3 Strategies for Improving Your Audit Results: A How-To Guide

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Internal controls testing procedures have reached new heights with the evolution of testing methodologies, incorporation of data analytics, new interpretations of “best practices,” and continued changes within the regulatory landscape. While increased regulations and oversight have brought a positive impact to the financial integrity of companies, this has also come at a great cost to the organization and its people.

How can audit teams strive to improve the efficiency of their internal controls programs while staying within budget and accommodating the latest industry regulations and standards? More importantly, how can audit teams free up time and resources in their internal audit programs so that they can focus on adding more value to their organizations?

Leveraging years of client feedback and industry research, this article will explore 3 critical strategies audit teams should consider in order to execute a modern audit. Incorporating just one of these three strategies should yield improved results and happier audit teams.

Strategy 1: Reduce the Count of Key Controls

Organizations face countless risks on a daily basis. Audit teams often address these risks by applying a brute-force approach and simply creating a new control whenever a new risk is identified. Inadvertently, each new control is often classified as “key” without performing a true risk assessment, which then contributes to the ever-increasing count of controls. By understanding the differences between key and non-key controls, internal audit teams can effectively combat rising control counts and “scope creep.”

Non-key vs. Key:

- *Non-key control:* A control is deemed non-key if the potential impact to the financial statements upon its failure is deemed immaterial and if that failure cannot cause the entire process to fail.
- *Key control:* A key control addresses a risk of material misstatement, a high risk, or both a control objective and an assertion. These controls must operate effectively to provide reasonable assurance that the risk of material errors will be prevented or timely detected. To keep things simple, the quickest method to differentiate a non-key vs. key control is to refer to the level of risk being addressed. Is the control mitigating a low or high risk?

It’s not uncommon to find inexperienced auditors testing controls that address low risk assertions without conducting a mature risk assessment of their environment. Simply assessing the risk level of a control at the account level may lead auditors to add unnecessary steps into their audit cycle, eating away at their limited budgets and timelines. By understanding the risks affecting the financial reporting process, audit teams can better prioritize and focus their efforts on key controls. Further, when audit teams fail to perform regular controls rationalization procedures, this can result in significant over-testing because no analysis has been performed to identify redundant controls that mitigate the same risk.

In some cases, audit teams failed to identify a high-risk key control downstream in a process simply because they didn't understand the process flow end-to-end. Often the auditor is ill-informed, limited on time, or risk-averse, and will test controls in the same manner as prior years to simply avoid drawing attention to themselves. Such oversight could have been resolved if the team developed and analyzed a quality flowchart and discussed the matter internally amongst the team.

As prescribed by the PCAOB's **Audit Standard 5** (AS5), a risk-based audit approach dictates that companies and their auditors focus on areas of high-risk. As a best practice, audit teams should make an effort to plan and perform a recurring risk assessment and controls rationalization exercise at least once per year. Doing so can help train team members to better understand their organization while identifying opportunities to reduce the scope and focus attention on areas that matter most.

Strategy 2: Train Audit Teams

With the new Revenue Recognition and Lease Accounting standards taking effect in the very near term, many audit departments have been bolstering their team's skills with targeted, technical trainings. However, technical training alone may not be sufficient to build balanced audit teams, as the team members themselves may have development needs beyond audit and testing procedures.

A good step towards identifying skills gaps is to conduct an analysis of the audit team members to identify the most important skills for their roles and which performance-enhancing skills they currently lack. Picking the right metrics is the key to creating real value from training. Each audit team should consider measuring the impact of its training programs through non-traditional metrics, such as:

- Number of meetings (and follow-up meetings) performed with a process owner
- The average number of days to receive a PBC item
- Evaluating the number of hours each auditor spends on testing a control

Regardless of how technical or complex a process may be to the auditor, professionalism and emotional intelligence are critical areas each auditor can further develop. A best practice for audit teams pursuing better relationships with business units and process owners is training their managers to provide real-time coaching and feedback sessions, and sharing examples of ideal client interactions. Junior auditors need examples and lessons gathered from real-life experiences, not just best practices shared in a training video.

The following is a list of “soft skill” topics each auditor should incorporate into their testing routine.

- Effective Critical Thinking
- Communication and Negotiation Skills
- Interviewing Techniques
- Leadership Skills
- Relationships and Interpersonal Skills
- Succession Planning
- Understanding and Applying Emotional Intelligence

Strategy 3: Leverage Technology

There are two clear components of every audit function: Microsoft Excel and Email. Microsoft Excel was released in 1987. Over time, the simple spreadsheet has morphed from a bookkeeping tool into a workflow staple. However, modern audit projects require more attributes and details about a control than before. Audits are also increasingly relying on shared network folders or cloud-based collaboration tools to help coordinate information and organize staff.

While this approach is manageable for teams of 2-3 or less people, once audit teams exceed 3-4 people, version control issues become dramatically more complicated and time-consuming to resolve. As any audit manager can attest, if one member of the team fails to make a timely edit or forgot to make updates across all test sheets, the downstream ripple effect can cost managers hours and hours of cleanup. This painstaking cleanup process often goes unreported to the client, and the budget is sacrificed.

So, why are teams still leveraging the spreadsheet? The answer: familiarity.

Given the complex nature of modern audit programs, audit data points often have a many-to-many relationship when it comes to risk and control mapping. Some examples include: risks that appear across multiple processes or business units, audit issues that impact multiple controls or processes, and COSO principles mapping to many controls.

The solution is to leverage an underlying database as the foundation of the audit program. **Audit software** constructed upon purpose-built database structures can allow auditors to quickly pull or push information to and from a database, and have those results cascade throughout the entire audit program instantly. This is far more efficient than the spreadsheets-based environment, where a control testing update would require making edits across several standalone spreadsheet files. In addition, for annual audit results to be used year over year, a spreadsheet cannot handle the large volumes of data. No amount of spreadsheet automation can compete with the speed, accuracy, and scalability of a database solution.

The good news is, as the industry has evolved, technological innovators have risen to the occasion. It is up to audit teams to understand their pain points, prioritize their organization's needs, then carefully research the right solution to meet those needs.

Conclusion

The success of recent regulations in re-establishing investor confidence and improving internal control over financial reporting speaks to its lasting importance. There are high expectations and rules mandated year over year by regulatory bodies and external auditors. Now, the public and shareholders have come to expect a solid controls environment with every public company.

Given these new expectations, quality, in-depth testing is no longer an option - it's a requirement for a company to operate successfully.

Consider the three strategies outlined, and help your audit teams unburden themselves from unnecessary expectations and focus on delivering the most valuable and cost-effective results to their organization. To learn how AuditBoard can help you streamline your audit program, contact us today.