



Planning an Audit From Scratch: A How-To Guide

AUDITBOARD

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Planning an Audit? Start Here

In recent years, Chief Audit Executives (CAEs) have experienced success expanding the scope of their audit plan from traditional financial and compliance-related audits to more non-routine projects that focus on their organization's key objectives, strategies, and risks. According to the Institute of Internal Auditors (IIA), 57% of CAEs surveyed claimed their audit plans are fully or mostly aligned with the strategic plan of their organization.¹

This has opened the door for new, and perhaps more interesting, audit projects for internal auditors. Topics and processes with a more direct link to the organization's success, such as research and development, talent management, and corporate culture, are finding their way onto more and more audit plans. As auditors spend more time providing assurance on their organization's key risks and processes, internal audit can improve its chances of being seen as a trusted advisor as opposed to a police officer.

Yet, with opportunity comes challenge and difficulty. A common knock on internal auditors is that they spend a great deal of time auditing a process, but still don't fully understand how the process works, or that their audit report doesn't fully reflect how well-controlled the process is.

Unfortunately, many internal auditors invite this criticism upon themselves. Most have neither the knowledge nor the subject matter expertise needed to provide assurance for processes that have never been audited before. They find refuge in Google searches such as "how to audit XYZ" or "XYZ audit program" to find relevant audit testing procedures, which can then determine the scope of auditing areas strategically important to their organization.

¹ The Institute of Internal Auditors. [Driving for Success in a Changing World – Ten Imperatives for Internal Audit](#).

Much like motorists clinging to their old roadmap for directions,² these “checklist auditors” scope their audit projects to include testing three or four controls, highlight exceptions in the audit report, then move on to the next audit. Recommendations made routinely constitute “IA recommends following the policy and procedure,” and rarely provide any actionable insight to create positive change.

These actions not only fail the audit customer, but also internal audit.

Per a study by the IIA, a key aspect of internal audit’s value proposition is to provide assurance on the organization’s governance, risk management, and internal control processes.³ Those leveraging template audit programs may be able to provide some insight, but often lack a more robust approach to provide assurance on the design and effectiveness of the organization’s GRC environment.

This begs the question: what can internal auditors do to prepare a more comprehensive scope for their internal audit projects? And where can internal auditors find the subject matter expertise needed to create an audit program “from scratch”? This white paper aims to explore building an effective audit program from the ground up through best practices, resources, and insights.

² Thanks to Richard Chambers’s book, [Lessons Learned on the Audit Trail](#), for inspiration for the analogy.

³ The Institute of Internal Auditors. [Delivering on the Promise – Measuring Internal Audit Value and Performance](#).

Starting from Scratch

For those looking for an initial starting point, the IIA offers a practice guide on [Engagement Planning](#).⁴ Those starting their audit planning from a blank sheet of paper will find this guidance very useful. In it, the authors highlight the key steps to perform when planning for any internal audit project:

WHY THE PROCESS IS BEING AUDITED

All internal audit projects should begin with the team clearly understanding why the project was put on the audit plan. What key enterprise risk or concern does the process address? Why did the Audit Committee, executive, or other key manager go out of their way to enlist Internal Audit's assistance? This information should highlight the key risk or concern, and ultimately be a significant focus of the audit project.

INFORMATION INTERNAL TO THE COMPANY

Requesting and obtaining documentation providing insight on how the process works is an obvious next step. Gathering policies, procedures, and organization charts is expected; requesting copies or access to key reports is indicative of a competent internal auditor; and asking for access to process master data to analyze for trends highlights an internal auditor at the top of their game.

RISK AND PROCESS SUBJECT MATTER EXPERTISE

Performing an audit based solely on internal company information is helpful to assess the operating effectiveness of a 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 out external expertise

⁴ Feedback regarding the IIA's supplemental guidance suggest that this is one of the most downloaded and read pieces published by the IIA.

is increasingly becoming a best practice for forward-thinking and contemporary internal auditors. Internal auditors can find this subject matter expertise in many ways.

In addition to their risk advisory practices, many Big 4, international, and national internal audit consulting firms have true consulting practices that help their customers improve their process performance. Say you are auditing your customer service department. Engaging with a director or partner from a large consulting firm specializing in customer service not only provides perspective on how other Fortune 100 and 500 companies perform that process, but also can be a great source for bringing attention to emerging risks and trends in their industry.

OTHER RESOURCES OF EXTERNAL EXPERTISE

If using consultants for individual audits is not in the cards, there are other ways to obtain external expertise. Most processes have their own trade association, which have content and knowledge repositories that focus on key issues and best practices of their industry. Membership to these associations is usually less than \$1,000 per person, which is a small cost compared to the value derived from having a more targeted audit program.

Other great resources to learn about emerging risks and process best practices include [The Wall Street Journal](#) and [Harvard Business Review](#). Online resources like [The Protiviti View](#) and [RSM's Ideas and Insights](#) can highlight how their firm's specialists address different business risks.

COSO's 2013 Internal Control – Integrated Framework

When more internal auditors create audit programs that test for control, versus testing controls, our industry will improve by leaps and bounds. Controls, or control activities, are only one of the five components of internal control. 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.

CONTROL ENVIRONMENT

Asking questions about expectations of employee behavior and conduct, the frequency of department meetings, the group's understanding of roles and responsibilities can be indicative of a proper "tone at the middle." Seeking to understand the qualifications of key process personnel and how often employee feedback is given can also denote an effective control environment of the process being audited.

RISK ASSESSMENT

The way process leaders manage risk can be understood by learning how they prioritize their time and resources. Your radar should go off if you receive responses such as "because this is the way it's always been done" and not because it addresses a change to people, process, or technology, a management request, or an industry regulation. Learn how process leaders keep a pulse on industry changes, how the department supports the organization's achievement of strategy and objectives, and what they do to protect their assets.

INFORMATION AND COMMUNICATION

Validating that data received, processed, and shared by the department is accurate, complete, and not misleading can indicate that controls in place are designed and operate effectively. Understanding the information shared in the company – to executive management and other departments – and with external parties such as regulators, vendors, and customers can help teams realize the data's importance.

MONITORING

Finally, does the department perform any self-audits, or employ others to independently assess whether the process is working as intended? When assessments are performed, are the results communicated to the appropriate parties, and are deficiencies addressed and fixed in a timely manner?

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Preparing for a Planning Meeting

Obtaining information and data about the process to be audited can happen with a combination of research and interviews. Prioritizing how data is acquired is up to the internal audit team. Great internal auditors know that doing more work before meeting with process and control owners will help minimize disruption to the audit customers and should set a positive tone for the audit.

PREPARE YOUR PLANNING QUESTIONNAIRE

Start by collecting and reviewing as much of the internal information (highlighted above) as possible. Then, meet with your subject matter experts to confirm the process's biggest risks and best practices. With this information and your pre-planned, COSO-based questions, an initial questionnaire can be created to facilitate the pre-planning meeting.

Preparing the questionnaire after performing the initial research sets a positive tone for the audit and proves that internal audit is informed and prepared. Instead of asking how the process works, the in-charge internal auditor can validate their high-level understanding by sharing their initial research and due diligence. It is easier for an audit customer to confirm internal audit's understanding of the process and add color if necessary, as opposed to reiterating information that has been available and already documented.

KNOW WHERE YOU'RE HEADED

The objective of the pre-planning meeting is to obtain a high-level understanding of the goals and objectives of the process or department and the key steps to the process. The pre-planning meeting is usually held with the most senior manager of

the process, the in-charge auditor of the project, and at least one more auditor to take detailed notes.

GO BEYOND

If you really want to impress, consider inviting your subject matter expert to the pre-planning meeting. Having the subject matter expert in the meeting can prove that the audit project is to be seen and leveraged as free benchmarking, and not just some compliance exercise the audit customer is required to participate in.

Inevitably, even the most researched and best prepared internal auditor will not be able to ask as probing and insightful questions as someone who consults on this process alone for a living. It is not uncommon for an audit customer to spend 10 – 20 minutes answering just one question made by the subject matter expert. It is also not uncommon for this discussion to highlight an unknown process step or unaddressed risk that, if missed, would be detrimental to the internal audit team.

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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. They should be keen to capture significant activities of everyone (employees and third parties) involved in the process, the flow of assets (tangible or intangible), and any activities that prevent or detect mistakes and errors from happening.

DOCUMENTING BEST PRACTICES

Documenting the process details in a narrative or flowchart will make it much easier to determine audit procedures and to create an audit program. An audit program should detail at least the following information:

- Process objectives
- Process risks
- Controls mitigating process risks
- Control testing procedures

Other information collected in the audit program can include an initial rating of each risk (e.g. high, medium, or low) and specific attributes of the controls, such as frequency, preventive or detective, and if the control mitigates a fraud risk.

TESTING BEST PRACTICES

All controls should be tested via inquiry, or by interviewing the control owner if possible. Testing procedures for control environment and risk assessment-related activities can be completed by observation. Control activities and monitoring are best validated through inspection, and information and communication are best tested by re-performance.

The Most Important Step: Reviewing

Most internal auditors who have spent significant time planning an audit project feel confident about the scope of the audit and the work needed to be done. But sometimes this confidence can lead to problems. 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. Below are several best practices for reviewing your audit before it kicks off.

CHIEF AUDIT EXECUTIVE REVIEW

The Chief Audit Executive, no matter how large the internal audit department, should always review prepared audit programs before fieldwork begins. The CAE can confirm the team's process understanding by leveraging information obtained through other executives and manager, and most importantly, verify if the scope and procedures of the audit project will specifically address why the audit was scheduled and requested. The last thing anyone wants – the internal auditor, audit customer, or CAE – is for fieldwork to be completed only to find out the work done does not address the key risks highlighted in the internal audit risk assessment.

SUBJECT MATTER EXPERT REVIEW

If you leveraged a subject matter expert, they should also review the draft audit program. Common feedback from subject matter experts include correcting or adding more detail to testing procedures and validating whether a process appears to be designed correctly. Leveraging this subject matter expertise makes for a more informed internal auditor, and positions the project to be viewed as external benchmarking as opposed to an audit.

PROCESS LEADER REVIEW

The draft audit program should be shared and reviewed with the process leader. This level of transparency should be positively received by the process leader, whether they

want the work performed or not. Their feedback will confirm the team’s understanding of the process, and sometimes can even shorten fieldwork time because the process leader will begin to indicate which controls were not done or are not working as intended.

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Enabling Positive Change

Aggregating and analyzing internal organizational data, external subject matter expertise, and internal control-related data should provide the internal audit team a solid understanding of how the process works, the key risks managed by the process, and how the internal audit team should spend their time and resources to carry out the process.

Internal auditors who can create and document audit programs from scratch – and do not rely on template audit programs – will be more capable and equipped to perform audits over areas not routinely audited.

When internal audit can spend more of their time and resources aligned to their organization's strategy and key objectives, internal auditor job satisfaction will increase because they will be taking on more interesting projects. The Audit Committee and C-suite may become more engaged with internal audit's work in strategic areas. Perhaps most importantly, recommendations made by internal audit will have a more dramatic impact to *enable positive change* in their organizations.

AuditBoard is the leading solution empowering audit, risk, and compliance departments to work more efficiently and effectively to meet evolving requirements. To learn how AuditBoard can help your team streamline SOX, internal audits, and compliance, [contact us here](#) or visit www.auditboard.com.

AuditBoard Internal Audit Project Planning Checklist

INITIAL AUDIT PLANNING

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? If so, what were the results of previous audit(s)?
- Have there been significant changes in the process recently or since the previous audit?

RISK AND PROCESS SUBJECT MATTER EXPERTISE

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
- Recent articles from WSJ.com, HBR.com, or other leading business periodicals
- Relevant blog posts from [The Protiviti View](#), [RSM's Blog](#), or the [IIA's blogs](#)

COSO'S 2013 INTERNAL CONTROL – INTEGRATED FRAMEWORK

Internal auditors can leverage COSO's Internal Control – Integrated Framework to create a more comprehensive audit program.

- Review COSO's 2013 Internal Control components, principles, and points of focus [here](#).

INITIAL DOCUMENT REQUEST LIST

The following requests should be made before the start of audit planning:

- 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
- Description and listing of master data for the processes being audited, including all data fields and attributes

PREPARING FOR A PLANNING MEETING

The following steps should be performed to prepare for a planning meeting with business stakeholders:

- Outline key process steps by narrative, flowchart, or both, highlighting information inflows, outflows, and internal control components
- Validate draft narratives and flowcharts with subject matter experts (if any)
- Create an initial pre-planning questionnaire to facilitate a pre-planning meeting with key audit customers

PREPARING THE AUDIT PROGRAM

Once internal audit has confirmed their understanding of the process and risks within the process, create an audit program detailing 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
 - Inspection, or reviewing documentation evidencing the control was performed
 - Re-performance, or independently performing the control to validate outcomes

AUDIT PROGRAM AND PLANNING REVIEW

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

ADDITIONAL RESOURCES TO USE WHEN PLANNING AN AUDIT

- [The IIA's Engagement Planning Practice Guide](#)
- [AuditBoard's Blog and Resource Center](#)



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