



AFROSAI-E FAQ Webinar on assessing IT controls in financial audit

On 18 June 2020, AFROSAI-E held its very first webinar on assessing IT controls in financial audit. Financial auditors from all over the region tuned in to ask questions on integrating IT in financial audit and have them answered by their colleagues in Information Systems (IS) audit. The overwhelming consensus is that financial auditors and IS auditors need to integrate better on their assignments, and that financial auditors should have a basic knowledge of IS audit. This integration should start from the SAI overall planning process.

Details of the questions asked and answered given during the webinar are included below:

Aligning Objectives

Q I have noted with a lot of concern that when IT auditors are invited to assist in financial audit there is a variance between their audit objectives and the financial audit objectives, such that it becomes difficult for financial auditor to incorporate their findings in the audit report. How can we solve this?

A The objective in financial audit is to verify that financial statements are without material misstatements. IS audit cannot have a different objective when assisting on a financial audit assignment. The role of the IS auditor is to assess risks to financial statements arising from the use of information systems and design audit procedures that addresses that risk.

ParticipantComment: It is important for financial audit teams to view IS auditors as an integral part of the audit team and involve them in the whole audit procedure from planning and entrance meetings. The IS audit team should always be part of the audit team discussions when planning or reviewing the audit. This helps in aligning the objectives of the two teams.

Financial auditors expanding their skillset

Q We have seen auditors with multiple skills i.e. financial, performance, forensic etc. Would it be feasible to have financial auditors trained to be IS auditors?

ParticipantComment: There is need for financial auditors to be equipped with basic IT knowledge, to interrogate the systems i.e. application and general controls.

A We have seen a trend over the last decade where financial auditors are able to do more of the IT audit work themselves and only request assistance from IS auditors if the IT environment is very complex. As IS audit facilitators, we often find financial auditors easier to train in assessing application controls and general controls, than people with an IT background are. The reason is that you have to be able to understand the impact of automated control failures on financial statements, which is easier for financial auditors.

Q Apart from the IT checklist, what other IT procedures can one develop during combined (financial and IS audit)?

A The IT audit checklist consists of General IT Controls (GITC). They are important because they “protect” the application controls, which are implemented to mitigate inherent risk to the financial statement. If test of controls is your audit strategy, you need to test both application controls and GITCs as they form the system of internal controls along with manual controls. Application controls are specific to a particular financial application; hence, we do not have standard audit procedures to test them. However, when you identify inherent risks, you also identify areas where there should be controls in place to mitigate that risk. Subsequently, if that control does not exist or fails, that is a control failure, whether it be a manual or an automated control.

Q What are the first steps that financial audit can take to start IS audits? Are there any baby steps that can lead to quick wins?

ParticipantComment: Sometimes risks related to information systems may require an IS auditor to perform further procedures to collect evidence that the financial auditor may not be skilled to perform.

A A financial audit can start by mapping a business process and identifying inherent risk and areas where the financial auditor thinks there should be implemented controls to prevent errors. Then, perform a walkthrough at the entity, and when they process transaction in the application, see if you can spot controls that are imbedded in the system. Further, you can attempt some of the procedures from the IT audit checklist. Also remember, when you request assistance from an IS auditor, they are at your disposal, which means that you assign them their tasks. Hence, you can ask them to perform quality control, or to train/shadow you until you have the confidence to conduct IS audit on your own.

Encouraging ISSAI compliance among IS auditors

Q To speak to the concerns raised here, and bearing in mind we have about 300 IT auditors in the region, is it possible to train the IS auditors on the financial and compliance audit methodology so that they are able to appreciate the objectives of a financial audit?

A We encourage all IS auditors to attend FAM/CAM (Financial Audit Manual / Compliance Audit Manual) workshops. We have also initiated efforts to train IS auditors on the Performance Audit Manual, which will enable them to conduct reviews on implementation of large IT projects in government.

Q How do we link ISACA standards with ISSAIs?

A Primarily, we need to comply with the ISSAIs, as they are the authoritative international standards on public sector auditing, and hence ensure quality of the audits conducted. We only look to ISACA to find more detailed guidance on specific IS issues. The principles of the ISACA standards and the ISSAIs are in any case similar. The difference is the ISACA standards give more specific guidance in IS areas.

Q Is it possible to have a standalone IT audits without financial audits?

ParticipantComment: It depends on the objective of the audit, whether statutory or not. Remember audits fall under ISSAI 200, 300 or 400.

A If we want to conduct an audit that is purely IT, we use the compliance or the performance audit standards. These standards allow you to choose a subject matter to investigate, whether it be non-compliance of laws and regulations, or examining the economy, efficiency and effectiveness of public programmes and functions.

Integration challenges

Q There is always a challenge to decide at what point in financial audit to incorporate IT audit, planning (how? when?), execution (how? when?), and/or at reporting stage. Financial auditors seem not to have practical know-how of how to do this, please advise.

A The IS auditors are not a separate team; they should be an integral part of the financial audit assignment. Remember, you have the same objective. Hence, bringing them in at the planning stage is advisable. The IS audit part of the financial audit is testing controls, which is regulated by ISSAI 2315 and ISSAI 2330. These are risk assessment procedures that are done early in the audit.

Q Another issue is documentation of IS audit results in a way that financial auditors can communicate it a language that clients and Legislature can understand. How about addressing report writing for IS audit to ensure it is objective, clear and understandable?

ParticipantComment: Another observation with IS auditors is that their findings in most cases are too many and readers of the report cannot seem to see the actual effect on the financial statements.

A Absolutely, it is critical to be understood when you are reporting material findings. IS audit finding should be reported in a language that is understood by anyone, not just people with a technical background. It is also important to link IS audit findings (automated control failures) to specific misstatements, then you can report the IS audit findings as recommendations on how to strengthen internal control in order to prevent the errors from happening again. If the control failure has not materialised as errors, but there is a high risk of this happening in the future, this should also be reported to the entity.

Q How can one link the results of an IS audit to specific components of financial statements?

A Application controls can be linked to specific components. When you test an application control, you conclude whether it fails or works adequately to mitigate the inherent risk it was designed to prevent. If it works, a financial auditor can place reliance on that control and plan for less substantive testing on that particular component. However, if it fails (or a control mechanism does not exist), we have to do some further digging. Most likely, (if no compensating controls exists) you would turn to data analytics to find out if the control failure has caused misstatements. If it has, you report these misstatements to the entity, and recommend that the root cause of the error, i.e. the control failure should be amended by implementing compensating controls. Conversely, GITCs cannot be linked to a specific component, but could be pervasive to financial statements. We test these to ensure that the application controls we want to place reliance on, work throughout the entire period we are auditing.

Part of the IS audit working papers developed by AFROSAI-E in 2018, include a planning working paper to get specific instructions from financial audit on what the IS auditor needs to look at. Another working paper requires the IS auditor to report back to the financial auditors, including giving them links (where possible) of findings and suggestions for procedures or areas they can look at.

Q The other observation is that the IS auditors will subject a client that does not have a well organised IT function to questions which ordinary should be asked to an entity that has a fully functional IT function.

A If the financial auditor has assessed that the client’s system of internal control has a high risk of failing, they cannot rely on any controls in their audit. Hence, testing controls is the wrong strategy and the team will put all the efforts into substantive procedures. However, we want to make sure that the entity strengthens their internal controls because we do not want to report the same misstatements year after year. In this case, it would be advisable to send in an IS audit team to conduct a thorough compliance audit at this client and make recommendations that are feasible to implement.

Q Could you clarify whether you can transfer your finding from IFMIS to another ministry were the IFMIS does not sit?

A The findings from the IFMIS audit applies to entities that are on the IFMIS platform.

Participant suggestions of topics for the next webinar:

- Integrating CAATs/Data Analytics into financial audits
- Completeness of information that is captured on an information system, for example prepaid electricity sales or similar
- Practical ways to do remote audits during Covid-19.
- How IT findings lead to financial audit procedures i.e. “connecting the dots”.