

Data Analytics: Providing Great Audit Depth during a Turbulent Economy

As introduced in a previous issue of the Vonya Global Gazette, Data Analysis through Computer Assisted Audit Techniques (CAATs) is a highly efficient way to test transactions, providing internal controls assurance based on a population of transactions, as opposed to only a sample. Using basic tools such as Microsoft Office®, audit-specific tools such as ACL® or IDEA®, or query tools embedded in ERP applications have been considered best practices. Audit committees and internal audit executives alike are telling us that economic conditions are causing CAATs to be a more strongly sought after skill, due to a desire for increased auditor efficiency and effectiveness.

Budget pressures are skyrocketing for all firms, and head count reductions are rising, with more than 530,000 US jobs lost in November 2008 - the worst month in more than 30 years. Reductions in work force globally, especially in the accounting department, create enormous pressure on the employees who remain. Requiring employees to take on more responsibility often increases the likelihood of errors and misstatements. Added pressures like salary freezes combined with less supervision or oversight can tempt otherwise honest employees to cut corners or even commit fraud. Performing periodic audit testing, especially between regularly scheduled full scope audits, is an activity that is on the rise.

A critical way to respond to these challenges is to increase (or initiate) the use of CAATs and data analytics. A maturity model, beginning with basic CAATs being initiated by Internal Audit, can evolve toward continuous monitoring with transactions being researched and resolved as often as daily by business process owners. Our experience with a continuous auditing maturity model involves breaking down data analysis and continuous auditing activities into smaller, component activities such as data acquisition, scripting, analyzing results, and management reporting. Mapping data analysis and CAATs projects against the maturity model helps audit functions make progress in a thoughtful, direct way while accomplishing audit objectives.

Data analytics and CAATs can be used to review every transaction processed by a company to identify anomalies. Applying data analytics to review transactions in accounts payable, advertising, freight, health benefits, construction, and other areas can yield hundreds of thousands or more in savings and recoveries, even for mid-sized firms. When data analytics and continuous auditing is transitioned to management from internal audit, errors are identified even earlier and with more precision. By incorporating CAATs with other audit tests on a repeating basis, operational improvements can be identified and recovered while controls assurance is being enhanced.

Economic conditions are causing CAATs to become more essential part of good controls and governance. A practical first step should be identifying risks that benefit from more frequent or in-depth assurance, and then acquiring the data to accomplish the risk or control assessment objectives. Evolving these activities from specialist to generalist auditor skills is an important milestone on a maturity curve, achieving tangible return on investment and improved internal controls. These achievements would be a winning combination in any environment, but especially in today's turbulent economic conditions.



This article is the first in a series of articles contributed by Kim Jones and Joe Oringel of Visual Risk IQ, thought leaders in Continuous Auditing and Monitoring. For more information on Visual Risk IQ, please visit their web site at www.visualriskiq.com.

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