Technology Driven Internal Audit Best Practice

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Wolters Kluwer
Audit, Risk & Compliance

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TeamMate Mission

TeamMate provides solutions and expertise to auditors that improves their efficiency and effectiveness

TeamMate®

TeamMate® User Base

100,000 Auditors

2,500 Organisations

118 Countries

Agenda

1. Uses and benefits of technology

2. Practical example: IPPF compliance

3. Bringing change to your organisation

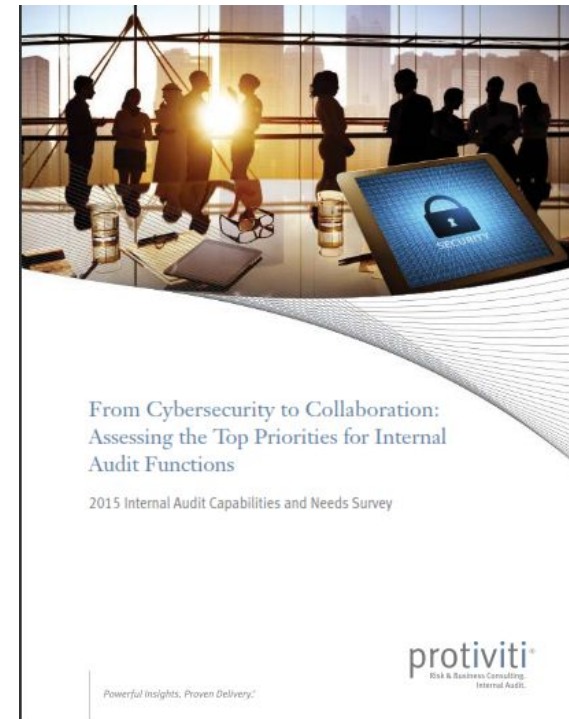# What are you currently using to manage your audit process?

- A – Mainly Paper based
- B - Word / Excel / MS Access
- C – Use an audit management system

2015 Internal Audit Capabilities and Needs Survey

Surveyed 800 CAEs and IA Professionals

- Technology enabled auditing is on the rise
- Competing priorities driving more IA to increase investment in technology-enabled auditing

From Cybersecurity to Collaboration: Assessing the Top Priorities for Internal Audit Functions

2015 Internal Audit Capabilities and Needs Survey

protiviti
Risk & Business Consulting
Internal Audit

Powerful Insights. Proven Delivery.

Survey Insights – Audit Process Knowledge

## Key Finding: technology skills are now critical

- Using/mastering new technology is recognized by CAEs/IA professionals as the most important skill

- Auditors now realising that by being more efficient, they can invest more time in strategic endeavors and bring more value to the organisation

| Overall Results, Personal Skills and Capabilities – Three-Year Comparison		
2015	**2014**	**2013**
Using/mastering new technology and applications	Presenting (public speaking)	Dealing with confrontation
Persuasion	Negotiation	Negotiation
Developing other board committee relationships		Persuasion
Strategic thinking	Persuasion	High-pressure meetings
Time management	Using/mastering new technology and applications	Presenting (public speaking)
	Dealing with confrontation	Strategic thinking
	Time management	
	Developing other board committee relationships	Developing other board committee relationships
		Using/mastering new technology and applications
	Developing outside contacts/ networking	Leadership (within the IA profession)
		Time management

Audit Process
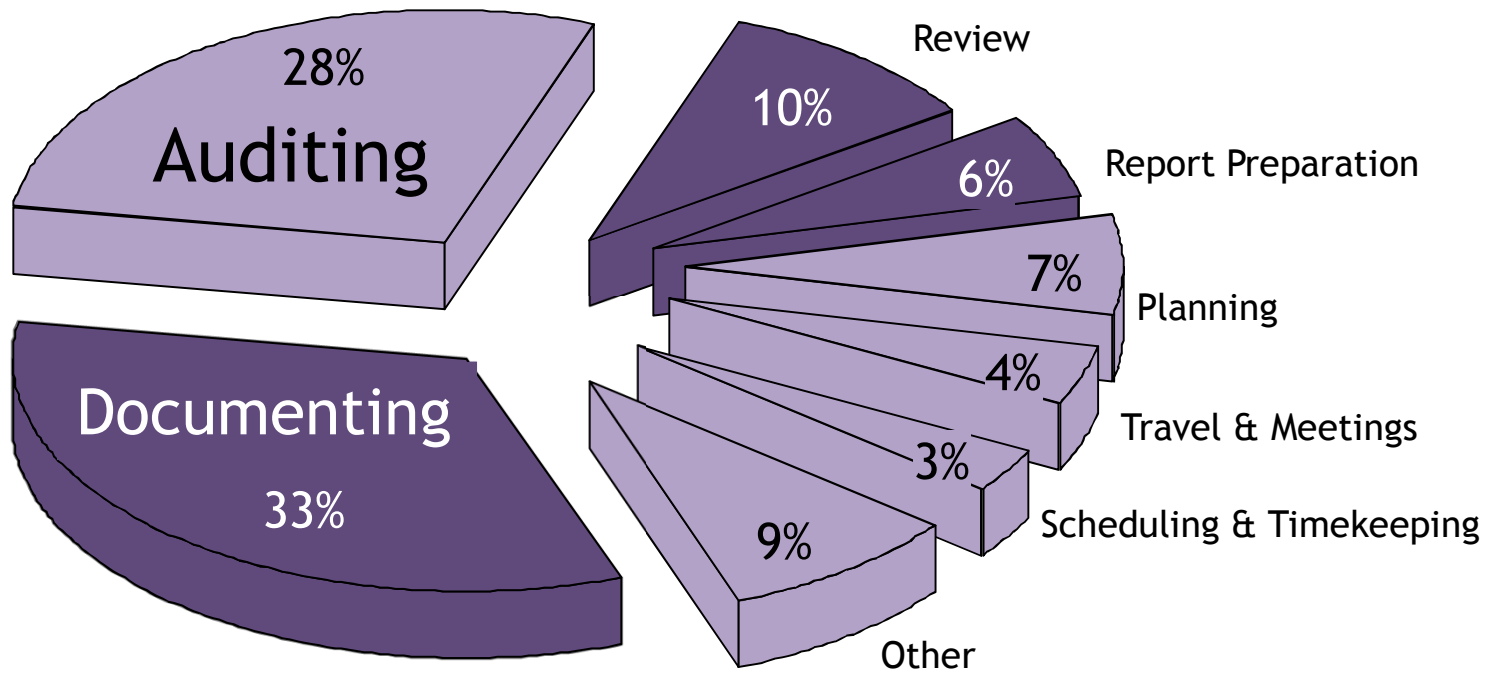
Almost 50% of your time is spent documenting, reviewing and preparing the report

What benefits will Audit Technology bring to the Audit Process?

- Standardisation
- Consistency
- Efficiencies
- Knowledge Sharing
- Integrated Audit Process
- Real time reporting
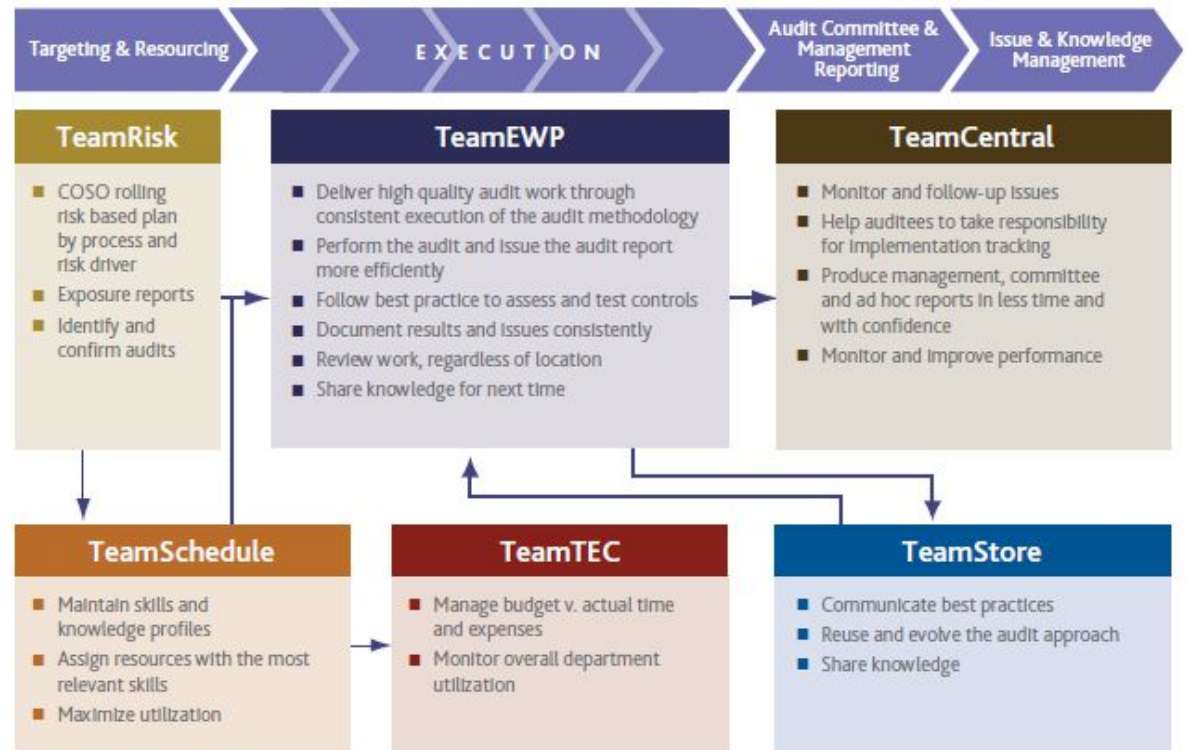
Practical example: IPPF compliance

International Professional Practices Framework

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors. A trustworthy, global, guidance-setting body, The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and recommended guidance.

IPPF – brief timeline
- Originally introduced in 1978 as the *Standards for the Professional Practice of Internal Auditing*.
- Replaced by the new *International Standards for the Practice of Internal Auditing* in 2002
- Revised and released in January 2009 as the International Professional Practices Framework (IPPF)
- Revised and released in January 1, 2013 as the "Red Book"
- New IPPF introduced in July 2015 – New elements introduced and Implementation Guidance to replace all existing Practice Advisories will be developed through 2016 and will be released on a quarterly basis.

Addressing IPPF with Technology

1220.A2 – In exercising due professional care internal auditors **must** consider the use of technology-based audit and other data analysis techniques.

Must   vs   Should

Unconditional Requirement

Conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Addressing IPPF with Technology

1. Planning

2. Resource management

3. Audit Execution

4. Communication

5. Issue Monitoring

1. Planning

2010 – Planning
The chief audit executive **must** establish a **risk-based plan** to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010.A1 – The internal audit activity's plan of engagements **must** be based on a **documented risk assessment**, undertaken at least annually. The **input of senior management and the board must be considered** in this process.

2120 – Risk Management
The internal audit activity **must** evaluate the effectiveness and contribute to the improvement of risk management processes.

1. Planning

Title	Impact	Likelihood	Inherent	Impact	Likelihood	Residual	
▲ ⚠ *Atlantic Global*			5.667			4.444	
◢ ⚠ Atlantic Incorporated			5.667			4.444	
◢ ⚠ Corporate Division			5.667			4.444	
◢ ⚠ Finance			6.000			4.400	
⚠ Corporate Accounting			0.000			0.000	
◢ ⚠ Accounts Receivable			7.333			4.667	
◢ 💡 To accurately and adequately mitiga							
◢ ❌ Receivables are inaccurately pro	●●○	●●●	8.000	○○○	●○○	4.000	📋
✅ Receivable balances must be							
▷ ❌ Allowance for doubtful accounts	●●●	○○○	8.000	●●●	●○○	6.000	📋
▷ ❌ Revenue might be recognized in	○○○	○○○	6.000	○○○	●○○	4.000	📋
▷ ⚠ Accounts Payable			4.000			4.000	
⚠ Procurement			0.000			0.000	
⚠ Treasury			0.000			0.000	
⚠ Assets			0.000			0.000	
▷ ⚠ Information Technology			5.000			4.500	
▷ ⚠ Tax			6.667			5.333	
▷ ⚠ Human Resources			5.333			4.000	
⚠ Inventory			0.000			0.000	
▷ ⚠ *International Division*			0.000			0.000	

Entity	Inherent ▽	Residual
Information Tech...	8	7.5
IT Security	8	7.5
Accounts Receiv...	7.333	4.667
Benefits	7	6
Tax	6.667	5.333
Sales tax	6.667	5.333
Atlantic Incorpor...	6.444	5.333
Corporate Divisi...	6.444	5.333
Finance	6	4.4
Human Resourc...	5.667	4.667
Payroll	5	4
Accounts Payable	4	4
Corporate Accou...	0	0
Procurement	0	0
Treasury	0	0
Assets	0	0
Application Oper...	0	0
Helpdesk	0	0
Network Services	0	0
Web Services	0	0
International	0	0
Income tax	0	0
Professional De...	0	0
Learning and Ed...	0	0
Inventory	0	0

Excel not good enough ...

"5.2 per cent of numerical or formulaic cells contain an error. From this follows the estimate that 94 per cent of spreadsheets contain errors."

. Wolters Kluwer

2. Resource Management

2030 – Resource Management

The chief audit executive **<u>must</u>** ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the <u>mix of knowledge, skills, and other competencies</u> needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that <u>optimizes the achievement of the</u> approved plan.
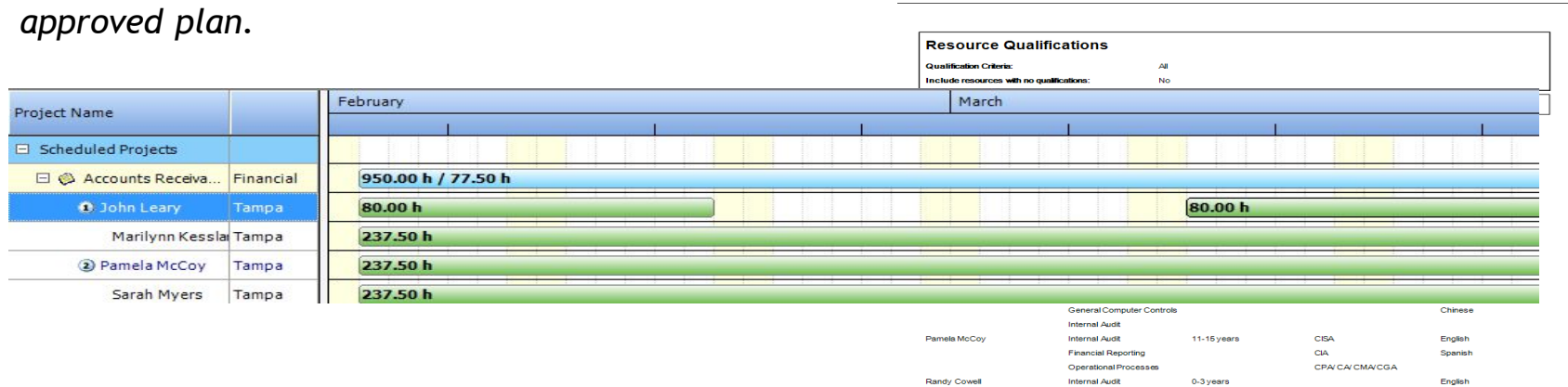
2. Resource Management

2230 – Engagement Resource Allocation
Internal auditors **must** determine appropriate and **sufficient resources** to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

3. Audit Execution

2240 – Engagement Work Program
Internal auditors **must** develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program **must** be approved prior to its implementation, and any adjustments approved promptly.

2300 – Performing the Engagement
Internal auditors **must** identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2340 – Engagement Supervision
Engagements **must** be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

3. Audit Execution

2330 – Documenting Information
Internal auditors **must** document relevant information to support the conclusions and engagement results.

2330.A1 – The chief audit executive **must** **control access to engagement records**. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive **must** develop **retention requirements** for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive **must** **develop policies governing the custody and retention** of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

3. Audit Execution

3. Audit Execution – Data Analytics

1220.A2 – In exercising due professional care internal auditors **must** consider the use of technology-based audit and other <u>data analysis techniques</u>.

2320 – Analysis and Evaluation
Internal auditors **must** base conclusions and engagement results on appropriate analyses and evaluations.

4. Communication

2400 – Communicating Results
Internal auditors **must** communicate the results of engagements.
2410 – Criteria for Communicating
Communications **must** include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.
2420 – Quality of Communications
Communications **must** be accurate, objective, clear, concise, constructive, complete, and timely.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

4. Communication

2060 – Reporting to Senior Management and the Board
The chief audit executive **must** report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

5. Issue Monitoring

2500 – Monitoring Progress
The chief audit executive **must** establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Recommendation by Recommendation Age

LESS 30 DAYS
31 TO 60 DAYS
61 TO 90 DAYS
91 TO 120 DAYS
GREATER 120 DAYS

40.83 %
7.10 %
0.59 %
1.18 %
50.30 %
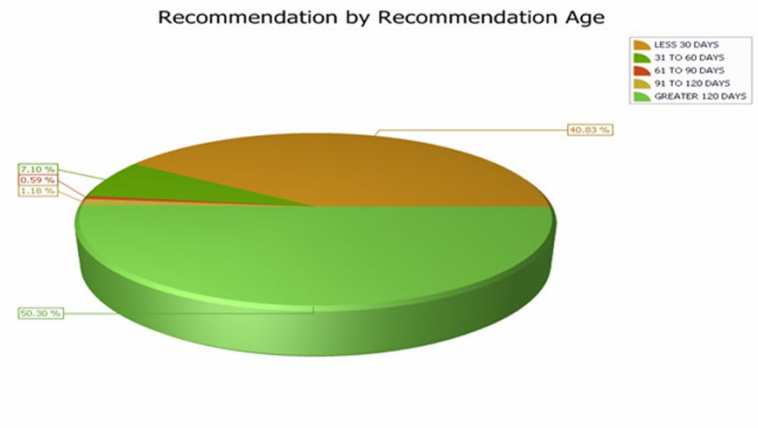
Addressing IPPF with Technology

IPPF Practice Guide: Assisting Small Internal Audit Activities in Implementing the *International Standards for the Professional Practice of Internal Auditing*

Standard #	Standard Title	Degree of Challenge	Selected Guidance Comments
1000	Purpose, Authority, and Responsibility	LOW	N/A
1100	Independence and Objectivity	HIGH	N/A
1200	Proficiency and Due Professional Care	MEDIUM	) Use a formal process that is well-organized and documented) Use questionnaires, templates, guides, manuals) Leverage low-cost training
1300	Quality Assurance / Improvement Program	HIGH	) Audit review should be embedded in each audit) Obtain feedback from stakeholders) Annually review templates, etc.
2000	Managing the Internal Audit Activity	HIGH	) Elements of a well-managed function) Risk-based audit plan) Timely and effective communications) Well-established policies and procedures
2100	Nature of Work	MEDIUM	) Use of a risk-based audit approach to ensure adequate focus on all areas mandated by the Standards
2200	Engagement Planning	HIGH	) Risk assessment of relevant areas under review) Use of checklists, work programs and documentation) Use of prior reports, WP's) Staffing and scheduling of appropriate level of staff

TeamMate Insights
Recommended Use of Technology to Address Challenges

N/A

N/A

) Electronic Work Papers (EWP) with embedded audit processes
) Knowledge repository for procedures and templates
) Web-based training

) EWP used to enforce review and signoffs
) Survey tool to obtain feedback from stakeholders
) Updated and approved templates, procedures, questionnaires, etc. locked electronically

) Use of a risk assessment tool and related audit plan
) EWP and knowledge tool for policies and procedures
) Electronic reporting and issues tracking

) Risk tool tied to audit plan
) EWP to enforce audit policies and approach

) Risk assessment tool
) Knowledge repository
) Scheduling tool

) EWP to facilitate accumulation of documentation and audit evidence
) EWP to force reviews of coaching notes, signoffs and closure of files
) Data mining analysis tool for expanded coverage

How do you make it happen?

- Determine what you want to achieve by automating:
    - Reduced overall costs (travel, working hours, office space)
    - Improve audit quality
    - Improve audit performance
    - Increase manageability of the audit function
    - Improved career development and learning
    - Better knowledge management
    - All of the above?

- Determine what features will meet these requirements

- Be willing to change!! It's not about software …

Ten rules for making it happen

1. Convey the right **"Tone at the Top"**

2. Be prepared to **change the organisation** (… and not just the audit department…)

3. Make **technology use** a high priority (and compulsory)

4. Engage **senior executives** from outside your department

5. **Adopt new workflows** and practices that support automation … don't just roll your manual processes into the software

Ten rules for making it happen (cont)

6.   Selectively **hire** technology-skilled people

7.   **Train**, train, train … then train some more

8.   **Take time to implement**: Don't necessarily try and do everything straight away … You can roll out different initiatives and modules over, say, a two year period

9.   Report on **successes** and celebrate and reward good practices

10.   Always remember: automation is about **change management**, not buying software

Technology Maturity Model

Technology Maturity Curve

Drill-down dashboards of all key audit activity

Quality assessment tool

Continuous controls testing and monitoring

Automated sharing of audit programs and files

Intranet for audit knowledge sharing, training, and access to tools

Formal technology strategy

Highly skilled data team

Use of technology a core competency

Custom data mining / data analytics

Standalone automated testing routines, e.g. fraud

Expanded technical training for staff

Expanded suite of data tools

Automated work papers

Online training programs available on demand

Data retrieval used on most audits

Reusable programs and checklists

Fully integrated audit management system

Risk assessment tools

Initial use of CAATs

Access to external risk and control databases

Issues availability, tracking updating by management

Technology specialist(s)

Audit scheduling tool

Files, etc., in electronic format

Initial ad hoc data mining

Continuous risk assessment

| Initial | Adequate | Enhanced | Optimized |

So, what next?

- Treat technology as an important, strategic imperative for internal audit

- Identify the benefits that improved technology usage can bring to your department and define priorities

- Establish a small team to review your options, make recommendations and define an implementation plan

- Change your auditing world!!

Thank you!

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