



– Practice Guide

INTEGRATED AUDITING

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Executive Summary

Historically, internal audits were associated with gaining information about financial systems and the financial records of an organization or a business. However, now audits include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns. With nonprofit organizations and government agencies, there has been an increasing need for performance audits, examining success in satisfying mission objectives. As a result, there are audit professionals who specialize in security audits, information systems audits, and environmental audits. Integrating this knowledge base into a single audit produces a more effective outcome through a holistic approach. Decisions on risk evaluation require an increased focus by auditors to broaden their perspectives and think outside the box. The purpose of this Practice Guide is to increase the internal auditor's awareness of integrated auditing and provide guidance on how to approach an integrated audit.

Key sections in this guidance provide information to explain:

- Differences between an integrated audit approach and a non-integrated audit approach.
- Advantages of an integrated audit approach.
- Situations when a non-integrated audit approach may be more effective than an integrated approach.
- How to create an integrated audit plan.
- Consideration of the skills or specialized knowledge needed to conduct an integrated audit.
- Integrated auditing in small audit activities.

The appendix in the guidance is a checklist of the key questions a CAE should ask to ensure that the internal audit activity is effectively using an integrated audit approach.

Introduction

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors (IIA). The IPPF includes the Definition of Internal Auditing, Code of Ethics, *International Standards for the Professional Practice of Internal Auditing (Standards)*, and strongly recommended guidance such as this Practice Guide.

When performing integrated audit engagements, internal auditors should consider the following standards outlined in the IPPF:

- Standard 1200: Proficiency and Due Professional Care.
- Standard 1210: Proficiency.
- Standard 2010: Planning.
- Standard 2200: Engagement Planning.
- Standard 2210: Engagement Objectives.
- Standard 2230: Engagement Resource Allocation.
- Standard 2240: Engagement Work Program.

The chief audit executive (CAE) should consider an integrated audit approach as part of the overall methodology used by the internal audit activity. The objective is to achieve a more effective and efficient audit engagement. Current IPPF guidance provides a solid foundation for this approach. This guide will discuss areas that enhance the audit engagement by providing guidance on areas that may differ between a prior traditional and current integrated audit approach.

1. Why use an integrated audit methodology?

What are the differences between an integrated audit approach and a non-integrated audit approach?

An integrated audit differs from a non-integrated audit in terms of scope and overall complexity. A traditional audit and an integrated audit differ in scope and depth and breadth of coverage. For example, a traditional audit may focus on financial or operational aspects while an integrated audit will take a more global approach that looks at several aspects including, but not limited to, financial, operational, IT, regulatory, compliance, environmental, and fraud.

The complexity of an integrated audit is directly related to its broader nature, which may require:

- The use of multiple audit techniques to accomplish the desired outcome.
- Increased use of external resources or increased knowledge of staff and additional skill sets.
- Enhanced project management skills to ensure coordination and effective completion of the audit.
- A balanced approach to risk identification and rating, especially with unfamiliar areas that have not been traditionally reviewed.
- Increased oversight and creativity to think outside the box by the auditor, and communication among all parties involved in the engagement.
- Changes in the current staffing model.

The internal audit activity should consider the use of multiple audit techniques when performing an integrated audit to efficiently and effectively accomplish the desired outcome of the engagement. Examples of these audit techniques can include, but are not limited to, continuous auditing, sampling, surveys, and data analysis. Many of these are used in traditional audits but it is not com-

mon practice to use them in tandem. The primary goal is to think outside the box and consider use of appropriate techniques to more efficiently drive the outcome of the audit.

An integrated audit will require increased knowledge to ensure appropriate risk identification and evaluation occurs. The inclusion of personnel from various departments, external consultants, increased audit research, training, and potential changes to the current staffing model may be required to enhance the audit team's expertise. Increased audit research and training could add time to the audit and could increase costs. The audit team should become familiar with available Internet audit resources and training, which will provide the desired information and help mitigate the increased costs. Understanding and using available resources in other departments could be an effective way to bring expertise to the audit without increased costs. One suggestion is for the internal audit activity to maintain an inventory of organization personnel who could be used as experts to supplement existing audit resource knowledge. The audit team itself will be required to have the skill set to consolidate the information gathered into a comprehensive risk assessment. Decisions regarding risk evaluation will require coordination among all parties to ensure appropriate risk ratings.

The more holistic view of an integrated audit requires the auditor to modify his or her perspective and think beyond the traditional audit scope. A crucial role in the success of an integrated audit is the lead auditor (or auditor-in-charge) due to the higher requirements regarding qualifications and audit project management capabilities. The lead auditor should have a full understanding of the potential risk of the audit activity under all aspects of the audit scope. The lead auditor will be required to have sufficient soft skills to ensure effective teamwork among the audit staff and others who will provide expertise to the engagement.

As noted, an integrated audit may require additional resources to provide the knowledge base for risk identification and evaluation. The lead auditor is responsible for ensuring coordination among all areas and a balanced approach to risk identification and rating. The lead auditor plays a pivotal role in the successful outcome of the engagement plan. The lead auditor should ensure communication among all parties involved and timely completion of audit activities. Increased project management skills are required, and the use of a scheduling tool is suggested to monitor completion.

Increased expertise may require modification of the audit staffing plan. This could include hiring staff with specific expertise in regulatory compliance or environmental engineering. The type of expertise is organization and audit-scope dependent.

The overall complexity of an integrated audit is manageable if the right personnel are involved. This includes the willingness of departments within an organization to share expertise and the knowledge and skill set of the lead auditor. The willingness to commit the appropriate resources is required to ensure successful outcomes of these larger, broader scope audits.

What are the advantages of an integrated audit approach?

Adopting an integrated audit approach can increase the internal audit activity's credibility, resulting in increased relevance of its work and a greater opportunity to be seen as an essential participant in major projects from the outset. Many find that auditors increase their confidence and become more proficient in other facets of the organization's operations, increasing their effectiveness. Other advantages include increased coverage, improved reporting and more effective risk assessments and audit planning.

When is a traditional audit approach more effective than an integrated audit approach?

The adoption of an integrated audit strategy does not mean that limited scope audits will no longer be used. Risk assessments may suggest that the audit of high risk in a single element should be the priority. This might result in a more narrow scope audit. Examples are an audit of compliance with regulatory requirements for loan documentation or an audit of the completeness and accuracy of management information.

Certain constraints may limit the effectiveness of an integrated audit approach, including resource or budget constraints. Where the audited activity is carried out by a small team, it may be necessary to limit the number of auditors involved in an assignment to avoid disruption to day-to-day business activity.

In summary, various audit approaches should be considered. The CAE should determine the best approach based on the organization, activity to be audited, and available resources. Use of multiple audit approaches could complement each other.

2. Creating an integrated audit plan

For an organization to embrace integrated auditing, the corporate governance framework should be sufficiently mature. The board¹ should be satisfied that the internal audit activity has sufficient technical and managerial skills to undertake an integrated audit. These skills will include technical abilities, and interpersonal and management skills required to perform a broader scope audit.

What additional dimensions to the audit are there?

- Extended risk identification and risk evaluation.
- Identification of controls over the broader scope area.
- Additional resources required, headcount and expertise, to execute the integrated audit plan.
- Approval by the CAE to complete the integrated audit plan.

1. There is a growing trend for boards to request audits of legal issues related to contracts, regulatory compliance, or other stakeholder concerns. An integrated audit approach may be most effective.
2. Boards and senior management may require continuous monitoring in the organization to enable assurance across the organization, and for this assurance to be provided in real time. An integrated audit may be the most efficient and effective approach.
3. There is a growing requirement for assurance in areas, such as IT governance and cloud computing. Assurance in these areas could be outside of the expertise of the traditional audit department, yet could be addressed in an integrated audit.

Figure 1

Figure 1 provides examples where an integrated audit should be considered.

Step One: Review the risk management cycle.

Ask the following questions:

- Does the existing risk management process have sufficient reach to capture all significant risks – i.e., events that could prevent the organization’s objectives from being achieved?
- For the audit universe being considered, is the risk map facing the whole organization? This will include areas previously seen as outside the scope, capability, or expertise of the internal audit function.

For example, is the research and development function producing new designs and products? Is process control equipment and software properly safeguarded? Are financial instruments being appropriately tested? Are regulatory issues being addressed? Is sufficient lobbying being undertaken where appropriate? Is reputation being safeguarded? Are there reviews of these areas taking place, and are they included in the assurance passed to senior management and the board?

The answers to these or similar questions could indicate risks not addressed by the internal audit activity. When risks of this breadth are identified, an audit of these areas could require a specialized level of knowledge that could be incorporated into an integrated audit plan.

¹As defined in the Standards glossary, “A board is an organization’s governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.”

Step Two: Overview of internal controls.

Having identified the broader risk universe, internal audit should review controls related to these risks.

For example, within the organization there may be duplication of control processes within the dispatch of goods for sale, such as verification of paperwork, electronic access systems, manual supervision, and closed caption television (CCTV) surveillance. It is possible that all of these individual controls may be tested separately such as verification of paperwork (under a review of accounts payable), testing of electronic access (under a review of the facilities department), sample testing of manual supervision (in a review of the dispatch department), and CCTV use (in a review of the security function).

Integrated auditing, in this example, would require that the audit process focus on controlling the dispatch and recording of the items rather than individual transaction audit and systems audits.

Step Three: Identify the level of expertise required.

The CAE should consider the expertise that would not normally fall within the historical internal audit approach. The expertise needed to perform the review may exist within the organization but not be part of the internal audit activity, or an expertise gap may be identified that should be outsourced.

Step Four: Consider methods and timing.

Map out the methods and timing of the audit coverage required with the new, enlarged list of risks. This is a straightforward process of calculating the man-hours required for each task.

Step Five: Calculate resources.

Calculate the resources required, in terms of existing capacity within the internal audit activity and within the organization, and any new capacity that would be required, such as persons qualified to review specific areas. An output of this calculation will be the component cost of performing the integrated audit.

Step Six: Prioritize auditable activities within the audit plan.

It is important that the criteria used to compare and evaluate risks in all areas across the organization to be addressed in the integrated audit program have a common scoring system.

Step Seven: Combine the costs.

The cost of the integrated audit plan should be determined. This is a simple process of combining the costs identified in Step Five with the prioritized list of audits identified in Step Six.

Step Eight: Seek board approval.

The CAE should be prepared to answer the following questions when presenting an integrated audit plan as part of the overall set (scheduled) of audits presented to the board for approval:

- Does the integrated audit approach give greater assurance to the board and senior management. Can this be demonstrated?
- Is the integrated audit plan deliverable?
- What is the cost? Is there a cost of audit vs. assurance equation metric that demonstrates the benefit of this approach?

3. Conducting an integrated audit

Issues for the Lead Auditor

During audit planning, the lead auditor should understand all facets of the audit plan and what skills or specialized knowledge may be required to execute it. The lead auditor should build a team with the combined knowledge and experience to assess the risks and controls relevant to the activity under review. In building such a team, the lead auditor should consider whether increasing the team's level of specialized skills or knowledge is needed to improve the quality of the audit.

The team leader should supervise the work of the specialist to confirm there is sufficient evidence of any errors identified or procedural/control deficiencies reported. The team leader can promote development of internal auditors by having audit staff work closely with the specialist to assure a transfer of skills and knowledge to the audit team. The expectations of the work to be performed by the specialist should be communicated clearly by the team leader.

Staffing an integrated audit team

Effective audit team member selection including those with specialized skills or knowledge is necessary to achieve a positive outcome from an integrated audit. Smaller audit activities may not have staff with specific audit specializations to ensure adequate staffing of the audit team. Co-sourcing, guest auditors, or the use of internal or external specialists are common solutions to this challenge. Specialists will complement the skill sets and organizational knowledge of existing staff. All team members should understand their role and how it relates to the audit and risks of the activity under review.

Competencies of the integrated audit activity

The CAE has options for staffing the audit department to ensure it has the skills, knowledge, and specialties necessary for successful integrated audits.

Internal auditors should be provided opportunities to obtain the knowledge and skills necessary to undertake any type of audit. IIA Standard 1210: Proficiency states all internal auditors should have the knowledge, skills, and other competencies needed to perform their individual responsibilities. However, the cost and time to train all internal auditors in all aspects could be prohibitive for many organizations. The best use of resources may be to use internal auditors and specialists in those areas of work they are trained to perform and are most competent in executing.

Internal auditors with a broad range of skills may be a retention risk because of their increased marketability. Excessive staff turnover may lead to a cycle of retraining to replace lost staff. This possibility should not prevent organizations from adopting an aggressive training strategy to broaden the activity's skill and knowledge base. CAEs need to consider their retention strategy to prevent loss of staff. Training on new skills can be part of a positive retention strategy.

4. Integrated auditing in small audit activities

Many smaller audit activities are structured to suit the nature and scale of the businesses that they serve. Such organizations may include the following common characteristics:

- One to five auditors.
- Productive internal audit hours below 7,500 a year.
- Limited level of co-sourcing or outsourcing.

A smaller audit activity may not have the infrastructure to support an integrated audit program/plan relative to what a larger function might be able to support.

To effectively leverage integrated auditing within a small audit shop, broader consideration should be given to how integrated auditing may be leveraged to support the risk management objectives of the organization.

IIA Standard 2000: Managing the Internal Audit Activity requires that the CAE effectively manage the internal audit activity to ensure it adds value to the organization.

By leveraging a risk-based model, engagement planning performed through an integrated risk assessment lens can afford a smaller audit activity the opportunity for greater efficiency and support effective risk coverage within the audit program and objectives. The concept of integrated auditing may often include resources external to the department possessing subject matter or technical audit expertise to better support engagement planning and scoping across multiple risk areas. In some cases, these resources may be sourced from within the organization, provided objectivity of resources is maintained. In other cases, resources possessing the needed subject or technical expertise to guide engagement scope development may be externally sourced. Department staff should work with sourced specialists and leverage learning opportunities where possible. In cases where training dollars may support needed staff skills or knowledge for multiple engagements, such opportunities should be provided.

Development of risk-based audit procedure checklists, scoping mechanisms, and common testing methodologies to frame engagements best suited to an integrated model will drive efficient execution and are useful. Common considerations in the planning stage should include engagement complexity, engagement duration, staffing, and the value of such checklists (i.e., potential for engagement recurrence). Such material could drive the development of integrated audit work program templates, which will lessen the time needed by staff to effectively complete engagements and meet engagement objectives.

Smaller audit activities may choose to staff an engagement based on the underlying risk coverage of the areas being examined. CAEs are encouraged to be more involved in higher risk or complex engagements.

Assignment of audit procedures and coordination of com-

pletion is essential within a smaller audit activity. Communication among the team members is critical to ensure that the engagement is performed in the most efficient and effective manner. Because many small audit activities are in smaller organizations, auditees may have many areas of responsibility and be subject to multiple priorities. The emphasis in such an environment should be effective client and data management to support timely engagement completion and related reporting.

The engagement execution process will be the same as that of other engagements performed in accordance with the *Standards*. Consideration may need to be given by the CAE in reporting effectively on the results of work performed. Engagement-specific reporting should be defined if required as part of engagement planning. This should include expected content and format of communications, guidance regarding to whom the communications should be addressed, and whether others outside of the function should be consulted prior to finalization and release. Integrated audit engagements include the consideration of multiple risk areas; any reported findings will likely require a broader audience for socialization and related coordination to secure needed management action plans.

APPENDIX:

Integrated audit effectiveness checklist

The following are key questions the CAE should ask to ensure that the internal audit activity is effectively using an integrated audit approach. An effective integrated audit approach would encompass all areas of coverage for the audit. These areas of coverage can include, but not be limited to, financial, operational, IT, environmental, fraud, and compliance.

1. Annual Audit Plan

- a. Does the audit plan incorporate coverage of all high risk areas?
- b. Is each auditable activity defined to ensure it covers areas within its scope?
- c. Is the risk assessment performed in an integrated manner? For example, do the risk assessment risk factors ensure coverage of high risk areas?
- d. Is the description of each factor included?

2. Written Communication

- a. Does your written issue sheet identify the root cause through analysis of areas within the scope of the auditable activity?
- b. Do recommendations ensure inclusion of areas or factors that would affect the root cause?
- c. Is the overall opinion, if one is used, reflective of the observations made and considered in alignment with the framework identified in planning?

3. Audit Plan (Engagement)

- a. Does coverage for the audit include an overall framework?
- b. Does the staffing model complement the engagement scope?
- c. Do team members understand how their work activities interrelate and affect the audit objectives and scope?

- d. Do conclusions on specific audit tests address the control framework setup in the audit planning phase?
- e. Do engagement team members periodically meet to ensure all members understand what they are intending to accomplish, and do their conclusions align with the framework established during planning?
- f. Throughout the audit, are team members aware of the interrelationships of various controls to effectively and properly assess the impact of any deficiencies?
- g. Was an integrated audit approach considered?
- h. If the team decided an integrated audit approach would not facilitate the achievement of the stated engagement objectives, are the reasons noted?

4. Staffing Model

- a. Does the staffing model meet the needs of the specific audit project?
- b. For the current year annual audit plan, is knowledgeable external or internal staffing available for the audit team's support? If not, is training planned to broaden the knowledge of the audit team prior to audit initiation?

5. Post-engagement Assessments

- a. Do the self-assessments, peer reviews, and department quality standards ensure integrated engagement objectives are achieved and align with the planning framework?
- b. Does the assessment include discussions/feedback on how team members learned from the integrated audit process (e.g., operational auditors understanding IT controls)?
- c. Do management survey responses indicate that the integrated approach provides value-added results.

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About the Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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