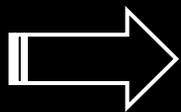


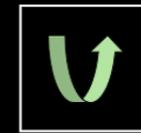
# The Auditor Operating Manual

Bryan Barnes CPA, CIA, CFIRS



A step-by-step manual  
on developing a high performance  
career in Audit!





## About the Speaker

For the last decade I have dedicated my career to leading high performing teams at

- Goldman Sachs
- Northern Trust
- Discover Financial Services
- CIBC (Canadian Imperial Bank of Commerce)
- Allstate Insurance Company

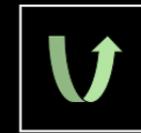
I am proud of my personal achievements; this playbook will teach you what has helped me gain success during my career! I promise to make the two promises below.

1. I will only teach you things that have worked for me.
2. Continuously improve this presentation based on feedback and research.

## IIA Standards

“Internal audit strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and object assurance”

# Planning and Risk Assessments



A **Risk Assessment** is a structured process used to identify, analyze, and evaluate risks that could impact an organization's operations, financial health, regulatory compliance, or security. It helps in implementing appropriate controls to mitigate risks effectively.

Common Risk Types: Operational Risks (process failures, human errors, system breakdowns), Financial Risks (market fluctuations, fraud, liquidity issues), Compliance Risks (regulatory violations, legal penalties), Cybersecurity Risks (data breaches, hacking, phishing attacks), Strategic Risks (business model failures, competition, reputation damage)

BSA and Sanctions Risk Assessments	BSA and Sanctions Risk Assessment	Management reviews BSA Risk Assessment methodology shall reflect a comprehensive analysis and documentation of the Bank's money laundering and terrorist financing and other illicit financial activity risks	<p><b>Design Review:</b> Conduct a design review to ensure identification of specific risk categories, including: products and services offered are included.</p> <p><b>Effectiveness Testing:</b> Ensure that customer type and entities served; transaction types; and countries or geographic locations of customers and transactions are included in the assessment</p>
Customer Due Diligence and Risk Identification	New Account Opening and Changes to Accounts	Management confirms that new account opening and modification to accounts follow BSA bank standards.	<p><b>Design Review:</b> Conduct a design review whether BSA/CDD policies and procedures align with regulatory requirements.</p> <p><b>Effectiveness Testing:</b></p> <ul style="list-style-type: none"> <li>- Review CDD/EDD processes and documentation for high-risk customers.</li> <li>- Test a sample of customer files for compliance with Know Your Customer (KYC) requirements: Types of customer, purpose of account, geographic location, account activity by type of service, expected activity, volume, velocity, and frequency.</li> <li>- Verify risk ratings and ongoing monitoring procedures for high-risk accounts.</li> </ul>
	Customer Due Diligence Risk Assessment	Management validates the CDD methodology to ensure that the customers entire relationship, including all of the customers domestic accounts are appropriate.	



## Keys to an effective stakeholder meeting

### Define Clear Objectives

Before the meeting, clarify:

What needs to be accomplished? (e.g., decision-making, updates, problem-solving), Who needs to be there? (Only include relevant stakeholders), What are the key discussion points?

### Prepare an Agenda and Share It in Advance

- Keep it focused and structured with time limits for each topic.
- Send it out ahead of time so stakeholders can prepare.

### Keep Discussions Focused & Engaging

- Start with a quick recap of previous meetings.
- Assign a facilitator to keep things on track.
- Use visuals, dashboards, or reports to present data effectively.

### Assign Action Items and Follow Up

- Clearly define who is responsible for what and set deadlines.
- Document meeting minutes and share them within 24 hours.
- Schedule follow-ups to track progress.



## Walkthrough Agenda

A walkthrough audit is a step-by-step review of processes, controls, and systems to verify compliance and assess operational effectiveness. I like to schedule these meetings for 45 minutes to allow for time runover.

It is important to provide agendas to clients prior to walkthrough to allow for preparation prior to the call.

### 1. Introduction & Objective (5-10 mins)

- Welcome and introductions of audit team & key stakeholders
- Overview of the audit scope, objectives, and timeline
- Discussion of regulatory requirements and risk areas
- Explanation of expected deliverables (findings, recommendations, reports)

### 2. Process Walkthrough & Documentation Review (25 mins)

- **Understanding Business Process & Controls**
  - Review policies, procedures, and internal controls
  - Walk through step-by-step process flows (e.g., transactions, approvals, system inputs)
  - Identify key risk areas and mitigating controls
- **System & Data Review**
  - Overview of systems used for transaction processing & monitoring
  - Review of access controls and segregation of duties
  - Sample screenshots of key transactions or data entries
- **Employee Roles & Responsibilities**
  - Interviews with process owners and key employees
  - Assessment of training and awareness regarding compliance & risks

### 3. Next Steps & Follow-up Actions (5 mins)

- Timeline for audit project and next review steps
- Q&A and closing remarks



## Managing Peers

### Build Influence, Not Just Authority

- Lead by example: Show strong work ethic, accountability, and problem-solving skills.

### Set Clear Expectations

- Define roles and responsibilities early so that there is no confusion.

Communicate deadlines and priorities clearly.

### Foster Collaboration, Not Competition

- Encourage open discussions and brainstorming sessions.
- Acknowledge and leverage each team member's strengths.

### Communication is Key

- Be transparent about project goals, progress, and challenges.

## Providing Feedback

### Handle Conflicts Diplomatically

- Keep feedback constructive and focused on behavior. Find common ground.

### Recognize and Appreciate Contributions

- Give credit where it's due to maintain morale and motivation.

### Stay Adaptable and Keep Learning

- Be open to feedback on your leadership style.
- Adjust your approach based on team dynamics and project needs.
- Learn from each project and continuously improve your management skills.



## Controls Evaluations

### Understand and Document Existing Controls

- Process Mapping: Document workflows to identify key control points.
- Control Categories: Evaluate different types of controls:
  - Preventive Controls (e.g., approval processes, access restrictions)
  - Detective Controls (e.g., reconciliations, audits, exception reports)
  - Corrective Controls (e.g., backup plans, escalation procedures)
- Identify Key Control Owners: Who is responsible for each control?

### Testing Methods:

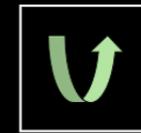
- Inquiry: Interview employees responsible for controls.
- Observation: Watch how processes are carried out.
- Inspection: Review documents, records, and system logs.
- Reperformance: Re-execute control activities to confirm they work.

### Evaluate Design vs. Operating Effectiveness:

- Design Effectiveness: Is the control structured to prevent or detect issues?
- Operating Effectiveness: Is the control consistently applied in practice?

**“Who, What, Where, When, and How”**

# Internal Controls Evaluations



**Auditing  
Success**

<b>Control Title</b>	Customer Due Diligence Risk Assessment				
<b>Control Description</b>	Management validates the CDD methodology to ensure that the customers entire relationship, including all of the customers domestic accounts are evaluated and are appropriate.				
<b>Data Range</b>	1/1/2024 - 12/31/2024			This is an example of a testing leadsheet	
<b>Testing Steps:</b>	Effectiveness Testing: Review CDD/EDD processes and documentation for high-risk customers. A.) Test a sample of customer files for compliance with Know Your Customer (KYC) requirements: Types of customer, purpose of account, geographic location, account activity by type of service, expected activity, volume, velocity, and frequency. B.) Verify risk ratings and ongoing monitoring procedures for high-risk accounts.				
<b>Conclusion:</b>	IA concludes that the customer due diligence process is operating effectively. <b>Pass</b>				
<b>Sample #</b>	<b>Account Name/Type</b>	<b>Attribute A</b>	<b>Attribute B</b>	<b>Exceptions?</b>	<b>Pass/Fail</b>
1	John Doe Checking Account	X	X	No	Pass
2	John Doe Brokerage Account	X	X	No	Pass
3	Jane Checking Account	X	X	No	Pass
4	John Doe Saving Account	(A)	X	Expected volume is outside thresholds	Fail
5	Jane Doe Trust Account	X	X	No	Pass



## Assess Data Governance

**Data Policies & Standards:** Are there clear policies for data collection, storage, and usage?

**Access Controls:** Who has access to sensitive data? Are permissions properly managed?

**Compliance Checks:** Ensure alignment with GDPR, CCPA, HIPAA, or industry regulations.

**Security Measures:** Assess encryption, firewalls, and incident response plans.

## Evaluate Data Quality and Integrity

**Key Areas to Check:**

- **Accuracy:** Compare sample records against source data.
- **Completeness:** Identify missing values or incomplete datasets.
- **Consistency:** Ensure uniformity across systems and reports.
- **Timeliness:** Verify data is updated regularly and not outdated.
- **Reliability:** Cross-check key metrics across different reports for discrepancies.

**Techniques:**

- Use ETL (Extract, Transform, Load) logs to detect data issues.
- Apply data profiling tools (e.g., Talend, Informatica, SQL queries).



### Audit Findings

#### Strong Audit Findings

- Clear & Concise – Findings should be specific and to the point.
- Fact-Based – Findings must be backed by data, observations, or testing.
- Risk-Oriented – Highlight the impact of the issue on financials, operations, or compliance.
- Actionable – Recommendations should provide clear next steps for resolution.

#### Structure of a finding:

- Observation – What was identified? (e.g., "Lack of approval in 20% of sampled invoices.")
- Criteria – What standard or policy should apply? (e.g., "Company policy requires dual approvals.")
- Risk/Impact – Why does this matter? (e.g., "Increases risk of unauthorized payments.")
- Root Cause – Why did this happen? (e.g., "Lack of training or system control.")
- Recommendation – What should be done? (e.g., "Implement automated approval workflows.")
- Management Response – How will the issue be addressed?

**Finding 1:** Image quality and integrity have decreased from September to October 2017 resulting in a decreased KYC pass rate.

#### Finding Detail:

From September to October 2017 there were 220 and 407 images rejected, respectively. This has resulted in an increasing KYC rejection rate. This rate of rejection is resulting in clients being unable to be onboard into the organization. The doubling of the KYC rate represents a major increase in the rejection rate as potential customers are unable to join the organization through the automated screening tools. Please see Appendix A for the details in increasing rejection rate.

**Root Cause:** Changes to the KYC screening tools and imagery tools may have resulted in an increased rejection pass rate.

**Risk Description:** Clients are unable to go onboard to the company. Resulting in lost revenue and clients for the firm.

**Recommendations:** Changes between October and September should be evaluated to identify the reason for rejections increase. Manual reviews of rejected applications should occur to ensure that rejected applications are being appropriately screened and that potential customers are not being rejected inappropriately.



## **Audit Reporting**

### **1. Executive Summary**

- Brief overview of the audit scope, objectives, and key findings. Summary of critical issues and high-priority recommendations. Statement on overall compliance and risk exposure.

### **2. Introduction & Scope**

- Purpose and objectives of the audit. Scope of the audit (departments, processes, time period covered). Regulatory standards and guidelines referenced.

### **3. Audit Methodology**

- Description of audit approach (walkthroughs, sampling, interviews, system testing). Tools and techniques used (data analysis, risk assessments).

### **4. Findings & Observations**

- Detailed findings categorized by risk level (High, Medium, Low). Root cause analysis for each issue identified. Supporting evidence (e.g., data discrepancies, policy gaps, control failures). References to relevant policies, regulations, or industry standards.

### **5. Recommendations & Corrective Actions**

- Practical recommendations for resolving deficiencies. Suggested process improvements and best practices. Timeline for corrective actions and responsible parties.

### **6. Conclusion & Next Steps**

- Summary of the overall audit assessment. Follow-up actions and timeline for re-evaluation. Final remarks on compliance, risk mitigation, and improvement areas.



## Audit Report Example

### Audit Objective

Know your customer (KYC) is a standard financial services practice. KYC is used to identify and screen potential customers prior to acceptance of their business. The company performs KYC checks prior to acceptance of a customer. There are two screens that are performed. The first screen confirms that the government issued ID is valid and authentic. The second screen confirms that the face in the ID matches the picture that was submitted during account opening. These two screens taken in conjunction with each other result in a pass or fail of the client for onboarding. The client is allowed to submit photos twice if the initial screen fails. If the client fails to pass the KYC screens the account is not onboard.

The audit objective is to identify the root cause for the KYC decreasing pass rate. Design and effectiveness testing will be performed to identify potential drivers for the decreasing pass rate.

### Audit Scope

The audit scope is focused on KYC records from May 2017 to October 2017. Data analytics testing will be performed to identify the drivers for the decreasing pass rate. Including the controls in place to prevent unapproved customers from being onboarded.

### Testing Performed

Control: Management reviews the document check report to ensure appropriate data integrity, visual authenticity and police record checks. Perform testing to identify what is driving the decreasing pass rate. Testing would encompass the following:

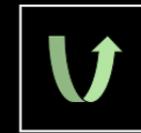
1. Identify what is driving the rejection rate for the data integrity document check.
2. Perform trend analysis to identify what is driving the decreasing visual authenticity rate for image integrity.

Control: Management validates document failures to confirm instances in which failure occur.

No testing performed.

Control: Management reviews the facial similarity check to confirm live videos and photos match submitted documents.

1. Perform trend analysis on face comparison results.
2. Perform analysis on facial image integrity results to identify any trends or inconsistencies.
3. Perform analysis on visual authenticity results to identify any trends or inconsistency.



## Audit Report Example

### Executive Summary

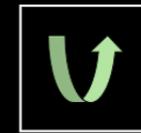
Internal Audit performed testing on the Document Check Report and the Facial Similarity Report to identify the primary drivers of the decreasing KYC passing rate. Testing focused on the Document Check Report to identify where in the process the Documents were being flagged for consideration or rejection. While the Facial Similarity Report was also evaluated to note any drivers for a decreasing pass rate.

Internal Audit noted the KYC passing rates are falling due to decreasing image quality results on submitted images. From September to October there was an increase in image quality rejections from 220 to 407 rejections. This is resulting in applications being rejected due to images not being able to be reviewed and compared to client information resulting in application rejection.

Additionally, there has been an increase in cautions due to data validation and data consistency failures. Data validation failures have increased from 114 to 342 records. While data consistency results have increased from 71 to 204 records. These failures could be driven by a decrease in image quality which is resulting in images not being appropriately analyzed and KYC checks failing.

Internal Audit recommends that the Document Check Report KYC image processing system be evaluated to identify why image quality has decreased from month to month. Additionally, data validation rules and the application should be evaluated to identify instances in which duplicate data could be collected to potentially identify discrepancies that would result in the data validation rules failing on the front-end to allow for client correction prior to KYC submission.

Further, the increased rejection rate could be driven by a decrease in image quality which is resulting in images not being appropriately analyzed and KYC checks failing. Changes made to image quality analysis and storage of the image may have resulted in an increased rejection rate that was not intended to occur.



## Networking Basics

Networking is a powerful tool for career growth, business success, and personal development. It involves building and nurturing relationships with professionals, colleagues, and industry peers to exchange knowledge, opportunities, and support.

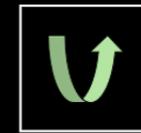
- **Job Opportunities** – Many jobs are filled through referrals rather than job postings. Networking increases your chances of hearing about openings first.
- **Career Advice & Mentorship** – Connecting with experienced professionals can provide guidance and insights for career advancement.
- **Skill Enhancement** – Engaging with a network exposes you to new ideas, industry trends, and learning opportunities.

## How to Network

**Stay Updated on Trends** – Networking keeps you informed about industry changes and technological advancements. **Learning from Others' Experiences** – Insights from peers help you avoid pitfalls and make informed decisions.

How to:

- **Attend Industry Events & Conferences** – Meet professionals in your field.
- **Engage on LinkedIn & Online Forums** – Share insights and participate in discussions.
- **Join Professional Groups & Associations** – Connect with like-minded individuals.
- **Offer Value to Others** – Help before you ask for help to build meaningful relationships.
- **Follow Up & Stay Connected** – Maintain relationships through regular check-ins.



Mentoring is a valuable relationship that fosters growth, learning, and career development. To make it effective, both mentors and mentees should follow best practices.

## **Do's of Mentoring**

- Take Initiative – Be proactive in scheduling meetings and driving discussions.
- Be Open to Feedback – Accept constructive criticism and apply learnings.
- Set Clear Goals – Define what you want to achieve through mentorship.
- Be Respectful of Time – Come prepared with questions and respect your mentor's schedule.
- Apply What You Learn – Act on the advice and insights provided.
- Express Gratitude – Appreciate your mentor's time and guidance

## **Don'ts of Mentoring**

- Don't Expect Instant Results – Growth takes time; be patient.
- Don't Be Passive – Engage actively in the process instead of just listening.
- Don't Rely Solely on Your Mentor – Seek additional resources and self-learning.
- Don't Take Feedback Personally – Use it as a tool for improvement.
- Don't End the Relationship Abruptly – If moving on, communicate it respectfully.



## Strategic Career Planning

**Set Career Goals** – Define short-term goals (1-2 years) and long-term goals (5-10 years). Use SMART criteria (Specific, Measurable, Achievable, Relevant, Time-bound). Consider potential career paths and leadership opportunities.

**Skills Development & Continuous Learning** – Identify skill gaps and areas for improvement. Pursue relevant certifications, courses, or training. Stay updated on industry trends and technologies.

**Build a Strong Network** – Connect with mentors, industry professionals, and colleagues. Attend networking events, seminars, and workshops. Engage in professional organizations and LinkedIn communities.

**Gain Experience & Adapt** – Seek challenging projects, promotions, or job rotations. Look for internships, freelancing, or volunteering opportunities. Be open to adjusting career plans based on new opportunities.

**Regularly Review & Adjust Your Plan** – Conduct an annual career review. Update goals based on achievements and industry shifts. Seek feedback from mentors and peers.