

Thought Leadership:

Audit Integration

Bridging the Gap Between Financial & IT Auditors



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Have you ever participated in a financial statement audit where there seems to be a clear distinction between the financial and information technology (IT) portions? Our industry is accustomed to segregating the two concepts: financial versus IT auditing, Certified Public Accountants (CPAs) versus Certified Information Systems Auditors (CISAs), Financial Audit Manual (FAM) versus Federal Information System Controls Audit Manual (FISCAM), Federal Accounting Standards Advisory Board (FASAB) versus National Institute of Standards and Technology (NIST).

Why does an audit with such clearly defined objectives require two separate paths for getting there? At Cotton & Company, we have developed an audit approach that integrates these concepts to the benefit of all participants and stakeholders.

Cotton & Company has performed financial statement audits for agencies since before it became a requirement under the Chief Financial Officers (CFO) Act of 1990 and the Accountability of Tax Dollars Act (ATDA) of 2002. Not only did we anticipate the inevitability of the CFO Act (and the subsequent Government Management and Reform Act [GMRA]), we recognized our ability and the

opportunity to assist multiple agencies in becoming capable of producing auditable records and financial statements.

Industry-Leading Integrated Financial and IT Auditing Approach

Government auditors have historically struggled to link the results of system testing in accordance with the FISCAM to the objectives and conclusions of financial statement audits. Based on our 39 years of experience conducting audits on behalf of dozens of inspectors general and the Government Accountability Office (GAO), Cotton & Company has adopted a cutting-edge, integrated approach to ensure seamless unification and delivery of our IT and financial audit work. Our approach is designed to not only ensure compliance with the FAM and FISCAM, but to also provide for fully integrated financial and IT audit steps.

Integrated Financial and IT Audit Team

We use an integrated audit team approach to link the results of information system control testing performed in accordance with the FISCAM methodology, to the objectives and conclusions of the financial statement audit performed in accordance with the FAM methodology. The integrated audit team—consisting of both financial and IT personnel—plans the audit in **unison**; conducts joint audit procedures, such as inquiries and observations to improve as; cross-trains to

identify and evaluate application-level general controls (ALGC) and IT general controls (ITGC); and draws conclusions on the effectiveness of ALGCs, ITGCs, service provider controls, and manual and automated business process controls. Resultantly, our assessment of the risk of material misstatement is clearly linked to our conclusions on the effectiveness of ALGCs, ITGCs, service provider controls, and manual and automated controls, thus providing a clear and defensible audit trail.

Tools and Templates to Achieve Efficiencies

Our audit approach also integrates IT controls when determining the amount of reliance we can place on internal controls over financial reporting and compliance with laws and regulations. We have built this integration into our tools and templates—such as our Specific Control Evaluation (SCE), which requires our auditors to evaluate information beyond the FAM's prescribed SCE—and into our audit programs in our custom audit documentation software: the Fully Integrated

Business and Engagement Resource (FIBER). These tools ensure we customize our scoping decisions for IT systems, applications, and FISCAM controls to facilitate coordinated control testing. This approach is much more precise than defaulting to testing all FISCAM controls for in-scope systems and applications, which results in wasted audit resources.

The Road Not Taken

Those of us that are familiar with the poetry of Robert Frost will recognize this line: "Two roads diverged in a yellow wood, And sorry I could not travel both..."¹ At Cotton & Company, we have successfully developed and implemented a way to integrate the financial and IT portions of the audit, thus enabling all of our auditors to travel both roads.

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1. From the poem "The Road Not Taken" written by Robert Frost and published in 1916.

