We have heard the term “continuous auditing” many times over the last few years, but do we really know what it means? Is it the same as continuous control monitoring or continuous assurance? Or is it a term used to describe the use of Computer Assisted Audit Techniques (CAATs)? Have we tried to implement it, or know of someone who already done so? Is it for real, or just another fancy term auditors like to use?

When I first heard of the term, the first thing that came to my mind was: real-time! To find out if this is a true presentation of the term, let’s first find out how continuous auditing is defined.

What is continuous auditing?

There are many definitions for continuous auditing; a few of them are listed below:

- According to The Institute of Internal Auditors’ (The IIA) Global Technology Audit Guide (GTAG 3) continuous auditing is defined as any method used by auditors to perform audit-related activities (including control and risk assessments) on a more continuous (occurring without interruption) or continual (occurring at repeated intervals) basis.

- A 1999 research report co-sponsored by the American Institute of Certified Public Accountants (AICPA) and the Canadian Institute of Chartered Accountants (CICA) defines continuous audit as: “a methodology that enables independent auditors to provide written assurance on a subject matter using a series of auditors’ reports issued simultaneously with, or a short period of time after, the occurrence of events underlying the subject matter.”

- The AICPA defines it as “the technologies and processes that allow an on-going review and analysis of business information on a real-time basis. Continuous auditing will require specialized skills of audit personnel to monitor information electronically and incorporate the use of intelligent agents, computer modeling, and other software tools. Continuous auditing will give end users of information more timely assurance that the information is correct and may eventually lead to continuous reporting where financial information is updated and published as events occur.”

- A leading continuous auditing expert, Rutgers University professor Miklos Varsahelyi, calls it “an audit that happens immediately after or closely after a particular event.”

From the above definitions, we can conclude that the objective of continuous auditing is to provide real or near real time reporting on audit issues, and that technology plays a vital role in the success of the implementation of continuous auditing. Now that we have an understanding of continuous auditing, let’s review some of the definitions for continuous control monitoring.

What is Continuous Control Monitoring?

- IIA’s GTAG 3 defines it as:
  “A process that management puts in place to ensure that its policies, procedures, and business processes are operating effectively.”

- I read a definition in a KPMG publication which I thought provides a good overview of the term:
  “Continuous control monitoring is an automated feedback mechanism for management to ensure that the systems and
controls have been operating as designed and transactions are processed appropriately.”

The above definitions are clear and suggest similarities with continuous auditing. Both processes use identical tools and methods to achieve similar objectives. So, are we talking about one process under different names duplicated by different parties?

Differences between Continuous Auditing and Continuous Control Monitoring:

Despite the similarities, there are few differences between both processes, which can be summarized as follows:

- The major difference lies in the ownership of the process. Continuous auditing is a process owned by the audit activity, while management owns continuous control monitoring.
- According to a KPMG publication, continuous control monitoring is more frequent (e.g. hourly, daily, weekly) than continuous auditing (e.g. monthly, quarterly). Also the level of monitoring for continuous monitoring would be more granular and operational than continuous auditing, which may be more focused on key controls that provide assurance at the audit objective level.
- An ISACA article identified another difference relating to the type and sufficiency of evidence generated by both processes. It describes the evidence obtained by auditors as direct, while those obtained by management as indirect. It concludes that due to the indirect nature of evidence gathered by management through continuous control monitoring, it would not be sufficient in a continuous auditing engagement if used alone.

Relationship between Continuous Auditing and Continuous Control Monitoring:

According to IIA’s GTAG 3, there is an inverse relationship between the adequacy of management’s monitoring and risk management activities and the extent to which auditors must perform detailed testing of controls and assessment of risk. The audit activity’s approach to, and amount of, continuous auditing depends on the extent to which management has implemented continuous monitoring.

The relationship can be illustrated as follows:

A 2008 Protiviti article further explains this relationship by indicating that the two processes complement each other. It adds, “in fact, there is often an inverse relationship between the extent of continuous monitoring performed by management and the need for continuous auditing. For example, if management is actively monitoring transactions and controls across a range of business systems and processes, this usually means that internal audit does not have to perform the same continuous auditing activities. As long as internal audit is able to assess the reliability and effectiveness of management’s continuous monitoring then they can rely on those activities and reduce the extent of audit testing. Internal audit can then focus on extending continuous auditing techniques to those areas that are not monitored by management.”

Based on the above, can we assume that if management does a superb job in performing continuous control monitoring, this will lead to a minimal continuous auditing and auditors’ role will be marginalized? Not necessarily, in fact this may provide an opportunity to internal auditors to focus on areas of high risk and on overseeing the risk management and the continuous control monitoring processes.

What is Continuous Assurance?

Continuous assurance is defined by the IIA as the combination of continuous auditing and au-
dit oversight of continuous control monitoring by management.

**CAATs vs. Continuous Auditing:**

Computer assisted audit techniques (CAATs) refers to software used by auditors to enhance the audit process. CAATs can be classified into four broad categories:

- Data analysis software
- Network security evaluation software/utilities
- OS and DBMS security evaluation software/utilities
- Software and code testing tools

Can an audit department claim that it adopts continuous auditing just because it uses CAATs? The answer is no. The use of CAATs is an essential part of the continuous audit process, but it is not a continuous audit by itself. To illustrate, the use of CAATs to review accounts payable (data mining function) during a scheduled audit does not mean that an organization is implementing continuous auditing unless this review is performed on a continuous or continual basis and involves risk and control assessments. A one-time audit using CAATs does not represent continuous auditing.

**Prerequisites for Continuous Auditing:**

In order to implement an efficient and effective continuous audit program, the following conditions should exist:

- Availability of proper technology at the company and internal audit levels. Continuous auditing is heavily dependent on technology.
- Management support and buy-in.
- Accessibility of data.
- Competence of auditors.

**Benefits of Continuous Auditing:**

A presentation by the IIA on GTAG 3 lists the following benefits for CA:

- Increased scope of audit activities.
- Increased ability to mitigate risk.
- Reduced financial errors and potential for fraud.
- Sustainable and cost–effective means to support compliance and control assessment.

- Increased confidence in financial results.

**Who is implementing CA?**

The first model of continuous auditing was developed by AT&T Bell Laboratories in 1989 to evaluate the billing system within the company. Since that time, CA has evolved and more organizations have adopted it in the United States and Canada. A 2008 survey by KPMG shows that 26% of respondents indicated that they have already implemented CA, while 43% of respondents indicated there intent to implement it during the coming three years.

The above data suggest that CA is gaining momentum, but also that organizations need to accelerate its adoption. I have not seen data on the application of CA outside the United States, but my feeling is that the rest of the world is way behind the U.S especially in the developing countries including the Middle East.

**The Future:**

While most of the organizations around the world have not yet started to adopt and implement continuous auditing, other organizations are already looking beyond CA. As with the trend of internal audit, continues auditing will be shifting from a control-centric model to a risk-centric model by adopting what the IIA calls the Continuous Risk and Control Assurance (CRCA) model, which will takes continuous auditing and monitoring to a new level. It is a top-down model that starts with enterprise goals and objectives, and moves on to risks to the objectives, assessment and testing of the controls required to manage the risks, and data mining that can provide indicators of risk and control health. The objective is to provide continuous risk and control assessment to the management and board by taking real–time audit technologies to the next level.
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