

S23 - Hallmarks of a Strong Audit Function

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September 21, 2009 – September 23, 2009

Hallmarks of a Strong Audit Function



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Agenda

- I. Internal Audit's Role, Mission and Charter
- II. Internal Audit Reporting Structure and Relationship with Stakeholders
- III. Best Practices for Executive Reporting
- IV. Audit Universe and Risk Assessment
- V. Audit Life Cycle and Methodology
- VI. Risk-based Audits and Computer Assisted Audit Tools
- VII. Quality Assurance
- VIII. Professional Development and Training
- IX. Internal Audit Professional Practices



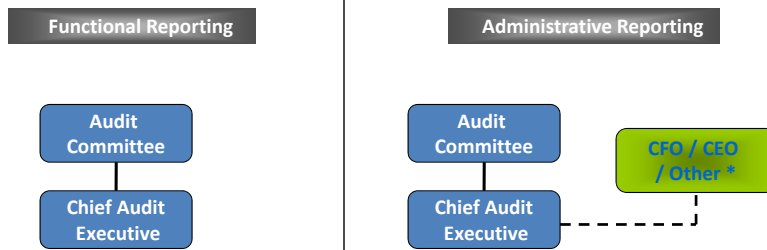
I. Internal Audit's Role, Mission and Charter

Internal Audit's Role, Mission and Charter

- Internal Audit's **Role** is to assist the Company in fulfilling its vision, mission, strategic initiatives, and objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes
- Internal Audit's **Mission** is to provide the Audit Committee and Management with objective and insightful information on the state of the Company's internal controls, governance and compliance systems, issues themes and trends, and emerging risks and "hot spots"
- Internal Audit's **Charter** defines the department's purpose, scope of work, accountability, independence, responsibility, authority and professional standards in supporting a company's Audit Committee and/or Management

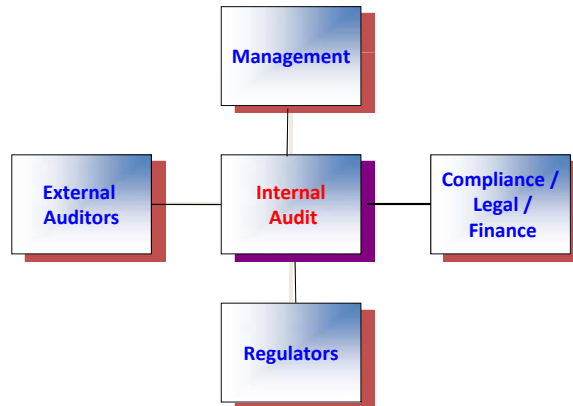
II. Internal Audit Reporting Structure and Relationship with Stakeholders

Internal Audit Reporting Structure



* Others include President, General Counsel, or Chief Enterprise Risk Officer

Internal Audit Relationship with Stakeholders



III. Best Practices for Executive Reporting

Best Practices for Executive Reporting

Chief Audit Executives must provide periodic updates to the Audit Committee and to key Management Executives.

Communication channels generally include:

- Meetings with the Audit Committee including private sessions
- Executive Management Committee meetings
- Corporate Risk Committee meetings
- Scheduled meetings with key business line management

IIA Standard 2060 – The Chief Audit Executive must report periodically to senior management and the board ...



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Best Practices for Executive Reporting

A leading audit function reports on internal audit activities to the Audit Committee and key Management executives. The following information are generally reported:

- Metrics for audit issues closed, outstanding, past due and recently identified
- Issues themes and trends
- Audit Plan progress and changes
- Audit engagements in-process and not started
- Audits completed each quarter and summary of audit reports issued
- Notable developments in audit work that may have control implications and impact to the Audit Plan



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Best Practices for Executive Reporting

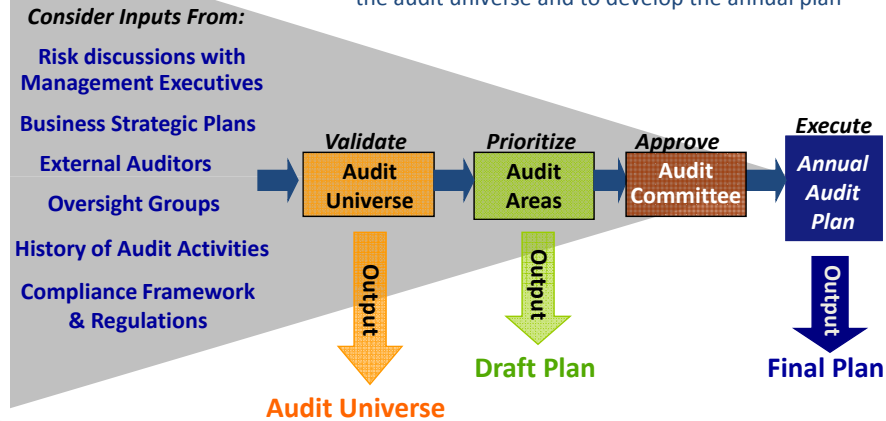
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- Special reviews conducted including fraud
- Pre-implementation reviews performed for new products, services or systems
- Advisory projects requested by Management or oversight groups
- “Re-freshed” risk assessment and Audit Universe
- Staffing update including recruiting efforts
- Staff training and certification as appropriate
- Department budget targets and updates

IV. Audit Universe and Risk Assessment

Audit Universe and Risk Assessment

The annual audit planning process involves a number of planned activities and inputs to evaluate the audit universe and to develop the annual plan

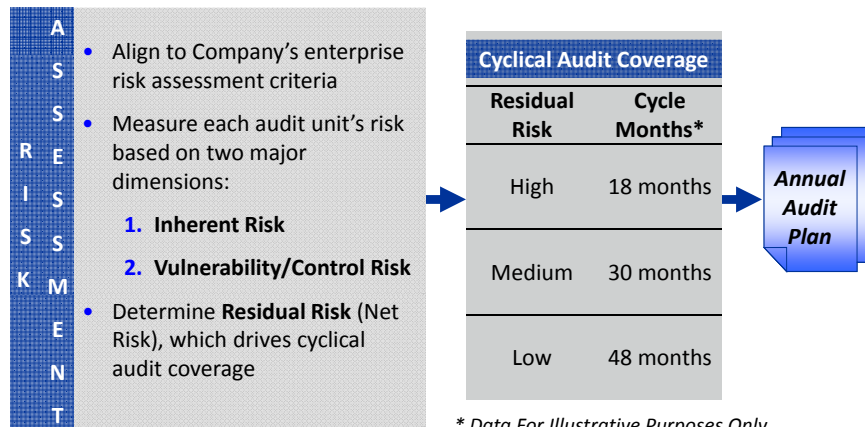


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Audit Universe and Risk Assessment

Implement a risk assessment approach to drive cyclical audit coverage and annual plan development



* Data For Illustrative Purposes Only



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Audit Universe and Risk Assessment

Establish a profile sheet for each auditable unit to capture risk-assessment results, which should be updated no less than annually.

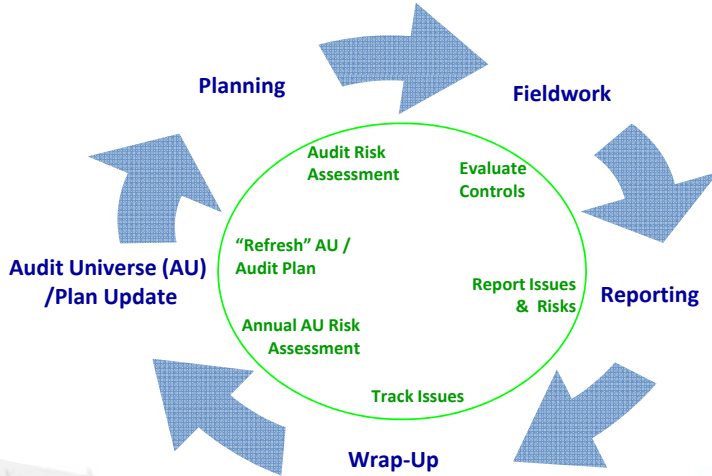
An auditable unit's profile should capture key and relevant information about the area including the following:

- General Information – auditable unit name, description, cost center, location and major policies owned by the auditable unit
- Key Metrics – expense and revenue information, prior audit years, prior audit ratings, issues, and business impact analysis tier level
- Key IT Applications or Systems
- Regulatory Environment
- Key Vendors – associated costs

V. Audit Life Cycle and Methodology

Audit Life Cycle and Methodology

Integrate the risk assessment framework into the end-to-end audit life cycle



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Audit Life Cycle and Methodology

Example

Planning	Fieldwork	Reporting	Wrap-Up	Follow-Up
1 – 2 Weeks *	2 – 4 Weeks *	2 – 6 Weeks *		Ongoing
<ul style="list-style-type: none"> Audit Scope Identification Risk & Control Evaluation Engagement Announcement Document Request 	<ul style="list-style-type: none"> Fieldwork Kick-Off Internal Audit Management Status Update Business Client Status Update Fieldwork Exit Audit Issues – Draft 	<ul style="list-style-type: none"> Audit Issues - Final Audit Closing Meeting Audit Report Issuance 	<ul style="list-style-type: none"> End of Audit Staff Performance Evaluation Post Engagement Debrief Business Client Feedback 	<ul style="list-style-type: none"> Issue Follow-up Notification Issue Clearance / Extension

* Internal Audit Management establishes guidelines for the “general” length of time suggested for each phase of the audit life cycle



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Audit Life Cycle and Methodology

A well-defined audit methodology helps drive development of standard work program steps and detail guidance, covering all areas of the audit life cycle.

Example: Visa Internal Audit creates an audit file “shell” for each audit engagement within the TeamMate EWP Tool. The “shell” contain standard work program steps and a fieldwork component that is customized by the audit team.

The screenshot shows the TeamMate EWP tool interface. The left pane displays a project structure with the following folders:

- AS: Audit Summary
- CG: Visa Audit Methodology
- A: Planning Phase
- B: Fieldwork Phase
- B.1: Fieldwork Administrative Activities
- B.2: Testing Steps - Scope Area 1
- B.3: Scope Area 2
- C: Reporting Phase
- D: Wrap-Up Phase
- E: SOX Testing
- F: Audit Engagement Templates & Resources

The right pane displays a table with the following data:

ARC	State	Title	Assign
B.1		Fieldwork Administrative Activities	
B.2		Testing Steps - Scope Area 1	
B.3		Scope Area 2	

VI. Risk-based Audits and Computer Assisted Audit Tools

Risk-based Audits

During the planning phase for an audit engagement, a risk assessment process is applied to:

- Identify risks associated with the audit area and its business processes, systems, outsourced functions and vendors used
- Identify and understand internal controls that are in place and any mitigating control activities
- Evaluate the design and effectiveness of internal controls implemented to manage risks

Activities such as performing process walk-throughs with the business unit, conducting business personnel interviews, contacting Legal and Compliance groups to discuss recent and relevant risk “hot topics” help auditors in their risk assessment.



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Risk-based Audits

Achieve consistency in the audit risk assessment approach through implementation of a:

- Standardized work program with procedures and specific guidance on the risk assessment process
- Standardized documentation approach for evaluation of risks and controls
- Review process between the Auditor In-charge, the Audit Manager and the Chief Audit Executive during audit planning and fieldwork stages
- Quality Assurance step to review the audit file



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Risk-based Audits

Example:

Visa Internal Audit's Risk & Control Evaluation Matrix

Audit Engagement Name, #
 Prepared By: <Name, Title> Prepared Date: <mm/dd/yyyy>
 Approved By: <Name, Title> Final Approval Date: <mm/dd/yyyy>

Auditable Entity Risk Rating:

(1) Audit Scope Area	(1A) Sub-Scope Area	Planning Phase			Fieldwork Phase				Reporting Phase		(12) Audit Notes
		(2) Risk	(3) Inherent Risk Rating	(4) Expected Control Activity	(5) Actual Control Activity	(6) Audit Program Test Step Ref (TeamMate Step #)	(7) Control Design Adequacy	(8) Control Oper Effect.	(9) Test Conclusion	(10) TeamMate Exception #	

Rating Selection:
 •Adequate
 •Not Adequate
 •Not Applicable

Rating Selection:
 •Effective
 •Not Effective
 •Not Applicable

Test Conclusion Selection:
 •Audit Issue
 •Improvement Suggestion
 •No Exception



Computer Assisted Audit Tools

- GRC Tools**
 Use GRC solutions to assist in mapping, authoring and distributing policy and controls to the appropriate regulation, and manage the exceptions to the given policy and regulation
 - Oracle GRC - Computer Associates GRC - Approva
- Data Analysis Tools**
 - ACL - HP Open View Select Audit - Hyperion
 - Guardiam - Access - Excel
- Electronic Workpaper Tools (e.g. CCH TeamMate)**
 Use an electronic workpaper documentation tool to bring efficiencies to the audit documentation and review process. All documentation information such as program steps, findings, coaching notes, sign-offs and edit histories are contained in database tables



VII. Quality Assurance

Quality Assurance

Quality Assurance activities improve internal audit practices by creating a foundation and a structured approach for an effective quality assurance program and developing actions to move forward on the path to quality

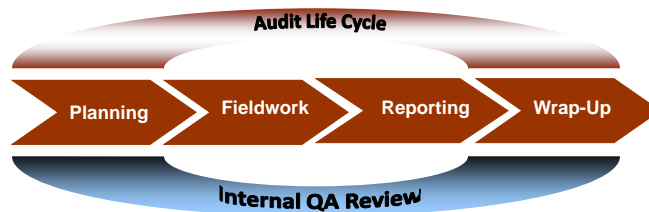
IIA Standard 1300 - The Chief Audit Executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Quality Assurance

A leading audit function integrates the Quality Assurance (QA) Program into every step of the audit life cycle and functioning of the department to create consistency in approach and methodology

AND

Align the QA Program with IIA Standard 1300



Quality Assurance

Quality Assurance Program Components

- ➔ Develop QA Checklist consisting assessment points that cover all phases of the audit life cycle
- ➔ Communicate QA purpose and clear expectations to Auditors through a QA Checklist built into the audit program
- ➔ Create QA review template to track ratings and action items for gaps identified
- ➔ Assign overall QA rating that aligns to IIA Standards
(Generally Conform / Partially Conform / Does Not Conform)
- ➔ Use independent and experienced audit professionals to perform QA reviews
- ➔ Report QA results regularly to Internal Audit Management
- ➔ Communicate to Internal Audit Management QA ratings, performance trends, and training needs

Quality Assurance

Example of Visa Internal Audit's QA Checklist* for Audit Engagements

1	Auditors' work and supporting files were documented in TeamMate EWP.	7	Kick-off Meeting was held and meeting presentation was used.
2	Sample size selection and rationale were in accordance with departmental standards and guidelines.	8	Document Request List was prepared.
3	Audit steps were signed-off by both Preparer and Reviewer.	9	Fieldwork Exit Meeting was held and meeting agenda was prepared.
4	Coaching notes were properly addressed.	10	IA management status updates were provided.
5	Engagement Announcement Memo was sent.	11	Client status updates were provided.
6	Planning Memo was prepared and approved.	12	Closing meeting was held and agenda prepared.
		13	Risk & Control Evaluation document was prepared and updated during the audit life cycle.
		14	Audit Issues Memo was prepared and sent to the client for management action plans.

* Checklist descriptions have been shortened for presentation purposes.



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Quality Assurance

Continued

15	Audit issues documented in TeamMate match the verbiage of issues tracked in the Issues Tracking Database.	19	Provided client names for the purpose of sending the Client Feedback Form.
16	Final Audit Report was prepared in accordance with department standards.	20	End of Audit Staff Performance Evaluations were completed.
17	Final Audit Report was sent via email to the client within 30 days after end of fieldwork.	21	All audit program steps and schedules were signed-off as "Preparer" and "Reviewer".
18	Audit issues were input into the Issues Tracking Database.	22	Auditable Entity Profile was updated.
		23	All coaching notes, once addressed, were removed from the audit file by the In-Charge Auditor.



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IX. Professional Development and Training



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Professional Development & Training

A leading audit practice's training commitment fosters an environment of continuous professional growth and builds effective and competent internal audit team members.

Training objectives are to provide timely, relevant and quality training that will support the Internal Audit team member's professional development and to provide them with the tools and knowledge to:

- ✓ **Improve** existing core competencies and professional skills
- ✓ **Strengthen** internal audit technical skills and deepen specialized knowledge
- ✓ **Enhance** client service skills and business acumen
- ✓ **Develop** management skills for career progression



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Professional Development and Training

Professional Development and Training is a mutual obligation – Internal Audit is committed to professional development, and auditors are expected to be active learners and to share learnings.

- Training hours are granted for professional education which contributes to the "professional competency" of the individual
- Training hours are granted for "structured learning activities" that are:
 - Measurable, Verifiable, and Designed to impart specific technical and general knowledge
- Training hours can be granted for an instructor role, discussion leader or speaker
- Training criteria and guidance are documented and communicated to staff

Individuals who attend external training have the obligation to share information with the department if such information is appropriate to enhance the skills of others within the department.

Professional Development and Training

Example of Visa Internal Audit's Professional Development and Training Practices

Each staff member has ownership for continuing their education to enhance and maintain their proficiency and in creating an individual development plan, based on a number of factors, including:

- Performance feedback
- Audit Manager consultation
- Skills gaps assessed between the Auditor's skills and the Visa IA Competency Framework
- Individual aspirations and longer-term goals



Minimum annual training hour requirement is set at 60 hours

Each employee's professional development plan is agreed to with the Audit Manager

Regular dialog occurs between the Auditor and Manager to ensure the development and training plan is achieved

Skills inventory is maintained

X. Internal Audit Professional Practices

Internal Audit Professional Practices

A leading audit function may employ a dedicated internal audit Professional Practices Team that is comprised of experienced audit professionals who support the Chief Audit Executive and the Internal Audit department in the design and implementation of a strategic framework aimed at ensuring an effective internal audit operation.

Primarily, Professional Practices should be responsible for the overall development and maintenance of audit methodology, standards, practices and technologies that are aligned with the department's strategy and are focused on strengthening performance and continuous delivery of high-value audit services.

Internal Audit Professional Practices

Visa Internal Audit’s Professional Practices Team is responsible for the development, maintenance and management of functions that support the overall Visa Internal Audit operating model.

Infrastructure	Reporting & Communications	Audit Execution & Support	Quality Assurance	Personnel	Professional Development & Training	Strategic Projects and Regulators
<ul style="list-style-type: none"> • Mission & Charter • Audit Policies & Procedures Manual • Resource Model • Technology Framework (i.e., TeamMate EWP, GRC tool, audit management solutions, data analysis tools, forensic investigation tools, etc.) • Budgets 	<ul style="list-style-type: none"> • Audit & Risk Committee Reports • Management Reports • CEO Reports • Performance metrics / benchmarking reporting 	<ul style="list-style-type: none"> • Universe risk assessment • Annual audit planning and management • Audit life cycle and methodology • TeamMate shell design / update • Standards for execution, documentation and review • Issues tracking, reporting and resolution • Resource scheduling • Time tracking • T&E management 	<ul style="list-style-type: none"> • Engagement independent QA Reviews and resultant improvement opportunities • Internal periodic department QA review • External QA review preparation • End of audit client feedback • Post-audit engagement debrief 	<ul style="list-style-type: none"> • Recruiting • On-boarding • Orientation Training • Internship program • Department and staff goal setting • Corporate performance evaluation, talent assessment and succession planning processes 	<ul style="list-style-type: none"> • Competency framework • Skills inventory and gap assessment • End of Audit Staff Performance Evaluations • Training program and curriculum design • Professional Certifications Support • Participation in industry groups 	<ul style="list-style-type: none"> • Issues themes and trends analysis and reporting • Regulatory examination preparation, support and coordination

