The Audit Support Group

Internal Audit | External Audit | Continuous Audit | Process Mining | Data Analytics

™

By: D&V Philippines Outsourcing Inc.,

Contents

Executive Summary

With over 500 accountants on board, D&V Philippines continues its growth and service with its new offerings. The latest of which, the Audit Support Group. The Audit Support Group consists of (5) five services – internal audit, external audit support, continuous audit support, process mining and data analytics.

The internal audit services will help your company to improve your internal controls by identifying risks and errors that affects your organization's day-to-day activities. On the other hand, D&V Philippines helps you with external audit preparation. The external audit preparation service will make sure that your documents are ready to be inspected by external auditors.

Meanwhile, the continuous audit service gives you the benefit of internal audit whole year round. With auditors keeping your papers in check regularly, you will have the confidence that they are free from error and your organization is conducting business in the right way.

Process mining on the other hand helps you to further improve your business process by enhancing your business models, eliminating bottle necks and making processes in your organizations faster.

Lastly, data analytics helps you to make more intelligent decisions with the help of data from your organization. This helps you to see patterns and predict where the trend is going, giving you an edge over your competitors.

These wide range of services are here to improve your company's controls and processes, bring transparency to your organization. With D&V Philippines, you can make better business decisions.

Internal Audit

Internal audit is an activity wherein an organization's risk management, control and governance process are being evaluated with the aim of improving the over-all operations through recommendations based on a systematic and disciplined evaluation of the aforementioned processes. This activity helps organizations to ensure that they are doing the right things toward the achievement of their goals.

Benefits of Internal Audit

Internal audit is a must-do activity for companies aspiring to become one of the best in their field of industry. Most big businesses conduct internal audit once or twice a year to make sure that every step in their business operations work as productive and as efficient as possible. In the United States, publicly traded companies listed in the New York Stock Exchange are required to maintain an internal audit function to assess the management risks and the internal controls. Furthermore, most private companies conduct internal audit though they are not required to do so. This just proves how important and beneficial internal audit is. To give a better picture, here are the some of the most advantageous benefits of internal auditing:

1. **Risk identification and assessment**

   Business risks are not easily identified, especially if you don't give time and focus to review your business structure and operations and if it is being done by someone from your team. By conducting internal audit, you will be able to see what slows down your processes.

2. **Prevention of Loss and Errors**

   In relation with risk identification, internal audit helps the company to identify risks that not only slows down the business process but also or could generate loses. Internal Audit provides the company with the necessary information that they need not only to stop these incurrences but also turn things around and improve their goods or services.

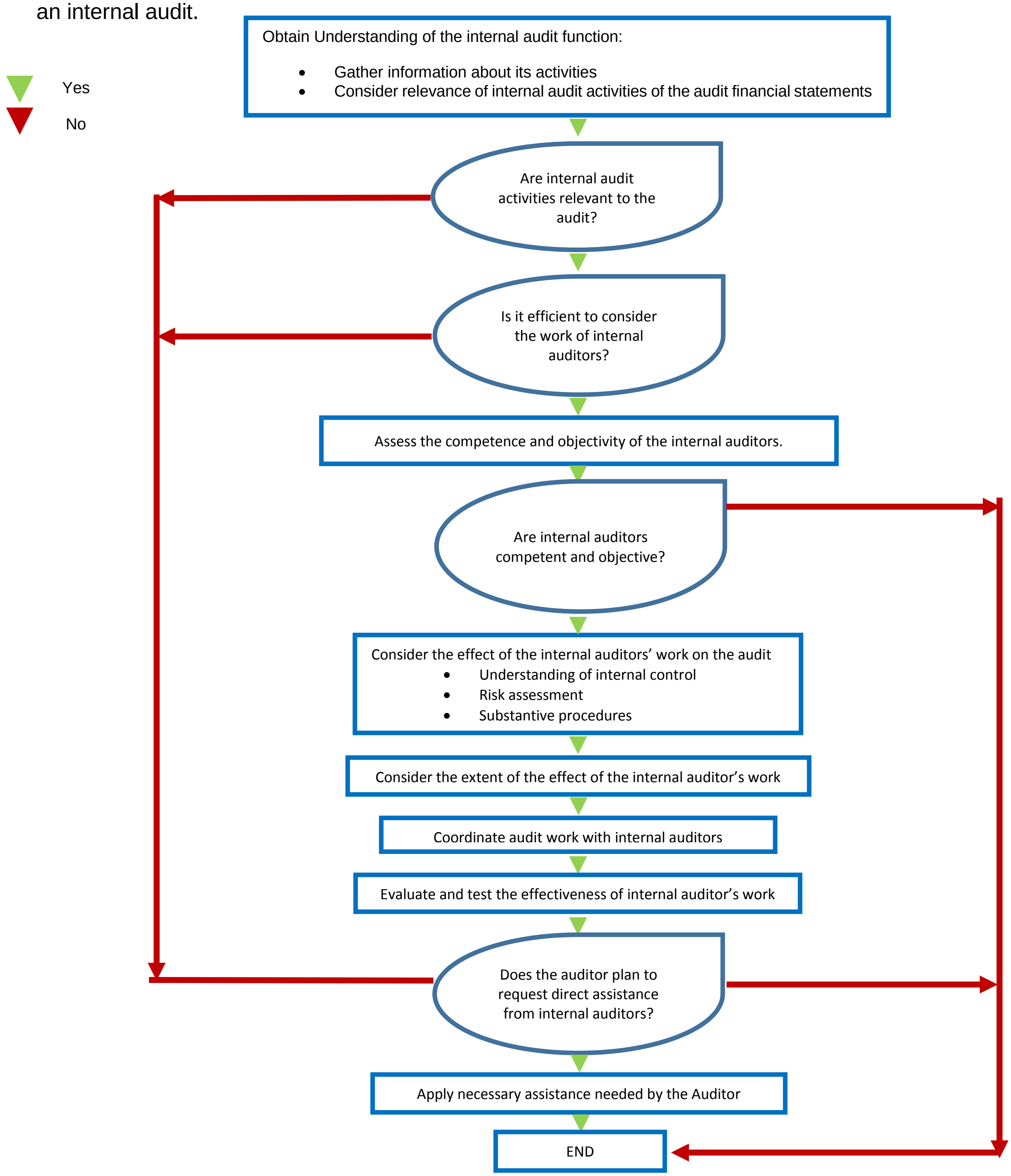
3. **Path Towards Improvement**

   One of the biggest gains in conducting an internal audit is that it helps your company see things more clearly, thus providing you with the necessary knowledge in creating a plan to improve your business processes, management, and ultimately your goods and/or services that will definitely increase your revenue.

Whether you're a big business or an SME, internal audit will surely help your organization to take the right steps towards your goals.

Decision Tree in conducting Internal Audit

Below is a decision tree that helps the management to decide whether or not they need to conduct an internal audit.



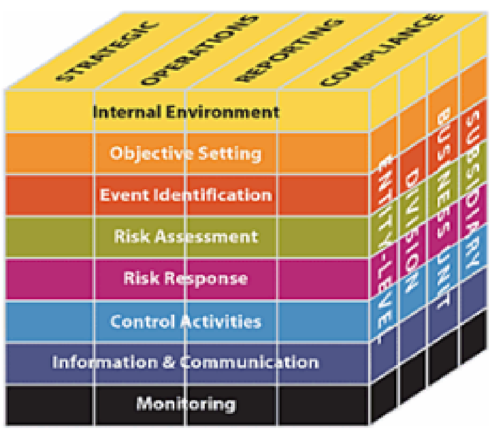
COSO Internal Control Framework

COSO

The Committee of Sponsoring Organisations (COSO) was established in the mid-1980s, initially to sponsor research into the causes of fraudulent financial reporting. Its current mission is to: 'provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organisational performance and governance and to reduce the extent of fraud in organisations.'

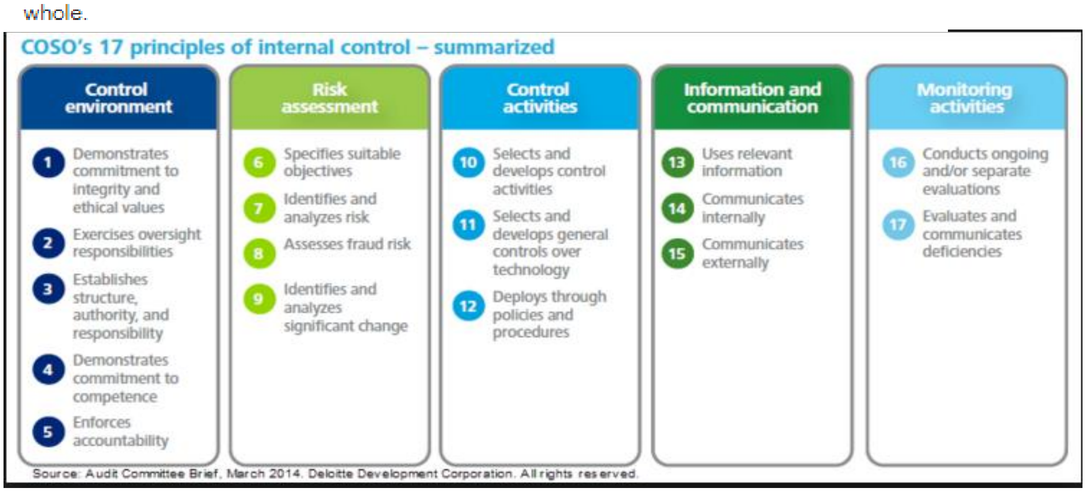
Although COSO's guidance is non-mandatory, it has been influential because it provides frameworks against which risk management and internal control systems can be assessed and improved. Corporate scandals, arising in companies where risk management and internal control were deficient, and attempts to regulate corporate behaviour as a result of these scandals have resulted in an environment where guidance on best practice in risk management and internal control has been particularly welcome.

THE ERM MODEL



COSO's enterprise risk management (ERM) model has become a widely-accepted framework for organisations to use. Although it has attracted criticisms, the framework has been established as a model that can be used in different environments worldwide.

COSO's guidance illustrated the ERM model in the form of a cube. COSO intended the cube to illustrate the links between objectives that are shown on the top and the eight components shown on the front, which represent what is needed to achieve the objectives. The third dimension represents the organisation's units, which portrays the model's ability to focus on parts of the organisation as well as the whole.



Source: Audit Committee Brief, March 2014. Deloitte Development Corporation. All rights reserved.

External Audit

External audit can be defined as a periodic audit or an ad hoc audit conducted by external and independent accountants. Its main objectives includes:

1) Identifying if accounting records are accurate and complete
2) Checking if the accounts are prepared in accordance with the provisions of GAAP
3) Determine if the accounts are true and reflects the organization's financial position as a result of its financial activities.

In contrast with internal audit, external audit is obligatory in most countries for publicly listed companies. However, external audit is highly recommended for private companies, non-profit organizations and other entities that would want to enhance their public credibility. Aside from which, here are some more reasons why you should consider conducting an external audit for your organization:

Benefits of External Audit

1. **Identifies Weaknesses in Internal Control**

   External auditors are not only tasked with verifying that the organization's accounts are correct, they also look at the process by which the reports are written and compiled. By doing so, they can see if the organization has enough internal controls in place to prevent data misrepresentation or fraud. In review of these internal controls, the external auditor takes a look at the paperwork trail of the financial documents, the systems used to process these documents and the roles of the employees who handle the data.

2. **Gives Credibility to You, your Business and your Financial Statements**

   Most lenders, investors and even some clients would ask for copies of your financial statement. Seeing that you are giving them an externally audited financial statement, they will have a sense of security that your paper is true, free of errors, and that you are not committing any fraud just to have their nod. This reflects that you are indeed a responsible and transparent business organization.

3. **Independent Expert Opinions**

   Unlike internal auditors, external auditors are less subjective on their work since they are from another organization. This prevents them from being biased towards the management, the employees, or personal goals set for the company since external auditors are detached from any of them.

With the help of external audit, your organization will be able to build a reputation as a company that takes care of business effectively, in the right way.

Sample Works – External Audit

Planning Materiality

Client:	ABC Co	MATERIALITY	
Period End:	December 31, 2014		
Currency:	Philippine Peso (Php)		

	2014					Final 12/31/2013 Audited
	Preliminary 9/30/14 Unaudited	Preliminary 9/30/14 Unaudited				
	Revenue	Revenue	Assets	Income	Equity	Revenue
Basis	400,551	675,000	34,987,258	400,551	6,251,937	
Rate	4%	1%	0.50%	4%	5%	1%
Planning Materiality	**16,022**	**6,750**	**174,936**	**16,022**	**312,597**	**-**
Planning Materiality	16,022	6,750	174,936	16,022	312,597	-
Rate	50%	50%	50%	50%	50%	50%
Tolerable Error	**8,011**	**3,375**	**87,468**	**8,011**	**156,298**	**-**
Planning Materiality	16,022	6,750	174,936	16,022	312,597	-
Rate	5%	5%	5%	5%	5%	5%
Nominal Amount	**801**	**338**	**8,747**	**801**	**15,630**	**-**

Note 1: Additional guidance on determination of bases
Threshold for planning materiality computation

Measurement Basis	Range
Revenue	1-5%
Gross Margin	2-6%
EBITDA	4-6%
Operating expenses	2-5%
Equity*	3-6%
Assets	½-1%

PLANNING MATERIALITY

TOLERABLE ERROR

For audits of non listed entities in an unregulated industry, our starting point for setting TE is 75% of PM but going to 50% of PM based on certain considerations.

Our expectation is that gross audit differences (recorded and unrecorded misstatements) for the audit may be more than 25% of PM based on our knowledge of the client and the past history of audit differences. We also take in consideration the mistatements noted in during our review procedures. Therefore, we have computed our preliminary estimate of TE based on 50% of PM.

SAD NOMINAL AMOUNT

GAM states that we use a small percentage of PM as a basis for determining the nominal amount to use in posting audit differences to the SAD (i.e., 1%-5% of PM). Since we have set TE at 50% of PM given the client's history of audit differences in prior years, we will use 5% of PM to calculate the SAD nominal amount.

Identification of Significant Account

Period End: December 31, 2014	SIGNIFICANT ACCOUNTS	
Currency: Philippine Peso (Php)		

Purpose:

This workpaper documents our identification of significant accounts and disclosures based on December 31, 2014 balances.

Procedures:

(1) Our identification of significant accounts started determining significant accounts and disclosures at the financial statement caption (balance sheet and income statement) level. We further separated the components of the account or disclosure to the extent the components are subject to differing risks (both inherent and control).

(2) After we considered accounts above TE, we further segregated the components of an account or group of accounts to the extent the components are subject to differing risks (both inherent and control). The

- Volume of transactions
- Complexity of transaction
- Judgement/estimation involved
- Probability of error

(3) We also noted these considerations: An account is significant if there is more than a remote likelihood that the account could contain misstatements that individually, or when aggregated with others, could have a material effect on the financial statements, considering the risks of both overstatement and understatement. Other accounts may be significant on a qualitative basis based on the expectations of a reasonable user. For purposes of determining significant accounts, assessment as to likelihood should be made without giving any consideration to the effectiveness of internal control over financial reporting.

Results:

Kindly refer to the table below for the signficant accounts identified.

	Rounded
Planning Materiality	16,022.02
Tolerable Error	8,011.01
SAD Nominal Amount	801.10

	Above TE?	Inherent Risk
S	Yes	Higher
NS	Yes	Lower
IS	No	Lower

		Control risk assessment	
		Rely on control	Not rely on contr
Inherent risk assessment	Lower	Minimal	Moderate
	Higher	Low	High
	Significant risk*	Special audit considerations	

Per FS and Footnote Caption	9/30/2014 Balance BS	Greater than TE 8,011	Volume of Transactions	Complex Transactions?	Significant Judgment/Estimates Involved ?	Important Considerations?	Significant	Not Significant	Insignificant	Assertions	Inherent Risk	Control Risk	CRA	Significant Account Name	Remarks
			Significant accounts are determined using the following criteria				Assessment								
BALANCE SHEET ACCOUNTS															
ASSETS															
Cash	255,199	Yes	Y	N	N	Y	nt			C, E, V, R&O	Higher			C1. Cash	
Receivables:															
Accounts Receivables	972,250	Yes	Y	N	N	Y	nt			P&D	Higher			E1. Accounts Receivables	
Other Receivables	4,125,063	Yes	Y	N	N	Y	nt			P&D	Lower				
Inventory	1,294,637	Yes	Y	Y	Y	Y	nt			C, E, V	Higher			F. Inventory	
Other current assets:															
Prepaid expenses	180,603	Yes	Y	N	N	N	Significant				Lower			G1. Prepaid Tax and Expenses	

Control Risk Assessment

Client:	ABC Co	COMBINED RISK ASSESSMENT
Period End:	December 31, 2014	
Currency:	Philippine Peso (Php)	

Materiality Summary		Combined Risk Assessment		
PM	16,022	Inherent Risk	Control Risk	
Assigned TE	8,011		Rely	Not Rely
Assigned SAD	801	Lower	Minimal	Moderate
		Higher	Low	High

Testing Threshold				
CRA	Minimal	Low	Moderate	High
Asset/Income	75-100% of TE	50-75% of TE	25-50% of TE	10-25% of TE
Liability/Expense	25-50% of TE	15-25% of TE	10-15% of TE	5-10% of TE

ACCOUNT NAME		IR	CR	CRA	Account Type	Scope	Testing Threshold	Amount
A. Financial Statements and Disclosures								
	Financial Statements and Disclosures - C	Higher	Not Rely	High	Liability/Expense	5-10% of TE	5%	401
	Financial Statements and Disclosures - P&D	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
C. Cash								
	Cash - C	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
	Cash - E	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
	Cash - V	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
E1. Accounts Receivables								
	Trade Receivables - C	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
	Trade Receivables - E	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
	Trade Receivables - V	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
E2. Due from Related Parties								
	Due from Related Parties - C	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
	Due from Related Parties - E	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
	Due from Related Parties - V	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
E3. Other Receivables								
	Other Receivables- C	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
	Other Receivables- E	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
	Other Receivables- V	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003
F1. Inventory								
	Inventory - E	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
	Inventory - C	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
	Inventory - V	Higher	Not Rely	High	Asset/Income	10-25% of TE	10%	801
G1. Other Assets								
	Other Assets - C	Lower	Not Rely	Moderate	Asset/Income	25-50% of TE	25%	2,003

Difference between Internal Audit and External Audit

Continuous Audit Support

Continuous Audit is an audit that involves a detailed examination of accounts and books on a regular basis. This periodic audit can be done as much as per quarter and even once in a month. In this scenario, the auditor visits the client during the intervals set and checks on every transaction. Much like any audit, the auditor then checks the balance sheet and the profit and loss account.

This kind of audit is most beneficial to big businesses, companies that has large volume of transactions and where accounts are required to be presented to the management every month or quarter. Listed below are the benefits of having a continuous audit in place.

Benefits of Continuous Audit

1. **Immediate discovery of errors and frauds**

   Since the audit is conducted more frequently, the auditor has less accounts to review compared to audits conducted annually. This gives the auditor more time to inspect each account, making it easier and faster to spot errors and frauds before they even take effect.

2. **Technical immersion and exposure**

   As the auditor is constantly in touch with the organization, he or she gains more knowledge on the ins and outs of the company and a better understanding of the business. This helps the auditor to provide more tailored recommendations to the company.

3. **Immediate presentation of accounts**

   Since the accounts and transactions are already audited during throughout the year, final audited accounts can be presented as soon as the close of the financial year to the stakeholders.

4. **Deters fraud and errors**

   Auditors comes in more frequently and may opt to conduct surprise visits throughout the year. This will push the staff to be more alert and careful, especially those engaged with preparing accounts.

Continuous audit support gives you the amazing benefits of internal audit all year round, plus the peace of mind that your business is heading the right direction consistently.

Process Mining

Everyone wants to get things done faster and easier. In business, those who accomplish things better than others are those who succeed and remain on top. If you're looking for a way to improve your processes, then we recommend you try Process Mining.

Process mining is a process management technique that allows for the analysis of business processes based on event logs. It aims to improve the business process by providing tools and techniques for discovering process, control, data, organizational and social structures based on event logs.

Why do Process Mining?

1. **Better business processes**

   Process mining allows you to discover unnecessary points in your organizational processes, the bottleneck points and stages that can be made more effective. With the help of process mining you can then create better process models that you can take advantage of.

2. **Higher Cost-efficiency**

   Unknown to many business owners, there are some parts of their processes that are nothing but expenses. With the help of process mining, you will be able to eliminate these steps and invest your resources in better areas that would help.

3. **Data-based models**

   Using the data taken by process mining from the system logs, one can now make models and processes that better suits the needs and set-up of the organization. Having a data-driven process model will help prevent errors in the long run.

4. **Higher understanding of the end-to-end process**

   The data retrieved in the system logs during process mining will help you understand your processes even more. In addition to which, the management will now have a bigger involvement in coming up with new process models that helps them to gain first-hand knowledge about their processes.

Overall, process mining helps organizations to improve their process model and eliminate unnecessary steps that may contribute to lengthy procedures and additional costs. With the help of our business analysts, your company will be able to identify what to eliminate or what to add to make your process much easier.

Data Analytics

Big decisions comes with big pressure, most of which comes from the possible consequences of the things that may happen. Aside from which, there is also a need for you to understand your company and where you want it to go. In order to do these things, you'll need data, statistics and graphs. However, these things are complicated and require expertise to understand. This is what we call Data Analytics. Data analytics is the process of examining data in order to come up with conclusions and help companies to make better business decisions.

With the help of data analytics, you'll be able to better understand the ins and outs of your company, know what is going on and most importantly, you'll be able to see what steps you can take to bring your organization forward.

Benefits of Data Analytics

1. **Better Business Decisions**

   With data analytics, you'll be able to dig deep into the things that are going around in your organization and even your clients. This will help you see more clearly the things that needs to be done and the best methods to do them.

2. **Prediction of risks**

   Data analytics does not only provide you with information that concerns about you today, but the repetitive data patterns will also give you a glimpse of tomorrow. This helps you identify risks in these patterns and take the right course to avoid them.

3. **Information to Innovation**

   Data analytics does not only tell you things about your company but also your consumers – their behavior, needs, wants and what they think about your products or services. With these information, you will be able to improve your products/services and even bring new offers to the marking.

4. **A Competitive Edge**

   With all that being said, data analytics gives you an edge over your competitors as you understand not just yourself, but also your consumers, the products/services in the market and where the market trend will go next.

Data analysis is something that is usually overlooked by a lot of organizations. However, the benefits that it gives to those who harness the power of data can always give an organization the knowledge to come up on top of the competition.

The D&V Advantage

D&V Philippines is a finance and accounting outsourcing company based in Manila, the capital of the Philippines. Founded in 2013 by Dutch CFO Stefan Vermeulen, the company serves clients all over the world, a large portion of which are in Australia, the Unites States, the United Kingdom, and other European Union countries. The company leverage the latest technologies and cloud-based software to provide services ranging from basic accounting and bookkeeping, management accounting, audit functions, business intelligence and advanced finance and accounting services as required.

Today, D&V Philippines has a roster of 500 accountants, 96% of which are CPA's, while a great number have background experience working for the Big 4 Auditing firms (Ernst & Young, Deloitte, PwC and KPMG). Employees also benefits from knowledge sharing programs. D&V Philippines created "D&V University", an internal group of Subject Matter Experts or Excellence team (e.g. Xero Excellence Team, MYOB Team, QuickBooks Team, etc.). This is to keep them updated on the latest trends in accounting and the accounting software in use. These ensure that clients are receiving globally competent services at the most competitive rates.

D&V Philippines has helped small-medium enterprises, accounting firms and Corporate CFOs on their finance and accounting concerns. With the services of D&V Philippines, these clients have regained their time and started to focus on things that matter most to them.

TAKE YOUR BUSINESS TO THE NEXT LEVEL.

DO IT WITH D&V PHILIPPINES

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