors gain greater data insight and developed an organized plan to roll out their analysis and continuous monitoring program. Working with ACL consultants, the audit team designed several high-impact data investigations and will continue to develop a targeted continuous monitoring program.

Several First Bank of Hawaii auditors have also participated in ACL training programs, ranging from beginner-level data analysis instruction to advanced courses in fraud detection. This training has enhanced team efficiency and provided tools to help maximize their ACL investigations.

Results: Deeper insight and tighter controls

The audit team intends to use ACL AuditExchange for every audit project – from planning through to reporting. Approved analytics are housed in the secure audit repository, where auditors can simply click on a selected project to launch the analysis. The repository enables the audit department to share and reuse data formats, audit tests and analysis logs without breaching critical security protocols or exposing confidential data. Auditors can provide permission-based access to other business units.

Internal auditors will continue to automate manual processes and roll out a targeted continuous monitoring program.

ACL AuditExchange enables First Hawaiian Bank to:

- Test complete data populations
- Share scripts in a secure environment with the audit repository
- Achieve continuous monitoring and automated data testing
- Grant permission-based access to data and scripts

With ACL AuditExchange, audit staff have full data coverage without the limitations and business risks of manual sampling. It's an efficient solution that will help tighten internal controls across First Bank of Hawaii's corporate operations.

ACL Customer Community

Freedom from doubt with ACL business assurance

Risk profiles have changed and stakes are higher than ever. Organizations are looking to internal audit to take on the role of trusted advisors to provide enhanced assurance to stakeholders. Old methods are not always up to the new tasks.

What about your organization?

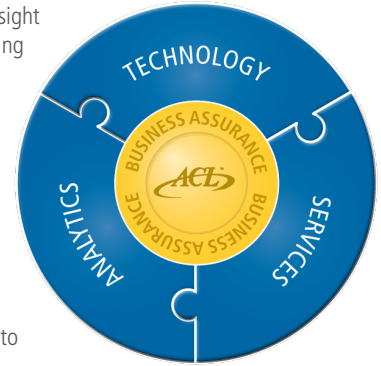
Do you have any doubts about:

- the accuracy of financial statements?
- the effectiveness of policy compliance?
- your controls over fraud and abuse?

Organizations worldwide count on ACL technology to gain deeper insight into risks and issues through transactional analysis. But with the increasing challenges our customers face today, we needed to raise the bar.

ACL recently launched ACL Analytic Essentials: pre-scripted analytic tests representing hundreds of hours of scripting expertise. Analytics Essentials are optimized to run within ACL's secure AuditExchange platform. Bundles include the *Starter Pack*, *Cost Management*, and *General Ledger*.

ACL AuditExchange, combined with ACL Analytics Essentials and ACL's award-winning professional services, provides the enhanced capabilities to ensure greater insight into higher risk areas of your audit plan.



What auditors can learn from the economic crisis

“ After-the-fact audit activities, quite frankly, are too late. ”

Former U.S. Comptroller General challenges audit to adopt strategic, future-oriented course to address risk and waste before they occur

WHO: The Honorable David M. Walker

President and CEO of Peter G. Peterson Foundation, Chairman of the United Nations Independent Audit Advisory Committee, Former Comptroller General of the United States and head of the Government Accountability Office (GAO)



WHAT: ACL Services hosts an interview with the Hon. David Walker to discuss lessons from the economic crisis, the future of auditing, and the “critically important” role of continuous auditing and monitoring technology.

WHY: The economic downturn and resulting challenges for the financial sector have exposed the weaknesses in corporate risk management and governance functions. The Stimulus Act and bailout grants provide short-term relief, but have created new risks of fraud, waste and mismanagement. Audit can serve a strategic role in providing adequate transparency and appropriate accountability in government and business.

HIGHLIGHTS: Stating that “After-the-fact audit activities, quite frankly, are too late,” Walker concludes that a key goal for an audit should be to ensure management puts the right systems and controls in place upfront in order to add value and mitigate risk moving forward. The auditor of the future must be results-oriented, future-focused, proactive and a model for transparency across the organization.

» To listen to the interview visit www.acl.com/davidwalker

Featured Course

ACL 201 Data Analysis Techniques

(CPE Credits: 16)

In an interactive, hands on environment you will learn how to integrate ACL commands and expressions to accomplish complex data analysis tasks. You will also practice planning and executing a data analysis project by working through a series of case studies. Through this case-study approach you will learn how to effectively use ACL in real-life situations and discover what it means to think with ACL. Intermediate level.

Learning Objectives

By the end of this workshop, you will be able to:

- Apply ACL in a structured audit analysis process
- Identify project objectives in business and technical terms
- Apply the necessary steps to achieve project objectives
- Examine data elements and table structures
- Test control totals, bounds, completeness, uniqueness, data relationships, and reliability
- Evaluate data to reveal exceptions.

Who Should Participate

Financial, Operational, and External Auditors; Information Systems Auditors and Audit Management.

» For ACL Certified Training Schedules, visit www.acl.com/training



Technology for Business Assurance



» acl.com/businessassurance

In today's increasingly challenging business environment, organizations are looking to internal audit to take on the role of trusted advisors that provide ongoing assurance. Our technology provides the analytic capabilities to give you greater insight into key risk areas in your audit...

confidence in your results...

freedom from doubt

ACL | **AuditExchange**²⁰⁰⁹
a managed analytics platform for audit