Bridging the gap between Internal Audit and IT functions

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29 August 2013
Agenda

► Definitions
► Relation between Internal Audit and IT
► Symptoms of a disconnected function
► Dangers to an organization
► Creating a working environment that promotes a team spirit between Internal Audit and IT
Disclaimer

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Introduction
Definitions
Internal Audit

Definition

► Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

Source: Institute of Internal Auditors
Internal Audit

► It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

► Internal Auditors' roles include monitoring, assessing, and analyzing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Working in partnership with management, internal auditors provide the board, the audit committee, and executive management assurance that risks are mitigated and that the organization's corporate governance is strong and effective. And, when there is room for improvement, internal auditors make recommendations for enhancing processes, policies, and procedures.
Classifications

- **Financial Audits**
  Financial audits address issues of accounting and reporting of financial transactions. Its purpose is to assess the accuracy, validity and reliability of department or organization financial records and reports.

- **Operational Audits**
  Operational audit reviews functions within an organization for efficiency and effectiveness from a cost-benefit standpoint.

- **Integrated Audits**
  Combines financial and operational audit steps

- **Administrative Audits**
  Oriented to assess issues related to the efficiency of operational productivity within an organisation
Classifications

► Compliance Audits
Compliance audits are review of financial and operational controls to determine how well the organisation adheres to established laws, regulations, policies, and procedures of the organisation, government, and other regulatory agencies. Contractual agreements into which the organisation has entered also may be subject to review.

► Information Systems Audits
This type of audit addresses the control environment of computer information systems and how they are used. This is a technical review that may include evaluating system input, processing and output controls, data and physical security, contingency planning and disaster recovery, system administration, etc.
Classifications

► **Specialized Audits**
  Specialized IS reviews performed by 3rd parties e.g. SAS 70-type audit

► **Investigative/Forensic Audits**
  These audits are performed to investigate incidents of possible fraud or misappropriation of assets.
“The study, design, development, application, implementation, support or management of computer-based information systems”.

Source: Information Technology Association of America
IT as a strategic resource

Forces driving the strategic importance of IT

- Increased competition
- Globalization of operations
- Organizational changes
- Technology revolution
Relation between Internal Audit and IT
Internal Audit and IT

► To enhance independence Internal Audit should have unrestricted access to all records, personnel, and equipment in carrying out the objectives of an audit.

► Including computer-based information systems
Dissimilarities between IA and IT

The IT people maybe look down on internal audit and say, 'You guys don't know what you're doing.' The internal audit people are more interested in assessing the overall business processes, and so many of them may view this IT stuff as a 'necessary evil'.

<table>
<thead>
<tr>
<th>Internal Audit</th>
<th>IT</th>
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<tbody>
<tr>
<td>Measurer of value</td>
<td>Creator of value</td>
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<tr>
<td>Value driven</td>
<td>Value Chain driven</td>
</tr>
<tr>
<td>On Board</td>
<td>Generally, not on Board</td>
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# IT’s role in Controls

<table>
<thead>
<tr>
<th>Preventive</th>
<th>Detective</th>
<th>Corrective</th>
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<tbody>
<tr>
<td>Firewalls</td>
<td>Vulnerability scans</td>
<td>Incident response teams</td>
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<td>Intrusion prevention systems</td>
<td>Intrusion detection systems</td>
<td>Business continuity management</td>
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<td>Access Controls</td>
<td>Penetration tests</td>
<td>Patch Management systems</td>
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<td>Device configuration</td>
<td>Logs</td>
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<td>Encryption</td>
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Relation between IA and IT

TCP/IP, WCF, HTTP, SNMP, .Net, ISO 17799, COBIT

EBITDA, ROTA, IAS 39, IFRS, debtors days, GAAP
Symptoms of a disconnected function
Symptoms of a disconnected function

- Bureaucracy
- Delays in receiving information from IT
- Allocation of minimal IT resources to Internal Audit
- Non involvement of Internal Audit in IT projects
Symptoms of a disconnected function

► Auditors assigned limited access rights

► Audit work dependent on IT

► Defensive approach to addressing of IT weaknesses identified by Internal Audit

► Resistance to audit
Dangers to an organization

► Information security
► Effect on Audit Independence
► Risk management
Dangers to an organization

► Inadequate/slow implementation of internal audit recommendations

► Source of inefficiency and potential conflict
A working environment that promotes a team spirit between Internal Audit and IT
Creating a working environment that promotes a team spirit between Internal Audit and IT

► Tone from the top
► IT Involvement in Audit Plan
► Attitude and perception
Creating a working environment that promotes a team spirit between Internal Audit and IT

- Internal auditor’s level of technical IT-related knowledge
  - Leveraging technology
  - ‘Poaching’ staff from IT function
  - Second selected staff to the IT department for a year or longer before returning them

- Enhance communication
  - Physical location
Dos and Don'ts

**Dos**
- Focus on "process improvement"
- Act as "partner"
- Engage in "continuous assessment"

**Don'ts**
- Focus on "compliance"
- Act as a "policeman"
- Engage in "periodic assessment"
Questions
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