

elliott davis

AUDITING IN A VIRTUAL ENVIRONMENT

FIRMA FIDUCIARY RISK MANAGEMENT
CONFERENCE

AGENDA

- Auditing options
- Virtual – what can go right?
- Virtual – what can go wrong?
- Communication and goals
- Risk assessment
- Hybrid – the best of both worlds

REMOTE WORK

- Percentage of your institution working remotely?
- What is your internal audit department's approach?
 - In-house, co-sourced or outsourced?
 - Are those auditors in office, hybrid or virtual?

AUDITING OPTIONS

- In person
- Virtual
- Hybrid

VIRTUAL – WHAT CAN GO RIGHT?

- Avoids unnecessary travel time
 - Lessen client expenses
 - Increase employee retention
 - Scheduling flexibility and additional resource availability
- Less client disruptions
- Use of collaboration tools and remote access directly into systems can increase audit quality
- Continuous monitoring and potentially greater access to client data

VIRTUAL – WHAT CAN GO WRONG?

- Too little communication, especially verbal communication
 - Auditee relationship
 - Misalignment of expectations
- Auditee intel
- Access to information
- Out of sight, out of mind to auditee
- Auditor sense of urgency
- Training/advancement of younger team members in an apprenticeship model
- Cybersecurity risks

COMMUNICATION AND GOALS

- The biggest deterrent to an effective audit is poor two-way communications
- Can't have the same cadence of meetings and touchpoints as on-site
- Pick up the phone/Teams/Zoom – you cannot build a relationship as a pen pal
- Clarity in timelines and communication means
- Who to contact if auditee isn't responsive?
- Has someone tested direct client access prior to the beginning of the audit?

RISK ASSESSMENT/AUDIT PLAN

- With remote or hybrid work, how might we be able to better utilize data?
 - Artificial intelligence
 - Embedded audit modules (EAMs)
 - Continuous auditing
 - Data analytics

AUDIT TOOLS

Artificial Intelligence

- Readily available
- Standardized rules
- Easily explained
- Follows human logic
- Opportunities
 - Automation
 - Anomaly detection in static environment

Machine Learning

- Somewhat available
- Rules based
- Explainable with effort
- Born out of human logic
- Opportunities
 - Anomaly detection in changing environment

Deep Learning

- Largely unavailable/unused
- Synthesizes human logic based on neural networks
- Lacks Explainability
- Opportunities:
 - Will be tough to gain comfort/approval under stringent auditing standards

Auditor judgment?

What are “EAMs”?

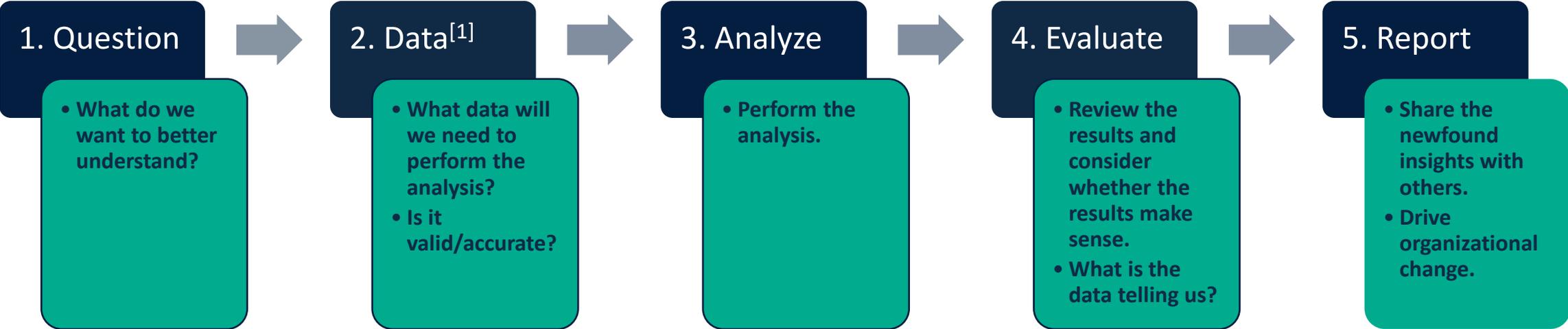
Embedded Audit Modules are strands of code built into software applications that are designed to capture information of audit significance in real time.

Auditors can access and review information in real time rather than compressing their review of pertinent information into scheduled fieldwork. EAMs also reduce the time and effort spent by clients pulling information to fulfill request lists.

Continuous Auditing

- Goals of continuous auditing:
 - Earlier detection of abnormalities
 - Ability to dig deep on material transactions sooner
- Viable alternatives:
 - Pulling work forward
 - Spreading risky audit areas throughout the year
 - Open lines of communication
 - Open access to accounting records/data

DATA ANALYTICS PROCESS



[1] Data considerations:

- Needs to be in a useable format
- Needs to be complete and accurate (reconcile it)
- Keep a copy of the original

HYBRID – THE BEST OF BOTH WORLDS

- It's all about relationships and communication...and expertise
- Face-to-face and auditor intel
- Use on-site time for the important stuff, like flushing out issues
- Plus, many of the benefits on virtual

STAY IN TOUCH

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Services: Assurance | **Emphasis:** Financial Services

Professional Overview

Josh serves as the Specialty Group Leader for the firm's Financial Services Group. In this role, he leads the firm's financial services audit, tax, advisory, and consulting teams, as well as oversees their related service offerings.

Josh's customers include both public and private banks, mortgage companies and trust companies. He assists these customers with financial statement audits, internal control over financial reporting audits (Sarbanes-Oxley and FDICIA), and internal audit engagements. Josh has experience working with financial institutions on SEC reporting, including public offerings and secondary offerings; denovo bank formation; and the accounting for mergers and acquisitions. In addition, Josh leads the majority of the firm's trust engagements (both internal and external audit).

Education, Credentials, and Special Training

Certified Public Accountant
Certified Fiduciary and Investment Risk Specialist
M.S., Accounting, North Carolina State University
B.S., Accounting, North Carolina State University

Civic and Community Activities

Past Member of Board of Directors, Me Fine Foundation
Past Advisory Board Member, Bankers' Affinity Group