Fraud Investigations: Starting Off on the Right Foot
The Benefits of Crowdsourcing
Information Systems Governance Assessments
Providing Full-service Assurance

THE COMPLEXITIES OF COMPLIANCE
Auditors can help assess whether the organization is effectively addressing the ever-growing tangle of regulatory risks.
TeamMate Express
Audit Management Geared for Small Shops

Pre-Configured, Ready-to-Use Right Out of the Box

Full Access to the TeamMate Content Library

Fully Hosted by TeamCloud for Easy Access from Anywhere

Learn more at: www.TeamMateSolutions.com/Express
the wisdom of the crowd

Crowdsourcing provides auditors a powerful means of harnessing collective knowledge.

Craig Guillot
Illustrations by Doug Ross

As the saying goes, there is strength in numbers. That can be true not just in physical endeavors but in brainstorming and problem-solving as well. With the rise of social media and high-speed Internet across the globe, we're living in an interconnected world where people 5,000 miles away from each other can easily share and collaborate via the phone in their pocket. As ideas and information flow like a river, brainstorming sessions are no longer limited to the person in the office down the hall—they're open to just about anyone, anywhere on the planet.

From engineering to law to nonprofit, professionals in a wide range of industries are increasingly looking to leverage this expanding interconnectedness and tap the collective knowledge of the crowd. Once thought of as digital begging for struggling artists, "crowdsourcing" is going mainstream in the world of business as a way to obtain information and ideas from a pool of experts or customers.

While not yet widespread in internal audit, crowdsourcing is a valuable tool that can help auditors gather more insight on everything from technical processes to potential fraud vulnerabilities. Practitioners can broadcast a problem to a select group of knowledgeable individuals and post an open call for solutions. But to ensure effectiveness, crowdsourcing must be practiced judiciously. Audit experts say crowdsourcing need to carefully select their audience, choose the right format, and consider the data or feedback they receive.

BRINGING KNOWLEDGE TO AUDIT

Norman Marks, a chief audit executive and chief risk officer at major global corporations for more than 20 years, says crowdsourcing hasn't quite taken off in the audit community—at least not yet. "One of the biggest problems for auditors is to recognize that they are not the sole source of ideas and that they can obtain valuable information and ideas by tapping into the wisdom of the crowd," Marks says.

Whether by surveys, question and answer sessions, polls, games, or simple roundtable brainstorming meetings, Marks says auditors can learn a lot from the crowd. The information sharing and resource tapping crowdsourcing enables can be especially helpful in areas where auditors lack expertise.

Tom McClure is an independent internal audit practitioner in Melbourne, Australia, who has used crowdsourcing in audit report writing. He says it resulted in greater participation in the preparation and finalization stages and significantly reduced the time required
THE WISDOM OF THE CROWD

to finalize the report. Through the use of wild technology, he was able to involve
stakeholders in crafting recommenda-
tions for control improvements and for
distributing draft content for comment.
McLeod is also aware of instances where
tories have used crowdsourcing for
areas such as office design, product
brainstorming, and product evaluation.
Because the word crowdsourcing
often brings to mind social media,
forums, and online networking groups,
it gets confused as a purely tech-
nological effort. But given that's simply
about the transfer of information and
expertise, McLeod says it doesn't have
to occur digitally. Crowdsourcing often
occurs during in-person meetings
among sources from within and outside
of the organization. "It can occur when-
ever there is an environment where the
talents or opinions of many are sought
out. It's often face-to-face," he says.
Likewise, Matt Harrell, senior
auditor for AutoZone in Memphis,
Tenn., says crowdsourcing often entails
bringing together individuals from
throughout multiple departments in the
organization for a brainstorming session.
Whether in person, via the Web, or by
phone, Harrell says it's simply laying
out a problem or idea before a group of
people and then asking for feedback.
"The idea of crowdsourcing is new
but it has been done in some fashion for
years," he says. "In our field, it gets peo-
ple from outside audit to come together
to work toward a common solution."
Abhijit David, assistant manager of
internal audits for Max Healthcare
Institute Ltd. in New Delhi, says auditors
can use crowdsourcing to obtain expert
advice and information when it is not
available in the organization. David says
one of the advantages is that such infor-
mation is often easily accessed and free of
charge, making it a valuable option for
auditors during any engagement.
Through social media, such as
discussion groups on LinkedIn,
crowdsourcing can be an effective
means of obtaining several opinions
from a variety of professionals in a short
time. Whereas in the past auditors
working on a specialized project might
have consulted an experienced profes-
sional in their community or network,
they can now consult with dozens or
hundreds on a forum-style Web page.
David says that easy access to infor-
amation makes crowdsourcing a highly
valuable tool in some situations.
"I have used crowdsourcing in the
audit of a legal function and security
function by (obtaining) information
from legal experts and other internal
audit professionals," David says. "I used
it to understand more about medicale
legal cases, and how other hospitals
have managed such issues. I used their input
to develop my recommendations."

SELECTING THE CROWD, STRATEGY
Crowdsourcing can involve little
more than two people meeting in a
conference room or on a social media
page. But because it can also comprise
thousands of sources across multiple
organizations around the world, it
can become very complex. McLeod
says the results of crowdsourcing are
directly tied to the sources or popula-
tion one selects.
He says the selection criteria need
to help ensure participants are not
biased or unrepresentative of the popula-
tion. He adds that the individu-
als need to have knowledge of the issues
and a high level of expertise, and the
problem to be addressed should not be
overly unique or complex. Additionally,
there should be no risk to intellectual
property or confidentiality based on the
selection of the participants.
"No one person can have the best
idea for the whole or knows if this
idea exists in the whole organization," McLeod says. "But you need to choose
the right participants who have the
knowledge and buy-in."

Brian Thomas, a partner in
Advisory Services at Weaver LLP in
Houston, says the motivation and
reasons for participation also have to be
factored in during crowd selection.
Are they participating because they
have a vested interest in the prob-
lem and solution? Is it for reward or
monetary gain? Or is it because they
truly want to provide their expertise
and feedback to help solve a problem?
Auditors should heavily weigh the
motivation, the value of the audience,
and the problem for each crowdsourc-
ing effort.

David says each crowdsourcing
project should be individually designed
with its own methods and a carefully
selected pool of sources. He also recom-
mends trying multiple options.
"[The success of crowdsourcing] all
depends on the quality of the crowd," David says. "I generally try all the meth-
ods and options at my disposal, includ-
ing LinkedIn professional groups and
relevant professional websites." Harrell says auditors who use
crowdsourcing need to be discerning
and effective in selecting a strategy
that is right for the project. Along
with choosing the right pool of participants, he says they must select the right strategy to gather the feedback and information. There are endless methods for engaging the crowds, ranging from polls and open questions to games and surveys.

He says the method needs to meet the nature of the problem or information the person is seeking. A company budget problem may involve a simple brainstorming session among department heads. Customer input on product selection could entail a poll, and a company seeking new and innovative ideas may use a simple, open-ended question and feedback form on a website. Harrell says organizations that are successful with crowdsourcing will often use multiple strategies.

"Crowdsourcing is not a singular activity," he says. "You have to have multiple strategies and focuses to get to that one solution. It is going to be as effective as you make it."

Another unique form of crowdsourcing is through "gamification," a process of gathering information and feedback by creating a game for users. Marks says in one instance, a company used a game that involved players buying fictional shares in the company based on their belief in the success of an ongoing project. They found share price had a direct correlation to confidence in the project and its impact on the company. Trading the fictitious shares gave managers and stakeholders a constant pulse on the direction of the project simply by checking the going price.

"It helped them get an honest assessment of what people felt about the project, the risk, and its impact on the company," Marks says. "It was a very effective game and way to measure these areas."

CROWD ENGAGEMENT

Internal crowdsourcing can be used to great effect, particularly in larger organizations, to better leverage in-house knowledge and expertise. While seeking ways of using mobile technology to improve the organizational work experience, Thomas enlisted the help of MBA students from the University of Texas to set up a crowdsourcing project. They created an online portal and invited all 550 of the firm's employees to participate in the project. With a forum-style format, the site allowed users to post a running list of ideas upon which other users could build.

"We enabled a portal where employees could create innovations and ideas," Thomas says. "It was basically a mass suggestion box that allowed the

CROWDFUNDING

Crowdsourcing can encompass a wide range of activities, but "crowdfunding" is one of the most popular. Crowdfunding is a concept whereby small startups, entrepreneurs, and creative types seek funding for small projects. Through such websites as Kickstarter and GoFundMe, they pitch their project and solicit donations from as little as US $1 from hundreds or thousands of people. Its popularity has risen so rapidly that a Forbes magazine article estimated it to be a US $6 billion industry in 2013. Crowdfunding has sparked a growth in general crowdsourcing, which in most cases is simply about collaboration and sharing ideas and information.
crowd to continuously improve upon its own ideas."

The MBA students warned Thomas that participation in such endeavors can be very low, even within an organization. The firm sought to increase participation by offering incentives and rewards to some of the top participants and ideas. They also implemented a continuous communication program that consisted of voice mail, email, posters, and various reminders during the two-week crowdsourcing period. Thomas says they worked hard throughout the project to reach the audience and get them interested in what they were talking about. Using multiple channels of communication and selling to employees how this would affect them helped the company garner a near 20 percent participation rate.

"You need to keep them interested and give them a reason to participate," Thomas says. "It's one of the biggest challenges because participation rates are normally not very high."

Crowd engagement is critical. McLeod says it's important first to determine whether crowdsourcing is truly the best method of problem resolution. Auditors should then ascertain whether the environment they are working in is conducive to the use of a nontraditional method of problem solving. Finally, he advises auditors to fully understand the demographic of the population that they are using in the crowdsourcing effort. "Crowdsourcing from an audit perspective should never be seen as the sole basis upon which an assessment of the quality of internal controls is taken—it should be a tool," he says.

While it can't substitute for an official field audit, crowdsourcing can also be used for informal field audits that are not possible for an audit team to complete. Marks says an extended crowdsourcing campaign to get simple client feedback on compliance issues can provide auditors with valuable information.

Crowdsourcing can help auditors see things they might otherwise miss.

Campaigns can be conducted through surveys or questionnaires to targeted clients or end users who have insight into a location's activities.

LIMITATIONS
Crowdsourcing is not without risk. One of the biggest problems is that when providing information for creative problem solving, organizations can potentially open themselves up to confidentiality breaches. Within audit departments, practitioners may not want to publicly reveal issues or problems they are investigating. David says auditors should always abide by the organization's policies when sharing information with the crowds. When soliciting information, he also avoids using real figures and real names, instead using screen names and similar hypothetical situations.

While Harrell says social media has great value in crowdsourcing, it also comes with its share of risks. He says highly targeted social media groups such as those on LinkedIn can be valuable, but he cautions against mass broadcasting on Facebook or Twitter. The latter can produce a high volume of responses that are unvetted and do little to provide value.

"Your page could just be bombed or littered with spam," Harrell says. "I think more focused sourcing activities work the best. You don't want to just toss seeds in the wind and hope they land and take root."

There's a risk that auditors could waste a lot of time if they're swamped with worthless, unhelpful responses from the crowd. This is especially true when the mission is to solicit random ideas or solutions for a problem. Ideas could flow abundantly, but someone will have to sift through that information and validate responses. When dealing with a campaign that involves thousands of sources, Harrell says it can be very time-consuming and lead to little results.

"I have seen examples where a company solicits favorite ideas from customers or clients, but they get nothing in return," he says. "For every good viable result, you might have a thousand that were just a waste of time."

McLeod says if crowdsourcing is used too often, auditors run the risk of failing to develop internal technical knowledge due to overreliance on external sources. Moreover, they may signal to those within the organization on whom they've previously relied that they no longer value those individuals' opinions.

RISK RADAR
While Thomas hasn't used crowdsourcing directly in an audit capacity, he sees potential use for it from a risk assessment perspective and for broadly asking employees risk-related questions. Along with value in providing fresh ideas and expertise, crowdsourcing can help auditors see things they might otherwise miss.

"When you look back at some of these companies in the 2008 meltdown, they had risks they didn't know they were exposed to but you found out many people in the organizations knew about it," Thomas says. "It's good to get that input and feedback."

CRAIG GUILLOT is a freelance reporter in New Orleans.