Essential Audit Skills
Learn How to Successfully Prepare and Perform Audits

Martin Holzke
Essential Audit Skills

Learn How to Successfully Prepare and Perform Audits

By Martin Holzke
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Chapter 0: Preface
The Motivation of this Book

During some twenty years in IT consultancy I learned to cherish one skill I had been taught between the lines when studying physics at university in the mid 1980s: The ability to look behind the superficial appearance of things to uncover underlying pattern and concepts.

Starting as a software developer I soon got involved with training of fellow junior developers not only on tools but as well on design and modelling concepts. Almost inevitable this led to best practice and quality management activities, which opened the door into IT auditing. Needless to say that being an experienced trainer it didn’t take long until I also got to coach staff on audit skills on top of simply auditing their operations.

The beauty of working as a freelancer is that you get to work with lots of different organisations and people. It also allows for recognising skill pattern on almost statistical level.

One pattern that did strike me was the wide spread inability of audit and non-audit staff to communicate efficiently with each other because they can’t think in each other’s terms. Often enough I had to take on the role as an intermediate, almost as a translator and regularly as a coach.

Understanding the way auditors look at the world and information they are after is the audit half won. All too often auditors mark something deficient just because the audited party fails to present it in a suitable way. It is neither sides fault; it is just a typical breakdown in communication.

At the same time I recognised that there are very few learning resources available for “newbies” to the auditing scene, whether those to become auditors or those to become prime business contacts to auditors, i.e. being audited. Many certification schemes concentrate more on regulatory and technical details than on soft skills and providing a wider understanding of audit principles and mechanics in general.
So I decided pull these experiences together into a structured course of what I believe are essential skills required by those involved in audits, whether as auditors or those who are audited. While obviously my own IT background will make its mark I have tried to keep it generic. In the end it is my belief that all of these essential skills apply to any audit, not just IT audits.

Every section of this book ends in an exercise to allow you to apply the just presented subjects hands-on on a real world example of an audit, which obviously will take its individual shape as you craft it from exercise to exercise based on decisions you take. There is no right or wrong. Most decisions will be influenced by assumptions you make, so it is worthwhile to reflect on those. There may be more or less suitable answers; however a lot of that judgement may well be a matter of experience.

If you are using this book in a course or other group, you may want to consider performing the exercises in small teams rather than individually. That way you won’t have to discuss matters with yourself only.

The appendix includes a set of example answers to the exercises throughout this book, i.e. are supposed to be understood as one possible answer. You may well and rightly come to different answers. Comparing your own with the answers presented here nevertheless may give additional input and help reflect on your own work. We can all learn from each other. There is always room for improvement.

At the end of this book you should have obtained a much broader knowledge of the various aspects and skills involved to successfully prepare and perform audits. Hopefully it will have taken the scare out of auditing and made you see audits as a something helpful.

Finally let me say that your feedback how this course has worked for you is much appreciated. Please feel free to send me your comments via the SoftQualM Press website (http://www.softqualmpress.com) and/or by adding a review to any online resource you find useful.
The Workshop Scenario

Every section of this book ends in an exercise to allow you apply the just presented subjects hands-on on a real world example of an audit, which obviously will take its individual shape as you craft it from exercise to exercise.

We will deliberately opt for a rather complex scenario. This will allow for a wide range of facets to choose from, depending what you feel comfortable with in means of subject and complexity. The purpose is to provide a playing field, not to create a comprehensive solution. So, feel free to take your pick. It will be better to choose something you can handle than to struggle because you’ve been too ambiguous. Once you’ve succeeded, you can enter a next more demanding iteration.

The Scenario

Your business is a medium-sized manufacturer of electronic components and has recently been acquired by a global player in the industry, who is trading at the New York Stock Exchange (NYSE). As such they already are compliant with the Sarbanes-Oxley Act of 2002 (also known as SOX). However, as your business will make a significant contribution to the whole enterprise’s financial result, the business has to achieve SOX compliance within 12 months.

SOX requires businesses to put in place a framework of controls to safeguard the accuracy of financial statements reported to the NYSE. This control framework is based on risk assessment, i.e. individual controls are designed such that they mitigate certain (theoretical) risks to the financial statement. Typically there will be entity, business, application and information technology (IT) controls.
You have been tasked with supervising a project taking care of the IT General Controls (ITGCs) aspect. While there will be input and supervision from group level, your job will be to translate and implement their global requirements into your business. Eventually you will have to demonstrate compliance in a formal internal audit prior to likely being audited by the group’s external auditors, who ideally want to rely on your work.

ITGCs cover all infrastructural aspects, i.e. everything enabling the business to use IT systems to establish financial statements rather than the actual financial business processes that would be subject to business and application controls. ITGCs typically cover systems development, change management, security and operations.

**Systems development (SDLC)** describes the implementation, major upgrade or replacement of systems.

**Change management** relates to ongoing amendments made to systems for maintenance, improvement and other purposes.

**Security** includes control of physical and logical access to systems and data, eg password policies.

**Operations** refers to subjects such as incident management, backup, monitoring, environmental and protection equipment of data centres etc.

As in all other entities of the group you will employ COBIT, probably the most commonly used basis to design and implement ITGCs. COBIT (Control Objectives for Information and related Technology) is a set of best practices for IT management created by the Information Systems Audit and Control Association (ISACA) and the IT Governance Institute (ITGI).
Learning Resources and Support

There is a range of additional resources available to compliment this course and book, all accessible from the SoftQualM Press website (http://www.softqualmpress.com). Simply look out for the book listing.

All example documents and exercise solutions presented throughout the book are bundled in a zip file for download.

If you are looking for a review facility of your exercises especially when using this course as self-study you can book a distance learning tutorial slot. This will enable you to send me your coursework along the way for feedback and to re-assure you that you are succeeding.

Of course I’m more than happy to take bookings to deliver the course on-site or via web-based training. The default schedule is a 5 days hands-on course, however other formats, eg presentations, workshops, consultancy etc. can be arranged.

Finally, if you fancy sharing some of my experiences as Auditor in a humoristic style you will enjoy my book “Oops-A-Daisy … Smile - Hilarious IT Audit Anecdotes” (ISBN 978-1-906972-01-1) also published by SoftQualM Press.
On completion of the actual assessments the audit results will have to be documented and reported culminating in the overall conclusion being expressed. The output of this stage is most significant as the reports will be passed on and achieved for future reference. Nothing else of the actual audit will remain.
Creating Workpapers

Workpapers are at the heart of audit reporting in that they document the observations and examinations made during the audit. These of course are the core results building the foundation for the overall conclusion of the audit.

It is hence of vital importance that workpapers are created to high standards. We will discuss in this section what that entails.

Templates

Wouldn’t everyone agree that it makes life much easier if all sample tests of an audit are documented the same way?

Yet – in the absence of suitable guidance - all too often it’s not done and every tester “reinvents the wheel” again by finding its own way to document a sample test.

The “lucky” reviewer, whether it’s the Audit Manager or an External Auditor, then gets “blessed” with it all. The “poor soul” has to familiarise itself on every single occasion with the individual “style”. That likely will include everything imaginable from a pile of printed screenshots to well formed documentation with the majority sadly leaning towards the prior.

Well, needless to say it doesn’t have to be like that.

We hence have looked at creating templates previously and now it’s time to apply them.

Probably the major gain from using templates except efficiency is the fact that all likewise workpapers will look alike and hence equally will be easier to complete in the first place as to review afterwards.

Remember the previous example templates for sample test results. Once familiarised with the design and the concept how to use it, i.e. understanding what goes where, it’s straight forward.
It may take a moment the first time around, but as of the second or latest third time almost everyone will be able to concentrate on the content rather than the template being just a tool until eventually it is used “sleep walking” and hardly recognised anymore – yet by that time no one will want to do without it anymore.

Ease-of-use once more will be proof of a good template. This not only goes for the creator of a workpaper based on the template but even more for the audience of the workpaper. Remember that the main motivation for templates is to ensure well formed documentation.

**Content**

We have stressed before that form helps but never replaces content. This surely is true for workpapers.

We also already emphasised that workpapers are the backbone of the audit report. Moreover they will be the lowest level of information retained after the audit, i.e. the most basic information any reviewer can go back to unless re-performing the audit.

Each workpaper will address one or more audit objectives.

Occasionally an audit objective is addressed in multiple workpapers. This however needs to be handled with extra care. It is important to ensure a clear split without overlaps and miss-outs between the workpapers, eg by having exactly one workpaper per in-scope application, location etc. Eventually the set of workpapers needs to cover the objectives as comprehensive as a single workpaper.

Whatever other notes and scribbles may have been made during the audit; those won’t be kept as they don’t constitute any final documentation. The same goes for anything else collected, eg emails, photo copies, screenshots, photos, documents etc.

Unless properly included, integrated or transformed into workpapers they won’t have any bearing on the audit report and disappear without trace. Inclusion may occur by means of embedding or attaching.

The content of each workpaper hence requires careful consideration.
**Clerical Details** are vital for every workpaper and often simply summarized as

“*Who? What? When? Where?*”

*Who* refers to the people that were actually involved and as such have contributed to the content of the workpaper, i.e. the Auditor and its interview partners. It is good practice not only to include the name but also the job title.

*What* refers to the audit objective covered by the workpaper, e.g. the audit and/or control reference and short description. It also includes the test plan or that part of it addressed in the workpaper. Finally this of course is about the detail results, observations and conclusions, i.e. the actual content of the workpaper.

*When* refers to the date the assessment documented in the workpaper has been performed.

*Where* refers to the scope in means entity, location etc. of the test. This typically will be part of the business or corporation the particular test and audit is covering, however may be finer grained. An audit that requires e.g. visitation of three data centres in say Germany will likely be documented in each one workpaper per data centre hence mentioning the data centre location as well as the country.

Just as we did such clerical check on any piece of evidence when performing the audit we now need to include this information into the workpaper. Some information may stem from the evidence, some from the audit itself.
Focus and completion are the criteria for the actual content. All relevant fact and supporting evidence and only that has to be included.

“No more, no less”

It is hence good practice to crosscheck each workpaper prior to issue to ensure that

- All aspects of the addressed audit objectives are covered by facts in the workpaper.
- All facts included in the workpaper are relevant to the audit objectives concerned.
- All facts are complemented with supporting evidence or statements explaining and mitigating their absence.
- All supporting evidence referred to has actually been included.
- All included evidence is actually referred to and used in the workpaper.

The whole reason creating a workpaper is to make a point whether audit objectives are met or not by the business.

Re-processability is the one and only objective of any workpaper as we have stressed before.

Whoever is to read or review a workpaper needs to be able to reach the same conclusion as the author as to whether the respective audit objectives were met or not.

Always keep in mind that the reader will only have the workpaper and whatever supporting evidence has been included or attached to it. The reader won’t be able to ask questions or obtain additional information.

The workpaper hence needs to enable the reader to follow the author’s line of argument conclusively.
An Example
The following example illustrates the various aspects we have just discussed.

From our previously created audit plan we pick control SEC 4.2.2 that mandates monthly reviews of privileged database accounts.

As per our previous guidance on sample sizes monthly controls require a sample of three randomly selected months to be tested. Let’s take March, July and October.

According to our earlier scoping documents there are two database systems in our scope: Oracle on UX10 and SQLServer2005 on W2003DB.

It is quite common to perform this kind of reviews on a per-platform basis, especially when different teams are in charge of the systems. For each sampled months we hence may need to obtain reviews for each platform – in our case two per month, one for Oracle and one for SQL Server.

Whether to document the sample test results all in one sample test result table or separate them by platform, i.e. create two workpapers, is a merely formal question.

I prefer creating separate workpapers for a simple yet not binding reason with regards to any later clerical check. It avoids the question why the sample test result table has six entries when the sample size is three. May sound stupid, but in a sense that’s the meaning “clerical”.

There are different ways to summarise the overall results of each test, i.e. to create the top level workpaper. We will skip this here for now and return to it in the next section.
SEC 4.2.2 Review of Elevated Database Access

Process: Infrastructure Security Database Systems

Risk:
Access to powerful privileges (including administrator level access, authority to grant access to the system, authority to change database configuration or authority to update tables containing key financial data) is not reviewed on a regular basis increasing the risk that access privileges that should be withdrawn are not be identified in a timely manner.

Objectives:
Access to powerful privileges is reviewed on a regular basis.

Business Contacts:
Joe Smith, Manager Oracle Support Team
Bill Myers, Manager SQL Support Team

Sample Size:
3 monthly DBA Account Reviews per platform

Test Plan:
1. Randomly sample three months throughout the testing period.
2. Obtain review reports for all in-scope systems for the sampled months.
3. Assess each report for completeness:
   a. Date of review
   b. Reviewer
   c. Reviewed system
   d. List of accounts reviewed
   e. Exceptions and corrective actions taken
Supporting Evidence for
Test of SEC 4.2.2

Sample Test of 3 monthly Oracle DBA Access Reviews in 2008
performed by Martin Holzke and Joe Smith
on 15th October 2008

<table>
<thead>
<tr>
<th>Test Attributes</th>
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<tbody>
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<td>No.</td>
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<th>Test Attributes</th>
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<tbody>
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<td>No.</td>
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<td>1</td>
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<td>2</td>
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<tr>
<td>3</td>
</tr>
</tbody>
</table>

17/10/2008
SEC 4.2.2 EV2.xls
Page 1 of 1

Workpaper Oracle DBA Reviews
Supporting Evidence for Test of SEC 4.2.2

Sample Test of 3 monthly SQL Server DBA Access Reviews in 2008

performed by Martin Holzke and Bill Myers
on 15th October 2008

<table>
<thead>
<tr>
<th>Test Attributes</th>
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<tbody>
<tr>
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<th>Sample Test Results</th>
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<tr>
<td>No.</td>
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<td>-----</td>
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<tr>
<td>1</td>
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<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
</tbody>
</table>

17/10/2008

SEC 4.2.2 EV3.xls
Page 1 of 1

Workpaper SQL Server DBA Reviews
Review of Oracle DBA Accounts (SEC 4.2.2)

Review performed by: Joe Smith, Manager Oracle Support Team

Review performed on: 3rd March 2008

Oracle DB reviewed: ORAFI on UX10

List of DBA accounts obtained:

MEYERM
BLOGGJ
BROWND
ORABCK

Observations:
All accounts belong to current Oracle Support Team members with DBA duties except ORABCK.
Investigation of suspicious account ORABCK confirms requirement for extra privileges however well below DBA.

Actions:
M. Meyer (RFC 001265643)
1. Create DB role BCK
2. Remove DBA privileges from ORABCK
3. Grant role BCK to ORABCK

Conclusion:
One exception noted and addressed.
Successful completion TBD in next review due in April 2008.
Review of Oracle DBA Accounts (SEC 4.2.2)

Review performed by: Joe Smith, Manager Oracle Support Team
Review performed on: 2nd July 2008
Oracle DB reviewed: ORAFI on UX10

List of DBA accounts obtained:
MEYERM
BLOGGJ
BROWND

Observations:
All accounts belong to current Oracle Support Team members with DBA duties.

Actions:
None

Conclusion:
No exceptions noted.

Review of Oracle DBA Accounts (SEC 4.2.2)

Review performed by: Joe Smith, Manager Oracle Support Team
Review performed on: 5th October 2008
Oracle DB reviewed: ORAFI on UX10

List of DBA accounts obtained:
MEYERM
BLOGGJ
BROWND

Observations:
All accounts belong to current Oracle Support Team members with DBA duties.

Actions:
None

Conclusion:
No exceptions noted.
Review of SQL Server DBA Accounts (SEC 4.2.2)
Review performed by: Bill Myers, Manager SQL Support Team
Review performed on: 2nd March 2008
Oracle DB reviewed: SQLServer2005 on W2003DB
List of DBA accounts obtained:
FOXT
MILLERB

Observations:
All accounts belong to current SQL Server Support Team members with DBA duties.

Actions:
None

Conclusion:
No exceptions noted.
**Review of SQL Server DBA Accounts (SEC 4.2.2)**

**Review performed by:** Bill Myers, Manager SQL Support Team  
**Review performed on:** 5th October 2008  
**Oracle DB reviewed:** SQLServer2005 on W2003DB  
**List of DBA accounts obtained:**  
- FOXT  
- MILLERB  
- SMITHR  

**Observations:**  
All accounts belong to current SQL Server Support Team members with DBA duties. NB: SMITHR has joined the team in September.

**Actions:**  
None  

**Conclusion:**  
No exceptions noted.
Exercise

1. Refer back to the workshop scenario in the preface if required.

2. Choose one assessment from your audit plan and create the workpapers based on evidence collected during your (obviously fictive) audit. Have at least one exception noted as this will be required in later exercises.

3. Review the workpapers just created against the criteria presenting in this section and note discrepancies and areas of improvement (of your workpapers, not the control!).

NB: If working in a group you may want to review each other’s workpapers.
4. Present the workpapers to an outsider for review and ask them whether the workpapers enable them to re-process your assessment and reach the same conclusion as you.
Appendix: Exercise Answers
Note

It has been remarked at the beginning of the book that the example audit chosen here will take its individual shape as you craft it from exercise to exercise based on decisions you take. There is no right or wrong. There may be more or less suitable answers; however a lot of that judgement may well be a matter of experience.

The following answers to the exercises throughout this book hence are supposed to be understood as one possible answer, as an example. You may well and rightly have come to different answers. Comparing your own with the answers presented here nevertheless may give additional input and help reflect on your own work. We can all learn from each other. There is always room for improvement.
Creating Workpapers

1. Refer back to the workshop scenario in the preface if required.

   *None.*

2. Choose one assessment from your audit plan and create the workpapers based on evidence collected during your (obviously fictive) audit. Have at least one exception noted as this will be required in later exercises.

   *In continuation of previous exercises I choose the group of three emergency change assessments on my audit plan. I document all three tests utilizing the previously presented template for sample test results enhanced by a table to determine the distribution of my sample over the in-scope applications based on the respective distribution in the whole population.*

   *The total population is established as 11 emergency changes pointing to an effectively monthly frequency resulting in a required sample size of 3.*

   *As further supporting evidence I attach scans of the change forms sampled (not shown here).*

   *The completed workpaper is shown overleaf.*
Sample Test of 3 Emergency Changes

performed by Martin Holzke and Helen Miller
on 16th October 2008

<table>
<thead>
<tr>
<th>Application</th>
<th>Population</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sage Payroll</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>MS CRM</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Oracle Financials</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>UDA (Excel)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11</td>
<td>3</td>
</tr>
</tbody>
</table>

**Test Attributes**

<table>
<thead>
<tr>
<th>No.</th>
<th>Test Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CM 3.1 (2)</td>
<td>Verify that all sampled emergency changes have VP's or Operations Manager's approvals documented.</td>
</tr>
<tr>
<td>2</td>
<td>CM 3.2 (2)</td>
<td>Verify that for all sampled emergency changes justification of the emergency character and impact assessment are appropriate and have been documented.</td>
</tr>
<tr>
<td>2</td>
<td>CM 3.3 (2)</td>
<td>Verify that for all sampled emergency changes appropriate testing has been performed, documented and signed-off.</td>
</tr>
<tr>
<td>No.</td>
<td>ECR# (Application)</td>
<td>Comments</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------</td>
<td>----------</td>
</tr>
<tr>
<td>1</td>
<td>RFC0054638 (Sage Payroll)</td>
<td>Emergency change has been approved by VP Tom Baker. The ECR has been justified with late arrival of an upgrade including statutory changes. While this deemed acceptable, business should monitor the situation to ensure this to remain an isolated case. Otherwise it would be important to demand timely delivery from the supplier. The change form includes details of testing performed and signed-off by the application owner Julie Best.</td>
</tr>
<tr>
<td>2</td>
<td>RFC0055744 (MS CRM)</td>
<td>Emergency change has been approved by VP Tom Baker. The ECR’s justification clearly points to inappropriate planning resulting in the change having been missed in the regular release cycle. This is noted as exception. The change form includes details of testing performed (referring to the test tool employed) and signed-off by the application owner Mary Brown.</td>
</tr>
<tr>
<td>3</td>
<td>RFC0060223 (Oracle Financials)</td>
<td>Emergency change has been approved by VP Tom Baker. The ECR has been caused by an unexpected hardware failure of the server. It would appear that there was no way to have predicted this as part of the ongoing monitoring of system parameters. The change form includes details of testing performed and signed-off by the application owner Jim Smith.</td>
</tr>
</tbody>
</table>
3. Review the workpapers just created against the criteria presenting in this section and note discrepancies and areas of improvement (of your workpapers, not the control!). NB: If working in a group you may want to review each other’s workpapers.

As before answers will obviously depend upon you own previous work.

A few ideas:

It would be good to mention the testing period in the heading, eg “Sample Test of 3 Emergency Changes in April to September 2008”.

You may want to consider to add more detail to the individual sample comments, eg dates of approval etc.

For sample No. 2 it may be helpful to elaborate in more detail about the evidence observed on the test tool and ways of evidencing it, eg in a further workpaper.

4. Present the workpapers to an outsider for review and ask them whether the workpapers enable them to re-process your assessment and reach the same conclusion as you.

As before answers will obviously depend upon you own previous work and some comments may be similar to those given in the previous exercise step.
This book designed as a course is aimed at people moving into audit functions, either as (internal) auditors or prime business contact to auditors, and therefore in need to gain an understanding of audit principles and mechanics.

Readers will learn various skills required to successfully prepare and perform audits. Every section of this book ends in an exercise to apply the presented subjects hands-on on a real world example.

The course is designed to a traditional 5 day classroom schedule with lectures and exercises yet equally suited as self-paced study and for other more granular learning styles.

Further learning resources such as distance learning tutorials and instructor-led courses as well as downloadable exercise solutions are available in addition to this book.

Since graduating in physics 1990, Martin Holzke has been a freelance IT consultant all over Europe and beyond. Starting in software development he evolved into IT training and later IT auditing.