THE VALUE OF INTEGRATING WORKING PAPERS WITH AUDIT MANAGEMENT

THREE PRACTICAL STEPS FOR CLOSING THE AUDIT PERFORMANCE GAP

Galvanize

Contents

Introduction

Working papers are fundamental to the audit process. They provide chief audit executives (CAEs), independent audit firms, and risk and control consultants with a baseline of vital audit documentation, serving as reference points for the entire audit lifecycle. Working papers can help these stakeholders be more effective, more productive, and ultimately add more strategic value to their organizations.

Audit capabilities are maturing and more organizations are implementing computer assisted audit techniques (CAATs) to automate their audit process. As this happens, a common issue is that workflows become overly complex and disjointed since different workflows exist for different functions of the audit process.

These factors contribute to a new type of business risk called the Audit Performance Gap—the strategic value that is lost due to inefficiency in the audit management process.

This white paper explores the common problems with traditional working papers methods and how to overcome them using purpose-built solutions. It also provides three practical steps you can follow to establish best practices for working papers management and closing the Audit Performance Gap.

Why working papers are important to the entire audit process

Traditionally, auditors considered the preparation of working papers a process separate from that of audit project management.

But when you look at elite audit teams, the way that they prepare working papers and manage audits go hand-in-hand.

A common misconception is that working papers only apply to the fieldwork phase of the audit cycle. This is not true. They serve as an important reference point for the entire audit process:

+ **During the planning stage of an audit**, the prior period's audit work helps set context and helps to steer current review around problem areas.

+ **During an audit**, working papers capture auditors' work, flesh out areas of risk, and communicate results among audit team members.

+ **Upon completion of an audit**, working papers support the final report and conclusion memos, documenting the work completed at each stage of the project and serve as the body of knowledge for future audits. Working papers also show whether due professional care was exercised and illustrate compliance with professional auditing standards.

General guidelines for working papers

One issue with working papers is that standards for what exactly must be included in them, or how they're prepared, are very loosely defined. Instead of having stringent rules, professional standards provide context and guidance for how to approach working papers.

Working papers should contain sufficient information to allow an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

What makes quality working papers?

+ **Completeness and accuracy**. They support observations, testing, conclusions, and recommendations. They should also show the nature and scope of the work performed.

+ **Clarity and understanding**. They are understandable without supplementary oral explanations. With the information the working papers reveal, a reviewer should be able to readily determine their purpose, the nature and scope of the work done, and the preparer's conclusions.

+ **Pertinence**. Information contained in working papers should be limited to matters that are important and necessary to support the objectives and scope established for the assignment.

+ **Legibility and neatness**. They are legible and as neat as practical. Sloppy working papers may lose their worth as evidence.

+ **Logical arrangement**. They follow a logical order.

+ **Minimize variance**. They are prepared within a consistent approach and execution framework across the audit and organization, regardless of which auditor is assigned.

+ **Optimize workflow**. Find ways to create workflows for documentation preparation that directly integrate project management mechanisms such as client request list tracking, sign-offs, supervisor reviews, findings follow-up, time tracking, and project status reporting directly into a single process.

Why the traditional preparation process is failing

Like with many business processes, the most common issues can be linked to people, processes, and technology. Here are a few things that contribute to working papers being poorly managed.

LOOSELY DEFINED STANDARDS AND GUIDELINES

Standards for what must be included in working papers, or how they should be prepared are very loosely defined. Instead of stringent rules, professional standards only give guidance for how to approach working papers, and guidance can differ quite a bit.

Because guidance is so varied, auditors are largely free to devise their own system or style for documenting their work. But too much variation can create inefficiencies, errors, and risks.

INCONSISTENT PRACTICES WITHIN AUDIT TEAMS

Ask a handful of internal auditors how they manage working papers and you might get very different answers based on their judgment, preferences and backgrounds. Despite best intentions, what results is inconsistency in the quality of the underlying audit work; variation in the look and feel of working papers documentation; unpredictable productivity; inconsistent client experiences; and ultimately disparate levels of organizational risk mitigation. This problem is frequently misinterpreted to be the result of having mixed personnel skills, but the more likely cause is lack of consistent processes.

INEFFICIENCIES OF MANUAL, GENERAL-PURPOSE WORKING PAPERS SOLUTIONS

Some of the most common methods for preparing, storing, and distributing working papers include:

1   Manual processes based on a physical file storage system of paper documents, reports and binders that get distributed and shared among audit teams.

2   General-purpose application software and file management solutions. These solutions span from Microsoft® Excel® and Word files stored on shared hard drives, file folders, and email servers to collaboration and project management software such as IBM Lotus Notes, and to enterprise document and content management systems such as Microsoft® SharePoint.

3   Network storage or email servers, organized within a conventional file folder structure.

4   Custom-built electronic working papers forms and templates or an automated workflow solution that is designed and developed in-house.

The problem with these methods are that they:

+   Are prone to version control errors. For example, auditors may select, share and/or update a wrong or outdated version of the audit report.

+   Have limited control over access to information and files (e.g., auditors are unable to limit or grant access to certain information based on stakeholder type or workflow requirements.

+   Are not accessible by mobile devices.

+   Have inconsistent file management structures that trigger duplicate information, and create errors.

Added costs for configuration, training & customization

Enterprise content management systems (ECM) or enterprise collaboration software like SharePoint also hinder the process since:

+ These products are designed for general business processes rather than audit, so they require customization or specialization for audit processes, in other words significant assistance from the IT department.

+ No consistent working papers numbering scheme and cross referencing is required. Direct linkage between audit elements is not enforced.

+ They do not provide a consistent framework to enforce audit-specific workflow

+ Purchase and deployment costs can be quite high; even prohibitive if you're a small or medium-sized organization

+ They require added training with long and complex installations.

As an example of these challenges, Linford & Company LLP, a mid-tier CPA firm providing internal audit to global clientele saved all audit project files on individual auditors' computers and shared network drives. As the firm's client base, scope of work, and team grew, documents stored on shared drives became unruly. Workflow to create, review, and sign-off working papers was completely manual, cumbersome and prone to errors. Team members spent about 30% of project time on admin. This disorderly workflow also contributed to duplicate files; inconsistent working papers referencing schemes across team members; control information and findings that were not fully synchronized across multiple spreadsheets; and other disorganization that was challenging to address.[1]

The Audit Performance Gap

As audit capabilities mature and organizations implement computer assisted audit techniques (CAATs) to automate their audit process, workflows often become overly complex and disjointed.
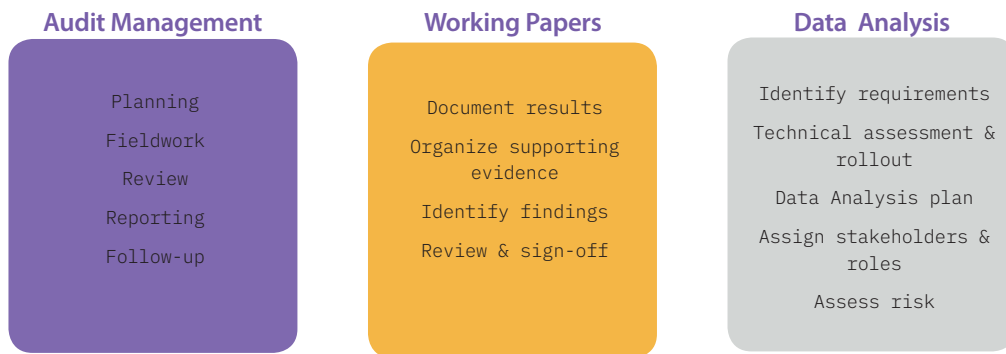
+ These silos, disparate processes and disjointed technology create an unnecessary Audit Performance Gap. It represents the strategic value that is lost due to inefficiency in the audit management process:

+ Productivity is stifled by redundant and manual project management

+ Inefficiencies and inaccuracies are common and use unnecessary or costly resources

+ Risks are overlooked and opportunities for continual improvement are missed.

Using appropriate technology to close this gap helps redirect administrative tasks and resources to more strategic and valuable audit activities.

[1]Linford & Company LLP was co-founded by author Dan Zitting. To address these challenges, he and his team developed a web-based electronic work papers solution. As demand for this software increased, Zitting founded Workpapers.com which was acquired by Galvanize in late 2011.

"For a long time the choice for auditors has been between complex-to-configure audit management systems or piecing parts of the Microsoft Office suite together to create and organize audit documentation. A streamlined and simplified working papers solution solves these problems and lets auditors focus on delivering accurate, high quality audit findings."

John Verver, CA, CMC, CISA

Audit Management	**Working Papers**	**Data Analysis**
Planning Fieldwork Review Reporting Follow-up	Document results Organize supporting evidence Identify findings Review & sign-off	Identify requirements Technical assessment & rollout Data Analysis plan Assign stakeholders & roles Assess risk

Shifting to mobile fieldwork

Audit teams spend significant time in the field conducting observations and testing. Historically, those observations are captured by the auditor in notes and then translated into the working papers upon return to the office. New technologies like smartphones, tablets, and laptops now make it possible for auditors to complete their work anytime, from anywhere, without having to return to the office.

With proper tools in place, an auditor in the field may capture observations, insert those into the proper working papers within the audit plan, and sign-off the work directly from their smartphone. The gain in productivity from leveraging mobile should be a key priority for all audit teams.

The case for convention over configuration

To get your audit documentation and team productivity running at an optimal level, you need a strong audit convention or framework that's flexible, but not so much that it ends up lacking the structure for consistency.

Consider this: A new car with the option to configure the gas pedal on the left side floorboard or the right does not qualify as "a flexible solution" or "rich customization." In fact, some may consider it a flaw. Left configuration would force drivers to reconsider their driving convention and therefore require training, extra evaluation time and, until fully competent, some extra time calculating each action while driving and maybe even an increase in errors. It also has unforeseen future implications. What if you decided the left-side pedal configuration was good; you learned to drive that way, but then later wanted to upgrade to a different car that only offered the right-side pedal? What if someone else who hadn't been faced with that decision needed to drive your car? The same principle holds true for audit management solutions.

Flexibility is good but straying too much from convention can derail productivity. This is why purpose-built audit management solutions, including electronic working papers solutions, are better suited for audit organizations. They are designed from the ground up to:

+ Have a built-in validation process to help streamline workflow for efficiency gains,

+ Reduce the risk of errors,

+ Let auditors focus on what's important: providing oversight and value.

How to close the Audit Performance Gap

Here are three practical steps you can take to start closing the Audit Performance Gap.

1. Integrate working papers documentation into the audit management process

A survey with over 8,000 individual HighBond users indicated that 75% were interested in an integrated analytics and electronic working papers solution if it were to improve efficiency and increase the use of technology in their audit departments.

Using a fully automated working papers solution that links the documentation itself into overall project management:

+ Provides a framework for productive execution— more audit and analysis, less documenting.

+ Streamlines fieldwork, documentation, and reporting— enables resource-strapped audit departments to accomplish more than they could using manual techniques.

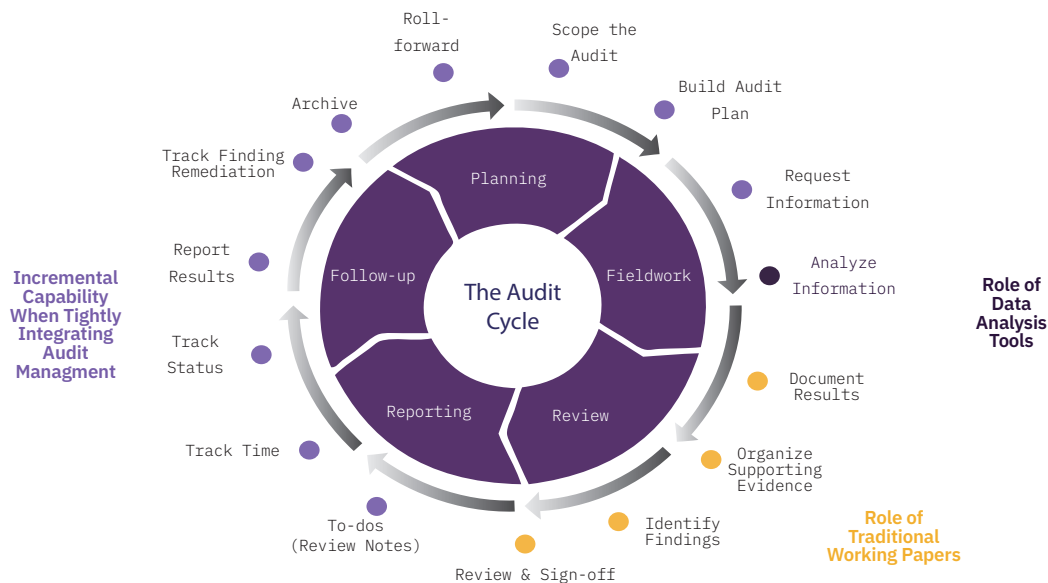+ Facilitates team communication— keeps everyone on the same page and focused on the same goals.

Figure 1: *Best Practice: Integrated Approach to Working Papers By integrating working papers into the entire audit management cycle, organizations improve risk assessments, reduce redundancies and inaccuracies, and broaden the scope of assurance activities.*

2. Favor convention over configuration

+ To get your audit documentation and team productivity running at an optimal level, you need a strong audit convention or framework that's flexible, but not so much that it ends up lacking the structure for consistency.

Define the convention within the audit process

+ Revisit the audits completed within the last 12 months and determine what was reported to the key audit stakeholders (likely the organization's audit committee and/or senior management).

+ Look at the audit work performed across those audits to support that reporting and find areas of similarity as well as the differences and inconsistency. Usually, 80-90% of the processes and documentation formats from one audit to the next should all be the same.

+ Focus on the 80-90%, and simplify those common processes as much as possible. Select an audit tool that enforces your convention and leaves as little room as possible for deviation.

Eliminate the need for configuration

+ Avoid customization beyond the workflow.

+ Avoid tools with overly complex options around installation, periodic upgrades, assignment of user roles, syncing and other non-audit value areas.

3. Redirect resources to strategic audit activities

As time benefits are realized from steps 1 and 2, you can redirect that time to high-value audit activities like:

+ Conducting additional audits.

+ Enhancing audit techniques, particularly using data analysis to evaluate higher volumes of transactional data (and move audits from sample testing to full population testing).

+ Train your audit team in strategic areas.

+ Devote additional attention to risk assessment activities and identifying additional risk areas.

The unexpected value from redirecting administrative time will solidify the role of Internal Audit as strategic business partners to your Audit Committee and executives.

Galvanize

The HighBond audit management solution

HighBond is an audit, risk, and compliance management system that increases audit productivity by organizing fieldwork and automating project management. The underlying system framework helps managers build audit projects of any type, whether financial, operational, compliance, or technical.

Designed for the chief audit executive, HighBond improves your working papers process by:

+ Providing users with hands-free audit project management, as it organizes projects, notifies the right people, and keeps audits on track.

+ Facilitating an organized, productive workflow. The structure allows managers to build their audit program then, from any procedure, quickly and easily add findings, to-dos, client requests, and time spent. Everything is automatically aggregated to the project level for simple project management and status tracking.

+ Automating comprehensive project reports with more than 60 pre-configured, one-click reports covering the audit, risk control matrices, walkthroughs, test plans, testing results, status reports, detailed findings, and status reports – all available in PDF and Excel format.

+ Having an intuitive and user friendly interface that requires little training and leaves more time for auditing.

+ Helping users collaborate with the audit team, executives, clients, and external parties by centralizing audit work in one place

+ Providing automatic email notifications for key events such as supervisor review notes, and more.

+ Protecting customer data by being 100% secure, private, and reliable with a comprehensive set of controls in place to protect customer data.

Case study: 30% workflow productivity gains with HighBond

Straight Talk Consulting Solutions in Vancouver, Canada is a provider of internal audit and risk management services. To provide maximum value to its clients, Straight Talk was looking for a way to make the engagement process more efficient when executing risk management and internal audit projects. Continuously managing multiple versions of Microsoft® Word, Excel®, and PowerPoint® files among internal and external parties was a major productivity obstacle. In addition, not having a common platform for stakeholders was making it difficult to manage documentation changes, organize supporting evidence, and follow through on the resolution of engagement issues.

Straight Talk looked at several different offerings, but HighBond immediately stood out from the pack; being designed by an auditor for an auditor. The single point of access that integrates documents, controls, results, tests and issues all in one place streamlines the process of organizing work, and eliminates duplication and version control issues. Additionally, HighBond provided Straight Talk with a SAS 70 report detailing the integrity of the hosting environment, assuring a necessary high level of confidence regarding the safety of clients' data.

With HighBond, Straight Talk eliminated 30% of the time previously spent on project, workflow and workpaper management. This allows the firm to concentrate efforts on higher value audit activities, such as process improvements and the redirection of auditor attention to additional key risk areas. This contributes to improved client relationships, enhanced value delivered per resources utilized, and strengthening audit contribution as a critical strategic asset in organizational success.

CONCLUSION

Significant progress has been made in both technology and processes in audit management, but a common challenge organizations are still facing is the existence of disparate silos of information. Integrating working papers processes into the overall audit management cycle is a best practice that can help break down audit function silos though a single, effective audit execution process. By following the three practical steps to closing the Audit Performance Gap, you can ensure seamless integration between audit project management and advanced risk and control data analytics for high performance auditing.

About the author

DAN ZITTING, CPA.CITP, CGMA, CISA, GRCA

Dan Zitting, chief customer experience officer, Galvanize, is dedicated to the advancement of cloud and big data technologies for helping corporations and governments perform better while operating with integrity. Dan has been recognized with multiple awards, including CPA Practice Advisor Magazine's "40 under 40," Business in Vancouver's "Top 40 Under 40," The IIA's "Emerging Leaders," BCTIA's "Team of the Year" and GRC 20/20's "Technology Innovation" awards. He is regularly quoted and covered in publications including *The Wall Street Journal, CFO Magazine*, Bloomberg, Reuters, The Street, CNBC, and more.

Prior to Galvanize, Dan spent 10 years in professional services with the IT Risk Advisory Services practice at EY and as a Partner and co-founder at Linford & Company LLP, a provider of GRC consulting services to clients across North America, Europe and Asia. While building his firm, Dan developed a software platform for use by clients, which ultimately led to founding Workpapers.com, the first truly cloud-based audit and compliance management system in the market. Under Dan's leadership, Workpapers.com was acquired by Galvanize in late 2011, combining the power of cloud collaboration and big data analytics under one market-leading brand.

Dan holds a Bachelor of Science from Colorado State University and a Master of Science from the University of Notre Dame.

About Galvanize

Galvanize builds award-winning, cloud-based security, risk management, compliance, and audit software to drive change in some of the world's largest organizations. We're on a mission to unite and strengthen individuals and entire organizations through the integrated HighBond software platform. With more than 7,000 customer organizations in 140 countries, Galvanize is connecting teams in 60% of the Fortune 1,000; 72% of the S&P 500; and hundreds of government organizations, banks, manufacturers, and healthcare organizations.

Whether these professionals are managing threats, assessing risk, measuring controls, monitoring compliance, or expanding assurance coverage, HighBond automates manual tasks, blends organization-wide data, and broadcasts it in easy-to-share dashboards and reports. But we don't just make technology—we provide tools that inspire individuals to achieve great things and do heroic work in the process.