Auditing In ERP

Why auditing in ERP?

Despite their acclaimed advantages, ERP systems pose potentially heightened business, security and audit risks primarily due to automated interdependencies among business process and integrated relational databases.

Types of Auditing:

Auditing can be classified into three types: internal auditing, external auditing and computer aided auditing.

1. **Internal Auditing**
   - Internal auditing can be described as a method independent and objective validation and consultation.
   - Not only it increases the value and improves the operation of an organization, but also facilitates the effects of related processes to reach the objectives of the organization.
   - Because of its highly in-house nature, internal auditing cannot be managed outside of the organization.

Spathis and Constantinides (2004) also, found that the implementation of an ERP system is usually followed by an increase in internal audit procedures. As a result the enterprise can reach a higher level of integration in business processes and improved quality of reports.

2. **External Auditing**
   - External auditing is conducted outside the organization.
   - The company hires the services of external auditors who are mainly accountants.
   - When ERP system was introduced, firms developed high regard for computers because they can achieve rapid calculation, they provide high precision and accuracy of information and thus they increase the quality of accounting work.

3. **Computer Aided Auditing**
   - Computer aided auditing is beneficial, but it also has some disadvantages.
   - Changing the operation and process of auditing, computer aided auditing involves the distribution of various files in different locations, thus making auditing even more difficult and complicated especially for those who do not have sufficient knowledge of the technology.

- Many ERP systems involve journal recording. This means that those not involved in the operation department may not be able to identify the personnel responsible for some data they may need.
- Another setback may be that personnel from IT department can also modify the figures since they have access to the database. This could cause a company economic losses.

Duties of an Auditors:

- IT and its advances have changed the methods firms employ to gather and report information.
- Auditors must determine how the firm uses IT systems to
  - initiate,
  - record,
  - process and
  - report transactions or other financial data.
- This is necessary in order to plan the audit and to determine the nature, timing and extent of tests to be performed to gain a sufficient understanding of internal controls.

Internal V/S External Auditors:

Purpose of the audit?

- **Internal auditors** will examine issues related to company **business practices and risks**, while
- **External auditors** examine the **financial records and issue an opinion regarding the financial** statements of the company.
- **Internal audit** considers whether **business practices** are helping the business manage its **risks** and meet its **strategic objectives** - it can cover operational as well as financial matters, while
- **External audit** considers whether the **annual accounts** give a 'true and fair view' and are prepared in accordance with legal requirements.

Auditors?

- **Internal auditors** are **company employees,** while **external auditors** work for an **outside audit firm.**
- **Internal auditors** can be **employed by the business or outsourced.** While an accounting background is common, they can also come from other backgrounds.
- **External auditors** are an **outside firm of accountants** who are **'Registered Auditors'** (not all accountancy firms are).

Auditor report to?

- **Internal audit reports** are used by **management**, while **external audit reports** are used by **stakeholders,** such as investors, creditors, and lenders.
- **Internal auditors** report internally. **Relevant managers** will u**sually receive copies of reports** as there will be recommendations that would have been discussed that they will need to act on.
- **Ultimately** internal auditors **report to the audit committee** (if there is one) **or the Board** so there is high level oversight.
- **External auditors** report **primarily to the shareholders** or the trustees for an unincorporated charity

Sort of report will they receive?

- **Internal auditors** provide **a tailored report** about how the **risks and objectives** (of the business area being audited) **are being managed**. There is a **focus on helping the business move forward** - so expect there to be recommendations for improvement.
- **External auditors'** main report is in a format required by Auditing Standards and **focuses on whether the accounts give a true and fair view** and comply with legal requirements. **If other things come to light** which the auditors think should be brought to the client's attention they will be **reported separately to the directors** in a 'management letter'**.**

- **Internal auditors** are responsible to management, while **external auditors** are responsible to the shareholders.
- **Internal auditors** can be used to provide advice and other consulting assistance to employees, while **external auditors** are constrained from supporting an audit client too closely.
- **Internal audits** are conducted throughout the year, while **external auditors conduct** a single annual audit. If a client is publicly-held, external auditors will also provide review services three times per year.