Case Study 3
Performing a Blended Consulting Engagement

LEARNING OBJECTIVES

- Identify and document an organization’s vision, mission, and strategy.
- Perform a risk assessment of major change initiatives necessary to achieve an organization’s strategy.
- Determine and schedule the most valuable consulting engagements to support the achievement of an organization’s strategy.
- Understand and document the engagement customer’s expectations for planned consulting engagements.
- Identify and document the appropriate scope of planned consulting engagements.
- Determine and create appropriate work programs to support planned consulting engagements.
- Perform planned consulting engagements.
- Determine and document appropriate results and conclusions for completed consulting engagements.
- Communicate final consulting engagement results to the engagement customer.

This is a comprehensive case study with a number of scenarios that typically fit well into an advanced internal audit class or a graduate-level class in internal auditing. Most likely there would not be sufficient time in a beginning internal audit class to complete a case study of this nature. In addition, this case study requires the significant use of critical thinking skills and can have many different solutions that would be acceptable. The skills required to complete the case study are those typically expected of an internal audit senior or above. A second abbreviated version of this case study is available for those wanting to use an abbreviated version that will focus on the execution of a specific consulting engagement.

Internal consulting engagements vary dramatically by internal audit function, environment, and organization. As chapter 15, “The Consulting Engagement,” makes clear, the internal audit function is uniquely positioned to add value and make an impact on the organization when performing consulting engagements. The current increased focus on an organization’s system of internal controls by regulators, independent outside auditors, and management means that internal audit functions are asked more frequently to provide advice, facilitate activities, and train managers on the effective design, implementation, and operation of governance, risk management, and internal control processes. This case study uses a fictional, multinational financial institution as the context within which to explore a number of those consulting
opportunities that real-world organizations pursue as they address the issues they are struggling with today. Through these engagements, the internal audit function may provide the organization with insight regarding significant events or provide additional assurance related to an area where additional assurance is desired. The case study scenarios can be performed separately and do not have to be assigned in a specific order.

Although each internal audit function approaches consulting engagements differently, this case study is designed to familiarize students with a wide spectrum of scenarios in which consulting engagements are applicable and the many ways that internal audit functions customize consulting engagements to address the specific needs of an organization. Students will be presented with many opportunities in this case study to apply the material contained in chapter 15. Because consulting engagements are often done on a one-time basis and have not been performed before, they require extensive research and planning. And, just as internal auditors are required to have their research prepared in advance of a consulting engagement, the same is expected of students before they begin this case study. Because this case study simulates the environment of the financial services industry, students should do as much research as is required for them to have an understanding of the financial services industry and be able to quickly access the knowledge acquired as needed throughout the case study.

In today’s environment, many internal audit functions are increasing the priority of consulting engagements due to the added value they bring to an organization. This case study was developed to prepare students for the increased focus organizations are placing on consulting engagements and is intended for use by practitioners and academic instructors. This advanced case study incorporates many of the concepts covered throughout the various chapters in the textbook. The authors recommend that it be completed in conjunction with chapter 15 and after chapter 3, “Governance,” chapter 4, “Risk Management,” and chapter 5, “Business Processes and Risks.”

As indicated in chapter 15, many engagements can be considered blended consulting engagements since they contain both consulting and assurance elements. The authors believe this is so common that the examples and activities in this case study are designed to illustrate how engagements can contain both elements.

PERFORMING RISK ASSESSMENTS

Chapter 4 details the process by which senior management and the board of directors manage the risks inherent in an organization's business model. The internal audit function is pivotal in this process and performs assurance and consulting activities designed to provide feedback and advice to management on the design adequacy and operating effectiveness of the system of internal controls in place to help an organization effectively carry out its strategy. These assurance and consulting activities assist management with the identification of potential weaknesses in the system of internal controls that are relied upon to mitigate risks that could prevent the achievement of key business objectives.

The board of directors is responsible for providing strategic direction and guidance relative to the establishment of key business objectives and consistent with the organization's business model. Directors bring varied and diverse business experience to the board and, thus, are in a position to provide the strategic direction and guidance that will help ensure the organization is successful. The board can also influence the organization's risk-taking philosophy and establish broad boundaries of conduct based on the organization's overall risk appetite and cultural values.

As discussed in chapter 3, the board of directors is also responsible for providing governance oversight. It is in this area of responsibility that the internal audit function has the most direct opportunity to add
value. The board of directors provides direction to management, empowers them with the authority to take action, and oversees the overall results of operations. Both senior executives and line management play important but different roles in day-to-day governance through their respective risk management activities. The internal audit function provides management and the board with assurances regarding the effectiveness of governance activities.

In addition to providing assurance services to the organization, the internal audit function adds value by performing consulting services at the board’s or management’s request. Such consulting services often help the board and management make decisions regarding which activities designed to achieve strategic objectives align with management’s risk appetite.

Chapter 5 outlines how organizations structure their business activities and initiatives designed to implement their strategy and achieve their business (organizational) objectives. As organizations plan these activities, they also must identify the potential risks that are introduced and manage those risks to acceptable levels. The internal audit function can be integral in this process by performing risk-based assurance and consulting engagements that are aligned with the organization’s business risk profile. Internal audit functions often participate in, or even facilitate management’s performance of, a risk assessment in which risks are assessed in terms of impact and likelihood at an organizational level. Both impact and likelihood are determined using a scale. These scales often are expressed using three or five categories. A three-category scale for impact might include high, medium, and low, whereas a five-category scale might include extreme and negligible in addition to the categories mentioned above. Whether three or five categories are used, they are typically defined in greater detail. If they are defined in terms of financial impact, each category delineates the range of dollars (an example is shown in exhibit CS 3-1, which is taken from exhibit 5-8 in chapter 5). The categories of impact also might reflect degrees of injury, impact on reputation, etc. Similarly, likelihood, which is evaluated by assessing the probability of an event happening, is also broken into three or five categories. For likelihood, a three-category scale might include unlikely, possible, and probable with a five-category scale including remote and certain in addition to the categories in a three-category scale. As with impact, the categories for likelihood are often defined more specifically. For example, likelihood might be expressed in percentages as shown in exhibit CS 3-1.

Regardless of how an organization chooses to define the categories for impact and likelihood, this process allows risks at an organizational level to be plotted on a matrix and assessed in terms of both impact and likelihood, providing a truer picture of the risk events the organization faces than if they were evaluated only in terms of one or the other. Exhibit CS 3-1 is a visual depiction of this risk assessment model.

As stated in chapter 5, once the major risks have been identified, management can then consider their importance and link risk events to the business activities and initiatives identified to achieve the organization’s strategic business objectives. Once the risks facing the organization have been linked to the strategic business activities and initiatives, the members of senior management prioritize the initiatives and provide direction to line management on efforts necessary to achieve the short-term, intermediate, and long-term business objectives.

Once management has prioritized the business activities and initiatives they believe carry the greatest impact on the achievement of the business objectives, the internal audit function will evaluate these activities to determine the initiatives on which their participation will have the greatest impact. The internal audit evaluation (risk assessment) will leverage management’s assessment and prioritization process and is designed to accomplish several purposes, including but not limited to:
### EXHIBIT CS 3-1

#### RISK ASSESSMENT MODEL

<table>
<thead>
<tr>
<th>Impact</th>
<th>Remote (0-10%)</th>
<th>Unlikely (10-25%)</th>
<th>Possible (25-50%)</th>
<th>Probable (50-90%)</th>
<th>Certain (90-100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme</td>
<td>15</td>
<td>19</td>
<td>22</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>High</td>
<td>10</td>
<td>14</td>
<td>18</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>Medium</td>
<td>6</td>
<td>9</td>
<td>13</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Low</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Negligible</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
</tbody>
</table>

**Impact**

- **Extreme:** $>100\text{m};$ threatens ongoing existence
- **High:** $25-100\text{m};$ difficult to achieve business objectives
- **Medium:** $5-25\text{m};$ makes achieving some business objectives challenging
- **Low:** $1-5\text{m};$ some undesirable outcomes
- **Negligible:** <$1\text{m};$ no noticeable impact on objectives

**Likelihood**

- Remote (0-10%)
- Unlikely (10-25%)
- Possible (25-50%)
- Probable (50-90%)
- Certain (90-100%)
Prioritizing business activities and initiatives subject to internal audit involvement. Such involvement may be through assurance engagements, consulting engagements, or blended engagements.

Forming a basis for allocating scarce internal audit resources.

Providing guidance as to the type and timing of internal audit communications.

Providing management (the engagement customer) with agreed-upon input and feedback consistent with engagement expectations.

While the internal audit function’s risks assessment process is similar to management’s assessment and prioritization process, more often than not it evaluates risks based on many more factors than just impact and likelihood. Commonly, the internal audit function’s risk assessment process evaluates each activity or initiative using risk factor models that identify anywhere from seven to 15 factors. Regardless of the number of factors included in a given model, each factor is more precisely defined by assigning scores according to a scale. This scale can be expressed in three, five, or seven categories that are defined according to the risk factor subject to rating. In addition to rating each activity according to degree within each risk factor, internal audit functions often have another component that allows them to more finely prioritize risks. This is done so that the relative importance (or weight) of one factor can be compared to the relative importance of another. For example, weighting may be done by assigning numbers between zero and 100 to each risk factor according to its relative importance such that, when summed, the total equals 100 even though each risk factor is weighted differently according to the importance placed on it. If each of the risk factors is considered to be of equal importance, they would be given the same numeric weighting. Exhibit CS 3-2, which is taken from exhibit 5-12 in chapter 5, shows a 10-factor risk model using a three-point scale. It also shows the weights that an internal audit function might apply to the risk factors.

In addition to assigning an overall risk score to each business activity/initiative (potential consulting engagement), some internal audit functions add a subjective priority rating that is applied to each potential consulting engagement according to the importance the internal audit function places on it. The internal audit function will consider management’s assessment and prioritization process results when determining their subjective priority rating. Additionally, the internal audit function will consider the amount of resources required and the skills necessary to perform the consulting engagement, as well as the engagement customer’s needs and expectations.

This subjective priority rating is often expressed in a three-point scale with one as low, two as moderate, and three as high. By applying this subjective priority rating, internal audit functions are able to take both the overall risk score and the subjective priority rating for a given potential consulting engagement and plug it into a rubric that provides guidance on the scope, resource allocations, and reporting requirements for the potential consulting engagement.

Exhibit CS 3-3 depicts an illustrative risk model applied to a list of potential consulting and blended consulting engagements with overall risk scores and subjective priority ratings assigned.
## EXHIBIT CS 3-2
### RISK FACTOR APPROACH

### FACTORS, DESCRIPTIONS, WEIGHTINGS, AND SCORES

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description</th>
<th>Score (1-3)</th>
<th>X Weight</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXTERNAL FACTORS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1. Assets at risk | 1 - Less than $500,000  
2 - From $500,000 to $5 million  
3 - Greater than $5 million | | 10 | |
| 2. Visibility | 1 - Operating unit/direct customer  
2 - Divisional/limited set of customers  
3 - Organization/national press | | | 10 |
| 3. Complexity | 1 - Simple, routine assignments make up process  
2 - Requires several steps and interaction of multiple people  
3 - Multiple steps, requiring coordination of multiple individuals both within the process and with other processes | | | 10 |
| 4. Size of process/operation | 1 - Process affects less than 5\% of the organization’s activities  
2 - Process affects 5\% to 15\% of the organization’s activities  
3 - Process affects more than 15\% of the organization’s activities | | | 10 |
| 5. Legal/regulatory/external requirements | 1 - Few requirements or generally unregulated  
2 - Some legal, regulatory, or external requirements  
3 - Significant number of and/or complexity of requirements | | | 10 |
| **INTERNAL FACTORS** | | | | |
| 6. Internal control stability | 1 - Mature risk and control system  
2 - Stable risk and control system with moderate changes  
3 - Significant changes to risk and control system | | | 5 |
| 7. Internal control effectiveness | 1 - No internal control or compliance issues in past two years  
2 - Instances of fraud, internal control weakness, or compliance failures, but none significant in the past two years  
3 - Significant fraud, internal control weakness, or compliance failures in past two years | | | 10 |
| 8. Significant changes in operations, processes, personnel, or technology | 1 - No significant change in last 12 months  
2 - Some changes in process or key personnel in last 12 months  
3 - Major change in business and process or new IT system in last 12 months | | | 15 |
| **OTHER FACTORS** | | | | |
| 9. Management concerns | 1 - No concerns expressed  
2 - Some concerns expressed by senior management  
3 - Notable concerns expressed by senior management or board | | | 10 |
| 10. Prior audit results | 1 - No internal control or compliance issues in last audit  
2 - Minor internal control or compliance issues in last audit  
3 - Significant internal control or compliance weaknesses in last audit | | | 10 |

**OVERALL RISK SCORE**
## EXHIBIT CS 3-3
### ILLUSTRATIVE CONSULTING ENGAGEMENT RISK MODEL

<table>
<thead>
<tr>
<th>PROJECT NAME</th>
<th>DATE ASSESSED</th>
<th>OVERALL RISK SCORE</th>
<th>RISK RATING</th>
<th>PRIORITY RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Bank Infrastructure Rollout</td>
<td>11/7/20XX</td>
<td>1.9</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Image Awareness – Branding</td>
<td>11/7/20XX</td>
<td>1.7</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Retail Back Office Rollout</td>
<td>11/7/20XX</td>
<td>2.2</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Consolidated Customer Portal</td>
<td>12/3/20XX</td>
<td>2.0</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Consolidated Client Statements</td>
<td>12/3/20XX</td>
<td>1.8</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Name Change – BUG</td>
<td>12/3/20XX</td>
<td>1.8</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Bank of China – Due Diligence</td>
<td>12/3/20XX</td>
<td>2.6</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Bank of China – Client Conversion</td>
<td>12/3/20XX</td>
<td>2.7</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Net Worth Evaluator</td>
<td>1/7/20XY</td>
<td>1.6</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Retirement Savings Calculator</td>
<td>1/7/20XY</td>
<td>1.5</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Associate Training – V, M, CS</td>
<td>1/7/20XY</td>
<td>1.5</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>Product Rollout – Advertising</td>
<td>1/7/20XY</td>
<td>1.2</td>
<td>L</td>
<td>L</td>
</tr>
</tbody>
</table>

### Risk Rubric

<table>
<thead>
<tr>
<th>Risk Scale</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>This factor is of no concern.</td>
</tr>
<tr>
<td>1</td>
<td>This factor is of little concern or very slight applicability. This factor is of average concern or applicability.</td>
</tr>
<tr>
<td>2</td>
<td>This factor is of very definite concern or applicability.</td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Score</th>
<th>Risk Assignment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.80 to 3.00</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>1.50 to 1.79</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>0 to 1.49</td>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

### Scope and Reporting Rubric

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Priority Rating</th>
<th>Report</th>
<th>Scope</th>
<th>Typical Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>H</td>
<td>Required</td>
<td>Full Scope Project</td>
<td>2,500 hours</td>
</tr>
<tr>
<td>H</td>
<td>M</td>
<td>Optional</td>
<td>Customer Agreed Deliverables</td>
<td>1,000 hours</td>
</tr>
<tr>
<td>H</td>
<td>L</td>
<td>None</td>
<td>Monitor Project Progress Only</td>
<td>500 hours</td>
</tr>
<tr>
<td>M</td>
<td>H</td>
<td>Optional</td>
<td>Customer Agreed Deliverables</td>
<td>1,000 hours</td>
</tr>
<tr>
<td>M</td>
<td>M</td>
<td>Optional</td>
<td>Project Team Participation Only</td>
<td>750 hours</td>
</tr>
<tr>
<td>M</td>
<td>L</td>
<td>None</td>
<td>No Participation</td>
<td>0 hours</td>
</tr>
<tr>
<td>L</td>
<td>H</td>
<td>Optional</td>
<td>Project Team Participation Only</td>
<td>750 hours</td>
</tr>
<tr>
<td>L</td>
<td>M</td>
<td>Optional</td>
<td>Monitor Project Progress Only</td>
<td>500 hours</td>
</tr>
<tr>
<td>L</td>
<td>L</td>
<td>None</td>
<td>No Participation</td>
<td>0 hours</td>
</tr>
</tbody>
</table>

**Priority Rating:** A subjective assignment of High, Medium, or Low based on external and internal factors such as internal audit or executive management concern.
PERFORMING CONSULTING ENGAGEMENTS

Based on the prioritization performed above, the internal audit function determines the business activities and initiatives for which consulting engagements will be performed. The internal audit function will attempt to maximize the value provided to management relative to resources committed, perceived risk mitigated, and timeliness of services provided. The goal is to provide management with the information they need to mitigate the risks inherent in the business activities and initiatives intended to carry out the organization’s strategic objectives. Once those consulting engagements have been determined, the internal audit function must act quickly to schedule them and assign resources.

Resources for consulting engagements are allocated in much the same way they are for assurance engagements. Implementation Guide 2230 advises that when determining the appropriateness and sufficiency of resources, “it is critical that internal auditors assigned to an engagement possess the necessary knowledge, skills, experience, and additional competencies to perform the engagement competently and thoroughly.” While the specific skills and experience may differ somewhat from assurance engagements, the thought process for determining appropriate resources must be equally rigorous.

Once the consulting engagements are scheduled and the appropriate resources have been allocated, the internal audit team assigned to each specific consulting engagement must meet with the parties involved to gain a detailed understanding of the engagement customer’s expectations. Standard 2300 states that the internal audit function “must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.” The success of consulting engagements is highly dependent on the internal audit function’s ability to understand and document the engagement customer’s objectives.

Understanding and documenting the customer’s objectives allows the internal audit function to create an effective and efficient work program. The work program will include the detailed procedures to be performed by the internal audit team that are necessary to accumulate the evidence and documentation required to validate assumptions or test hypotheses discussed with the engagement customer when gaining an understanding of the engagement expectations.

Once the work program has been established, the internal audit team will perform the work outlined in the program. In many cases the steps and audit procedures may be modified based on additional information or previous work. This is due to the fluid nature of these assignments. As the work is performed, the results should be documented as they become known. This is important for two reasons. First, there needs to be a record of the work performed that will be available to parties who might have an interest at some future point. These parties may include the customer, board of directors, independent outside auditors, regulatory bodies, etc. Second, the internal audit team will rely on the documented results to support advice given in response to the consulting elements of the engagement, and the overall conclusions and recommendations provided to address the assurance elements. Without an accurate record of the work performed, internal auditors have a difficult time substantiating engagement advice and conclusions and formulating meaningful recommendations that add value.

Exhibit CS 3-4 illustrates a work program for an engagement that has both a consulting objective and an assurance objective (that is, a blended engagement).
Engagement Work Program: Client Data Conversion

**Engagement Objectives:** As agreed to with management, our objectives are to:

1. Provide advice to the Client Data Conversion Project team on current leading practices for managing data conversion projects.
2. Assess whether the project team completed all steps required by the revised data conversion methodology to support an accurate, effective, and efficient data conversion.

**Engagement Customer Objective:** The Client Data Conversion Project sponsor stated that his objective is to ensure that systems and processes appropriately support an accurate and timely conversion of client data. This includes:

- The data conversion process must be designed and conducted in a manner consistent with leading practices. This includes documentation of all key judgments and decisions.
- Functional gaps between legacy BUS and Bank of China systems must be identified and addressed.
- Systems and processes must support an accurate and timely conversion of client data (including accounts, assets, and web experience).
- Required regulatory approvals must be obtained to proceed with the Client Data Conversion Project.
- Project, technology, and operational risks must be identified and managed.

**Overall Business Risk:** Failure to manage effectively the Client Data Conversion Project may result in client data that is not complete and/or accurate, which could adversely impact servicing those clients in the future and result in regulatory fines or sanctions.

**Steps to Perform:**

- **Engagement Objective #1**
  - Research leading project management and data conversion practices.
  - Based on discussions and observations, identify differences between the current data conversion methodology and leading practices. Specifically evaluate planned steps, communications, monitoring, and documentation activities.
  - Meet weekly with project management to provide observations and identified gaps between leading practices and the current methodology. Facilitate discussion, as appropriate, to help project management determine which new practices they would like to implement.

- **Engagement Objective #2**
  - Validate that the project team has tested the reliability of automated data conversion routines for mapping of conversion data.
  - Assess whether the quality assurance (QA) function has appropriately completed its testing, validation, and documentation to support its signoff.
  - Observe mock runs for the conversion projects. Determine whether the project team has initiated appropriate actions to address any issues identified during the mock runs.
  - Observe Integration Steering Committee updates on the conversion status and determine whether all key steps are being completed timely.
Record of Work Done:

- Confirmed existing methodology (procedures and controls) with project management team (see working paper (w/p) E.2.20).
- Documented identified gaps between leading data conversion practices and the current data conversion methodology. Also documented discussions about these gaps as part of the weekly meetings with the project team and their planned implementation actions (see w/p E.2.21-E.2.29).
- Reviewed the automated data conversion routines, noting that they were fully tested and signed off as complete and accurate by the project team (see w/p E.2.40).
- Reviewed the QA test plan for the asset conversion (see w/p E.2.50) and sample documentation used by QA for testing, including balances worksheets (see w/p E.2.51) and file conversion status (see w/p E.2.52). Worked with QA associates while conducting the demographic testing and observed the testing they performed with the source systems. No exceptions noted.
- Observed mock data conversion runs conducted by the project team as part of the conversion simulation for completeness and accuracy (see w/p E.2.60 and E.2.61). Noted with each simulation that errors were identified, tracked, and corrected, and that changes to the timing of key milestones are reasonable. No exceptions noted.
- Confirmed through participation on the Integration Steering Committee that conversion updates were provided and acted upon timely (see w/p E.2.70). No exceptions noted.

Because of the time urgency associated with many consulting engagements, communication to the customer should be frequent during the execution of the engagement. This communication can take many forms, but in the interim stages of the engagement it is often done orally or through conference calls and/or email. Often, consulting engagement communication is tied to specific dates of importance throughout the engagement (milestones) and key decision points. The type of communications will also be influenced by the scope of the consulting engagement (for example full scope, limited scope, pre-conversion, or post-conversion review).

Communication final consulting engagement results to the customer is the last step in a consulting engagement. As with the interim communication, the final communication can take on many forms. Often, communicating final engagement results is less formal than it is for assurance engagement results and is often documented in a memorandum rather than in a formal report. The format and formality of the final communication will be driven by what was agreed upon with the customer. In some cases, the customer may require a verbal signoff, for example, prior to a system conversion or major initiative. This verbal signoff indicates that the internal audit function has completed its engagement steps, adequately reviewed the risks and corresponding controls, and is satisfied that the project should move forward. Representatives from the internal audit function may be included with representatives from a number of other groups required to sign off on a major project. The final communication should include the details of monitoring or follow-up required or agreed upon with the customer. Exhibits CS 3-5 and CS 3-6 are examples of interim and final communications for a consulting engagement.
From: Lenny F. Moritz  
Sent: Thursday, April 13, 20XY 2:44 PM  
To: Kerry S. Fish  
Subject: Client Data Conversion Status  

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**Client Data Conversion Project**  
**Engagement Status and Next Steps**

- **Data Conversion Methodology**  
  - Completed assessment of data conversion methodology and discussed gaps between the current methodology and leading practices with project team members during weekly meetings.  
  - Provided advice to project team on actions that will help to address the identified gaps. Based on follow-up discussions, it is our understanding that all contemplated actions have been implemented.

- **Data Conversion Project**  
  - Reviewed the automated data conversion routines, noting that they were fully tested and signed off as complete and accurate by the project team.  
  - Reviewed the QA test plan for the asset conversion and sample documentation used by QA for testing, including balances worksheets and file conversion status. Worked with QA associates while conducting the demographic testing and observed the testing they performed with the source systems. No exceptions noted.  
  - Participated in first mock run and provided suggestions on ways to address issues that arose during that run.  
  - The following steps are planned:  
    - Monitor whether the conversion weekend execution plan is executed in accordance with the plan, including critical path tasks, adequate communications, and timely issue resolution.  
    - Evaluate the steps performed by the project team to ensure the accuracy and completeness of the account data conversion.  
    - Monitor the actions carried out relating to position custody conversion (stock, bonds, mutual funds, options, etc.), including physical custody transition and secure, authorized movement of the securities.  
    - Monitor the steps to ensure an accurate cash management conversion, including cash account ownership transition and secure, authorized movement of cash.  
    - Obtain evidence of regulatory compliance, including the requirements with respect to net capital calculations.  
    - Validate that key balancing and reconciliation controls are operating post conversion (such as depository reconciliations).  
  - Fieldwork to occur over and after conversion weekend.  
  - We expect to issue our report on or about May 20, 20XY.

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BUS Financial Services  
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TO: Kerry Fish, Acting CIO and Co-chair – Integration Steering Committee
    Julie Sangren, Managing Director and Co-chair – Integration Steering Committee
FROM: LENNY MORITZ, AUDIT CONSULTING MANAGER, BUS Financial Services
SUBJECT: Bank of China CLIENT DATA CONVERSION
REPORT DATE: May 20, 20XY

Internal auditing completed a project agreed to with management in connection with the Bank of China Client Data Conversion Project. The objectives of this project were to 1) provide advice to the Client Data Conversion Project team on current leading practices for managing data conversion projects, and 2) assess whether the project team completed all steps required by the revised data conversion methodology to support an accurate, effective, and efficient data conversion.

Given that management’s objective for the data conversion project was to ensure that systems and processes appropriately support an accurate and timely conversion of client data, we designed our procedures to assess whether:

■ The data conversion process was designed and conducted in a manner consistent with leading practices. This includes documentation of all key judgments and decisions.
■ Functional gaps between legacy BUS and Bank of China systems were identified and addressed.
■ Systems and processes supported an accurate and timely conversion of client data (including accounts, assets, and web experience).
■ Required regulatory approvals were obtained to proceed with the data conversion project.
■ Project, technology, and operational risks were identified and managed.

PROJECT RESULTS

Overall, the project was conducted in a manner that is consistent with leading practices. Over the course of the project, we identified several gaps between the current data conversion methodology and leading practices. The project team addressed all identified gaps on a timely basis. Based on the results of the verification procedures we performed, and assuming timely resolution of the significant concerns discussed below, we believe the project team followed all appropriate steps in accordance with their methodology to support an accurate, effective, and efficient data conversion. Therefore, we believe management can prudently move forward with the Bank of China Client Data Conversion scheduled for May 31, 20XY.

SIGNIFICANT CONCERNS

CAT Testing – Validation testing for the CAT application has not been completed and there are outstanding defects related to the system. Management has high confidence that testing will be completed and all critical defects will be resolved prior to the conversion of client data.

Functional Gap Completion – Several functional gap items remain open which have been deemed “showstoppers” for the Client Data Conversion Project. Management is actively tracking these items and has high confidence they will be completed prior to conversion weekend.

Regulatory Approval – Regulatory approval to proceed with the Client Data Conversion Project has not been received from FINRA. Approval is anticipated the week of May 24th and management is confident approval will be granted prior to conversion weekend.

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<th>Name</th>
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<tr>
<td>Jim Picket</td>
<td>Chairman Audit Committee</td>
<td>Jack Mack, CEO</td>
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<td>Bruce Almighty</td>
<td>Independent Outside Auditors</td>
<td>Cory Albright</td>
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<td>Lisa Grain</td>
<td>Jane Branch</td>
<td>Sherman Alexie</td>
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CASE STUDY

Background Information

This exercise and scenarios in this case study focus on a fictional global financial institution, BUS and subsidiaries (BUS). The financial institution was founded in 1862 and is based in Zurich, Switzerland. BUS recently completed an initiative to reevaluate its business model and corporate directive. As part of this initiative, BUS has updated its corporate mission, vision, and strategy.

In conjunction with this cultural shift, management has recently completed an extensive employee education and awareness program on the new corporate directives and began a marketing effort to make the new mission and vision a part of the organization’s branding and image. See exhibit CS 3-7 for BUS’s new corporate mission, vision, and strategy.

EXHIBIT CS 3-7
BUS’S CORPORATE MISSION, VISION, AND STRATEGY

Mission

We are determined to become the bank of choice for our existing and future customers. We will provide our customers with easy access to financial services and products across time zones and continents on a 24/7 basis. Whether our customers want to walk into one of our facilities or access our services online, we’ll be there for them. Whether they want to manage their retirement savings or calculate their net worth, we’ll be there for them. We will combine our sophisticated network systems and our dedicated associates to create a banking experience that is fast, convenient, and productive. Our collaborative work environment will allow us to recruit and retain knowledgeable, committed associates who will continue to create cutting edge financial tools and provide customers with award-winning service. Our commitment to both our customers and our associates will result in dynamic shareholder value.

Vision

BUS is committed to providing integrated, one-stop banking products and services to our customers worldwide.

Strategy

We intend to leverage our one-stop banking approach to significantly increase our customer base by enhancing and expanding our network of retail banking operations worldwide and, specifically, in China and the U.S. We intend to gain a larger share of customer assets by providing them with comprehensive financial services and products through our one-stop banking system that allows for global mobility. We will maintain our low customer attrition by continuing to provide award-winning customer service. Finally, we will increase customer awareness and enhance our global corporate image through a comprehensive branding and advertising campaign that will promote our retail banking offerings and showcase our award-winning customer service and sterling reputation. We will achieve our corporate strategy, in part, through the successful completion of our growth-related change initiatives.

BUS is also in the process of implementing major growth-related initiatives designed to strengthen and expand their new brand and existing client base. See exhibit CS 3-8 for BUS’s growth-related change initiatives.
Exercise:

Research various global financial services organizations (for example, UBS AG, E-Trade, Schwab, ING, Bank of America, HSBC, RBS) through their company websites and other publicly available information (annual report, 10-K, press releases, etc.). Pay particular attention to the regulatory environments that each organization operates within. Document each organization’s mission, vision, and strategy:

- How are BUS’s mission, vision, and strategy similar to other global financial services organizations?
- How are they different?
- What are the factors that drive the similarities and differences?
- How do you think these differences affect BUS’s ability to compete globally with other financial services organizations?
- How do you think these differences affect the growth-related change initiatives established by BUS?

Currently, the organization’s wealth management and corporate banking operations include products and services for wealthy clients worldwide. These services include asset management, estate planning, corporate finance advice, and commercial banking. BUS operations also provide banking and securities services for individual and corporate clients worldwide.

BUS’s asset management division provides real estate investment opportunities to private, institutional, and corporate clients worldwide. Its investment banking operations include a range of products and services for corporate and institutional clients, governments, financial intermediaries, and asset managers. The organization’s investment banking operations include fixed income, rates, and currencies businesses that deliver a range of products and services to corporate and institutional clients worldwide. BUS also provides a range of advisory and transaction execution services to corporations, financial sponsors, and hedge funds, such as transaction negotiations, structuring, due diligence, and company valuations. In addition to the aforementioned products and services, BUS also offers retail banking services to its customers residing in Switzerland.
BUS provides a wide range of financial products and services worldwide with the objective of rapidly expanding retail operations internationally. As part of this goal, BUS would like to be known as the “best financial institution worldwide” by offering the most comprehensive retail and wholesale banking services and products globally. BUS is moving in that direction by acquiring high-quality retail banks throughout the world. To embrace this image and brand, BUS has decided to change its name to “Bank of the United Globe (BUG).” BUG more accurately aligns with the intent of becoming the best financial institution worldwide. BUG would provide, through its subsidiaries, a wide range of financial products similar to what it offers today, while significantly increasing its retail offerings, resulting in significant growth of its assets and physical locations. Management believes that the name change will help strengthen the bank’s worldwide image and support its efforts to expand into Asia and U.S. markets.

BUS currently has more than 100,000 employees worldwide and is organized around serving the needs of its two primary customer bases: retail and corporate. Because BUS already offers extensive corporate services globally, its current focus is the expansion of its retail business offerings. The retail side of the organization has individual clients or customers that require services such as mortgages, checking accounts, credit cards, individual loans, brokerage services, insurance, financial advisory services, and various payment services. The objective of the retail business is to provide a comprehensive package of financial products and services to meet the needs of individual customers globally. This global focus will allow a high degree of consistency for BUS’s affluent customers who travel extensively on business or for pleasure, as well as for those interested in the flexibility of relocating from Europe to the United States or Asia with no interruption in their banking services. One way BUS is currently doing this is by offering its most popular online products and services to its affluent customers. This has allowed the affluent customer base to have access to the products they like and use the most throughout the world via the internet.

BUS is the world’s leading provider of retail banking services and one of the largest asset managers globally. It boasts:

- Market capitalization of more than $300 billion.
- Invested assets of more than $5 trillion.
- More than 200,000 employees worldwide.

BUS has a longstanding presence in Asia that reflects its awareness of the unlimited opportunities in this dynamic region. As a premier global financial services institution, BUS has been a true believer in the Asian success story and over the years has grown hand-in-hand with many Asian clients. They were one of the first Swiss banks to establish a physical presence in Asia. BUS currently has a significant retail banking presence in the Asia pacific region with full-service branches in Hong Kong, Singapore, and Taiwan.

BUS currently uses its elaborate network of systems that allows clients to access specialists who are known for providing the highest quality services in this region of the world. BUS plans to leverage its systems to expand the role of these client advisors who provide one-on-one financial advice and account oversight. BUS consistently wins awards for its exceptional customer service, as well as for the range of products and services provided to its retail customer base.

Management believes that creating the right framework and culture would expand its growth even further within the Asian region. They want to double the number of their clients yearly for the next three years by becoming one of the premier retail support structures and customer service providers anywhere in the world. To do this, they want to develop a multi-prong approach that combines an extensive branch network...
with a completely integrated online banking system that includes all financial services and products under a single-access login.

To date, the retail side of the organization has been focused on attracting new banking customers and growing organically by targeting specific cities and other geographic areas of the world with the largest concentration of wealthy populations, thus helping augment this online product and service offering.

To that end, large retail acquisitions are currently under negotiation and are planned to be announced simultaneously with the name change. Additional acquisition targets will be evaluated for their potential to provide high-quality retail products and services, with the goal of increasing their branch network five-fold and the online customer base tenfold over the next two years. Management has identified Asia as a potential region for retail acquisitions. This is driven by the growth in population, which has increased the demand for basic account services related to checking accounts, credit cards, advanced ATM services, and financial advice, as well as for wealth management services. Management understands that this will cause an immediate change in the corporate culture.

Although BUS’s online environment was updated a few years ago, management anticipates the need for online expansion to support this projected growth. Management acknowledges that these goals are very ambitious, but believes they must follow through on their expansion plan or run the risk of becoming a takeover target themselves. Additionally, management is acutely aware that this is a departure from their previous approach to growth and expansion, which was much more conservative and primarily facilitated by organic growth.

The internal audit function at BUS has approximately 600 auditors of which 300 are centralized at the organization’s headquarters in Zurich. The total number of auditors fluctuates depending on the number of open positions and level of co-sourcing at any given time throughout their locations across the world. The internal audit function strongly encourages staff members to move into positions in other areas of the organization, while high-performing employees in other areas of the organization rotate through the internal audit function as part of BUS’s formal management trainee program. This management trainee program is supported primarily by the internal audit function group at headquarters. The trainee program provides the internal audit staff with a high level of business experience and acumen from other areas of the organization, which they leverage when performing consulting engagements. This is a high priority since the chief audit executive (CAE) has been directed by the audit committee and CEO to increase the consulting engagements they perform from five to 15 percent of the annual internal audit plan.

The internal audit function currently uses co-sourcing from two large international firms for approximately 10 percent of the budgeted audit hours. These co-sourcing resources are utilized for assurance engagements that require specific language or other specialized skillsets, or that require internal auditors in locations where no BUS auditors reside. However, these resources are currently not used for consulting engagements and management would prefer the consulting engagements be handled by the internal staff because the knowledge they have of the organization positions them to provide needed insight on significant initiatives.

**SCENARIOS**

Approach the various scenarios below from the perspective of an internal auditor who has been asked to assist the CAE on a number of internal audit consulting projects. These scenarios can be completed either in teams or as individual projects.
Scenario 1 - Risk Assessment and Consulting Processes

Historically, the internal audit function has allocated approximately five percent of its budgeted audit hours on consulting engagements to advise and assist management. The CEO and audit committee recognize the value the internal audit function has provided in the past. They also realize the potential value they can provide in the future through consulting engagements designed to help management mitigate risks associated with the execution of the organization's growth-related change initiatives. The CEO and the audit committee have expressed interest in the internal audit function expanding their resource allocation to consulting engagements in this time of rapid growth. As a result, the internal audit function has increased its budget for consulting engagements to 15 percent and formalized the consulting group within the headquarters location in Zurich. This group will consist of approximately six full-time professionals and will be sourced from the high-performing employees rotating through the internal audit function as part of the BUS management trainee program.

With increased emphasis on consulting engagements, the CAE knows an improved engagement structure will be needed to enhance the consulting efforts of the internal audit function. Historically, documentation of consulting engagements has been very limited and often nonexistent. There also is not any formal training provided to staff performing consulting engagements. The CAE would like to see a standardized methodology and framework established for all consulting engagements, regardless of whether they focus only on consulting services or are blended engagements with both consulting and assurance elements. Additionally, the CAE wants to enhance the risk assessment process employed for consulting engagements and establish a formalized approach for prioritizing these engagements.

Scenario 1 Activities

1. The CAE has asked you to develop formalized procedures for conducting consulting engagements and activities. In preparation to complete this request, document the following:
   a. Which of The IIA's Standards specifically address consulting engagements?
   b. Which Standards and Implementation Guides help with:
      1) Developing a risk assessment process for evaluating potential consulting engagements?
      2) Determining appropriate staff and resource allocation for consulting engagements?
      3) Developing work programs for consulting engagements?
      4) Defining working paper documentation requirements?
      5) Defining consulting engagement communication requirements?

2. Using the information provided here and in the chapter background provided above, complete the following:
   a. Perform a risk assessment of BUS's growth-related change initiatives, including the name change to BUG. Use the results of that risk assessment to prioritize initiatives that are candidates for consulting or blended consulting engagements.
   b. Based on the risk assessment, determine the initiatives for which the internal audit function should perform consulting or blended consulting engagements. Give the reasons for your determinations.
   c. Discuss the level of involvement the internal audit function will have in each of the engagements determined in b. above. Consider:
Case Study 3: Performing a Blended Consulting Engagement

1) Customer expectations.
2) Frequency and format of customer communications.
3) Internal audit resources available.
4) Type and amount of testing to be performed.

d. Develop a summary work program for the highest prioritized initiative chosen for an engagement in b. above.

Scenario 2 – Retail Operations Expansion

As noted in the organization profile above, the expansion of the Asian operations is significant to the success of the growth-related change initiatives and achievement of the organization’s long-term strategic objectives. Currently, the CEO is planning to bid on a number of banks in China to gain market share, as well as establish a local retail banking network and infrastructure.

Management has identified key performance attributes and criteria that have led to their successful expansion of retail operations in China and the Asian market. These criteria include:

- Management that is experienced in retail banking operations.
- Employees who are focused on customer satisfaction.
- Operating controls that are effective and efficient.
- Business model that is supportive of corporate financial performance metrics.
- Work environment that ensures regulatory compliance.
- Ethical culture that is focused on doing the right thing for customers and employees.

Management believes they can replicate the success of their organic growth by looking for similar attributes and criteria in the banks they are targeting for acquisition. Management has developed a list of banks that they are interested in acquiring if due diligence efforts indicate they meet management’s criteria. Banks acquired will be key to the successful implementation of BUS’s expansion into China and the Asian market. Acquisition of the wrong banks will be devastating to BUS’s expansion efforts.

The internal audit function has been asked to facilitate the development of a due diligence checklist to evaluate the acquisition candidate’s management has identified. The CEO would also like the internal audit function to assist during the due diligence reviews at each of the target banks to advise on the effectiveness of this checklist and assess whether the due diligence team has comprehensively followed the checklist. Management believes the results of the due diligence reviews will provide invaluable input and information in making a decision whether to move forward with acquiring banks targeted for acquisition. The CEO’s objective is to quickly and smoothly integrate banks acquired while maintaining high-quality customer service. The internal audit function’s involvement will help him achieve this goal.

Scenario 2 Activities

1. If you were facilitating the preparation of a due diligence checklist with members of management who are experienced in evaluating acquisition candidates, what types of topics would you expect them to identify as belonging on such a checklist? What are some high-level questions that the due diligence team might ask during the due diligence process at each bank targeted for acquisition?
2. Propose a blended consulting engagement that would achieve the CEO’s request for the internal audit function to partner with line management in evaluating acquisition candidates. In the proposal, address the following:

a. Specifically outline the value that such an engagement would provide to the CEO and line management.

b. How should the internal audit function structure the blended consulting engagement so that both objectives (advising on the effectiveness of the checklist and assessing whether the due diligence team has comprehensively followed the checklist) are achieved?

c. What safeguards should the internal audit function include to ensure there is no threat to the function’s independence and objectivity?

d. Outline the internal audit resources that would be needed to perform the consulting engagement. Include the number of auditors and the type of experience that would be required.

e. What kind of communications should the internal audit function provide to management regarding the consulting engagement? Be specific as to the type, contents, and timing of each planned communication.

Scenario 3 – Brokerage Capability Expansion – International Online Trading

BUS would like to quickly expand customer capabilities in the international online equity trading area but does not currently have the platform or ability to provide this service. To best facilitate this capability, management feels it would be better to identify and acquire an organization that already has advanced international online trading capability rather than build it themselves. This approach would provide the expanded functionality desired, while also providing access to an existing profitable customer base.

E-Trade Financial Corporation (E-Trade) currently provides international online trading to its customer base and has developed a premier online trading system. By acquiring E-Trade or a similar organization, BUS management believes BUS could more quickly provide international online trading to its customers while using this newly acquired capability to augment its retail banking expansion strategy. Management has asked the internal audit function to help identify potential acquisition targets in addition to E-Trade. Additionally, management would like the internal audit function to identify the risks related to acquiring one of these targeted organizations.

Management has also asked the internal audit function to help identify the risks associated with transitioning their current customers to the newly acquired international online equity trading system while also integrating their existing products, services, and capabilities to the brokerage service company they acquire. At the same time, management would like to introduce current customers of the newly acquired brokerage firm to BUS’s current retail banking products and services.

Management has concerns that must be addressed if they choose to move forward and are successful in acquiring E-Trade, such as E-Trade’s problems related to their mortgage business and their banking operations. Management does not know what degree of risk they would be assuming in these areas if they were to acquire E-Trade and would like the internal audit function to help evaluate the risks related to the present state of E-Trade as well as the risks related to migrating out of the known problem areas.
Scenario 3 Activities

1. Management has asked the internal audit function to work with them to create a list of the top potential acquisition candidates that have online trading capabilities similar to E-Trade. You should consider organizations with an international footprint that would be good strategic matches for BUS. Specifically outline the characteristics you believe make them good acquisition targets for BUS.

2. Assuming management selects E-Trade as the best acquisition target, complete the high-level due diligence checklist that you outlined in scenario 2 based on what you can learn from research E-Trade.
   
a. Identify the five most significant areas of risk for the integration of E-Trade’s international online equity trading platform into BUS’s service offerings using the illustrative consulting engagement risk model illustrated in exhibit CS 3-3.

b. Assume that the internal audit function has agreed to perform a blended consulting engagement intended to advise management on steps to enable a smooth integration of E-Trade’s international online equity trading platform into BUS’s current retail banking operations. In addition, the internal audit function has been asked to conduct procedures to monitor and report on the success of the integration. Outline the internal audit resources that would be needed, including the number of internal auditors and the type of experience that would be required.

c. What kind of communications should the internal audit function provide to management regarding the consulting engagement described in b. above? Be specific as to the type, content, and timing of each planned communication.