Auditing standards place specific requirements on the auditor to understand how a Client has responded to risks arising from their major IT implementations by obtaining an understanding of control activities.

Obtaining an understanding of controls means evaluating the design of the controls and determining whether they have been implemented:

- Are the revised automated and manual processes effective in supporting financial reporting? (business process risk)
- Does the underlying IT control environment provide comfort that such controls operate consistently? (ITGC risk)
- Was data migration and cutover from the legacy to the new systems completed completely and accurately? (cutover risk)
Why do auditors care about the company’s system implementation?
Top 10 System Implementation Audit Consideration
Scope your audit correctly
(1) **Scope your audit correctly**

**Approach— No single template**

Selecting the right audit approach to evaluate your company's move to a new system depends on their business objectives and evolving needs.

**Transformational scale**

<table>
<thead>
<tr>
<th>Transformational scale</th>
<th>Low</th>
<th>Low-medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade</td>
<td>Upgrade with process refinement</td>
<td>New implementation</td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Straight migration of current applications &amp; existing customization to new target release</td>
<td>Upgrade applications and refine targeted process improvement areas e.g. Upgrade with P2P Centralization or adding new modules e.g. Service</td>
<td>Re-implement and redesign processes and system Ground-up e.g. restructure every process along with org. structure</td>
</tr>
<tr>
<td>Goal</td>
<td>Vendor Support Compliance</td>
<td>Support Compliance &amp; added functionality</td>
<td>Business value</td>
</tr>
<tr>
<td>Business value</td>
<td>Business Model Changes</td>
<td>Transform processes</td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>Fastest</td>
<td>Medium</td>
<td>Longest</td>
</tr>
<tr>
<td>Cost</td>
<td>Lowest</td>
<td>Moderate</td>
<td>Highest</td>
</tr>
<tr>
<td>Business value</td>
<td>Lowest</td>
<td>Medium</td>
<td>Highest</td>
</tr>
<tr>
<td>Risk</td>
<td>Lowest</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Controls Risk</td>
<td><strong>Medium</strong></td>
<td><strong>High</strong></td>
<td><strong>Highest</strong></td>
</tr>
</tbody>
</table>
Impact of new system functionality
2. Impact of new system functionality

- Be prepared to answer the question around whether or not the company has considered and assessed some of the new functionalities within the system and if not, why not?
- If some have been leveraged, be able to articulate how the functionality was tested and any accompanying impact to the control environment.
Security, sensitive access & segregation of duties
3. **Security, sensitive access, & segregation of duties**

- What was the approach for designing roles and responsibilities?
- If upgrading, what was done to evaluate new menu’s/ screens & functions in the new system?
- How did you ensure appropriate segregation of duties prior to go-live?
  - If known conflicts are present upon go-live, what mitigating controls are there to reduce the risk?
  - Has your security been loaded timely or is it a last minute exercise?
- Is the system administration team reduced upon go-live?
- Have consultants with sensitive access been removed from the system?
User acceptance testing
4. User acceptance testing

- Have test cases been designed for the new system or rolled forward from the legacy system?
- Do the end users understand the technology enough to perform testing?
- Are testers true company employees or are SI (System Implementer) resources performing the tests? Are both?
- What was the overall UAT approach?
  - ✓ How many rounds of UAT will be complete?
- Examples of test results—printouts, screenshots, web-based UAT tracking, and/or stored in a centralized repository for audit reference.....
- Tie-out to bug/defect log
- Are users leveraging the roles and responsibilities they will have in production while performing the UAT testing?
Data conversion/migration
5. Data conversion/migration

Understand what the data conversion/migration strategy is

- What data is being converted/migrated?
- How is it being converted/migrated?
- How much is being converted/migrated?
- What controls are in place to detect any errors?
- Retention of data conversion evidence
  - Detailed tie outs
  - Clearance of reconciling items
  - Reports used
  - Final business owner sign offs
6. *Reports*

- Reporting methods will likely change in new system for your organization
- How can you confirm that reports are complete & accurate?
  - ✓ Standard Canned Reports
- Identify your “Key” report inventory early
- Leveraging UAT of reports for Audit purposes
Key control impact assessment
7. Key control impact assessment

- Have internal controls (business and IT) over financial reporting been contemplated and incorporated in the process design?
  - “As Is” controls have been mapped to “To Be” controls?
  - How much has the new system impacted the overall control environment?
- Have end users been adequately trained on how to perform their job and execute controls upon go-live?
- Is there potential to leverage automated controls to reduce manual controls?
  - Increased opportunities in the new system to avail of new functionalities that could enhance the overall control environment
Business requirements & design documentation
8. Business requirements & design documentation

- Processes are appropriately designed to meet the business requirements in advance of development occurring
  - Functional design documents are approved
  - Configuration design documents are approved
  - The technical design documents meet those requirements
- Audit is involved at each completed milestone and should review the documents for appropriateness
- Ensure a change control process is in place to manage updates business requirements and design
9. Issues log & defect tracking

- How are project issues/risks and defects being logged?
- What is the process for risk ranking?
- Can you as the auditor transparently observe how issues have been resolved?
- What is the process for tracking resolution and retesting?
  ✓ Evaluating show stoppers and the impact on a ‘go’ decision
Project governance & status reporting to support the go-live decision
10. Project governance & status reporting to support go-live decision

- Is the level of communication at the right level for the process owners and steering committee?
- Is the status reporting accurate?
  - ✔ Reporting is metrics driven
  - ✔ Issues are transparent and being bubbled up correctly
- Are timelines and deadlines shifting without reference nor an action plan in place?
- What is the go/no-go criteria and does it consider relevant key risks?
- Are the appropriate individuals involved?
  - ✔ An independent assessment is performed by the PMO
- What is the contingency plan for a ‘no’ decision?
Summary of the top 10 considerations:

(1) Scope your audit correctly
(2) Impact of new system functionality
(3) Security, sensitive access & segregation of duties
(4) User acceptance testing
(5) Data conversion/migration
(6) Reports
(7) Key control impact assessment
(8) Business requirements & design documentation
(9) Issues log and defect tracking
(10) Project governance & status reporting to support the go-live decision
Getting prepared for a systems implementation audit

• Include a controls focus throughout the project life cycle
• Take credit for work the project team is already doing
• Understand what the external auditor will be looking for early
**Benefits of embedding a control’s focus into the upgrade/implementation Project plan**

<table>
<thead>
<tr>
<th>Risks if controls are not embedded from the start</th>
<th>Benefits of including a controls focus from the start</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Potential inefficiencies arising from issues reported to management after go-live, requiring remediation activities which are costly and possibly disruptive to steady-state.</td>
<td>▪ Year end audit planning process will be more efficient as a consequence of knowledge and visibility gained.</td>
</tr>
<tr>
<td>▪ Potential that control design may not be suitable for a controls reliance based audit, reducing efficiencies which can be gained.</td>
<td>▪ Sharing of knowledge and experience to make sure that the most effective controls are implemented in the new systems that meet the external auditors requirements.</td>
</tr>
<tr>
<td>▪ Work will be concentrated at the year end, resulting in a greater burden on management time.</td>
<td>▪ Early review of controls design will enable the implementation team to build Auditor’s recommendations into the system processes, reducing the cost of having to retrofit configuration in the system.</td>
</tr>
<tr>
<td>▪ Potential that management will not be able to benefit from Auditor viewpoint on key controls.</td>
<td>▪ Issues will be reported in a more timely manner, allowing management to undertake remediation activities well in advance of the year end audit.</td>
</tr>
<tr>
<td></td>
<td>▪ Work together in a collaborative manner to achieve a successful implementation and reduce the potential for “surprises”.</td>
</tr>
</tbody>
</table>
Questions

Contacts:
Aaron Johnson, Manager
PwC, Irvine
Ph: (949) 437-5563
Email: aaron.k.johnson@us.pwc.com

Leah Pascua, Senior Associate
PwC, Los Angeles
Ph: (213) 356-6936
Email: leah.m.pascua@us.pwc.com