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Audit Readiness and Internal Control Considerations in Preparation for Financial System Modernization

The Challenge

Federal financial managers operate in an environment of constant change and improvement. As tools and technology evolve, new financial systems are available to support financial reporting and financial operations. The implementation of a new financial system within an agency inevitably impacts the way an organization utilizes the system and their internal control environment that enables assurance over financial statement balances. Without consideration of these impacts, and pre-emptive action to mitigate risk inherently created by a change of this nature, financial managers will run into unexpected issues that could delay their ability to complete financial operations and financial reporting requirements.

The Solution

An audit readiness and impact to internal control perspective should be considered at every step of the financial system development life cycle, illustrated in Figure 1, to allow for the financial system to be developed, configured, and implemented in a manner that achieves management's internal control objectives as an integrated part of the deployment process.
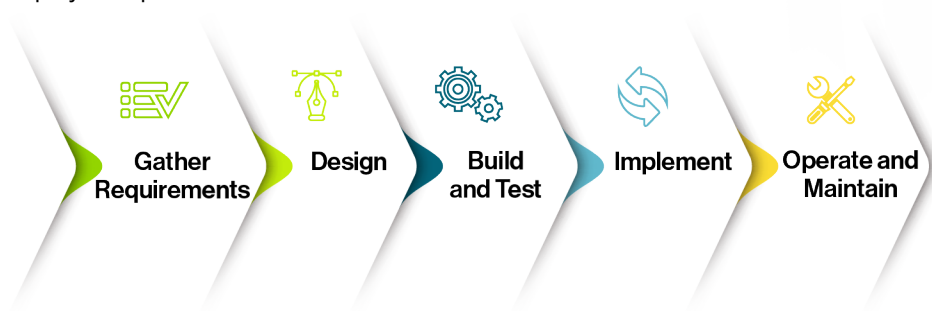
| Gather Requirements | Design | Build and Test | Implement | Operate and Maintain |

Figure 1. The System Development Life Cycle

Addressing audit readiness considerations before and during system implementation, rather than after the system is in use, increases the effectiveness of the financial system in meeting reporting and audit requirements. It also reduces the level of effort and cost to remediate deficiencies after implementation. Based on our experience supporting agencies in the implementation of new financial systems, Guidehouse has identified the following audit readiness considerations and activities to address each phase of the system development life cycle.

Considerations	Activities Performed to Address
Gather Requirements	
• Key reports both for business operations and financial reporting should be developed and thoroughly tested prior to go-live. • Process owners should be included in the requirement-gathering phase.	• Leverage the internal control assessment risk framework to confirm the completeness of the key reports inventory to be developed in the financial system or tailored for changes in data structure as outputs from data warehouses. • Consider tools/processes that rely on key reports, anticipate the impacts a change in data structure will have on these downstream processes, and perform required change management. • Confirm the right points of contact (POCs) are identified for each key business area, and at the correct granularity, and that the POCs will be able to dedicate the required time for thorough requirement gathering.
Design	
• Unique component business processes, and related impact to accounting/reporting, should be considered, to include missing data attributes impacting posting logic.	• Prioritize the design phase based on materiality of balances. • Verify risks addressed by internal controls in the as-is process are monitored through the same or new internal controls in the to-be environment. • Automate as much of the business processes and controls as possible. Allow time for analysis to determine where this makes sense and covers applicable risks.
Build and Test	
• Interfaces should be operational and pass User Acceptance Testing before go-live to prevent users from having to develop workarounds to process data manually and minimize any transaction backlogs after go-live. • Testing should reflect the true volume of data to verify required reports can be successfully generated after go-live.	• Verify as-is technical specification documentation and diagrams are up-to-date, and develop detailed configuration, functional design, and technical design documentation to define a common IT controls baseline. • Prior to go-live, the core financial system and interfaces should be tested in an environment that reflects the true volume of data. Interface issues that prevent transactions from flowing to the core financial system should be resolved and tested. • •Subject matter expert participation in mock migrations as well as production migration is key for data validation.

Table 1. Audit Readiness Considerations by System Development Life Cycle Step

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Considerations	Activities Performed to Address
Implement	
• Inaccurate or incomplete transaction data should be cleansed in the legacy system prior to migration, to minimize data issues in the new system. • Plans to reconcile migrated data, including roles and responsibilities, should be documented during implementation and prior to go-live to minimize delays in reconciling data.	• Do not underestimate the level of effort required to do data cleansing. A data-cleansing strategy and plan should be in place before commencing the implementation process. • When considering data cleansing, identify critical focus areas, as opposed to planning to cleanse all data. • Maintain documentation of all data management activities. This is critical to an audit to evidence integrity of data and opening balances.
Operate and Maintain	
• Process changes resulting from implementing a new system should be documented before go-live. • New control activities and roles and responsibilities should be clearly defined before go-live.	• Prior to go-live, document the to-be processes, including roles and responsibilities and manual and automated internal controls. Verify the risks addressed by internal controls in the as-is state are addressed through the same or new internal controls in the to-be environment. • Perform a change impact assessment between the as-is and to-be processes to identify the most impacted areas to focus change management activities. • Allow ample time for training on new business processes across various formats, such as virtual, training guides, use cases, job aids, etc.

Table 1. Audit Readiness Considerations by System Development Life Cycle Step (continued)

How Guidehouse Can Assist

Guidehouse has provided successful audit readiness and financial system migration preparation support to multiple agencies. We have helped our clients maintain their auditability while navigating their way to successful financial system migrations. We bring cross-functional teams with expertise in internal control, accounting, audit readiness, IT, data modeling, enterprise business systems implementations and operations and maintenance, business process improvement, and risk management. We maintain strategic partnerships with leading technology vendors, such as Amazon Web Services, Microsoft, Oracle, RSA, SAP, and many others, helping shape future product enhancements and maintaining the skills of our professionals across multiple solutions, while maintaining an agnostic approach to products in assisting our clients in selecting and implementing solutions that meet their business needs. These partnerships enable us to shape product enhancements, maintain the technical skills of our workforce on evolving technology, and deliver best-of-breed solutions to our clients. Contact us to discuss how we can help your agency.