

Audit by Design: Moving Beyond Continuous Auditing - a Vision for Future Models

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Professional Strategies – S31

If you look in the rear view mirror too long...



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You might miss something ahead!



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Have you ever heard....

“Auditors are always telling us what *has* happened rather than helping us understand what should happen. You don’t understand my business.”

And perhaps you might have also heard...



"Why don't you tell me something I don't know!"

???

"Oh, your finance, right?"

!!!

"Is this a compliance thing?!"

*#!@#!!!

"Now, tell me what your group does?"

"I don't have anything to do with SOX"

"How much time is this going to take?"

"How is this audit of yours of value to me?"

Expletive Deleted



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We help you improve your processes.

We help the business understand risk.

We help you make sure you are achieving your compliance objectives.

Have you ever said....

We are the Third Line of Defense!

We provide assurance to the Audit Committee.

We develop leaders for the company.



And some version of...

We add value.



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**And how the hell are
YOU
going to do that!**

Ah.....

Data Analysis

IT Audits

Risk Assessments

COBIT5

Control Self Assessments

Investigations

COSO 2013

Compliance Audits

ISO 27001



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Dream

noun

1. a succession of thoughts, or emotions passing through the mind during sleep.
2. the sleeping state in which this occurs.
3. an object seen in a dream.
4. an involuntary vision occurring to a person when awake.
5. a vision voluntarily indulged in while awake; daydream; reverie.
- 6. an aspiration; goal; aim:**

7. a wild or vain fancy.



Business processes and systems are architected and implemented not only to achieve extended business outcomes, but to deliver real-time assurance that internal controls are present and operating as designed.

“Audit by Design”

“Audit by Design” is a concept that embraces several principles:

- Business systems and processes are architected and designed with built-in assurance-level auditing
- Manual auditing is replaced where ever possible and feasible by automated monitoring of controls that provide continuous, real time assurance.
- Existing Business Systems and processes are enhanced to provide continuous, real time assurance
- Metrics and analysis is delivered real time to auditors and management who take action based on variation from expected performance characteristics
- Return on Investment is calculated based on reduction in cost of control and cost of auditing
- The role of internal audit evolves to deliver value by supporting business objectives through advocating for effective and efficient internal controls that are auditable by design.

Business systems and processes are **architected** and **designed** with built-in assurance-level auditing

Internal Auditors:

- Demonstrate an understanding the business processes and systems
- Internal Control assessments are performed from visioning through coding
- Contribute to the “audit architecture” that enables Audit by Design
- Define how audit evidence will be captured and preserved
- Define the dashboards, reports, alerts that are designed to achieve “audit objectives”
- Participate in the development lifecycle

“Audit by Design”

Existing Business Systems and processes are **enhanced** to provide continuous, real time assurance

Internal Auditors:

- Understand the business processes and systems
- Internal Control assessment performed and gaps identified
- Identify opportunities to implement Audit By Design with existing systems
- Define how audit evidence will be captured and preserved
- Define the dashboards, reports, alerts that are designed to achieve “audit objectives”
- Participate in the development lifecycle

“Audit by Design”

Manual auditing is **replaced** where ever possible and feasible by automated monitoring of controls that provide continuous, real time assurance.

Internal Auditors:

- Internal Control assessment performed to assess opportunity
- Where existing systems are not conducive to retrofit of Audit by Design, assess ability to replace manual auditing processes with technology enabled capabilities.
- Can existing management reporting and monitoring be leveraged to reduce manual auditing methods?

“Audit by Design”

Metrics and analysis is delivered real time to auditors and management who take action based on variation from expected performance characteristics

Internal Auditors:

- The outcomes of Audit by Design should benefit management (the business) and the auditor.
- Real-time Internal Control assessment should be a reflection of business performance.
- Thresholds, limits and deviations from the expected should trigger management action plans and auditor response
- Event correlation driven data analysis should validate Audit by Design monitoring.
- How do you continually determine that you can trust outcomes and results?

“Audit by Design”

Return on Investment is calculated based on reduction in cost of control and cost of auditing

Internal Auditors:

- We begin to capture and understand cost of control
- We bring transparency to the cost of auditing
- We identify the impact and cost of poor internal control
- We articulate value in business terms

“Audit by Design”

The role of internal audit evolves to deliver value by supporting business objectives enabled through advocating effective and efficient internal controls that are auditable by design.

Internal Auditors:

- Assessing internal control migrates from manual intensive activities to efficient, technology enabled processes and systems
- Internal Audit looks forward, informed by past experience.
- Internal Audit seeks first to understand business objectives followed by risks and internal control
- As business processes and systems evolve, internal audit's contribution commences during visioning rather than at best pre-implementation
- Continual assurance becomes an outcome of business process and system architecture and implementation.

“Audit by Design”

“Audit by Design”

What capabilities or attributes would business processes and systems need to possess in order to achieve “Audit by Design?”

“Audit by Design”

What capabilities, processes and standards would business processes and systems need to possess in order to achieve “Audit by Design”?



“Audit by Design”

- Comprehensive Change Control
- Comprehensive Access Control
- Ubiquitous Auditing
- Business Rules and Policy driven workflow
- Real-time Monitoring and Alerts
- What else???

Audit by Design

And

Auditing Forward

Proposed Mission of Internal Auditing

“TO ENHANCE AND PROTECT ORGANIZATIONAL VALUE BY PROVIDING STAKEHOLDERS WITH RISK-BASED, OBJECTIVE AND RELIABLE ASSURANCE, **ADVICE AND INSIGHT.**”

Proposed Enhancements to the IIA’s IPPF



Core Principles for the Professional Practice of Internal Auditing

1. Demonstrates uncompromised integrity.
2. Displays objectivity in mindset and approach.
3. Demonstrates commitment to competence.
4. Is appropriately positioned within the organization with sufficient organizational authority.
5. Aligns strategically with the aims and goals of the enterprise.
6. Has adequate resources to effectively address significant risks.
7. Demonstrates quality and continuous improvement.
8. Achieves efficiency and effectiveness in delivery.
9. Communicates effectively.
10. Provides reliable assurance to those charged with governance.
- 11. Is insightful, proactive, and future-focused.**
12. Promotes positive change.

Proposed Enhancements to the IIA's IPPF



Internal Control is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

Definition of Internal Control - COSO 2013

“Audit by Design”

Is it a wild or vain fancy?

Or is it perhaps an aspiration?

Your thoughts?



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