Continuous Auditing
A Maturing Focus

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Growing Up

“the CCM market has grown at double-digit rates during the past year, with some of the smaller best-of-breed vendors reporting a doubling of software license revenue.”

Gartner Magic Quadrant for CCM 2010
Change in Focus

Newbies

• Greatest challenge was convincing auditors to try a different approach
• Fascinated with everything continuous
• Impressed with the results
• Basking in new found relevance in the organization

Seasoned

• Sustaining the effectiveness of internal controls
• Greater focus on ROI
• Completeness of monitoring to include manual controls
• Audit’s role in a wider monitoring framework
Periodic Audits

Source: Continuous Auditing From a Practical Perspective, Kevin Handscombe
Continuous Audits

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Sustaining Control Effectiveness

- Make Continuous Auditing a part of the core business process
- Expand the scope of controls testing and monitoring gradually
- Get greater buy-in from management
  - Demonstrate that Controls save money and can be used as metrics by the business
- Include the process in other controls initiatives in the company e.g. COSO, SOX/SAS automation, etc
Determining Value

**value n.**
1. An amount, as of goods, services, or money, considered to be a fair and suitable equivalent for something else; a fair price or return.
2. Monetary or material worth.
3. Worth in usefulness or importance to the possessor; utility or merit.
4. A principle, standard, or quality considered worthwhile or desirable.

**tr.v. valued, valuing, values**
1. To determine or estimate the worth or value of; appraise.
2. To regard highly; esteem.
3. To rate according to relative estimate of worth or desirability;
4. To assign a value to (a unit of currency, for example).
Consider the Following

- A Cashier was acting as a Supervisor last week
- She had access to discount, change prices, etc
- This week, IT reassigned the Cashier role to her, but the Supervisor role was not removed
- She can now do both Cashier and Supervisor functions
- Normal discounts are below 5% and amounts are below $100
- She enters and approves excessive discounts at the point of sale for friends and family
- In 5 days the company loses US$7,300
- This is a good example of how Controls Monitoring is an integral facet of Revenue Assurance
The Timeline

IT reassigns Cashier role

Day 1
Lost $0

Day 2
Lost $0

Day 3
Lost $800

Day 4
Lost $2,400

Day 5
Lost $7,300

She realises that she can approve discounts

Continues to approve small legitimate discounts (<5%)

Approves a 40% discount for a friend

Approves a 50% discount for her brother

Approves a 70% discount for her brother
Continuous Auditing

Alert # 1
Segregation of Duties violated.

Alert # 2
System Abuse – same user creating and approving discounts.

Alert # 2
System Abuse Repeating alert

Alert # 3
Discount percentage exceeds tolerance

Alert # 3
Discount percentage exceeds tolerance. Repeating Alert.

Alert # 4
Discount amount exceeds tolerance.

Escalated to:
Audit Department

Assigned to:
Store Manager

IT reassigned Cashier role

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Measuring Value

• If detected at Day 1 how much money was saved? Is it $7,300?
• What happens if the losses were not detected for a year?
• Should we anticipate further losses?
• Should we consider the impact of the company’s reputations if this became public?
• If detected at Day $n$ how much is recoverable?
• If the cashier is to be replaced what is the cost of replacement?
• If no controls were breached – what is the value?
Approaches

• Balance between accuracy and transparency
• Most organizations must be able to grasp the logic or they won’t accept the metrics
• Use a baseline at the time of implementation
• For more complex considerations request user input
• Design metrics that are flexible and allow the business to adjust
One Version of the Truth

Monitoring Manual Controls
Getting the Complete Picture

• If manual controls are not monitored then how do we get the complete picture of the state of internal controls?

• For example there are tons of Excel spreadsheets that provide key internal controls in businesses, from storing sensitive rate tables to performing critical reconciliations.

• We can electronically monitor the automated control but if the manual control fails the process is compromised.
Approaches to Consider

• Integrate existing approaches to risk and control measurement for manual controls
• Feed the measures and statuses of these manual controls into the CA/CM system
• Where manual controls (i.e. spreadsheets) bridge the gap between systems, validate that the output from one system matches the input to the other system
• Maintain one version of the truth
In Summary

• The CA and CM markets are growing rapidly
• Customers are maturing and allowing the business to manage the controls while giving audit oversight
• Manual controls are still an issue but manageable if looked at from the business process perspective
• More and more, companies want to find the ultimate electronic source of manual controls and automate them
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