

A PATH TO SUCCESS: AN INTEGRATED PARTNERSHIP BETWEEN INTERNAL AUDIT AND INFORMATION

By David Noll and Scott Blanchette

Hostility, defensiveness, and fear - these words often describe how Information Technology (IT) departments react upon hearing that an annual controls or systems audit is scheduled. IT senior management identifies potential issues, and spends considerable resources preparing rationales explaining failure to address these issues. Senior management reviews previous internal audit findings and is often challenged on whether to perform actions identified in the management response. The true goal of internal audits which is to improve operations is frequently lost in this process.

K.H. Spencer Pickett, in his book *Internal Control: A Manager's Journey* (John Wiley & Sons, Inc., New York, 2001, p. 94) describes a typical relationship between IT and internal audit with his remarks on management control:

"Your compliance team will have a major task in achieving adherence and not creating an environment of fear and oppression. There's a fine line to tread on reporting back on what staff are doing, and providing advice and support in their efforts to secure control through good procedures. The former is based on the use of punishers where people are 'found out' and reprimanded as they breach procedure."

A Different Approach

Many IT departments view the internal audit function as the "punisher" that Pickett describes. In contrast, some successful organizations have begun to achieve success by building a partnership between the internal audit function and IT. By forming a collaborative relationship rather than an adversarial one, each entity becomes more effective and helps the entire organization achieve its goals of profitability, control,

and operational efficiency.

What can each function bring to the relationship that makes the other partner more successful? The IT department can reap substantial benefits by taking advantage of what the internal audit function provides.

■ Board Awareness of IT Needs

The Board of Directors receives the litany of unfavorable audit findings on a periodic basis. These findings often provide a third party, independent validation of work that IT needs to perform, particularly if an audit finding appeared frequently in successive years. The internal audit group can help convince the Board that IT projects need to be funded, prioritized, and that other resources need to be allocated so that the projects can be completed on-time and within budget.

■ Change Management Assistance

Applying technology to a bad process does little to improve the deficiency. Technology can often worsen a bad process; for example, by accelerating a process through technology, it may increase the occurrence of unwanted outcomes. IT projects usually require change of processes, procedures, policies, or culture. Internal audit departments, by their nature, can act as advocates for process change or as process change catalysts.

■ Expertise in New Methodologies

IT departments in healthcare organizations normally have significant experience with project management, particularly within the framework of application implementation. The internal

audit department has expertise in other methodologies that IT can apply directly and immediately. IT performs testing on applications, oftentimes without a sound understanding of how to construct a valid test plan. IT can benefit from an auditor's significant experience with testing methodologies. Internal audit departments can also help with financial modeling, statistical analysis, and other techniques with which IT is less familiar.

■ An Objective Third Party Perspective

As the IT department works to meet its strategic goals, it makes decisions about technologies, builds new processes and procedures, and takes actions that will affect the future operations of the organization. Having little stake in many business-specific outcomes, the internal audit department can examine proposals or completed projects and identify strengths, weaknesses, opportunities, and threats. They can also provide independent validation of the progress that IT makes against existing audit findings.

■ Compliance and Legal Subject Matter Knowledge

Because of its responsibility to bring potential non-compliance issues to the attention of the organization, the internal audit department is normally well informed about legal, regulatory, and compliance matters. They can be a good source for information and can act as consultants. They can save time for an IT department by providing an initial read on a particular issue; based on their advice, it may become clear that further guidance from counsel or a compliance officer is unnecessary.

■ Other Consultative Services

If an internal audit department is involved in IT projects from the beginning, it can help to ensure that proper controls are included at the design stage. Building solid control into a design is less costly than applying it once an application is in production. The internal auditors can serve as consultants throughout the life of a project and can provide services that might otherwise require the expenditure of capital or operational dollars. Examples of areas in which an internal auditor can provide assistance include test plan development, project oversight, budget tracking, and project reporting.

The benefits, both direct and indirect, to an IT department are evident when IT and internal audit develop a collaborative relationship. The benefits to the internal audit department are less obvious, but do exist.

What can the IT department bring to the relationship?

■ Identification of Known Weaknesses

Frequently, departments being audited identify their weaknesses and expend resources trying to minimize the extent or the impact of identified weaknesses. It makes no sense, however, to hide areas of opportunity from auditors. As noted above, internal audit can help to resolve issues in any number of ways. By collaborating with the audit group, the IT department can contribute to the success of their work.

■ Technical Resources

The IT department provides the technical resources for the

organization. IT can help with testing or with investigations the internal audit department performs, in IT and elsewhere in the organization. As an example, when the internal audit department performs the annual financial audit interim testing, the IT department can provide assistance with access to systems and the ability to analyze and report against the data residing in these systems. The IT department can also offer a deeper understanding of the organization's applications and technical environment, as well as the deployment of respective internal controls.

■ Expertise in New Methodologies

Just as the internal audit department has expertise in methodologies rarely used by IT departments, the IT department can share methodologies with the internal audit group. As mentioned above, IT usually has expertise in project management. Internal auditors that are juggling numerous reviews and investigations can benefit from using the methodologies and tools owned by IT. Program management, technology reviews, and security analysis are other examples of methodologies that internal auditors can learn from IT.

■ Remediation of Control Deficiencies

Unlike many other departments, IT can take ownership for fixing the problems identified by internal auditors. In some areas, internal auditors may need to take an active role in finding a solution. IT can and will fix its own shortcomings once the thorny problems of funding, prioritization, and resources have been addressed. In addition, IT can help provide answers for other departments when a systems solution is required.

■ Shared Standards

If internal audit and IT share standards, the speed of acceptance and adoption by the rest of the organization can be accelerated. The Control Objectives for Information and related Technology (COBIT), for example, cover both IT implementation and audit practices. By agreeing to use shared standards, the IT and audit groups have a common language, methodologies, and standards upon which the organization can focus.

An adversarial relationship between IT and internal auditors is pointless. Many organizations achieve real benefits from collaboration between the two groups. Successful organizations work together to ensure that funding authorities know the importance of fixing control deficiencies. Your organization can do the same if you work to form a solid working partnership. Good luck! ■

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