2021

THE AUDIT MANAGEMENT PLAYBOOK

AUDITBOARD

TABLE OF CONTENTS

01.
ADDING VALUE IN VOLATILE TIMES: THE AUDIT LEADER'S CHALLENGE

Whether you manage an audit team of five, thirty, or more, the greatest challenge any modern audit leader faces is how to stay relevant and add value to the organization. In light of a mass shift to remote working and economic uncertainty in the wake of the ongoing global pandemic, audit professionals face an especially unpredictable risk environment in 2021.

In order to drive value for the business during such volatile times, audit leaders must seek ways to drive efficiency throughout their audit lifecycles in order to preserve the resources needed to help the business identify and address new and emerging risks, including cybersecurity threats and economic conditions impacting growth.

Audit leaders who strive to help their teams understand and incorporate best practices across the audit lifecycle, in addition to leveraging technology to maximize efficiency on the job, will have a better shot at staying relevant and driving value for the organization than those who do not.

This playbook contains a carefully curated selection of resources intended for audit leaders to leverage, share, and discuss with their teams.

Each section has been written with the goal of providing the most valuable considerations and best practices for each stage of the audit lifecycle, as well as practical tools and checklists to help auditors drive efficiency throughout their audit projects and beyond.

AS YOU READ EACH SECTION...

Please consider:

- The audit checklists and resources in each section can be printed and used on the job.

- What areas of value are worth starting a conversation with your team about? Are there best practices you are already incorporating that can be reinforced?

- This playbook was written by CAEs and senior audit practitioners with the understanding that every audit department is unique. Leverage what works best for your team.

02.
PLANNING
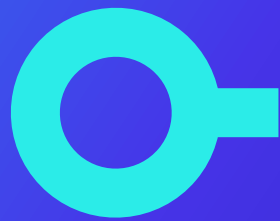
PLANNING AN AUDIT FROM SCRATCH

THE PROBLEM

In light of the current environment, audit teams need to become more agile. However, sometimes audit teams have neither the knowledge nor the subject matter expertise needed to provide assurance for areas that have never been audited before. Unfortunately, these areas often include processes that support an organization's strategy and key objectives. In such scenarios, auditors may initially approach the project by Googling "how to audit XYZ" or "XYZ audit program," but the resulting project scope often amounts to testing several controls, highlighting exceptions in the audit report, then moving on to the next audit.

This approach not only fails the audit customer, but also harms internal audit's performance and reputation.

What can internal auditors do to prepare a more comprehensive scope for their internal audit projects?

THE SOLUTION

Auditors who create and document custom audit programs from scratch, versus relying on checklists or template audit programs found on Google, are better equipped to perform audits over areas that are not routinely audited. And, when internal audit can spend more of its time and resources aligned with the organization's strategy and key objectives, the benefits can — and do — multiply.

What can internal auditors do to prepare a more comprehensive scope for their internal audit projects?

PLANNING AN AUDIT FROM SCRATCH
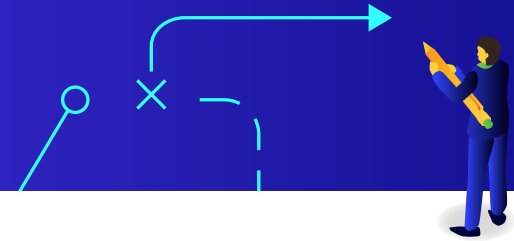
STEP 1   Initial Audit Planning

All internal audit projects should begin with the team clearly understanding why the project was put on the audit plan. The following questions should be answered and approved before fieldwork begins:

- Why was the audit project approved to be on the internal audit plan?

- How does the process support the organization in achieving its goals and objectives?

- What enterprise risk(s) does the audit address?

- Was this process audited in the past, and if so, what were the results of the previous audit(s)?

- Have there been significant changes in the process recently or since the previous audit?

STEP 2   Risk and Process Subject Matter Expertise

Performing an audit based on internal company information is helpful to assess the operating effectiveness of the process's controls. However, for internal audit to keep pace with the business's changing landscape and to ensure key processes and controls are also designed correctly, seeking external expertise is imperative. At least **one** of the following should be used to evaluate the design of the process audited:

- Subject Matter Expert (SME) from a Big 4 or other consulting firm

- Membership to the most relevant trade association

- Recent articles from WSJ.com, HBR.org, or other leading business periodicals

- Relevant blog posts from The Protiviti View, AuditBoard's Blog, or the IIA's blogs

Once you have leveraged internal and external resources to identify relevant risks, you will want to build an audit program that tests for these risks.

STEP 3

COSO's 2013 Internal Control Integrated Framework

While used extensively for Sarbanes-Oxley compliance purposes, internal auditors can also leverage COSO's 2013 Internal Control – Integrated Framework to create a more comprehensive audit program. In addition to identifying and testing control activities, internal audit should seek to identify and test the other components of a well controlled process.

- Review COSO's 2013 Internal Control components, principles, and points of focus here:

  ▶ https://www.coso.org/Pages/ic.aspx

STEP 4

Initial Document Request List

Requesting and obtaining documentation on how the process works is an obvious next step in preparing for an audit. The following requests should be made before the start of audit planning in order to gain an understanding of the process, relevant applications, and key reports:

- All policies, procedure documents, and organization charts

- Key reports used to manage the effectiveness, efficiency, and process success

- Access to key applications used in the process, and assessment of whether the applications were used remotely

- Description and inventory of master data for the process being audited, including all data fields and attributes

After gaining an understanding of the process to be audited through the initial document request, you should request access to master data for the processes being audited to analyze for trends and to aid in making detailed sampling selections.

STEP 5 **Preparing for a Planning Meeting**

Before meeting with business stakeholders, internal audit should hold an internal meeting in order to confirm a high-level understanding of objectives of the process or department and the key steps to the process. The following steps should be performed to prepare for a planning meeting with business stakeholders:

- Outline (by narrative, flowchart, or both) key process steps, highlighting information inflows and outflows, and internal control components

- Validate draft narratives and flowcharts with subject matter experts (if any)

- Create an initial pre-planning questionnaire, with internal audit's draft answers, to facilitate a pre-planning meeting with key audit customers, including questions regarding the impact of COVID-19 to the business

Preparing the questionnaire after performing the initial research sets a positive tone for the audit, and illustrates that internal audit is informed and prepared. Once this research is completed, internal audit should meet with their business stakeholders to confirm their understanding of the process.

STEP 6 **Preparing the Audit Program**

Once internal audit has confirmed their understanding of the process and risks within the process, they will be prepared to create an audit program. An audit program should detail the following information:

- Process Objectives
- Process Risks
- Controls Mitigating Process Risks
- Control Attributes, including:
    › Is the control preventing, or detecting, a risk event?
    › Control frequency (e.g. daily, weekly, monthly, quarterly, etc.)
    › Does the control mitigate a fraud risk?
    › Is the control manually performed, performed by an application, or both?
    › An initial assessment of the risk event (e.g. high, medium, or low)

- Testing Procedures for Controls to be Tested During the Audit, including:
    › Inquiry, or asking how the control is performed
    › Observation, or physically seeing the control be performed (if possible)
    › Inspection, or reviewing documentation evidencing the control was performed
    › Re-performance, or independently performing the control to validate outcomes

PLANNING AN AUDIT FROM SCRATCH *Cont'd*

STEP 7 Audit Program and Planning Review

Audit programs, especially those for processes that have never been audited before, should have multiple levels of review and buy-in before being finalized and allowing fieldwork to begin. The following individuals should review and approve the initial audit program and internal audit planning procedures before the start of fieldwork:

- Internal Audit Manager or Senior Manager
- Subject Matter Expert
- Chief Audit Executive
- Management's Main Point of Contact for the Audit
  (i.e. Audit Customer)

PLANNING AN AUDIT FROM SCRATCH

☑ THE CHECKLIST

1 Initial Audit Planning

- ☐ Why was the audit project approved to be on the internal audit plan?
- ☐ How does the process support the organization in achieving its goals?
- ☐ What enterprise risk(s) does the audit address?
- ☐ Was this process audited in the past, and if so, what were the results of the previous audit(s)?
- ☐ Have there been significant changes in the process recently or since the previous audit?

2 Risk and Process Subject Matter Expertise

Evaluate the design of the process audited using at least one of:
- ☐ Subject Matter Expert (SME) from a Big 4 or other consulting firm
- ☐ Recent articles from WSJ.com, HBR.org, or other leading business periodicals
- ☐ Relevant blog posts from The Protiviti View, AuditBoard's Blog, or the IIA's blogs

3 COSO's 2013 Internal Control Integrated Framework

- ☐ Review COSO's 2013 Internal Control components, principles, and points of focus: https://www.coso.org/Pages/ic.aspx

4 Initial Document Request List

- ☐ All policies, procedure documents, and organization charts
- ☐ Key reports used to manage process effectiveness, efficiency, and success
- ☐ Access to key applications used in the process, and assessment of whether the applications were used remotely
- ☐ Description and inventory of master data for the processes being audited, incl. all data fields and attributes

5 Preparing for a Planning Meeting

- ☐ Outline (by narrative, flowchart, or both) key process steps
- ☐ Validate draft narratives and flowcharts with subject matter expert used (if any)
- ☐ Create an initial pre-planning questionnaire, with internal audit's draft answers, to facilitate a pre-planning meeting with key audit customers, including questions regarding the impact of COVID-19 to the business

6 Preparing the Audit Program

- ☐ Process Objectives
- ☐ Process Risks
- ☐ Controls Mitigating Process Risks
- ☐ Control Attributes, including:
  - ○ Is the control preventing, or detecting, a risk event?
  - ○ Control frequency (e.g. daily, weekly, monthly, quarterly, etc.)
  - ○ Does the control mitigate a fraud risk?
  - ○ Is the control manually-performed, performed by an application, or both?
  - ○ An initial assessment of the risk event (e.g. high, medium, or low)
- ☐ Testing Procedures for Controls to be Tested During the Audit, including:
  - ○ Inquiry, or asking how the control is performed
  - ○ Observation, or physically seeing the control be performed (if possible)
  - ○ Inspection, or reviewing documentation evidencing the control was performed
  - ○ Re-performance, or independently performing the control to validate outcomes

## 7 Audit Program and Planning Review

Received approval from:
- ☐ Internal Audit Manager or Senior Manager
- ☐ Subject Matter Expert
- ☐ Chief Audit Executive
- ☐ Management's Main Point of Contact for the Audit (i.e. Audit Customer)

AUDITBOARD

KEY METRICS TO TRACK IN YOUR AUDITS AND AUDIT PLAN

As internal audit faces perennial pressure to cut costs, it is ever important for the department to prove its value as a contributor to business goals. Performance metrics communicate the effectiveness of internal audit activities and their alignment with organizational objectives.
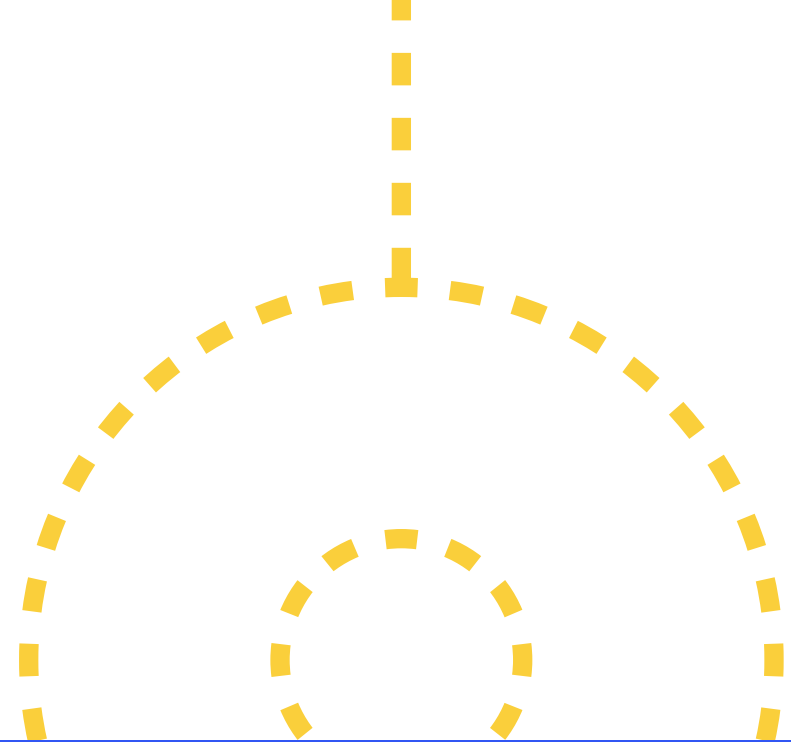
WHAT SETS GOOD METRICS APART FROM THE REST?

Key performance indicators (KPIs) are quantifiable measurements that demonstrate the effectiveness of an individual, department, or organization in achieving key goals. Clearly defining goals and tracking meaningful KPIs provide valuable evidence demonstrating that internal audit's activities support the organization's strategic objectives.

KPIs

TOP METRICS TO TRACK IN YOUR AUDITS

METRICS TO TRACK IN AN AUDIT

Planning
- ☐ Announcement Memo Sent on Time (X days prior to Fieldwork)
- ☐ Risks Covered in Audit Scope Align with Business Objectives
- ☐ Planning Phase Completed on Schedule? (Y/N)

Fieldwork
- ☐ Budget to Actual Hours Spent of Fieldwork
- ☐ Weekly Update Check-ins Scheduled with Management?
- ☐ Fieldwork Completed on Schedule? (Y/N)

Reporting
- ☐ Final Report Issued Timely (set a target)
- ☐ Number of Issues Reported
- ☐ % of Issues Closed as of Final Report Issuance
- ☐ Number of Repeat Findings

Issue Follow-Up
- ☐ Issues Agreed Upon by Management?
- ☐ Issues Remediated by Due Date
- ☐ Number of Times Due Date is Changed

METRICS TO TRACK IN AN AUDIT PLAN

- ☐ % of Planned Audits Addressing High Risk Areas
- ☐ % of Risks Audited / Identified
- ☐ % of Audit Plan Completed
- ☐ Number of Unplanned Engagements
- ☐ Last Time a Process Was Audited
- ☐ % Audits Completed on Schedule
- ☐ Customer Satisfaction Results
- ☐ % of Surveys Returned
- ☐ Year After Year Score Analysis
- ☐ Number of Total Issues Identified
- ☐ Number of Repeat Findings
- ☐ Number of Open High Risk Issues
- ☐ Number of Past Due Issues

TRACKING METRICS IN AN AUDIT

⚡ Tips

- Use weekly check-ins with management to communicate identified issues, fieldwork status, and milestones.

- Set a timely target to issue your final report, *e.g. within 30 days of completing fieldwork.*
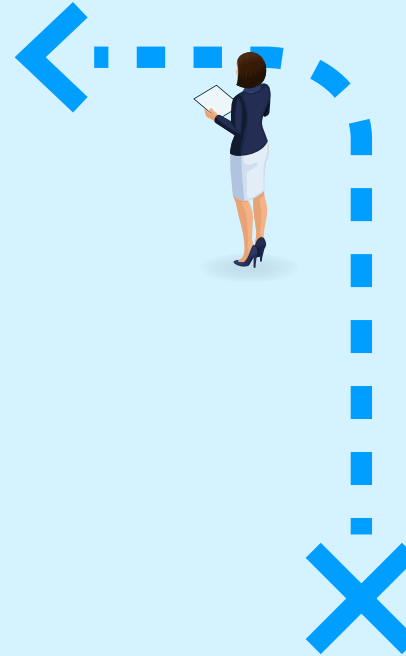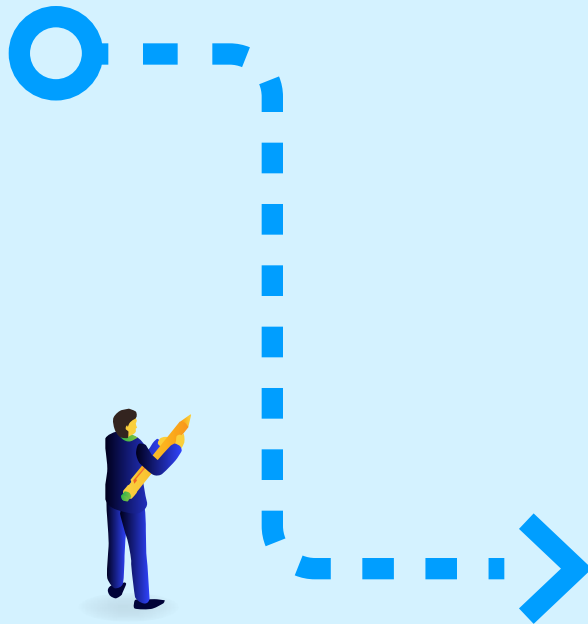
TRACKING METRICS IN AN AUDIT PLAN

⚡ Tips

- For customer satisfaction results, identify the percentage of surveys returned and if scores are improving year over year.

- Identify your percentage of risks audited based on your risk assessment.

COVERING CRITICAL RISK AREAS
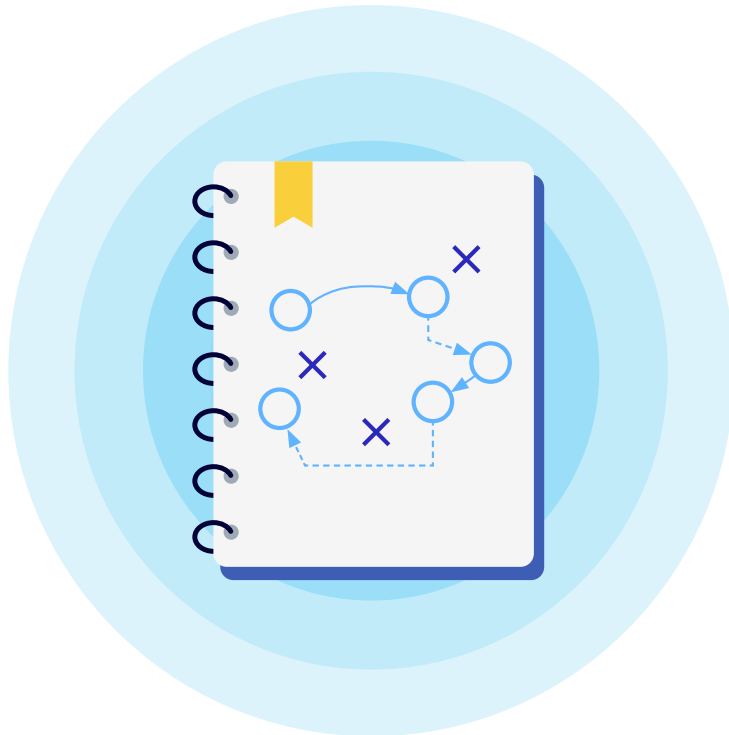
IS YOUR AUDIT PLAN SUFFICIENTLY COVERING CRITICAL RISK AREAS?

A well-rounded audit plan will not only meet Sarbanes-Oxley (SOX) or other compliance requirements, but will also reflect an enterprise-wide scope and coverage of risks.

Up next: five important risk areas to consider including in your audit plan.

5 CRITICAL RISK AREAS TO INCLUDE IN YOUR AUDIT PLAN

CYBERSECURITY

Recommended Audit Projects:

› Data Encryption
› Access Management Policies and Controls
› Data Penetration Testing with Vendors
› Business Continuity Plan (BCP)
› Patch Management Policies
› Employee Information Security Training

CULTURE AND ETHICS

Recommended Audit Projects:

› Digital Ethics
  | How consumer information is managed
    and protected across the enterprise.
› Succession Planning
› Gender and Racial Discrimination

DATA PRIVACY

Recommended Audit Projects:

› General Data Protection
  Regulation (GDPR)
  Enforcement
› Consumer Consent

THIRD PARTY RISK

Recommended Audit Projects:

› Background Checks
› Third Party Risk Management
› Contract Management
› Right-to-audit Clauses
› Monitoring and Compliance

DATA GOVERNANCE

Recommended Audit Projects:

› Data Quality
  | Data migration procedures, data management
    procedures in the event of acquisitions, data
    quality standards.
› Data Analytics
  | Policies and procedures of data analytics functions,
    proper storage and ownership controls around
    data repositories and self-service platforms,
    data access controls.

03.
FIELDWORK

TIPS FOR TURNING AUDIT CLIENTS INTO ALLIES

THE PROBLEM

As planning transitions into fieldwork, it is important to consider the perspective the internal auditor persona carries. **Too often, internal audit carries a reputation as the regulator, or "bad cop" of the company,** a group more interested in uncovering problems in departments than giving credit for good work. This negative perception can create apprehension and color the expectations of audit clients, especially those who have never been audited before.

THE SOLUTION

Audit clients who understand internal audit's objectives and how they fit into the bigger picture will have more realistic expectations for the engagement and be more likely to provide helpful information, such as where the risks and issues actually are. **When audit clients feel understood, comfortable, and on the same page as internal audit, they will become better collaborators.** This drives better audit results and helps internal audit be more effective in providing the organization with the tools it needs to mitigate risk.

TIPS FOR TURNING AUDIT CLIENTS INTO ALLIES

Turning audit clients into allies should be a year-round effort. Below are tips to consider incorporating in every stage of an audit project.

FIELDWORK

- Lay out a clear and concise plan for communicating with clients during the opening meeting, include dates of meetings, check-ins, and closing meeting.
- Schedule a weekly meeting with the main point(s) of contact to review the working results as the project unfolds.

OFF-CYCLE/THROUGHOUT THE YEAR

- Get to know your regular audit clients well when you're not in the middle of an audit or requesting help from them. Meet with them to get coffee (or virtual coffee) and learn about their lives. By establishing a genuine interest and investment in the relationship, you'll be building allies rather than adversaries.

ANNUAL RISK ASSESSMENT

- Meet your key stakeholders face to face to build rapport and break the ice prior to querying them on their risk areas.

PLANNING

- Communicate with stakeholders/process owners well in advance of the audit (exception: surprise audits).
- Provide clear dates, and stick to them. Don't push back meetings or announce unexpected meetings.
- Be mindful of the client's location and timezone. Run planning calls during the client's working hours.
- Leverage an audit management solution to facilitate communication with clients and streamline document requests.

REPORTING

- Ensure stakeholders and points of contact have been briefed on preliminary audit findings in advance of the closing meeting.
- If cross-functional teams are involved, brief them on the findings prior to the closing meeting.
- Come to the closing meeting prepared with draft management action plans.

10 BEST PRACTICES FOR FIELDWORK EXECUTION

Your fieldwork process may have undergone disruption due to continued remote working conditions. Once fieldwork does commence, scope creep and delays due to information obtained during walkthroughs can be common roadblocks. Many of these speedbumps during fieldwork may be avoided by observing the following best practices:

Set Expectations Early

Setting and managing expectations with the client upfront is key and helps prevent scope creep. When documenting the audit scope within an engagement letter, include an escalation and approval to expand your scope in the event any additional necessary procedures are identified during testing.

Schedule Recurring Status Update Meetings

Proactively schedule status update meetings (ideally weekly) throughout fieldwork with all stakeholders to give updates on testing status, delays, and potential findings. This ensures the final audit report will be a summary of discussions you've already had and will help avoid last minute surprises.

Have Walkthroughs Prior to Fieldwork

Walkthroughs should occur prior to fieldwork and before audit document request lists are sent to the client. Delays in audits usually happen when additional documentation is requested because of new information obtained during walkthroughs. Testing attributes should also be documented after walkthroughs once you have a clear understanding of the process.

Begin Fieldwork When All Requests Are Met

Communicate to audit clients that the original fieldwork timeline is based on the assumption that all requested support is obtained by the first day of fieldwork. If there are any delays in obtaining PBCs, remind the client the engagement timeline will be impacted.

Test Complex Areas and Prior Findings First

When determining which sections to test first, always start with complex areas and areas where there were prior audit findings. These areas are most likely to result in findings and will be most heavily scrutinized, therefore it is important to leave ample runway for follow up discussions.

Communicate All Potential Findings as Soon as They Are Confirmed

All findings should be communicated, vetted, and agreed upon with management prior to the closing meeting so there will be no surprises. Since findings usually result in additional testing procedures as part of the confirmation process, identifying and communicating potential findings early helps ensure ample time to test if needed.

Be in Sync with the Audit Client

When presenting findings in the closing meeting, lead with "As we discussed…" before getting into the details. This helps both your audit team and the audit client feel in sync as they communicate, leading to a smoother report issuance process.

Keep an Audit Log

Keep an audit log of all changes made to the testing attributes, and reconcile them with the engagement scope document. Prior to the end of fieldwork, perform a reconciliation between the original testing attributes and final attributes to make sure no attributes were accidentally omitted or changed. This will help any scope creep discussions as well, if additional findings were identified during the audit which resulted in additional procedures.

Give Yourself Time to Follow Up

Ensure workpapers are reviewed with ample time left for follow up with the client. Ideally, all testing should be complete before moving into the reporting phase of an audit.

Rotate for Fresh Eyes

If you have a standardized audit program for different audit categories, try to rotate team members. A good balance is to have at least one subject matter expert recurring on the audit while rotating out the others. This will ensure a fresh set of eyes to help find issues that were overlooked.

04.
REPORTING

BEST PRACTICES FOR AUDIT REPORT WRITING

An audit report should be a living, breathing document that is created throughout an audit engagement. Starting the audit report at the end of an engagement compromises your ability to consider the messages you want to deliver as you plan the audit and note potential findings during fieldwork, possibly leading to a report that is stale.

A great audit report is one that clearly communicates the objectives, scope, and findings of an audit engagement, and in doing so, motivates its readers to take internal audit's recommended actions. In this section, we will cover best practices for writing effective audit reports that achieve their desired outcome.
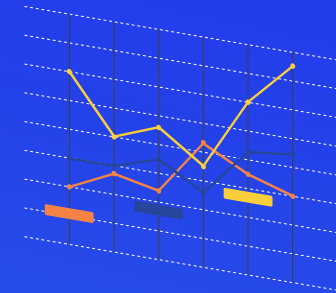
TIPS FOR WRITING AN EFFECTIVE EXECUTIVE SUMMARY

1 **Know Your Readers**

Understand who will receive the report. The executive summary should give an overview of the detailed report that resonates with every executive officer who reads it, so it is important to understand your organization's culture. Some organizations may be more cross-functionally collaborative, while others will be more compliance-oriented. Not every stakeholder will be a technical subject matter expert. For example, if your report is going to the CFO and you have IT audit findings, make sure that you don't have to be an IT expert to understand what the issue is.

2 **Cut the Fluff**

The executive summary should be 1-2 pages. Aim for brevity as much as possible. Consider the best way to summarize each point, as there will be more takeaways in the detailed report. Wherever possible, use numbers and percentages to help drive points home. Eliminate any unnecessary descriptive adjectives and adverbs.

3 **Explaining It to the Company**

Whether the audit report is presented to members from operations or IT, the executive summary should be written so that every individual can easily understand the terminology and sophistication level of the writing. A good rule of thumb is to try to explain every point in a way that all levels of experience and expertise at your company would understand.

Tips

- Stay away from big words. If someone has to have a dictionary to understand your report, this hurts your case.
- Avoid acronyms and functionally esoteric terms not everyone at the organization will understand.
- For important ideas or concepts that are likely to be missed, try using analogies. When tested and done right, this not only facilitates understanding, but can help drive the point home.
- Use bullet points wherever possible.

4 **Make It Digestible**

For any key point, whether it is a big, scary finding or a positive one, bring the reader's attention to the information as concisely as possible. Decide on your most important takeaways or messages, then leverage visual formatting to draw your audience's eyes to each message.
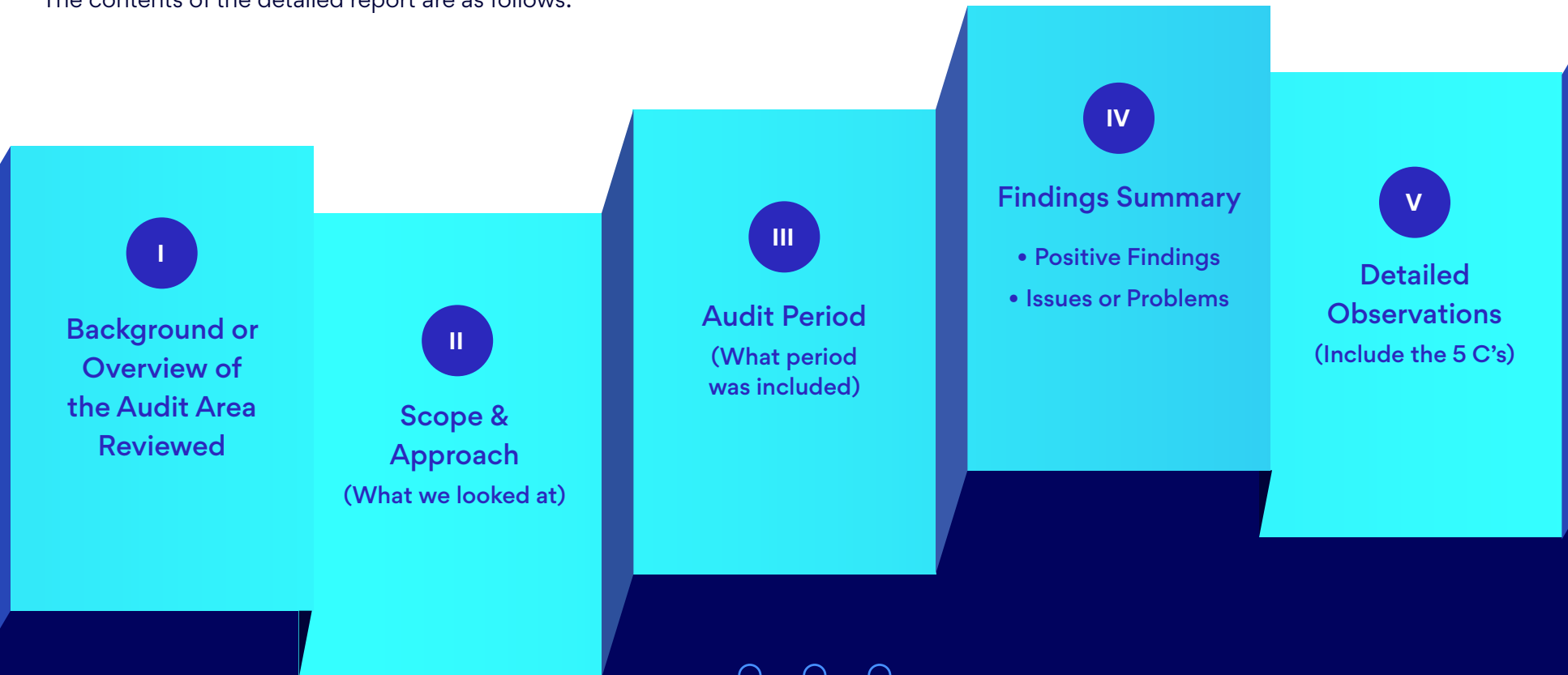
Tips

- Tables can be more effective in illustrating a finding than a block of text.
- If you can use a number or percentage to describe a fact, do so.
- Circle or highlight the key points you want to convey, as well as bold, underline, italicize, or use color.

WRITING THE DETAILED REPORT

Depending on the audit, the expectations set during the opening meeting, and the findings, the contents of the detailed report may vary. If there were more findings and complexity in the audit than anticipated, you might need to include more detail.

The contents of the detailed report are as follows:

I

Background or Overview of the Audit Area Reviewed

II

Scope & Approach

(What we looked at)

III

Audit Period

(What period was included)

IV

Findings Summary

• Positive Findings
• Issues or Problems

V

Detailed Observations

(Include the 5 C's)

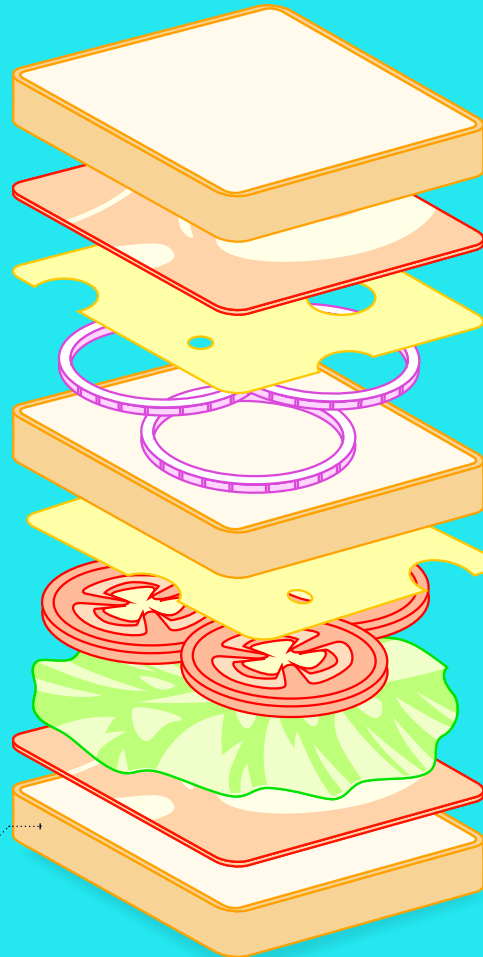# 10 BEST PRACTICES FOR WRITING A DIGESTIBLE AUDIT REPORT

1 Reference everything

2 Include a reference section

3 Use figures, visuals, and text stylization

4 Note key statistics about the entity audited

5 Make a "Findings Sandwich"

6 Ensure every issue includes the 5 C's of Observations

7 Include Detailed Observations

8 Always perform a Quality Assurance check

9 Avoid blame – state the facts

10 Be direct and avoid soft statements

10 BEST PRACTICES FOR WRITING A DIGESTIBLE AUDIT REPORT

1 **Reference Everything**

Avoid unverifiable claims and make sure to bridge any gaps of information by referencing where you obtained key facts and figures.

2 **Include a Reference Section**

Use of indices, appendices, and tables in this section is very helpful.

3 **Use Figures, Visuals, and Text Stylization to Make the Report as Digestible as Possible**

- **Numbers and percentages.** If you can put a number behind a fact or use a percentage to describe it, do so.
- **Circle or highlight the key points** you want to convey, as well as bold, underline, italicize, or use color to draw attention to key facts and figures.
- **Use tables or graphs** to summarize and draw attention to key trends or important data, wherever possible.

4 **Note Key Statistics about the Entity Audited**

Note key statistics about the entity audited in the Background/ Overview, if applicable. This puts things in perspective and gives context and relevance to your audit findings.

5 **Make a "Findings Sandwich"**

Layer a positive finding, followed by an issue, followed by a positive, and so on. Try to end the Findings Summary on a slight positive, if possible.

6 **Ensure Every Issue in Detailed Observations Includes the 5 C's of Observations**

Criteria, Condition, Cause, Consequence, and Corrective Action Plans/Recommendations.

7 **Detailed Observations are Also a Good Place to Include Any Additional Facts and Figures**

8 **Always Perform a Quality Assurance Check**

Seek someone who does not have a direct connection to the audit so they can provide fresh eyes. If possible, ask someone from the department or function audited to review the report as well.

9 **Avoid Blame – State the Facts**

Aim to preserve the relationship with audit clients by being as objective as possible and avoiding blame. Simply state issues and recommended actions.

10 **Be as Direct as Possible**

Avoid soft statements when making recommendations (such as "Management should consider...") and opt for solid recommendations and calls to action instead.

AUDIT REPORTING CHECKLIST

AUDITBOARD

☐ Work off a findings sheet that has been discussed and agreed to by management.

☐ Every detail in the report correlates to what was in your findings sheet.

☐ Use bullet points wherever possible.

☐ Keep each bullet to one line.

☐ Remove all unnecessary adjectives and adverbs.

☐ Highlight/Circle/Bold/Italicize major takeaways.

☐ Use numbers or percentages to describe facts wherever possible.

☐ Use tables or graphs to summarize key information wherever possible.

☐ Report contains clear references, indices, and appendices.

☐ All verifiable claims are annotated.

☐ All annotated claims map to a reference.

☐ Remove soft/indirect recommendations *(such as "Management should consider...").*

Replace with direct language recommending corrective actions.

☐ Remove blaming/inflammatory statements *(such as "Management failed to...").*

State the issue and the recommended corrective action instead.

☐ Check spelling: use Microsoft Word or Google Docs spell check tools.

☐ Check readability: use the Flesch Reading Ease or Flesch-Kincaid Grade Level tests.

05.
ISSUE
MANAGEMENT

OPTIMIZING YOUR ISSUES MANAGEMENT PROGRAM

How quickly issues are remediated is a sign of how effectively an organization is managing risk, because:

1 This indicates issues identified are relevant to the organization.

2 This indicates how efficiently the business is operating.

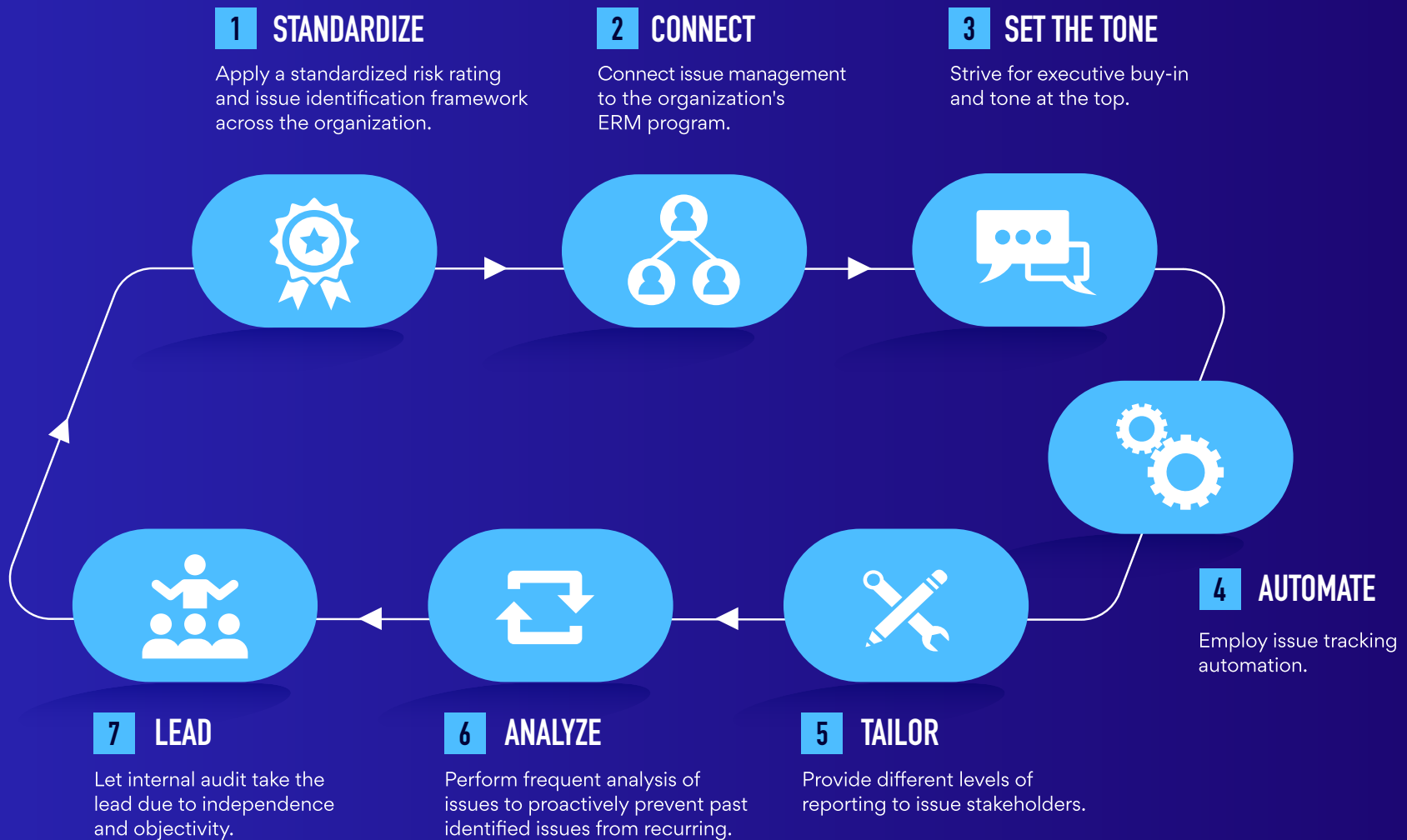**3** This demonstrates the business's receptiveness to change and risk tolerance.

THE PROBLEM

Oftentimes, different business functions may be performing duplicate activities around issue tracking using inconsistent methodologies. Multiple issue logs (in varying formats) tracking similar outcomes pose inefficiencies to all stakeholders involved, including issue owners asked to provide consistent information to different groups at various times. Such practices limit the organization's ability to have a holistic view of issues, resulting in inefficiencies such as: poor data quality and incomplete organizational impact analysis, lack of issue prioritization and clear accountability, and unclear issue closure processes.

THE SOLUTION

Standardizing your issue management program can help reduce inefficiencies for internal audit and other issue stakeholders, strengthen the organization's ERM program, and improve collaboration across business groups. The following are best practices for building a well-rounded issue management program.

7 TIPS FOR BUILDING A WELL-ROUNDED ISSUE MANAGEMENT PROGRAM

1 STANDARDIZE

Apply a standardized risk rating and issue identification framework across the organization.

2 CONNECT

Connect issue management to the organization's ERM program.

3 SET THE TONE

Strive for executive buy-in and tone at the top.

4 AUTOMATE

Employ issue tracking automation.

5 TAILOR

Provide different levels of reporting to issue stakeholders.

6 ANALYZE

Perform frequent analysis of issues to proactively prevent past identified issues from recurring.

7 LEAD

Let internal audit take the lead due to independence and objectivity.

7 TIPS FOR BUILDING A WELL-ROUNDED ISSUE MANAGEMENT PROGRAM

1 Standardize

Apply a standardized risk rating and issue identification framework consistently across different departments that are capturing and identifying issues. This involves multiple issue stakeholders coming together, preventing duplicate administrative work from being performed. This also strengthens the organization's ability to report on issues uniformly across the business, correctly identify root causes of issues, and assign the appropriate remediation action plans to issue owners.

- Examples of a framework may be: the 5 C's of writing audit observations (Criteria, Condition, Cause, Consequence, Corrective action plans), an issue rating scorecard, or a custom methodology.

2 Connect

The standard issue rating framework should mirror the way the business is evaluating risks by connecting to the organization's ERM framework. If issues are being uniformly managed across the organization, there is more opportunity to perform trend analysis and identify enterprise-wide themes on why issues are occurring — leading to a higher likelihood that the business will be proactive in addressing those themes, and prevent issues from occurring again in the future.

3 Set the Tone

Strive for executive buy-in and tone at the top. When the organization's executive leadership team is united in promoting a standard issue methodology, this helps embed issue management into risk culture across the organization.

- Example: incentivizing early identification of issues and implementation of corrective actions by aligning performance feedback and compensation to issue management metrics.

4 Automate

An automated issue tracking program helps auditors easily validate issue identification and follow up with issue owners during remediation. An audit management solution that helps automate your issue management workflow should:

- **Enforce the issue management methodology.** A standard issue rating and identification framework is either applied (if there is none to begin with) or formally standardized during implementation, which provides the basis for organization-wide compliance with the standard issue methodology.

(Tip #4 – cont'd)

- **Have a Validation Workflow.** The solution automates the issue followup process, letting auditors initiate an automated workflow that sends notification reminders to issue owners.
- **Have Agile Reporting Capabilities.** Issues should be automatically reportable anytime they are logged, and status will update in real-time as issues move through the remediation process (validated, outstanding, overdue).

5   Tailor

Provide different levels of reporting to department leaders, executive team or risk committee, and the Board of Directors. Department leaders directly influence issue remediation, the executive team or risk committee has the power to provide the full scope of issues and identify issue themes, and the Board should be aware of issues at a high level so that it can help enforce issues remediation.

Metrics to address in these reports are:

- Issues identified by department
- Issues identified by root cause
- Issues that are repeatedly identified
- Issues identified by timeliness of corrective actions

6   Analyze

Perform frequent analysis of issues to create awareness of lessons learned from past identified issues. In order to proactively prevent past identified issues from recurring, this should be done on a continuous basis, not as a point in time exercise.

7   Lead

While different functions track issues, internal audit is optimally positioned to lead an enterprise issue management program because it is credible and can provide independent assurance to the business. The benefits of a streamlined, enterprise issue management process led by internal audit include:

- **Improved issue reporting** to Executives and the Board.
- **Improved risk management** in the organization, due to better identification of issue themes, leading to more effective actions taken to proactively prevent deficiencies.
- **Prevention of duplicate administrative work** being performed across multiple teams or departments – this also reduces costs.
- **Improved assurance that issues were corrected** as management expected, due to internal audit's independence and objectivity.
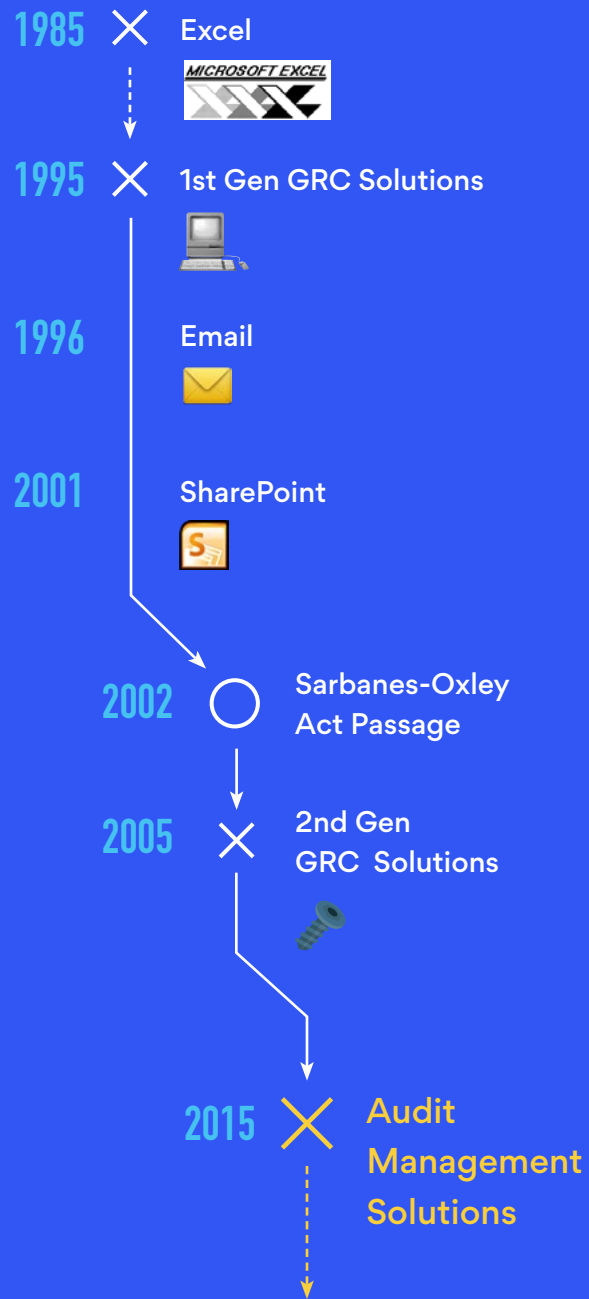
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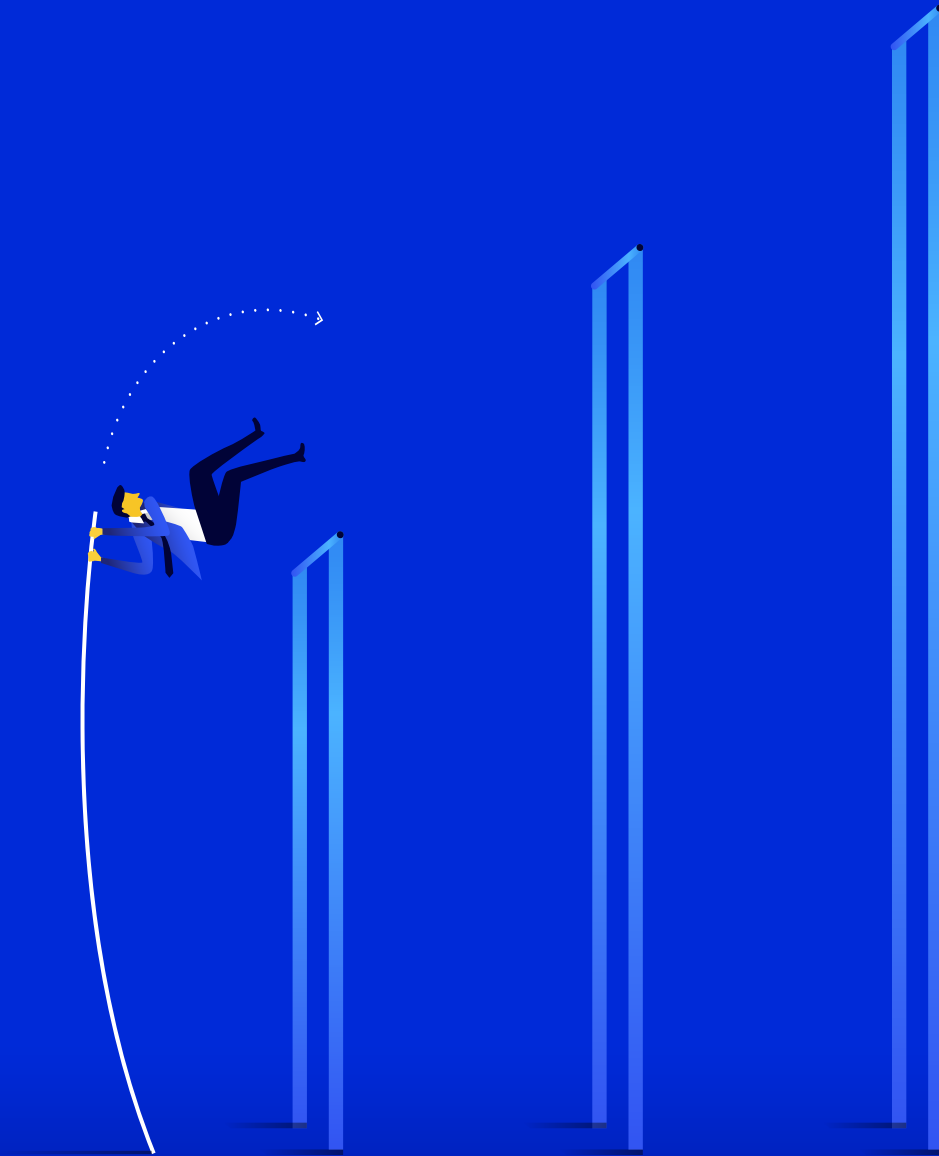
LEVERAGING TECHNOLOGY TO SCALE AUDIT PRACTICES

Since the arrival of the modern computer and Microsoft Office, technology has revolutionized the way business is conducted. Auditors, in particular, were especially impacted by the release of Microsoft Excel in 1985.

However, as any auditor who owns a smartphone can attest, the 35 years that have passed since the introduction of Excel have brought an era of rapid digital transformation across the workforce. Email, SharePoint, governance, risk, and compliance solutions (GRCs), and audit management solutions have all emerged and evolved as the regulatory landscape and modern internal audit needs change and shift.
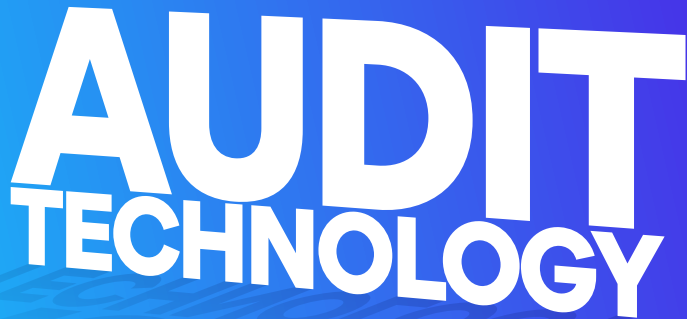
HISTORY OF TECHNOLOGY ADOPTION IN THE AUDIT INDUSTRY

1985 — Excel

1995 — 1st Gen GRC Solutions

1996 — Email

2001 — SharePoint

2002 — Sarbanes-Oxley Act Passage

2005 — 2nd Gen GRC Solutions

2015 — Audit Management Solutions

1985 Microsoft Excel is introduced.

1995 Governance, Risk, and Compliance (GRC) solutions designed for the C-suite to understand business risks are introduced.

1996 The introduction of the first webmail services, leading to widespread adoption of email.

2001 Microsoft SharePoint is introduced.

2002 The Sarbanes-Oxley Act (SOX) is passed into law following a series of major public accounting scandals, including Enron and WorldCom.

2005 Software products designed for end users in IT, Finance, and Accounting – but not auditors – arrive. These products are repurposed for audit.

2015 Audit management solutions designed for end users in Audit arrive. These are the first applications purpose-built to automate the audit workflow.

TODAY:
MODERN AUDIT DEPARTMENTS ARE USING AUDIT MANAGEMENT SOLUTIONS TO SCALE

Reevaluating your organization's audit management methodology may be the first and most important step to address business needs for the upcoming year. While businesses may have been slowly moving toward more integrated platforms prior to the COVID-19 crisis, the rapid — in many cases, overnight — shift to a fully-remote workforce significantly accelerated the timeline of need for adopting cloud-based technology solutions.

A 2019 study of 1,337 audit departments revealed those that successfully leverage audit management solutions experience significant improvements in audit workflow efficiency, with reports of 33%-50% in time savings on administrative audit work that can then be redirected into more value-add tasks, such as operational audit projects. Additionally, these time savings have also helped lower annual overhead for audit departments, with some reporting $100,000 in annual cost savings.

AUDIT TECHNOLOGY

INTERNAL AUDIT DEPARTMENT TIME SAVINGS AFTER LEVERAGING AUDIT MANAGEMENT SOLUTIONS

33-50%
Time saved on administrative audit work

120 hrs
Saved completing quarterly certifications

11,000
Co-sourced hours saved

Data represents representative examples from 1,337 audit departments surveyed in 2019

STATE OF AUDIT DEPARTMENT TECHNOLOGY ADOPTION

Despite these success rates, audit management solution adoption has not been widespread enough to take full advantage of the potential time and cost savings possible in the current era of audit technology.

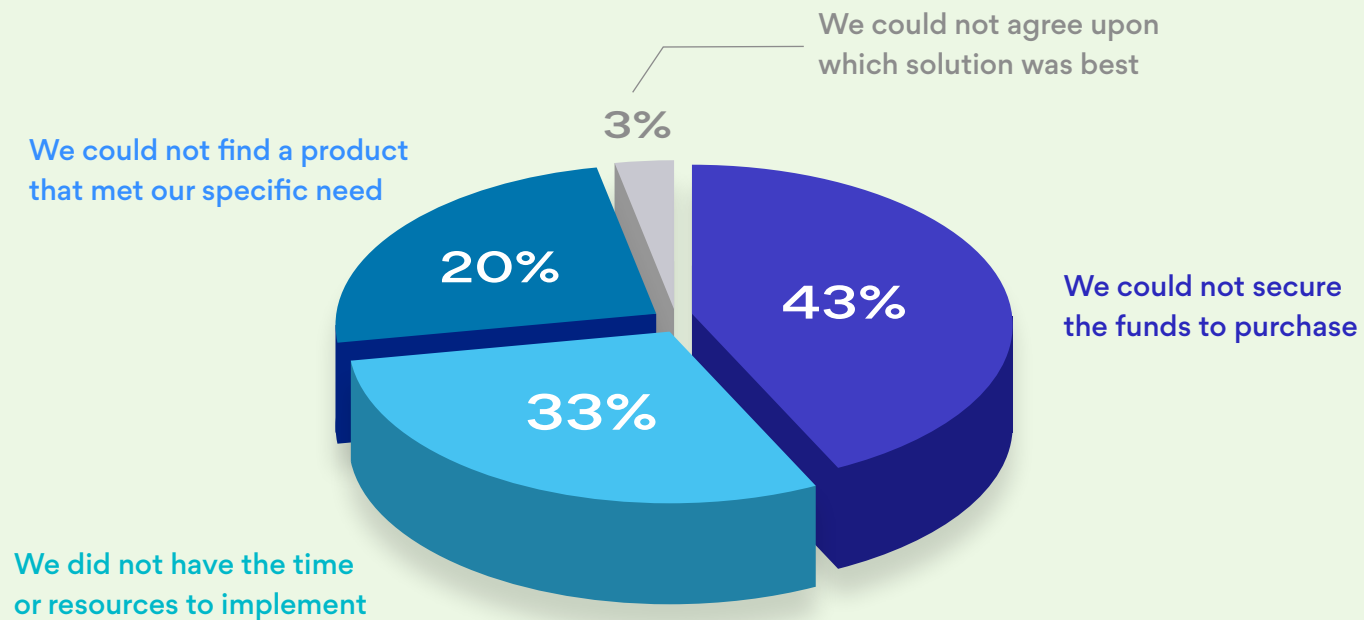**Department operations automated with digital technology**

26%

74%
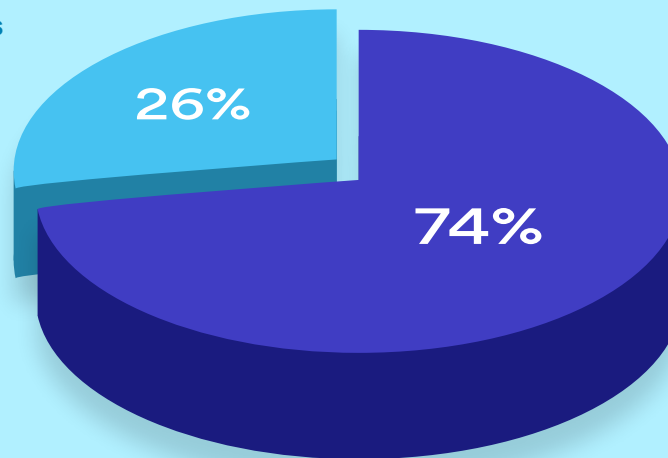
Primarily use spreadsheets, manual processes and shared drives

Audit Department Digital Technology Adoption: 2019 AuditBoard-sponsored survey

Martin, Steve (2019). How Audit Departments Deliver Business Value Through Digital Transformation: 2020 Internal Audit and SOX Compliance Technology Strategy.

WHAT ARE THE BARRIERS TO AUDIT MANAGEMENT SOLUTION ADOPTION?

Audit departments surveyed reported that the biggest barrier to investing in an audit management solution is the inability to secure funds.

We could not agree upon which solution was best

We could not find a product that met our specific need

3%

20%

43%

We could not secure the funds to purchase

33%

We did not have the time or resources to implement

Reasons Cited for Not Purchasing Audit Management Solutions: 2019 AuditBoard-sponsored survey

WHAT LEVEL OF MATURITY IS YOUR AUDIT DEPARTMENT AT?

The biggest indicator of whether an audit department can secure funds for an audit management solution is whether the department fits into a Traditional, Renewal, Forward-Thinking or Next Generation type. These categories are based on internal audit's level of sophistication in utilizing technology to add value to the business.

AUDIT DEPARTMENT MATURITY STAGES

TRADITIONAL INTERNAL AUDIT DEPARTMENTS

perform routine, checklist-based audit activities, often the same year after year, and are hesitant to adopt new technologies and methodologies.

RENEWAL INTERNAL AUDIT DEPARTMENTS

are in a rebuilding phase due to a new audit leader, an Initial Public Offering (IPO), merger, acquisition, or regulatory failure and associated fine. These events drive change by requiring internal audit to evolve for improved control performance.

FORWARD-THINKING INTERNAL AUDIT DEPARTMENTS

effectively execute risk-based audit plans based on a well-documented risk assessment process, utilizing performance metrics, balanced scorecards, data analytics, and technology to fulfill their mission.

NEXT GENERATION INTERNAL AUDIT DEPARTMENTS

are well-integrated with other business departments, have a seat at the executive team's business table, and are at the forefront of audit technology adoption and methodology. Considered thought leaders by the audit community, their Chief Audit Executives ensure their teams have the latest resources needed to succeed in order to add measurable value to the business.

As with any business case for a departmental investment, success hinges on a strong argument with extensive ROI justification to upper management. Audit leaders who take the time to carefully research and vet audit management solutions and bring other risk and compliance stakeholders into the conversation will be better equipped to make their case for such an important investment. Tools such as ROI calculators, customer references, case studies, and software review sites, such as Gartner Peer Insights, Capterra, and G2.com, can be extremely helpful for making your case.
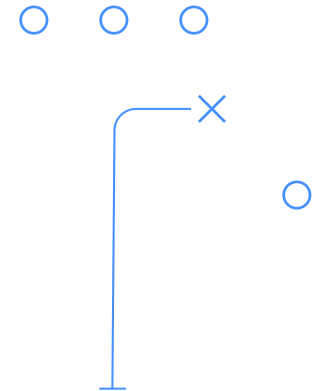
As Renewal, Forward-Thinking, and Next Generation audit leaders evaluate software, it is important to request three specific product demonstrations:

3 TYPES OF PRODUCT DEMOS TO ASK FOR:

1
A full product demonstration where evaluators conduct a detailed review of the product's operation.

2
Proof of concept demonstration where the evaluator's audit data is loaded into the audit management solution to validate the product's operations.

3
Hands-on product testing where the evaluator's audit data is loaded into the audit management solution and evaluation team members test drive the product's operation.

Regardless of which audit department category your group currently falls under, it is important to remain informed about the development of audit management solution technology. With consideration for your department's needs and goals and a thorough evaluation process, a well-vetted audit management solution has the ability to transform and scale the internal audit function. This is especially true for audit departments that are already incorporating the best practices outlined in this playbook.

IN CONCLUSION...

Today, more than ever, what sets great audit departments apart from the rest are mindful audit leaders who enable their teams to perform their jobs efficiently by providing them with the resources and tools they need. Leveraging the best practices and tools provided in this playbook is a great way to begin shaping and reinforcing the perspectives of Forward-Thinking and Next Generation audit teams.

The other key component is recognizing the current opportunity to digitally automate the internal audit function by leveraging an audit management solution to scale the department's activities. When done hand in hand, under careful and mindful audit leadership, such practices can drive efficiencies and value to the organization that multiply, year over year.
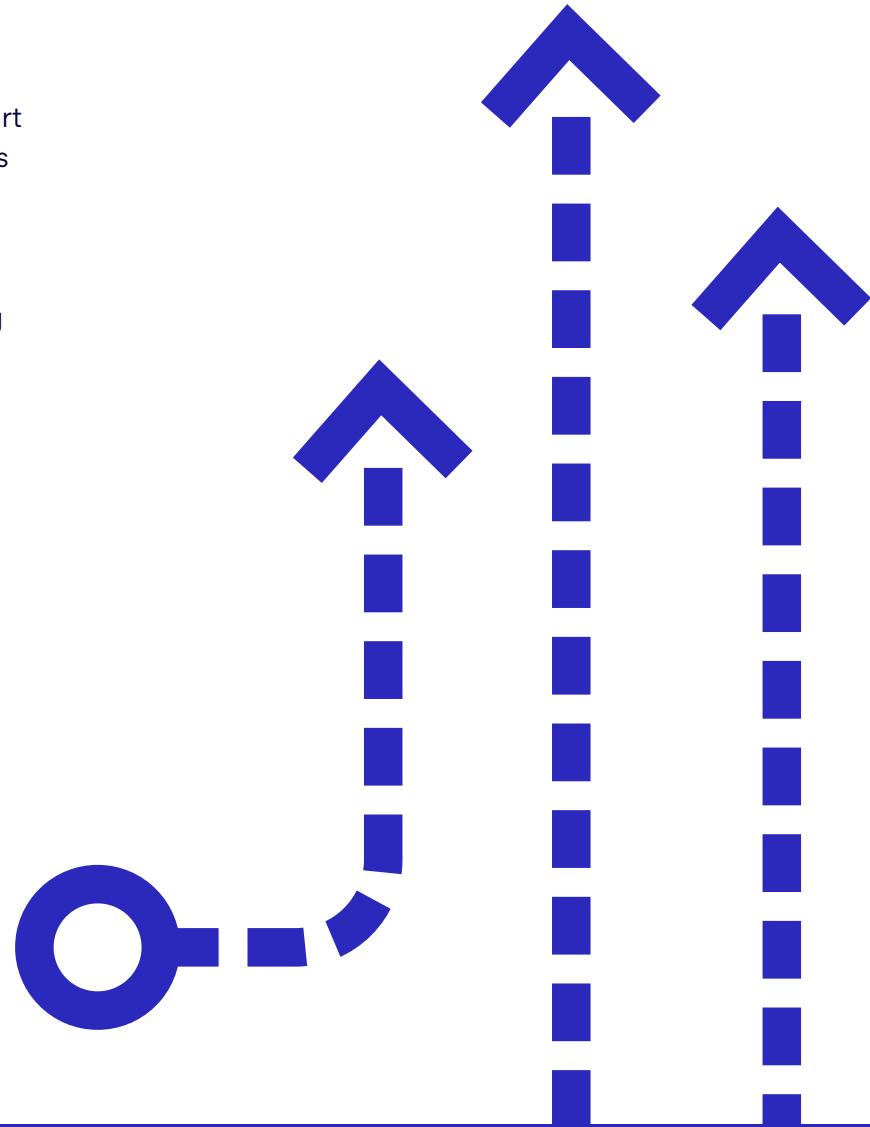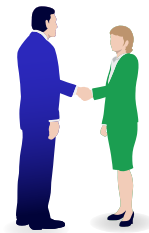
To learn how AuditBoard can help you digitally transform your audit department, visit auditboard.com to request a tailored demo.

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