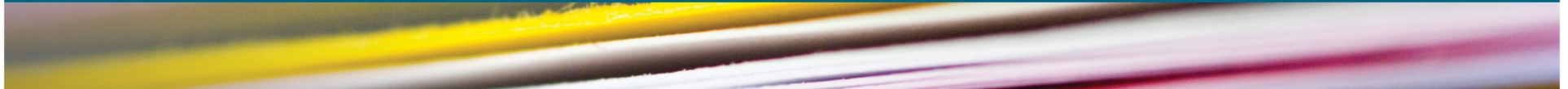




Data Driven Professional Scepticism



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- What is professional scepticism?
- What is data?
- How can one drive the other?
- How does IDEA help?

What is professional scepticism?

- Could get all metaphysical – Descartes / Nietzsche ... but let's not
- FRC say Today, scepticism commonly means 'doubt as to the truth of some assertion or supposed fact'
- Taking assertions with a pinch of salt

Professional Scepticism and relationships with clients

- Open
- With candour
- Reasoned judgements
- Continuous improvement by client and reducing audit fees

What is data?

In this context. . .

- Structured accounting records
- Evidently complete and accurate
- Easy to import – not big or fuzzy data

Why I like data . . .

- It is impersonal (has no motive to mis-state)
- It can be detailed or summary
- It is fact (debits, credits and amounts) and is capable of certainty

How can data drive scepticism?

- Being well informed about ledger transactions – sometimes even revealing facts about data that client was unaware of
- A catalyst for an open auditor / client relationship
- Removes auditor dependency on client

How does IDEA help?

- Secures **complete** data
- Facilitates focussing on what's important
- Forensic credibility
- Even simple functions / tasks run in IDEA can add value

Simple tasks in IDEA

- Stratification
- Summarisation
- Transaction types

Secure and complete data

- Outside of client systems (client cannot make changes)
- Complete
 - There is no hiding place
 - There is no hiding place
 - There is no hiding place
- Need to validate
 - Transactions compared to trial balance

Stratification example



Stratification GBissett.pdf - Adobe Reader

File Edit View Window Help

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Tools Sign Comment

Stratified on: GROSS Number of stratum: 15

Stratum #	>= Lower Limit	< Upper Limit	# Records	%	GROSS	%
1	0.01	100.00	47,118	30.71	1,385,011.77	0.00
2	100.00	250.00	14,608	9.52	2,346,294.88	0.01
3	250.00	500.00	17,555	11.44	6,648,109.55	0.02
4	500.00	1,000.00	13,440	8.76	9,614,498.84	0.03
5	1,000.00	2,500.00	16,589	10.81	27,049,649.62	0.09
6	2,500.00	5,000.00	12,436	8.10	45,066,022.47	0.14
7	5,000.00	10,000.00	10,906	7.11	77,496,581.56	0.25
8	10,000.00	20,000.00	8,314	5.42	116,372,233.16	0.37
9	20,000.00	50,000.00	6,230	4.06	188,747,210.49	0.60
10	50,000.00	100,000.00	2,156	1.41	150,905,323.14	0.48
11	100,000.00	250,000.00	1,403	0.91	213,475,372.40	0.68
12	250,000.00	500,000.00	684	0.45	240,435,681.82	0.77
13	500,000.00	1,000,000.00	466	0.30	327,827,412.33	1.04
14	1,000,000.00	5,000,000.00	949	0.62	2,465,628,749.44	7.86
15	5,000,000.00	10,000,000.00	253	0.16	1,747,386,878.06	5.57
Lower Limit Exceptions:			0	0.00	0.00	0.00
Upper Limit Exceptions:			334	0.22	25,754,019,068.81	82.09
Totals:			153,441	100.00	31,374,404,098.34	100.00

Windows taskbar: 13:55

What does it mean?

- 85% of records combined represents just 0.54% of gross value
- 1% of records combined represents 95% of gross value
- What should we attend to?

- Statistical population characteristics
- Balanced ledger
 - a good starting point
- Establish totals by criteria (transaction type / amount / payee / location etc)
 - Reveals what really is normal / unusual
 - Number of errors (debit notes / credit notes / correcting journals)
 - Aspects of the control environment

- Controls over ridden – who and why?
- Quality of accounting – micro budgeting / management
- Complexity
- Appearance and reality

Focussing on what's important

- Stratify enables ignoring at least 2/3rd of transaction lines
- Value driven
- Transaction type driven

- **Attend to the large and attend to the unusual**
- Consider the small and routine

Large and unusual

- Materiality
- Emergency payments: manual / EFT
- Credit notes
- Debit notes
- Journals - corrections

Small and routine

- Reveals facts about micro management accounting (efficiency)
- Some things might be sensitive by context (expenses / taxi's etc)
- Nearly impossible for material error to arise
 - ie unless there are very large number of small errors in the same direction

Examples of IDEA making a difference

- The French seven
- Contractual fraud
- Duplicate payments
- Mis-stated accounts
- Sampling
- Group accounting problems
- System configuration issues
- The prospect of real continuous auditing

A challenge

- Look at your own client organisations emergency payments?
 - It won't take long
 - It will make a difference
 - It will reveal something

And finally . . .

Any questions?