

WHITE PAPER

Integrating Working Papers with Audit Management:

How to shift from 'common practices' to 'best practices'

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EXECUTIVE SUMMARY

Audit working papers serve as important reference points for the entire audit lifecycle, providing Chief Audit Executives (CAEs), independent audit firms, and risk and control consultants with a baseline of vital audit documentation and intelligence. Despite their strategic value, many organizations approach this critical audit function with a 'check-list-type-philosophy,' driven by tactical and often manual project management processes. Further, standards for exactly what must be included in working papers or how they are prepared are loosely defined, resulting in inconsistent practices and quality issues among audit departments.

As audit capabilities mature and organizations implement different software or computer assisted audit techniques (CAATs) to automate their audit process, a common risk for many organizations is that workflows become overly complex and disjointed. Different workflows and technology solutions exist for different functions of the audit process: audit project management, working papers, data analysis, audit analytics, external review, and reporting.

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.

Integrating a fully automated and purpose-built working papers management solution into the audit lifecycle, organizations can break down the silos. Administrative tasks and resources – once spent on managing the working papers process – can be redirected to strategic and valuable audit activities such as enhancing audit analysis techniques, conducting additional audits, evaluating additional organizational risks, or training and up-skilling audit staff.

This paper explores common issues with traditional working papers methods and how to overcome them. It also provides three practical steps for establishing best practices for working papers management and closing the Audit Performance Gap.

THE EVOLVING ROLE OF WORKING PAPERS

Working papers are fundamental to the audit process. Accurate and thorough documentation of work performed is necessary to support the key findings, recommendations and opinions contained in audit reports and conclusion memos. However, auditors traditionally consider the preparation of working papers a process separate from that of audit project management. In fact, for those elite audit teams that achieve highly productive, consistent and effective audit execution, preparing working papers and managing audits go hand-in-hand; just as pedaling and steering are a collaborative set of actions necessary to riding a bike.

A common and unfortunate misconception is that working papers only apply to the fieldwork phase of the audit cycle. This is not true. Work papers serve as an important reference point for the entire audit process. Working papers, when created and managed properly, provide a baseline of vital intelligence before, during and after an audit. 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 and other stakeholders. 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.

For auditors – whether internal auditors, independent audit firms or risk and control consultants, working papers can help them be more effective, more productive and ultimately add more strategic value for their organization.

GENERAL GUIDELINES FOR WORKPAPERS

While working papers are duly acknowledged as generally accepted practices, standards for exactly what must be included in working papers or how they are prepared are loosely defined. Rather than providing stringent rules, professional standards provide context and guidance for sound judgment relating to working papers.

For example, the International Standards for the Professional Practice of Internal Auditing specify working paper requirements in a variety of sections, including:

- 2240 Engagement Work Program – Internal auditors must develop and document work programs that achieve the engagement objectives.
- 2300 Performing the Engagement – Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.
- 2310 Identifying Information – Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives. (Interpretation: Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.)
- 2320 Analysis and Evaluation – Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.
- 2330 Documenting Information – Internal auditors must document relevant information to support the conclusions and engagement results.

Characteristics of quality workpapers

- Completeness and Accuracy – Working papers should be complete, accurate, and support observations, testing, conclusions, and recommendations. They should also show the nature and scope of the work performed.
- Clarity and Understanding - Working papers should be 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.
- Logical Arrangement - Working papers should follow a logical order.
- Minimize Variance - Working papers should be prepared within a consistent approach and execution framework across the audit and organization, regardless of which auditor is assigned.
- Legibility and Neatness - Working papers should be legible and as neat as practical. Sloppy workpapers may lose their worth as evidence.
- 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.

Similarly, section 4.35 of the *Government Auditing Standards* advises that:

- 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.

Additionally, vague guidelines from many other professional bodies apply to working papers for different types of audits. As a result, auditors are largely free to devise their own system or style for documenting their work. While this provides flexibility, it also creates opportunity for too much variation which can move audits off track and create inefficiencies, errors and risks.

COMMON ISSUES OF TRADITIONAL PREPARATION PROCESSES

Like most business processes, the most common issues – and opportunities for optimization, can be linked to people, processes and technology. As described above, adhering to loosely-defined guidelines for workpapers and using different methods and technology for audit project management can cause challenges.

Inconsistent practices within audit teams

Ask a handful of internal auditors to describe their general practices and preferences for managing the work papers and you are likely to get a handful of different answers. That's because the degree of documentation and the approach to its preparation is often based on the judgment, preferences and backgrounds of the individuals on the audit team. Standards and guidelines are subject to interpretation and are strongly influenced by an auditors' experience and skillset, or that of management. As a result, variation develops within working papers processes, formats, workflows and (worst of all) quality and reliability.

Here is a typical scenario for an internal audit department at a mid-size enterprise:

The audit team is made up of 15 people including three supervisors that oversee different audits completed by the department. One supervisor was formerly with Ernst & Young; another supervisor spent some time early in her career at KPMG; and the third supervisor recently joined the organization from a government agency. Given their backgrounds, they all manage their audits differently, each with different preferences and personal standards for creating and managing work papers. As a result, there is now one audit team with three different methods of preparing working papers and reporting status. This creates inconsistent processes and project workflows that are difficult to track and control. The result, despite each supervisor's best intentions, 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.

In this common scenario, the CAE often has to manage each of the audit team leaders separately in order to get consistent results; thereby taxing resources and often compromising quality. While this problem is frequently misinterpreted to be the result of having mixed personnel skills, the more likely cause is lack of consistent processes that allow these risky variances.

“One of the key challenges with generalized tools is that they are not built for audit. In general, product capabilities, features and workflow are not instinctive to core audit processes.”

Jay Postma, CAMS
President, MSB Compliance, Inc.

Manual, general-purpose work papers solutions create inefficiencies

Another challenge for organizations is deciding which method or technology to use for preparing, storing and distributing the audit work papers, as well as determining how to manage the process from start through completion. The most common methods 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 to enterprise document and content management systems such as Microsoft® SharePoint.
- 3) Custom-built electronic working papers forms and templates or an automated workflow solution that is designed and developed in-house.
- 4) Purpose-built, automated working papers solutions by providers such as ACL Services.

According to a recent survey of 8,000 customers by ACL Services, nearly 40% surveyed use generalized tools such as Microsoft Excel or Word to manage certain audit processes. Of that sample base, only 33% were satisfied with the tools' abilities for audit process management.

The use of general-purpose software and manual or custom systems for working papers documentation often results in management inefficiencies and configuration challenges that are costly and can have a negative impact on audit performance. Here's why:

Shared-drive 'chaos'

Many audit teams organize and store audit project files on network storage or email servers, organized within a conventional file folder structure. Over time, file management becomes unruly, inefficient and costly.

Common issues with conventional file folder management:

- Prone to version control errors. For example, auditors may select, share and/or update a wrong or outdated version of audit report.
- Limited control over access to information and files. For example, auditors are unable to limit or grant access to certain information based on stakeholder type (auditor, client, process owner, executive, external auditor, etc.) or workflow requirements.
- Mobile accessibility is impossible in most cases; challenging at best.
- Inconsistent file management structure triggers duplicate information, and creates inefficiencies, errors and organizational challenges.

As an example of these challenges, Linford & Company LLP, a mid-tier CPA firm providing internal audit and other assurance services 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; the organizational structure of Microsoft® Office documents stored on shared drives became unruly and

Enabling mobile fieldwork

Audit teams have always spent 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 in some form upon return to the office.

However, new technologies such as smartphones, tablets, and increased use of mobile laptop PCs have created an expectation and demand among auditors. They want to be able to complete their work anytime, from anywhere, without having to return to the office. With proper tools and processes 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 that operate on constrained resources.

inefficient. Workflow for facilitating the creation, review and sign-off of those working papers was completely manual, cumbersome and prone to errors. As a result, team members spent significant time -- approximately 30% of overall project time -- on coordination activities and administration. Making matters worse, the disorderly workflow often contributed to duplicate files with confusing naming; inconsistent work papers referencing schemes across team members; control information and findings that were not fully synchronized across multiple spreadsheets; and other disorganization that was difficult to tame.¹

Added costs for configuration, training and customization

Some organizations deploy enterprise content management systems (ECM) or enterprise collaboration software such as Microsoft® SharePoint. Often viewed as a first step toward more comprehensive audit project management, these solutions are designed for general business processes and therefore lack intuitive audit process management and require customization and training.

Common issues with general-purpose solutions:

- Most general-purpose content management solutions do not provide a consistent framework to enforce audit-specific workflow.
- No consistent working papers numbering scheme and cross referencing is required. Direct linkage between audit elements is not enforced.
- Products are designed for general business processes rather than audit, and therefore require customization or specialization for audit processes which usually requires significant assistance from, and dependence on, the IT department.
- Purchase and deployment costs can be quite high; often prohibitive for small or medium size organizations.
- Often require added training and/or lengthy requirements definition with long and complex installation process.

Disparate audit functions and workflow silos

Different workflows exist for different functions of the audit process: audit project management, working papers, data analysis/audit analytics, external review, and reporting. These workflows are made up of people, processes and in most cases, technology. As audit capabilities mature and organizations implement different software or computer assisted audit techniques (CAATs) to automate their audit process, a common risk for many organizations is that workflows become overly complex and disjointed.

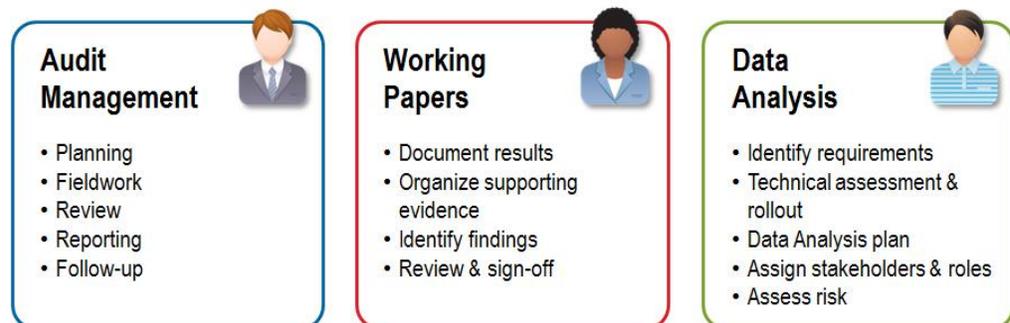


Figure 1: Workflow Silos

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 ACL 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,
Vice President of Product Strategy
& Alliances, ACL Services Ltd.

Audit Performance Gap

These silos, disparate processes and disjointed technology create an unnecessary Audit Performance Gap where:

- productivity is stifled by redundant and manual project management;
- inefficiencies and inaccuracies are common and use unnecessary or costly resources; and
- risks are overlooked and opportunities for continual improvement are missed.

The Audit Performance Gap represents the strategic value that is lost due to inefficiency in the audit management process.

By closing the gap, administrative tasks and resources can be redirected to strategic and valuable audit activities such as enhancing audit analysis techniques, conducting additional audits, evaluating additional organizational risks, or training and up-skilling audit staff.

THE CASE FOR CONVENTION OVER CONFIGURATION

In order to optimize audit documentation and team productivity, the key is to provide a strong audit convention or framework that is flexible, however not so much that it loses its ability to provide 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 and hamper performance. This is why purpose-built audit management solutions, including electronic working papers solutions, are better suited for audit organizations. These solutions are designed from the ground up specifically for audit. They have a built-in validation process to help streamline workflow for efficiency gains, reduce the risk of errors and let auditors focus on what's important: providing oversight and value.

FROM 'COMMON PRACTICES' TO 'BEST PRACTICES'

Focusing on three practical steps is the key to establishing best practices for working papers management and to closing the performance gap.

1. Integrate working papers documentation into the audit management process

Working papers have a direct correlation to audit performance. Work papers can provide valuable intelligence to other audit functions, from overall audit management to team collaboration and audit analytics and risk assessment.

A recent survey with over 8,000 ACL customers indicated a 75% interest in an integrated analytics and electronic working papers solution to improve efficiency and increase the use of technology in their audit departments.

A fully automated working papers solution that links the documentation itself into overall project management delivers audit intelligence that helps drive value in the following areas:

- 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— Keep everyone on the same page and focused on the same goals.

2. Favor convention over configuration

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 identify 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 convention. Also, 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. Key opportunities often include:

- Conducting additional audits
- Enhancing audit techniques, particularly the use of data analysis to evaluate higher volumes of transactional data (and move audits from sample testing to full population testing)
- Audit team training in strategic areas
- Devoting additional attention to risk assessment activities and identifying additional risk areas

The unexpected value driven from redirected administrative time will solidify the role of Internal Audit (or other audit teams) as strategic business partners to the Audit Committee as well as the CEO, CFO, and other members of executive management.



Figure 2: 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.

ACL AUDIT MANAGEMENT SOLUTION

ACL™ Workpapers is a hosted audit management system, securely accessed via the Internet, that increases audit productivity by organizing fieldwork and automating project management. The underlying system framework enables managers to build audit projects of any type, whether financial, operational, compliance, or technical. The service is being used by audit firms, public companies, banks, internal auditors, and compliance groups worldwide.

Designed for the Chief Audit Executive...

- ACL Workpapers provides users with hands-free audit project management, as it organizes projects, notifies the right people, and keeps audits on track.
- Facilitates 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.
- Automates 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.

With the auditor's needs in mind...

- User-friendly, intuitive interface to facilitate less time training and more time auditing.
- Enables users to collaborate with the audit team, executives, clients, and external parties. Centralizing audit work in one place allows users to provide secure access to fit the needs of the different stakeholders within an audit project.
- Receive automatic email notifications for key events such as supervisor review, review notes, and more.

...And leading the way in cloud application security.

- Is guaranteed to be 100% secure, private, and reliable. ACL Workpapers is setting a new standard in cloud application security with a comprehensive set of controls in place to protect customer data.
- Minimal up-front technology costs; costs are better controlled and converted from capital project to operating expense.
- No hardware and software to install and maintain. No dependence on IT and no firewall, VPN, or other technical network issues. Quick setup of new users, easily managed directly by the audit team.

Case study: 30% workflow productivity gains with ACL Workpapers

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 sought 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, the lack of a common platform among 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 ACL Workpapers immediately stood out from the pack; it was clear that Workpapers was 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, ACL Workpapers 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 ACL Workpapers, 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 resource utilized, and strengthening audit contribution as a critical strategic asset in organizational success.

To learn more, call
1-888-669-4225 to speak
with a representative

Visit our website at acl.com
Email us at <mailto:info@acl.com>

CONCLUSION

Working papers, when properly managed, provide valuable intelligence to other audit functions, from overall audit management to team collaboration, to audit analytics and risk assessment. Automated solutions enable teams to produce high quality, accurate and efficient workpapers that improve audit planning, risk assessments, and expand audit coverage. With these gains, audit departments can improve risk assessments, reduce redundancies or inaccuracies, and broaden the scope of assurance activities – all critical attributes that add greater value to their organization.

While significant progress has been made in both technology and processes to establish best practices in audit management, a common pitfall for many organizations is the existence of disparate silos of information and business processes. Integrating working papers processes into the overall audit management cycle is a best practices that can help break down audit function silos and help fold in audit intelligence and documentation through a single, effective audit execution process.

As audit technology and analytics capabilities mature, auditing practices will continue to evolve toward a fully integrated audit management platform. This will deliver on the promise of deep and seamless integration between audit project management and advanced audit analytics for high impact, high performance auditing.

ACL Services will be integrating its working papers solution to its audit analytics software to help meet this market need.



COMPANY OVERVIEW

ACL delivers technology solutions that are transforming audit and risk management to give organizations unprecedented control over their business.

Our integrated family of products—including our cloud based audit and compliance management solution and flagship data analytics products—are used at all levels of the enterprise to help maximize growth opportunities by identifying and mitigating risk, protecting profits, and accelerating performance.

Thanks to 25 years of experience and our consultative approach, we implement flawlessly so customers realize concrete business results fast at low risk. Our actively engaged community of more than 14,000 customers around the globe—including 89% of the Fortune 500 and hundreds of governments—tells our story best. Visit us online at www.acl.com.