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IT AUDIT

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Essential Practices for Information Technology Examination Manual IT Section

FCA Essential Practices for Information Technology

Based on Industry Standards and FFIEC Examination Guidance

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Introduction:

The board of directors and management are responsible for ensuring adequate management practices are in place for effective oversight and management of the institution's IT environment. All institutions should adopt an effective audit and review program regardless of whether the technology services are provided internally or externally. FCA Regulation 618.8430(b) requires the adoption of internal audit and control procedures that evidence responsibility for review and maintenance of comprehensive and effective internal controls. FCA Regulation 609.940 establishes additional requirements regarding internal systems and controls. Standard audit processes should be followed including developing an audit plan and establishing reporting requirements. Additional audit guidance is covered in the ***Internal Controls*** section of the *FCA Examination Manual*.

Examination Objectives:

Determine if the board and management have established and maintained an effective audit program. This is accomplished through the following examination objectives:

- **Board Direction and Oversight –** Evaluate the board's involvement in establishing IT audit scope and reporting requirements and ensuring the availability of competent IT audit resources.
- **Audit Program** – Assess the quality and effectiveness of the IT audit program. This will assist the examiner in evaluating the adequacy of IT audit coverage and to what extent, if any, the examiner may rely upon the results of the audit program in determining the scope of the IT examination.

Examination Procedures:

Examination activities should be based on the criticality and complexity of the business functions present at the institution. The examination should begin with a review of audit results and the adequacy of corrective actions. At a minimum, the ***Essential Practices*** for IT Audit should be clearly documented and functioning within the internal control environment. More in-depth examination procedures (such as those found in the *FFIEC Audit Booklet*) should be evaluated and incorporated into the examination scope as an institution's size, risk, and complexity increases.

Audit

Element		
Essential Practices Statement	**Industry Standard Reference**	**FFIEC IT Examination Handbook Reference**
Risk Assessment		
Conduct a risk assessment and identify risk exposures (e.g., that threaten data integrity, financial condition, financial performance, continuity of operations, regulatory compliance, and customer service). ***Reason:*** *A risk assessment provides the internal auditor and the board with objective information to prioritize the allocation of audit resources properly. In assessing risk, consider the nature of the specific operation and related assets and liabilities, the existence of appropriate policies, the effectiveness of operating procedures and internal controls, and the potential materiality of errors and irregularities associated with the specific operation. A risk assessment:* • *Provides a foundation for the audit plan;* • *Promotes timely audit reporting on high-risk conditions;* • *Ensures that relevant information has been obtained from all management levels, including boards of directors, IT auditors, and functional area management;* • *Establishes a basis for managing the audit department effectively; and* • *Provides a summary of how the individual audit subject is related to the overall organization as well as to the business plans.*	COBIT: Control Objectives for Information and related Technology. ver. 4.1, PO9.	Audit Booklet (Aug. 2003), pp. 15-16. Business Continuity Planning Booklet (Mar. 2008), p. 4, Appendix H, H-2
Audit Plan		
Develop an IT audit plan based on the results of the risk assessment. ***Reason:*** *The IT audit plan defines the IT scope, objectives and strategies. It establishes a balance between scope, timeframes, and staff days to ensure optimum use of resources.*		Audit Booklet (Aug. 2003), p. 8-10. Management Booklet (Jun. 2004), P10
Audit Resources		
Ensure audit resources are independent, competent, and have the necessary experience to accomplish the IT audit objectives. ***Reason:*** *The ability of the internal audit function to achieve desired objectives depends largely on the independence of audit personnel. The auditor should report and be accountable to*		Audit Booklet (Aug. 2003), pp. 8-10. Management Booklet (Jun. 2004), p. 10

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Element		
Essential Practices Statement	**Industry Standard Reference**	**FFIEC IT Examination Handbook Reference**
the board of directors or its designated committee. This accountability precludes the auditor from certain relationships that may compromise audit independence. The overall competence level required for an internal audit function depends upon the size and complexity of its operations and the responsibility delegated to the auditor. External sources can be used to supplement or perform the IT audit function if internal resources or expertise are not adequate.		
Reporting		
Prepare written reports for the board of directors or audit committee, which outline the results of each audit or review. Such reports include: - **Description of scope and findings,** - **Underlying causes of weaknesses,** - **Conclusions, and** - **Recommendations for corrective action.** ***Reason:*** *Reports communicate audit findings to the board. They also assist management in evaluating the quality of its IT department and identifying methods for correcting or improving adverse conditions.*	FCA Examination Manual, Section 525, "Internal Controls."	Audit Booklet (Aug. 2003), p. 12.