2023

# THE AUDIT MANAGEMENT PLAYBOOK

AUDITBOARD

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# 01.
# MAXIMIZING EFFICIENCY AND VALUE: THE AUDIT LEADER'S CHALLENGE

Whether you manage an audit team of five or fifty — in a brick-and-mortar office or virtually from your home office — the greatest challenge any modern audit leader faces is executing an audit program that is as efficient, cost-effective, and value-producing as possible. To accomplish this, audit leaders must prioritize automation and efficiency in their audits to preserve the resources needed to perform more meaningful projects.

Thankfully, auditors today have more access than ever to automation-enabling technologies that can help them achieve this level of efficiency, productivity, and value-recognition. The most forward-thinking audit leaders recognize harnessing the power of these technologies is the key to producing "A-Team" audit functions that are instrumental to their organization's success.

This playbook contains a carefully curated selection of thought leadership 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 for driving efficiency in each stage of the audit lifecycle, as well as best practices for incorporating automation into their audit processes.

## AS YOU READ EACH SECTION...

Please consider:

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

- Which 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 thought leadership from Deloitte, Protiviti, RSM, AuditBoard's Blog, or The IIA

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.

# PLANNING AN AUDIT FROM SCRATCH *Cont'd*

**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.

**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.

## 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

**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 thought leadership from Deloitte, Protiviti, RSM, AuditBoard's Blog, or The IIA

**3 COSO's 2013 Internal Control Integrated Framework**
- ☐ Review COSO's 2013 Internal Control components, principles, and points of focus.

**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
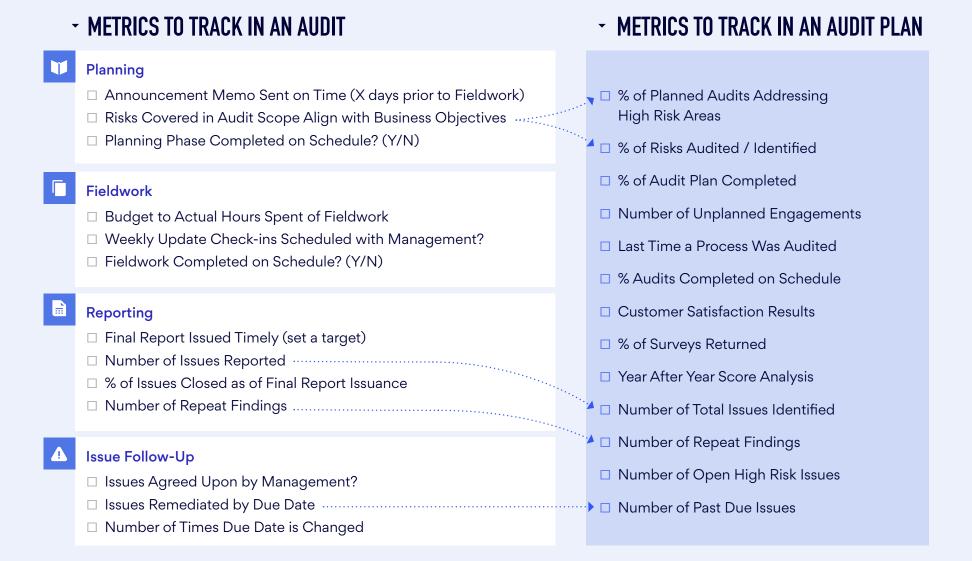
As internal audit faces perennial pressure to cut costs, it is ever important for the department to prove its value as a contributor to business goals. Performance metrics communicate the effectiveness of internal audit activities and their alignment with organizational objectives.

## 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
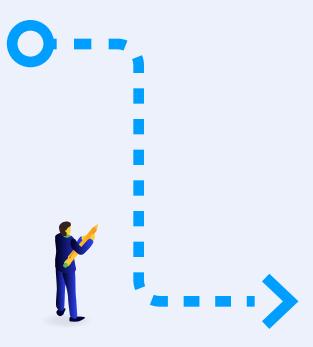- ☐ Number of Past Due Issues

# 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

## CULTURE AND ETHICS

*Recommended Audit Projects:*

› Digital Ethics

How consumer information is managed and protected across the enterprise.

› Succession Planning
› Gender and Racial Discrimination

## 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

## DATA PRIVACY

*Recommended Audit Projects:*

› General Data Protection Regulation (GDPR) Enforcement
› Consumer Consent
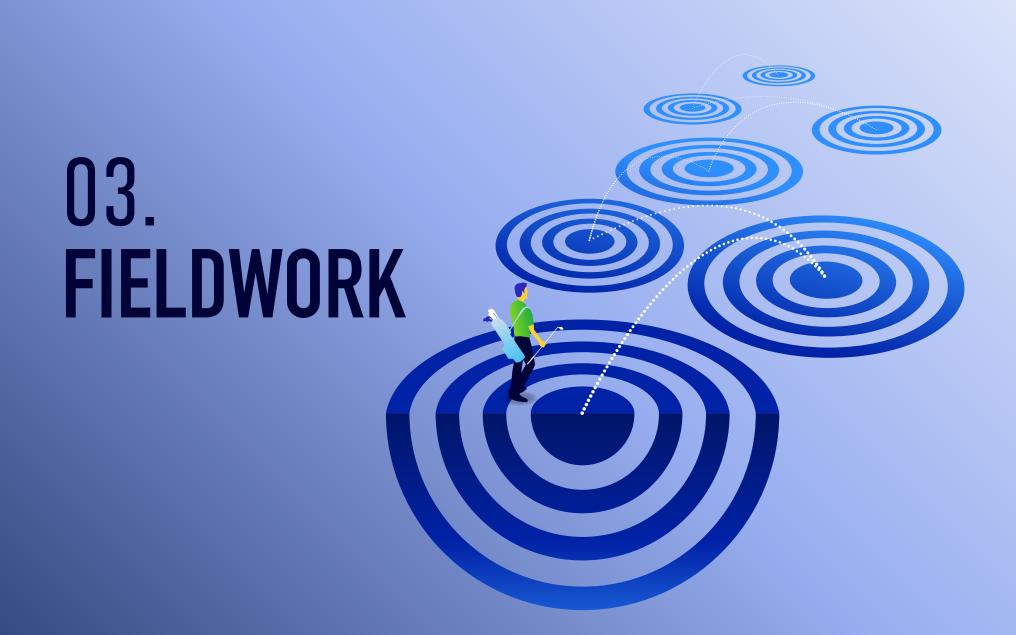
## THIRD-PARTY RISK

*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.
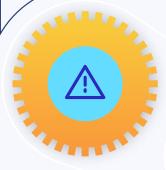
## ANNUAL RISK ASSESSMENT

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

## 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.

## 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.
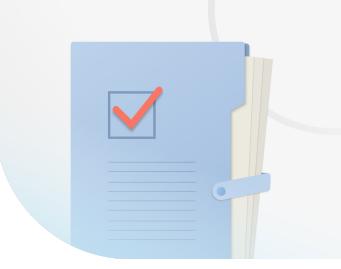
# AUDIT EVIDENCE COLLECTION CHECKLIST

Collecting evidence is one of the most important elements of any audit, but it can cause confusion, frustration, and even regulatory violations if the documentation is not handled properly. While IIA Standard 2330 describes good evidence as "sufficient, reliable, relevant, and useful information to achieve the engagement's objectives," auditors also have to consider how to request, collect, and properly store the documentation. The content, organization, and format of workpapers may vary by organization and the nature of the engagement, however, it is important to achieve documentation consistency by applying best practices throughout the audit.

The checklist below includes three sections with best practices for handling evidence during different stages of the audit. Depending on your industry, you may work with both hard copies of files or electronic files. We have included recommendations for both scenarios, as well as tips for those working in a hybrid environment.

## REQUESTING AND TRACKING EVIDENCE

Requesting and tracking the status of evidence manually can be a time-intensive exercise. Be specific when creating your tracker or use purpose-built software for the task.

- ☐ Identify the appropriate, reliable source for audit evidence.
- ☐ Decide if the evidence can be self-collected or if you will need assistance.
- ☐ If evidence cannot be obtained internally, determine if an external organization or third party may provide the evidence.
- ☐ Be specific to request evidence within date ranges in line with audit scope.
- ☐ Clearly communicate which data to include if the evidence is extracted from a system.

- ☐ Log all relevant data regarding the request.
    - ☐ Document name.
    - ☐ Description.
    - ☐ Contact name for the request.
    - ☐ Time and date sent.
    - ☐ Follow-up attempts.
- ☐ Consider jurisdictional restrictions related to data and document movement across borders.
- ☐ Request all screenshots to include date and timestamps.
- ☐ Files should be sent through approved, protected channels with encryption as needed.

# GATHERING AND HANDLING EVIDENCE

Consider the chain of custody and data security when gathering and handling either hard copy or digital evidence.

## HARD COPY EVIDENCE

- ☐ Pick up original documents and maintain custody.
- ☐ Keep documents well organized.
- ☐ Do not leave documents in plain view and practice maintaining a clean desk.
    - ☐ Protect data in open office environments.
    - ☐ Apply data protection to the home office as well.
- ☐ Store hard copy documents (original and copies) in locked drawers.
- ☐ When working with hard copy originals, scan or copy the documents, so these are not compromised.
- ☐ Redact or return any documents with personal identifiable information (PII) that are not needed as evidence.
- ☐ Document the methods used to gather the evidence with enough detail to facilitate reperformance.

## DIGITAL COPY EVIDENCE

- ☐ When using audit management software, deliver digital evidence directly to the audit.
- ☐ Do not leave documents open and unattended and practice maintaining a clean desktop.
    - ☐ Protect data in open office environments and in your home office as well.
    - ☐ Consider using privacy screens for laptops.
    - ☐ Do not work with sensitive data on unsecured wi-fi.
- ☐ Data should be encrypted in transit and at rest (stored in a database).
- ☐ The database should be backed up, encrypted, and stored offsite in case of disaster.
- ☐ Evidence in the audit should be restricted to the audit team and administrators.

## USING AND DISPOSING OF EVIDENCE

When the audit is finished, make sure the final evidence is scanned into the file, originals are returned, and copies are destroyed appropriately.

- ☐ Update the tracking sheet/system.
- ☐ Evaluate the information received to determine if it is accurate and complete.
- ☐ Reference the evidence in context within the working papers.
- ☐ Remove any documents that were not needed and not referenced from the audit file.
- ☐ Return original documents and destroy any copies that do not need to be retained for evidence.
- ☐ Note if audit evidence is placed on a legal hold requiring retention.
- ☐ Destroy files according to the audit data retention policy (physical and digital copies).

## SUPPORT AUDIT EVIDENCE COLLECTION WITH TECHNOLOGY

While managing the process manually with spreadsheets and following up through email is possible, we have more effective methods available to us today. Technology makes a huge difference in audit evidence collection and management, especially when working in a hybrid environment. Audit management systems include evidence request and management features to facilitate creating, sending, and following up on requests. Following the best practices outlined in the checklist above and enabling the process with technology will improve your ability to collect, gather, and use the documentation in the most effective way possible.

# 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.

## 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.

## 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.

## 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.
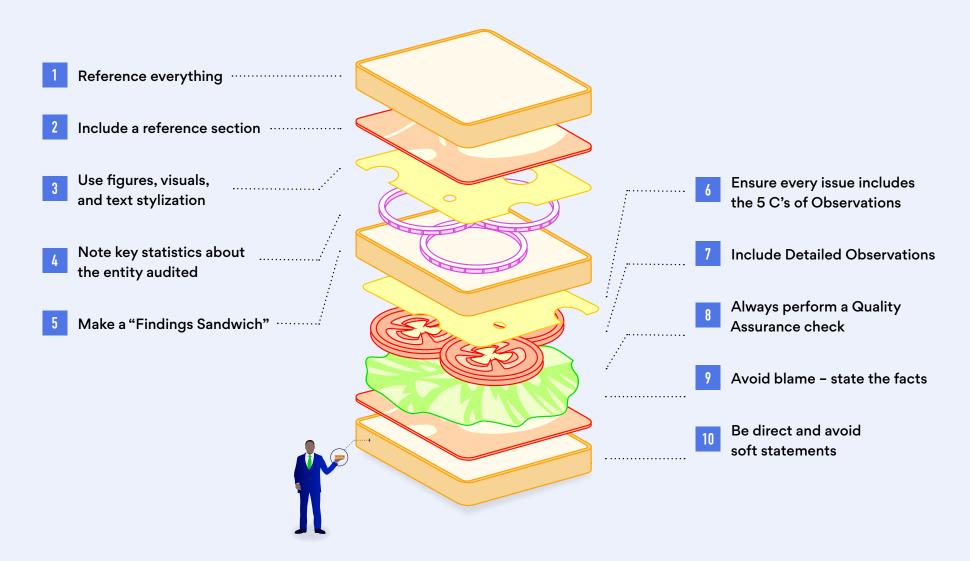
# WRITING THE DETAILED REPORT

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.

# 7 TIPS FOR BUILDING A WELL-ROUNDED ISSUE MANAGEMENT PROGRAM *Cont'd*

*(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
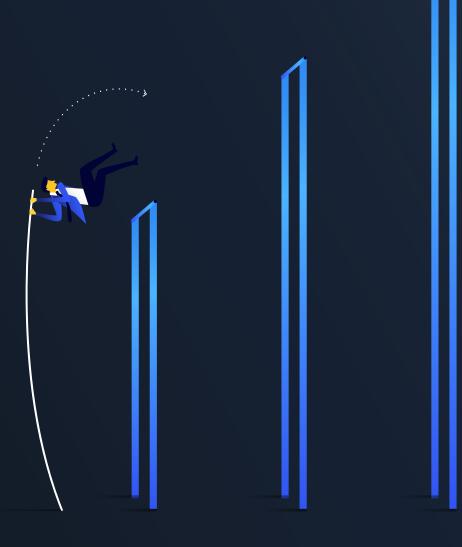
### 6 Analyze

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.

# 06.
# AUTOMATION

# FROM TASK-CENTRIC AUTOMATION TO PROCESS-LEVEL AUTOMATION

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. Technologies like robotics process automation (RPA), artificial intelligence (AI), advanced analytics, and Software-as-a-Service (SaaS) have developed and improved, allowing auditors to perform their jobs with more efficiency and productivity than ever before. Thanks to the wide availability of such technologies, audit leaders are shifting their focus beyond basic, task-centric automation toward process-level automation and process orchestrations, also known as hyperautomation. According to predictions from Gartner, McKinsey, and Deloitte, hyperautomation will be one of the fastest-growing technology trends in the coming years.

# HYPERAUTOMATION:
# AUTOMATING AUDIT PROCESSES AT SCALE

Gartner defines hyperautomation as "a business-driven, disciplined approach that organizations use to rapidly identify, vet, and automate as many business and IT processes as possible." Hyperautomation-enabling solutions are being rapidly adopted by auditors due to their accessibility, intuitiveness, ease of automation, and simple integration — as well as their ability to extract, process, analyze, and visualize large amounts of audit data. These hyperautomation solutions include:

- **Robotics process automation (RPA)**: Technology that allows a user to configure one or more scripts (which some vendors refer to as "bots") to activate specific keystrokes in an automated fashion. These bots can be used to mimic or emulate selected tasks (transaction steps) within an overall business or IT process.

- **Advanced analytics**: The autonomous or semi-autonomous examination of data or content using sophisticated techniques and tools, typically beyond those of traditional business intelligence (BI), to discover deeper insights, make predictions, or generate recommendations.

- **Augmented analytics**: The use of ML/AI techniques to transform how insights from analytics are developed, consumed, and shared. Augmented analytics enable users without advanced skills to interact with data and insights, helping to augment human business decisions.

- **Low-code/no-code application platforms** (LCAP): Applications that only require text entry for formulas or simple expressions.

- **Software-as-a-service** (SaaS): Software that is owned, delivered, and managed remotely by one or more providers. All of the major SaaS vendors currently provide capabilities that incorporate low-code development technologies.

## $600 BILLION
What Gartner predicted the hyperautomation technology market would grow to by 2022.

**60%** of standalone RPA products will be redundant by 2024 due to mergers and acquisitions.

Gartner forecasted the worldwide hyperautomation-enabling software market would grow to nearly $600 billion in 2022. While the technology market can be overwhelming to navigate, Gartner also predicts accelerated activity in hyperautomation mergers and acquisitions will help consumers sift through the many technology solutions available. In fact, one or more technology megavendors will build or acquire targeted hyperautomation technologies by 2024, rendering 60% of the standalone RPA market offerings redundant.

## EFFICIENCY, COST REDUCTIONS, IMPROVED OPERATIONAL EXCELLENCE

Hyperautomation eliminates repetitive tasks and automates manual ones across the business. This helps the organization reduce costs, improve the customer experience, and achieve greater operational excellence. In its 2022 Technology Trends report, Deloitte found that 74% of respondents surveyed said automation helped their workforce work more efficiently, while 59% reported cost reductions of up to 30% on teams that embraced process automation.

**74%** OF AUDITORS SAY AUTOMATION HELPED THEIR TEAM WORK MORE EFFICIENTLY

**59%** OF AUDIT TEAMS THAT EMBRACED HYPERAUTOMATION SAW COST REDUCTIONS OF UP TO **30%**

## HYPERAUTOMATION OPPORTUNITIES IN INTERNAL AUDIT

Hyperautomation in auditing can be initiated by using RPA or API integrations to extract audit data and collect evidence from data sources/warehouses. Technologies with ML/AI can even take this a step further by synthesizing more complex and unstructured data sets — for example, audit evidence stored in photos, videos, scanned images, or even recorded conversations — into usable audit data evidence. Then an advanced analytics solution can be deployed to visualize and summarize various insights and exceptions. Further, the advanced analytics solution can be set on a recurring schedule to execute the workflow automatically, as well as on an ad-hoc basis, to improve predictability and provide predictive models over time.

Where can you use hyperautomation? The following business processes typically selected for SOX and internal audit testing contain ample opportunities for hyperautomation:

1  Purchasing and Payables

2  Revenue and Receivables

3  Record to Report

4  General IT Controls

5  Human Resources and Payroll

6  Fixed Assets and Construction in Progress

7  Equity/Stock-Based Compensation

8  Treasury and Cash Management

9  Taxes

10  Inventory Management

11  Manufacturing and Work in Progress

12  Entity-Level Controls

# PREPARING YOUR BUSINESS FOR HYPERAUTOMATION: A CHECKLIST

Before you begin looking at hyperautomation-enabling technologies, It's important understand where your business is going, if and how it is already leveraging automation technologies, and ultimately what you would like to achieve within your internal audit program. Gartner advises those just beginning their hyperautomation journey: "Establish holistic mapping and prioritization of collective initiatives, rather than islands of task automation, to ensure synergistic and coordinated business outcomes."

The following is a checklist for laying the groundwork for hyperautomation in internal audit:

## 1 Map your audit, risk, and compliance ecosystem

The first step on the journey to hyperautomation is to gain a holistic understanding of the audit, risk, and compliance environment of your business.

- ☐ Map out the existing processes and workflows, gaps in coverage, bottlenecks, areas of overlap (e.g. risk assessments, issue logs, duplicative controls), and technologies used.
- ☐ In addition, note the collective initiatives and common goals across audit, risk, and compliance teams. Some questions to ask include:
  - ○ Is your audit, risk, and compliance data still being managed in spreadsheets?
  - ○ Is your business already leveraging automation technologies in its audit, risk, and compliance programs?
  - ○ Are there areas of redundancy in data and assurance activities?
  - ○ What are the processes across audit, risk, and compliance workflows that can benefit most from hyperautomation?

## 2 Define objectives and outcomes

The initial mapping and visualization phase will help you identify and prioritize the collective areas that are most urgent for process automation. This empowers you to clearly define the objectives of your hyperautomation project. Aim to:

- ☐ Identify key performance indicators by predicting your outcomes in efficiencies gained and return on investment (ROI).
- ☐ Create a timeline of milestones, goals, and check-ins with key stakeholders.
- ☐ Set small, achievable goals within defined sprints.

All too often, teams embark on extensive, complex projects, only to have wasted their time and efforts due to poor implementation or insufficient resources to adequately support digital adoption. Being as clear as possible about your key milestones, goals, and desired outcomes will go a long way toward attaining your larger objective, and will give you the flexibility to adapt or change paths if things aren't working out.

## 3 Understand the data

The success of most hyperautomation solutions is contingent on access to, and the quality of, the system data used. This is why identifying the data inputs — both structured and unstructured — is critical to laying the groundwork for hyperautomation.

- ☐ If your organization has a data analytics and RPA Center of Excellence or related resources — use them. Better to start small with a basic proof of concept built on borrowed technology than to go all-in on a digital initiative, only to realize your hypothesis on time savings is way off.

- ☐ When source system data is difficult to extract or too complex to interpret, call in help. For example, deciphering role-based access in most ERPs requires the use of a specialist, specialized software, or both; don't be afraid to use these resources and integrate them into your hyperautomation strategy. Leveraging technologies like Fastpath Assure can help demystify ERP-sensitive access permissions and segregation of duties.

## 4 Explore what's possible

There are multiple ways to perform a control test or automate manual processes; therefore, exploring the most efficient and effective approach is encouraged. Some tips for the research process:

- ☐ Once you have the data and foundational knowledge of a software solution's capabilities, you will quickly realize the many ways you can extend your analysis to gain insights into the business or simply test a control more efficiently and effectively.

- ☐ Select hyperautomation-enabling technologies that best serve your initiative's defined objectives and fit your organization's needs. This may involve integrating new hyperautomation platforms with existing technologies being used by your organization.

- ☐ Finally, remember that hyperautomation is not a destination, nor is it about a single technology. As the technology market continues to evolve, this means businesses will also need to be open to evolving their hyperautomation stacks.

### 5  Identify a hyperautomation champion

An often overlooked requirement when getting started is identifying the right leader to champion your hyperautomation efforts.

- ☐ Gaining support from both IT and the business is a necessary step to driving a hyper automation project forward, and a champion can play a huge role in facilitating their buy-in.

- ☐ Hyperautomation champions are typically individuals in senior leadership roles who have both the credibility and influence to oversee change management.

- ☐ A champion's influence is instrumental not only in helping employees understand and embrace the value of the hyperautomation vision, but also in influencing important decisions and fielding potential obstacles along the way.

### 6  Report and celebrate results

Making the choice to embark on digital transformation takes courage and determination, and any encouraging proof can go a long way in getting everyone on board. Moreover, reducing audit fatigue for your team and control owners by automating previously manual processes is a significant accomplishment — and should be measured and celebrated accordingly.

- ☐ In the beginning stages of technology implementation, promote your efficiency gains to help boost momentum and buy-in. The organizational impact of these technologies is significant, and you will need all the self-promotion and internal support you can get.

Most importantly, remember that hyperautomation is a journey where each small step forward brings improvements. Like most progressive initiatives, iteration, patience, and keeping the big picture in mind are essential for success.

# GETTING STARTED: CENTRALIZE YOUR AUDIT, RISK, AND COMPLIANCE DATA

Using a best-of-breed suite of technologies to perform internal audit tasks, while evolving your solution portfolio to include new technologies, is quickly becoming the standard for success. For audit leaders seeking to start their hyperautomation journey, the first step is to centralize your audit, risk, and compliance data in a cloud-based, connected risk platform. Doing so creates a single source of truth for advanced audit analytics — which not only lays the foundation for hyperautomation, but benefits and elevates the entire internal audit testing program at virtually every stage. Rather than simply adding ad-hoc analytics on top of your audit testing program, uniting your audit analytics data in a single, cloud-based platform provides more valuable insight to stakeholders and enables continuous risk monitoring for the business. Specific benefits include:
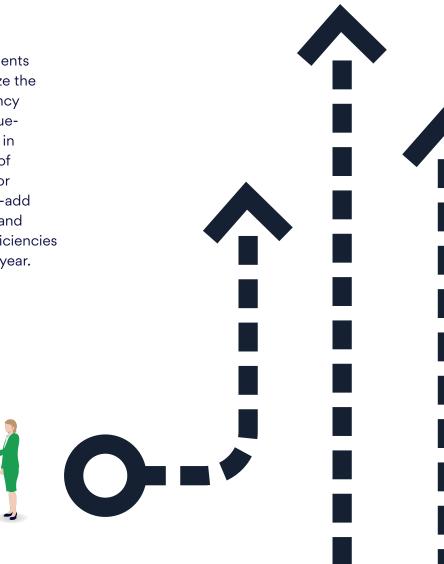
- Each workflow can be directly connected to the associated audit work step with process documentation stored for reference.

- Audit analytics can be executed directly in the platform with complete run history and an audit trail of each automation run.

- Different versions of the workflow can also be stored as processes and audit analytics evolve over time.

- Audit analytics permissions can be tailored accordingly by teams, roles, and/or workflows for complete user control — improving collaboration and efficiency.

- Eliminates the pain points of ad-hoc audit analytics, such as version control, user permissions, and documentation issues across teams.

For audit teams who are just beginning their journey to hyperautomation, the expansive hyperautomation technology market can be overwhelming. However, teams don't need to jump into the deep end. There are many places across SOX and audit business processes to experiment with incorporating advanced analytics. As you start exploring these opportunities, keep in mind the goal: better data that allows auditors to discover deeper insights, make predictions, and generate valuable recommendations.

# IN CONCLUSION...

Today, more than ever, what sets great audit departments apart are forward-thinking audit leaders who maximize the capabilities of their audit teams by prioritizing efficiency and automation, enabling them to focus on more value-add projects. Leveraging the best practices provided in this playbook — in addition to harnessing the power of hyperautomation technologies — will pave the way for audit teams to maximize their productivity, and value-add capabilities. 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 schedule a tailored demo.

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*Shared by Jack T*

THE

# AUDIT
## MANAGEMENT
## PLAYBOOK

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