

Continuous Auditing

"36 percent of internal auditors surveyed say their department has implemented continuous auditing; 38 percent plan to do so in the near future."

"New Demands, New Priorities"
Survey by ACL Services in association
with The IIA, 2006



"The audit committee and management expect internal auditing to keep the organization from having any surprises. Continuous auditing is one way internal auditing can cut down on those surprises."

Richard Chambers
Managing Director
PricewaterhouseCoopers

With increased business demands and a heightened regulatory environment, internal auditors are looking for greater visibility into internal controls and ways to both reduce risk and expand audit coverage – all with limited internal audit resources.

More and more audit teams are recognizing the benefits of continuous auditing over traditional ad hoc or periodic audits to achieve these goals and are leveraging technology as an essential component.

What is Continuous Auditing?

According to the IIA, continuous auditing is "a method used to perform control and risk assessments automatically on a more frequent basis [than traditional reviews]. Continuous auditing changes the audit paradigm from periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions. It becomes an integral part of modern auditing at many levels... Technology is key to enabling such an approach."¹

Benefits of a Continuous Auditing Approach

Continuous auditing offers several advantages over traditional auditing approaches. Most importantly, it offers internal audit departments the ability to expand the scope, scale, and frequency of audits within critical areas of the organization. This enables auditors to minimize risk and revenue leakage, improve operational processes, and support compliance. In addition, continuous auditing provides the opportunity to:

- Perform "right-time" transaction testing and data analysis enabling timely remediation efforts
- Relieve auditors of routine testing and allow them to focus efforts on more valuable investigation activities
- Reduce or maintain audit-related costs and resources while increasing audit activity
- Increase management confidence in financial reports
- Improve financial and business process operations
- Reduce errors and fraud

Key Steps to Implementation

1. Determine roles and responsibilities

Select a project lead within Internal Audit to champion the approach and drive the implementation. Establish who owns the business area(s) affected by the continuous auditing process and obtain their buy-in. Discuss IT requirements with the IT department and obtain their support.

2. Identify the processes and transactions for continuous auditing

Identify which areas of the business have the highest potential risk, and where transaction and control systems are deemed vital to the organization.

3. Investigate extent of management activity

Ascertain the degree to which management is performing the testing and monitoring of their internal controls and adjust the continuous auditing plan accordingly.

4. Determine the types of tests to be performed

Based on the assessment performed in step 3, analyze the business process and identify key controls and risks. Assess the current automation capabilities already in place and determine where continuous auditing can be applied. Specify the criteria with which the transactions will be evaluated, i.e., what parameters will determine what are considered exceptions.

5. Identify the data sources

Determine the location of the data to be analyzed. Work with the IT department to determine a strategy for accessing the data, ideally using server technology to do so on an immediate, direct, and secure basis. Verify the integrity of the data to ensure valid results.

6. Apply technology

Implement technology such as the comprehensive ACL Data Analytics solution and train staff in the use of the tool and automation techniques. Determine the testing schedule appropriate for the process, e.g., daily for AP transactions or biweekly for payroll.

If not already in place, consider recommending continuous monitoring solutions such as ACL's Continuous Controls Monitoring to embed this type of technology within key business processes. This allows management to take on the responsibility of monitoring their internal controls and enables Internal Audit to assume the independent role of assessing management's activities.



"The decision about whether to adopt continuous auditing is a relatively easy one due to the cost recovery, efficiency and fraud-prevention benefits the capability provides. But it's most valuable benefit may be its enablement and support of real-time financial reporting."

Rod Brennan
Director, IT Audit
Siemens Corp.

7. Follow up

Develop processes and workflows that will govern how exceptions are addressed.

8. Assess and refine

Review the effectiveness of the continuous auditing method through regular checks by analyzing the following:

- Number of exceptions including number of false positives
- Results of exception investigations
- Processing logs/audit trails
- Control total reconciliations
- Changes to system test parameters
- Recommendations made to business process owners and financial management

Challenges and Recommendations

For many organizations, there are a number of challenges to implementing a continuous auditing approach; however with the right mind-set and the right technology, these can be overcome. The following are some common challenges with recommendations.

Accessing complex, diverse system environment

Few organizations have a completely homogenous, seamless system environment. There is typically a mix of ERPs or multiple instances of one ERP, mainframe systems, off-the-shelf applications, and legacy systems – all of which may contain valuable data. Technology is available to access all of this data to gain a complete picture.

Reluctance to expand the use of technology

Technology may be viewed as a threat to those who perceive that automation might replace jobs. The benefit of continuous auditing is that it performs routine, repetitive tasks and provides the opportunity for the more interesting exploratory work that adds far more value to the organization.

Overwhelming results

When not properly implemented, continuous auditing can result in hundreds – even thousands – of false positives and wasted effort. Many companies that have experienced success with continuous auditing recommend that you start small. Select which area of the company poses the greatest risk and where its transactions and control systems are most important to the company for your initial foray into continuous auditing. Automate a small number of key initial tests, such as comparing your accounts payable vendor master file with the employee address file, to uncover potential policy violations or fraud. Increase the tests and expand to other business processes in stages.

Training

Training is essential for optimum results. A number of institutions, including ACL Services Ltd., offer training on computer-aided audit techniques including continuous auditing through automation.

Conclusion

By automating audit processes and implementing a continuous auditing framework, auditors are able to focus on areas of highest risk, and will gain more confidence in the effectiveness of internal controls. This will improve overall audit recommendations to management and satisfy the demand for more reliable, relevant, and timely information.

References & Resources

GTAG on Continuous Auditing: Implications for Assurance, Monitoring, and Risk Assessment, The IIA 2005

"Continuous will be Key to Compliance", *Business Finance*

ACL Solutions: www.acl.com/solutions/audit

ACL Implementation Services: www.acl.com/services

ACL Training: www.acl.com/training

ACL Success Stories: www.acl.com/successstories

¹ *Global Technology Audit Guide – Continuous Auditing: Implications for Assurance, Monitoring, and Risk Assessment*, The IIA, 2005



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Our international customer base includes 70 percent of the Fortune 500 companies, over two-thirds of the Global 500, the Big Four public accounting firms, and hundreds of national, state, and local governments. ACL software solutions are delivered in multiple languages in more than 130 countries through a global network of ACL offices and channel partners.

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