

Focus on IPE Best Practices

AUDITBOARD

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Introduction

You are the CAE of a mature company sitting with your external auditor, ready to kick off planning for the upcoming year. You've always been on top of your controls environment, and expect this upcoming year to go smoothly. However, mid-way through discussing your new areas of focus, the conversation goes astray as your auditor starts throwing out terms like "IPE" or "Electronic Audit Evidence" and says a whole new set of evaluation points will have to occur for every control test in your environment.

Unfortunately, this is a common scenario as auditors are moving to make sure they meet updated PCAOB requirements (AS 1105.10 https://pcaobus.org/Standards/Auditing/Pages/AS1105.aspx). The question for CAEs is what do these new requirements mean for their company, and how can Internal Audit manage it?



What Is IPE And Why Must We Address It?

Information provided by the entity (IPE) is basically any information that is produced by the company and provided as audit evidence, whether it be for your controls testing or substantive procedures performed by external audit. In some environments, this is also referred to as electronic audit evidence (EAE) or key reports/spreadsheets. With the widespread adoption of various ERP systems and other technological advances, auditing firms and regulators are now trying to hone in on the risks related to relying on information generated from these applications. Specifically, the accuracy and completeness of electronic reports and spreadsheets, since this is the information that is being relied on for controls - balance sheet reviews, AR aging analysis, etc.

Why Are ITGCs Not Enough?

In some cases, they can be. Ultimately, it depends on how comfortable auditors are with the accuracy and completeness of IPE in a particular company. For example, in an environment where ITGCs are extremely stringent, all business controls rely solely on default system-generated reports - there is no way for control owners to modify the reports they are relying on, and there may be very little that needs to be done in addition to regular control testing to address the risk of IPE.

However, the realistic scenario is that most companies still rely on spreadsheets to some extent and reports coming out of systems can be modified by the end user. Thus, there is still a risk that the information could be misreported based on human error or fraud. In these cases, auditors will still require there to be some additional procedures around completeness and accuracy of reports/spreadsheets.

How Do We Manage IPE In Our Environment?

A good starting point is identifying all reports and spreadsheets currently being used by business owners for your existing SOX controls. This should give you a good starting population of all your IPE. From here, you should identify any other key financial documents that your company is generating which are critical to financial statements, either directly or indirectly.

Once you have a population, there are several approaches Internal Audit teams can take to manage IPE risk.

1. LOCK UP YOUR IT ENVIRONMENT

Have your organization modify its current controls and reporting environment to be more stringent in regards to how reporting of information occurs. This typically involves a significant shift in current operations and would take a company several audit cycles to properly implement. In most cases, companies do not see the value in using resources to restrict their process owners even further in reporting and then having to expend further resources to enhance current ITGC testing. However, if implemented properly, this method would essentially mitigate most, if not all, IPE risk.



2. ENHANCE EXISTING BUSINESS PROCESS CONTROLS

Another approach would be enhancing existing business controls to address the IPE completeness and accuracy components for each individual control. This is an approach often used by companies, as it is the most direct approach to making sure all IPE is addressed for all controls. However, the downside is that due to sampling approach of many companies, this often results in the same report being tested for accuracy and completeness many times across the different controls where it's being used. For example, if 10 controls rely on the same trial balance report, the trial balance report will essentially be tested 10 times for accuracy and completeness, once for each control. While this approach does mitigate IPE risk, it does put a significant strain on a company's process owners and internal auditors.



3. MAINTAIN SEPARATE CATEGORY OF "IPE" CONTROLS

This approach involves maintaining a separate population of IPE controls, one for each report being used in your organization. From here, you will be able to perform testing once for the related IPE, and your business process controls will be able to rely on that test for the majority, if not all, of the needed requirements. This reduces the duplicative nature of testing described in the second approach above. The downside to this approach is the need to maintain a separate population of IPE and manage the linking between existing business controls and IPE controls.



Automating IPE Control Management

Most companies see maintaining a separate population of IPE controls as the most appealing choice, striking the right balance of practicality while still addressing the risk of IPE. It then becomes a new hurdle to manage a separate population and make sure that you have complete coverage. With the help of tools like AuditBoard, you can gain complete visibility into your IPE environment and how it maps to your business controls using our dynamic control list views. Rather than spending administrative hours trying to coordinate and maintain a population of key reports and spreadsheets, AuditBoard allows users to maintain and manage these IPE controls directly in our tool; Internal Audit teams are then able to focus more on value-add activities, such as testing the accuracy and completeness of these reports, as opposed to admin tasks. In addition, AuditBoard allows Internal Audit teams to efficiently link existing business process controls to related IPE control tests and make sure they have the coverage needed. Our dynamic list views allow organizations to see a comprehensive mapping of IPE to related business process controls.

Conclusion

In this whitepaper, we have highlighted the pain points of managing IPE risk. The best way to manage the risk is using a tool like AuditBoard to help manage IPE controls and make sure companies have adequate testing coverage for critical SOX-related reports and spreadsheets.

AuditBoard is the leading solution empowering Internal Audit departments to work more efficiently and effectively to meet evolving audit requirements. To learn how AuditBoard can change the way your Internal Audit team works, **contact us here** or visit us at **www.auditboard.com.**



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