

CONTINUOUS AUDITING AND GIZ -PFEM SUPPORT TO CIAU

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Introduction

Organizations are constantly exposed to significant errors, frauds, or inefficiencies that can lead to financial loss and increased levels of risk. This results in the need for regulatory requirements and improvement of business operations by organizations to ensure that controls are working effectively and that risk is being properly mitigated. In order to fulfill this expanded mandate, Internal Audit is turning to continuous auditing.

The IIA's Global Technology Auditing Guide 3 (GTAG 3) defines Continuous Auditing as “a Method used to perform audit-related activities on a continuous basis that includes control and risk assessment, performed by Internal Audit”. It is a modern way of conducting an internal audit by performing control and risk assessments automatically on a more frequent basis using modern technology. Today, it is recognized that the traditional manual auditing method of testing controls by performing the tests on a retrospective and cyclical basis, often many months after business activities have occurred only provides internal auditors with a narrow scope of evaluation and is often too late to be of real value to business performance or regulatory compliance. Continuous auditing therefore changes the audit approach from periodic reviews of a sample of transactions to ongoing audit testing of hundred percent of transactions.

Technology is key to enabling continuous auditing. With automated, frequent analyses of data, auditors can perform control and risk assessments in real time or near real time. Software such as Custom Audit Command Language (ACL) can be used by imbedding it in an accounting system such as the Integrated Financial Management Information System (IFMIS). The ACL checks the transactions conformity with the norm. For example, an invoice for goods or services supplied to an organisation is expected to be paid in full once except where payment by instalments has been agreed. Payment of the invoice once in full is the norm. Non conformity with the norm is when the same invoice is paid in full more than once. The ACL software is designed to identify transactions that don't conform to a defined norm. It therefore extracts a list of exceptions of all transactions that don't conform to the norm for the internal auditor to investigate.

Areas of Application

The potential uses of continuous control and risk assessment are virtually unlimited. Here are some examples:

(a) Security Controls:

Example – System Access Logs: Continuous control assessment can test security controls, verifying that all system users are valid employees and that attempts are not being made to hack into the system. Each week, an extract of the system access log file is sent to the internal audit department. The auditors extract the sign-on information and match each user with a current employee master file. All users who

are not employees are flagged, and an e-mail is automatically sent to the system security officer to have the user identifications (IDs) revoked. In addition, the test can look at failed logons. For example an identified log on instance at 3 a.m. where a user ID had 25 failed logon attempts through a dialup connection.

(b) Examining transactional data:

For example flagging all purchase card expenses that are greater than the cardlimit or that involve prohibited merchants.

(c) Reviewing summarized data:

For example total cardholder expenses for the month greater than K500,000 and where the cardholder is not within the purchasing division.

(d) Testing totals by general ledger account:

For example, highlighting accounts where the amount differs by morethan 25 percent compared to the previous year, to identify unusual activity such as an increase in write-offs.

(e) Risk-based Selection of Audit Sites:

For example with more than 1,100 retail stores located across the country, An internal audit department will need an efficient and effective way to select individual stores audits. In the past, the auditors tried to visit each store at least once a year to perform a compliance-based audit. Now it is possible to have a reliable risk assessment solution, with data-driven criteria, to be able to provide assurance on all 1,100 stores without having to visit each one every year. Continuous risk assessment can be used to establish the necessary analytics, such as reported inventory loss and turnover in experienced staff. Now, the internal audit team can quickly pinpoint stores with the highest degree of risk and develop a more timely, effective, and efficient audit approach.

Relationship of Continuous Auditing/Monitoring/Assurance

It is management's responsibility to design, implement, maintain, and monitor controls to ensure that policies, procedures and business processes are operating properly. However, in instances where Management has NOT implemented continuous monitoring of controls, Internal Audit will need greater effort and resources to conduct more detailed testing to identify if controls are working as intended and have not been compromised. Additional investment in audit technology may be necessary to develop automated and continuous auditing procedures, greater exception reporting, and additional audit trails. The role of continuous auditing is therefore dependent on management's role in continuous monitoring of controls. The greater the role of management, the less the direct role of internal audit.

The IIA's GTAG 3 defines Continuous Monitoring as "processes that ensure that policies, regulations and controls are adequate and operating effectively on an

ongoing basis”. Higher risk events (e.g., unusual or nonrecurring transactions) can be observed and flagged for additional attention or testing. In addition to continuous monitoring processes, continuous auditing routines developed by internal auditors, when appropriate, may be transitioned to management, in which case they become continuous monitoring procedures performed by management.

Many of the techniques that management uses to continuously monitor controls are similar to continuous auditing techniques that may be performed by the internal auditor. The key to continuous monitoring is that the process should be owned and performed by management as part of its responsibility to implement and maintain an effective control environment.

The IIA’s International Professional Practices Framework (IPPF) Glossary, defines assurance services as “an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation.” The IIA’s GTAG 3 defines Continuous Assurance as “a Combination of continuous auditing and audit oversight of continuous monitoring”. Continuous assurance can therefore best be achieved through a combination of management’s effective continuous monitoring responsibilities and internal audit’s independent continuous auditing activities.

Benefits of Continuous Auditing

Continuous auditing helps internal auditors identify and assess risk and establish intelligent and dynamic thresholds that respond to changes in the enterprise. It also contributes to risk identification and assessment. Some of the benefits of Continuous Auditing are; Increased scope of audit activities, Increased ability to mitigate risk, Reduced cost of internal control assessment, Increased confidence in financial results, Improvements to financial operations, reduced financial errors and potential for fraud, Reduced revenue leakage for improved bottom-line results, and Sustainable and cost-effective means to support compliance.

The role of Continuous Auditing in fighting Corruption

Some schools of thought distinguish Corruption from Fraud because Corruption takes place in the form of bribery, kickbacks, commissions, or other benefits without leaving any trace in the official records while Fraud consists of deriving undue benefit by bypassing some controls or bending some rules and leaves some evidence in the records that can help in tracing it. In my view this distinction doesn’t hold water because although corruption does not leave any trace in the official records, there are ways and means of tracing it. For example, corrupt procurements can be detected through unreasonably high prices of the goods or services procured.

There are two important roles that Continuous Auditing approach plays in the fight against fraud and corruption compared to the traditional manual auditing approach, namely;

- (a) timely discovery of fraud and corruption, and
- (b) increased chances of discovering fraud and corruption.

Continuous Auditing uses technology to perform control and risk assessments automatically on a more frequent basis near real time. This helps in the timely discovery of suspected fraud and corruption. Further, the use of Technology makes it possible for the internal auditor to audit 100% of the transactions, even when the volume of transactions is huge. This is not possible with the traditional manual auditing approach due to limited resources, especially when huge volumes of transactions are involved. Since manual auditing is based on sampling, suspected fraud and corruption in the un audited transactions cannot be detected.

Support by GIZ – PFEM to the Central Internal Audit Unit (CIAU) of the Government of Malawi on Continuous Auditing

The GIZ Public Finance and Economic Management (PFEM) Malawi Program, has a three-year project that supports the Central Internal audit Unit (CIAU) of the Government of Malawi (GoM) to implement Continuous Auditing of the transactions in Integrated Financial Management Information System (IFMIS) and the Human Resource Management Information System (HRMIS). The project runs from 1st April 2018 to 31st March 2021. The project provides Technical and financial support to CIAU in the following areas:

- (a) Establishment of the technological infrastructure for the Continuous Auditing that includes Procurement of computer hardware and ACL licenses
- (b) Improvement of internet connectivity in Internal Audit Unit (IAU) offices of five pilot Ministries where the Continuous Auditing will be implemented first
- (c) Establishment of a mini-training laboratory and library where internal auditors will be trained in some key skills required in Continuous Auditing
- (d) Development of bespoke internal audit management software that will improve management of the internal audit processes to make Continuous Auditing more effective and efficient
- (e) Capacity building of internal auditors through training, in order to enhance their skills and competencies for the continuous auditing.

References:

1. The International Professional Practices Framework (IPPF): The IIA's conceptual framework that organizes authoritative guidance on internal auditing
2. IIA's Global Technology Auditing Guide 3 (GTAG 3)