

# Continuous auditing

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# What is continuous auditing?

- IIA defines it as:
  - *Any method used to perform audit related to an activity on a more continuing or continual basis.*
- More recently it also refers to
  - *examining all the data relevant to an audit being conducted* –rather than the traditional way of looking at representative samples.
  - An audit that happens immediately after or closely after a particular event

# Who uses it?

- Many companies are using Continuous auditing now.
  - Microsoft
  - American Electric
  - Taleon's Biotherapeutics (subject of a study by Rutgers University)
  - Hospital corporation of America
  - Harrah's entertainment
  - CAG if British Columbia –Ministry of Finance , Canada
  - Siemens financial services etc.
- 32% of 305 companies surveyed by IIA said they had continuous auditing.

# Modules for CA

## ACL:

1. Purchase to Payment
2. Purchase cards
3. Travel and entertainment
4. General ledger
5. Payroll
6. Order to payment for receivables

## Other software used:

- Paisley's focus
- Microsoft.net

# Benefits

- “The moment you audit deeply, more audit issues will come up.”
- In one company Purchase continuous audit led to:
  - Elimination of inactive vendors
  - New limits of purchase card usage
  - Elimination of use of purchase card for unauthorised purposes
  - Locating purchases previously not routed thru PO's
  - Detection of failure to receive credit for returns
- Finding that cash collection led to lot of problems , one charity arranged for all donors to deposit donations into ATM's

# Example-1

- **Area: Journals:**
- Checking for segregation of duty violations
- Journal by senior level executives
- Journals by Business unit leaders
- Entries from revenue to capex or from expenses to prepayments
- Entries boosting revenue by a % greater than a specified %
- Entries taking the revenue just above budget
- Large and unusual journals
- Unusual approvals and reviews

## Example-2

- SOX controls can be automated
  - In American Electric 25% of Sarbox controls automated
- By analyzing data in company system like
  - Excessive fuel usage
  - Improper use of credit cards

# Example -3

- Microsoft
  - Comparison of DSO (Days sales outstanding) in two consecutive reporting periods
  - Asset quality index measures company's propensity to capitalize costs
  - Financial ratios watch



# Example-4

- Hospital corporation of America
  - Monitoring employee OT –flags when OT exceeds 50% of full time
    - Hedge against errors by nurses and clinicians leading to Malpractice suits)
  - Monitoring data security access for any unauthorized/ unusual access provided
  - Low vacation time (possibility of fraud)
  - Invalid social security numbers