The pace of technology change continues to move at what seems to be nearly the speed of light and shows no real signs of slowing down. What is considered a new technology today is old technology tomorrow. In contrast to the speed of change in technology, consider the speed of change in the audit world. Unfortunately, audit processes and approaches have not changed in what seems to be light years.

Many firms jumped on the technology bandwagon over the past several years but frequently question their return on investment through enhanced efficiency and improved audit effectiveness. Bill Gates is quoted as stating, “The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency.” Unfortunately, many firms unknowingly followed Mr. Gates’ second rule and have applied technology to inefficient processes. The end result has been minimal improvement in efficiency and effectiveness, at best. While many firms wanted their technology investment to be a blessing, it just hasn’t turned out that way.

The good news is that is not too late. You can turn the tide and have technology utilization become a tremendous asset in your audit process. The remainder of this article will offer some ideas and suggestions for you to consider that can enhance the benefits of the use of technology in the audit process.
GETTING TECHNOLOGY DOWN “PAT”

Most firms believe technology is the solution to improving efficiency without first fully determining the reasons why the audit is inefficient. Is the audit inefficient because of poorly trained audit staff, an inefficient audit approach, or both? Before adding technology in any firm, I recommend you follow the “PAT” process. “PAT” is an acronym that refers to:

PEOPLE

AUDIT APPROACH

TECHNOLOGY

Without question, technology can support and enhance your staff’s effectiveness. Thus the “PAT” process begins with people (P). You should first determine what their needs are and what could be causing them to be inefficient. One way to determine staff needs is to perform a technology skills assessment or survey to identify technology strengths and skills gaps. These gaps are the primary impediment to enhancing their audit technology effectiveness.

The technology skills assessment can be a self assessment and should cover the broad array of technologies in use at the audit firm from basic computer operation to use of data extraction tools. The self assessment should be easy to complete and could simply be a 1 through 5 rating system with a “1” meaning, having no knowledge or experience and a “5” meaning, they have a great deal of knowledge in that area. With every person in the firm using technology in their roles, the survey should be given to everyone in the firm.

Very often this assessment will identify that the audit firm assumed a higher level of technology skills across the firm than actually exists. In this case, better utilization of the firm’s technology tools could be achieved by simply providing additional training for the staff.

The next step would be to review your audit approach (A) for desired efficiencies. As discussed above, an inefficient audit approach will likely become even more inefficient when technology is added to the mix. Performing an audit operational assessment will go a long way in improving your audit process to help you better utilize existing technologies or to add new technologies. Simply put, if you believe the question or issue can be best answered though a back and forth dialogue with the client, do not use e-mail, as it would be ineffective and inefficient.

An audit operational assessment is a process where you review all phases of the audit and the procedures that are performed to determine where opportunities for improved workflow or where inefficiencies exist. Once these are determined, the audit team would identify suggested changes to approaches and procedures to improve efficiency and effectiveness.

Finally, your last step in this process would be to identify the technology (T) that would meet the needs of your people that will also facilitate the revisions to the audit approach. This step can also result in making changes to the way the audit firm uses their existing technology tools. Placing the “P” and the “A” in front of the “T” will go a long way toward turning your use of audit technology into a blessing rather than a curse.

DATA EXTRACTION – A GOLDEN OPPORTUNITY

Virtually every audit firm has made some sort of an investment in data extraction tools. However, many of these audit firms have not been successful in implementing these tools to gain the desired efficiencies and enhancements to the effectiveness of the audit.

Proper use of data extraction tools can dramatically improve the quality of the audit and reduce the overall time required to perform certain audit procedures. Data extraction, for example, can be used to analyze large volumes of data quickly that can result in being a complete review of all of the transactions rather than a sample. Just think how positively this can be for the audit process, examining 100% of the transactions in far less time than it would take the auditor to manually review a sample of the transactions.

If you want to increase the use of data extraction in your firm, consider applying the “PAT” approach. Start with “P” your people. You can survey them to assess their skills in the use and understanding of your firm’s data extraction tools. Most often, you will find that your staff know how to run the data extraction tools or can figure it out fairly quickly. However, they generally don’t know when or how it could be used to positively impact the audit approach. If this is the case, your firm should conduct a data extraction training session that works with live client data.

I call training sessions that work with live data, “reality based learning” sessions. These sessions, in which the staff gains the understanding on a “live” client, there is the expectation that the work performed on the client is real and useful to the engagement. The staff has a vested interest in listening and learning because they know the firm has an expectation that they should be using data extraction techniques on their audit clients.

Your next step, the “A” in “PAT,” would to review your audit approach for data extraction opportunities. Most audit clients have several areas where data extraction can be used to enhance both efficiency and audit quality. Often, the audit team can determine areas where data extraction could be used, but when the audit is performed, they
very often don't use data extraction. In many respects, this occurs because those procedures are not built into the audit program.

Most standard audit programs reference audit procedures but seldom recommend that they be performed using data extraction techniques. Consideration should be given to designing your audit approach to clearly state on the audit program that certain audit procedures should be performed using data extraction. Doing so will dramatically increase the use of data extraction on your audits.

Once you have determined your people needs and audit approach plans for data extraction, you should review capabilities of your data extraction technology, the “T” in “PAT.” It is important to make certain that your existing technology will effectively handle your data extraction needs and that it matches the skill set of your staff. There are several data extraction tools on the market today all of which have certain strengths and shortcomings. Performing such a review will allow you to select the best tool for your needs which will help increase the likelihood of turning data extraction into a technology “blessing” rather than a “curse.”

DATA SECURITY

An article covering technology in the audit process would not be complete without a brief discussion covering the importance of protecting your client’s data. Do you ever stop to think about how much client data is contained on every laptop and PDA in your firm? The loss or theft of a laptop or PDA could mean disaster, even if all devices are encrypted. Effective client data protection starts with the audit staff maintaining a serious data security attitude on two fronts.

First, consider how much data is really needed and in how many locations. The audit staff should adopt an attitude of “once is enough.” This means once the client data is received and placed in the electronic audit workpapers, all other copies should be deleted. This would include deleting client e-mail and attachments if the data arrived via an e-mail. Also, if your PDA delete features are not synced with your e-mail, then you must remember to delete the email from your PDA as well.

The “once is enough” policy would also extend to client file folders that audit staff typically set up on their hard drives. Client file folders should not contain client data once the data has been placed in the audit workpapers. If the data is not needed, return the data file to the client immediately upon completion of the review of the data. Also make certain that all replicas of the data file have been deleted from all of the computers of the audit staff that had access to the client data file.

The second front is physical security. The general rule of thumb is to keep your laptop or PDA with you at all times. When you are working at a client during fieldwork, the greatest risk to the auditor is the time when your work area is vacant. You should be conscious of the location of your work area to the ease of access by outsiders when the room is vacant. What do you do with your laptop when you leave the client location for lunch? Meal times are the prime times for thieves to check vacant rooms or offices for unattended laptops.

Adopt good practices for storing your laptop or PDA when traveling to and from your client. Audit staff should adopt an “out of sight, out of mind” attitude. This will reduce the likelihood placing the laptop in the front seat of the car and cause them to place it in the trunk every time they are in their vehicle. Thieves generally take the path of least resistance and would go for the laptop sitting on the front seat of the car rather than breaking into the trunk not knowing if a laptop is even there.

The ultimate curse of technology is a lost laptop containing a tremendous amount of client data. If you have ever lost a laptop, I am certain you can relate. Your data security attitude is changed forever due to the pain and stress of dealing with all the issues surrounding a lost laptop.

IN CONCLUSION

Use of technology in the audit process can and should be a catalyst for enhancing audit efficiency and audit quality. Placing your people needs and audit approach plans at the forefront of any technology decision is the key to success. These steps will get your technology use down PAT.

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CLICK HERE TO REGISTER FOR THIS SELF-STUDY SESSION
“TECHNOLOGY: A BLESSING OR A CURSE DURING THE AUDIT”

DESCRIPTION: Are you satisfied with your firm's return on its technology investment used during an audit? Does the use of technology seem to get in the way of performing a high quality audit? Does your staff really understand how to use the technology effectively and efficiently? These questions and more are discussed in this session along with suggestions for improvement in the use of technology.

COURSE TYPE: Self-study

CPE HOURS: 2

DESIGNED FOR: Audit partners, managers and staff who want to provide high quality client service while streamlining and making their audit process more cost effective.

OBJECTIVE: This session will help you and your audit team, design, build, inspect and deliver an efficient audit that has more meaning for your client.

PREREQUISITES: Experience as a member of an audit team.

ADVANCED PREP: None.