Larry's Cheat Sheet – Running the Audit Department

Use the COSO Framework, CORRECTLY, to Assess Control Design Adequacy

- Audit groups of people, using the organization chart, and what they do for the organization. (Entities and Activities)
- Evaluate what is in place to be sure people can do their jobs correctly, not what people do. Controls are not the actual steps to do the job, so auditors do not (or should not) critique how people do the job. Controls are above that, and help people do the job. That's where auditors focus.
- Use a COSO Map, to compare existing entity-related management controls to the five COSO Components.
- Use a Risk Matrix, to identify the activity-based controls in place, and the residual risks that could still occur.

Internal Controls are Effective, if You Use COSO, Means Auditors Have Evidence that …

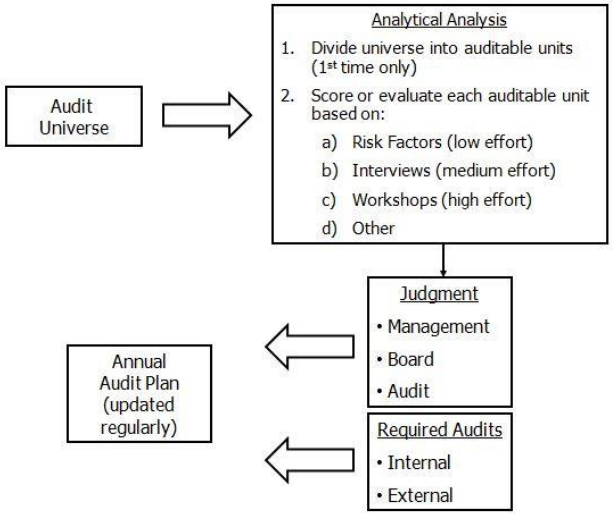
Management has designed and operates mechanisms which provide the right working environment (meaning training, organization structure, roles and responsibilities, hiring, compensation practices, tone at the top, and board oversight) for employees. Has established clear objectives, responded appropriately to risks and has policies, procedures and other mechanisms to know risk responses are working (including IT controls, approvals, reconciliations, analyses, and process-flow controls). Additionally, management has established communication flows which ensure employees and management have sufficient information to do their jobs, and monitors all these mechanisms to be sure they work.

Additionally, for all major activities the unit does for the organization, management has established clear objectives and has the right controls in place to be sure those activities are done correctly (including responding to risks).

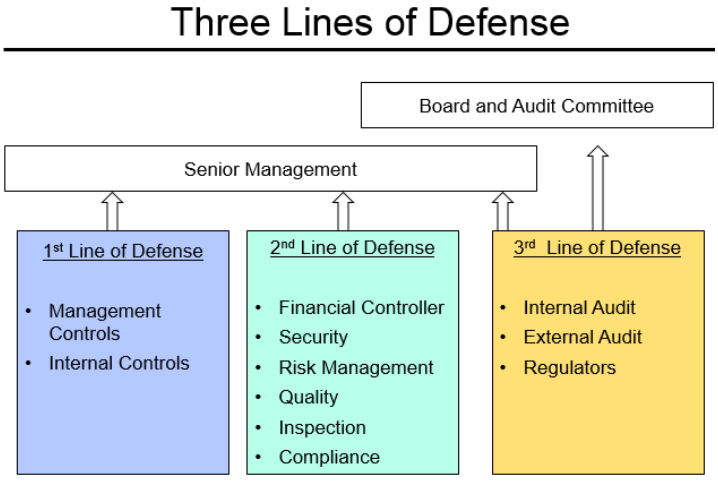
Selection of Audits

Base the selection of audit units (departments or groups of people) on Risk Factors, below, not workshops.

- Size, complexity, liquidity - Asset size, liquidity, transactional volume; Complexity or volatility of activities; Geographical dispersion of operations
- External environment - Financial and economic conditions; Competition; Customers, suppliers, regulations
- Internal environment - Organizational, operational, economic, technological changes
- Control environment and management - Ethical climate; Pressure to meet objectives; Competency, adequacy, integrity of personnel; Management judgments and estimates
- Internal control systems - Adequacy and effectiveness of the system of internal controls; Acceptance of audit findings and corrective action taken; Results of previous audits
- Time since last audit - Date of last audit



- Consider the Three Lines of Defense in selecting audits



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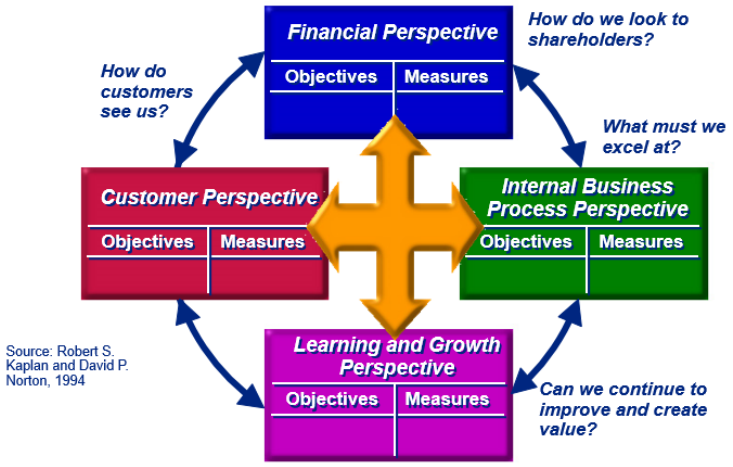
Use the term "risk", CORRECTLY. Typical errors are:

- Identifying the opposite of the objective as a risk (not increasing revenue)
- Confusing risk causes with the impact of not achieving the objective (lower profits)
- Identifying expected controls as risks (lack of training program)
- Identifying non-working controls as risks (ineffective training program)
- More revenue is not possible with existing production processes (that's lack of buy-in to the objective)
- Identifying existing problems as risks - problem solving is different than risk assessment (the web site often crashes before customers complete purchases)
- Risk-based auditing is an Internal Audit Standards term
- Risk management is a management function
- Risk assessment is how auditors select audits, and a component of internal control and risk management in the COSO framework

Use a Balanced Scorecard for Metrics

- Control Perspective (instead of Financial) % of issues resolved; % of audits with no control issues; % of key controls working; % of frauds found and reported
- Business Process Perspective Report issuance time; Budgets met; Coverage obtained; QA program results
- Learning and Growth Perspective % certifications; Transfers from department; Upward feedback results; Leadership in organizations
- Customer Perspective Client service evaluation scores; # requests for audits; Board, senior management surveys



Auditee Satisfaction Survey Questions (Given out at start of audit)

1. Opening conference was held and all questions/comments were adequately addressed.
2. The final audit objectives and scope were agreed to.
3. The audit team was knowledgeable about your business.
4. The audit was completed within the timeframe communicated.
5. The audit was conducted efficiently and effectively with minimal disruption to your business.
6. The audit was conducted in a professional and courteous manner.
7. The audit team kept you informed of key issues throughout the audit.
8. All of your key business concerns/risks were addressed during the audit.
9. The closing conference allowed both sides to adequately discuss and address all comments.
10. The audit report was accurate and findings clearly communicated.
11. The audit report fairly reflected your team's comments and corrective action.
12. The overall audit provided value to your area.

Other Items

- Use "Layered" audit reportings: One Report for Executive Management, Another Report for the Unit Audited, and a Letter of less significant issues for Unit Audited.
- Report the status of internal controls, not just things found wrong on the audit.
- Rank audit issues based on importance, not risk.
- Have a process in place to review audit results, across the organization, to identify systemic problems) meta-data about audit results.
- Use an electronic workpaper system, not just Word and Excel in directories.

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