Internal Auditing

Introduction
Companies use the Foreign Corrupt Practices Act and the Sarbanes-Oxley Act as levers of control and review to develop plans for internal auditing systems.

Foreign Corrupt Practices Acts (FCPA)

"As a result of SEC investigations in the mid-1970's, over 400 U.S. companies admitted making questionable or illegal payments in excess of $300 million to foreign government officials, politicians, and political parties. The abuses ran the gamut from bribery of high foreign officials to secure some type of favorable action by a foreign government to so-called facilitating payments that allegedly were made to ensure that government functionaries discharged certain ministerial or clerical duties. Congress enacted the FCPA to bring a halt to the bribery of foreign officials and to restore public confidence in the integrity of the American business system" (Foreign Corrupt Practices Act, Antibribery Provisions, 2004).

While the main purpose of the Foreign Corrupt Practices Act was to prevent the bribery of foreign officials, the Act also required that public companies maintain good systems of internal accounting controls. However, enforcement of this Act was lacking, and the improvements in internal control systems were not sufficient to prevent further problems as evidenced by the reported accounting fraud and abuse cases of major companies in the late 1990s and early 2000s. These incidents brought about the Sarbanes-Oxley Act of 2002.

Sarbanes-Oxley Act (SOX)
Section 404 of the Sarbanes-Oxley Act (SOX) requires public company officials to report on their internal controls over financial reporting as part of the company's annual report. The report on internal controls must include a statement of management's responsibility for establishing and maintaining adequate internal control over the company's financial reporting. It must also include a statement on any material changes that the company has made regarding the internal controls that materially affected the financial report. These statements must be made in both the company's quarterly and annual reports.

The statement of management's responsibility must include identifying the framework used by management to evaluate the effectiveness of the organization's internal control over financial reporting. SOX also requires that the public accounting firm that audits the company's financial reports to issue an attestation report on management's assessment of the company's internal control over financial reporting. This auditor's report must be included in the company's quarterly and annual reports.

Internal Auditing Systems
There have been a number of computer-based auditing programs and systems written to aid auditors in auditing accounting information systems. These systems are called computer audit software (CAS) or generalized audit software (GAS). Two popular audit software programs are ACL and IDEA. These programs, based on the auditor's specifications, generate programs that perform the audit functions. CAS is well-suited for examination of large data files to identify records needing further audit review.

In online systems where it is difficult, if not impossible, to stop process to perform an audit, an auditor will use a concurrent audit technique to continually monitor the system and collect audit evidence while live data is processed. Concurrent audit techniques use embedded audit modules, which are segments of program code that perform audit functions. They also report test results to the auditor and store the evidence collected for the auditor's review. Concurrent auditing programs are usually incorporated into application programs at the time of development. Some of the common concurrent audit techniques are: integrated test facility, snapshot technique, system control audit review file, audit hooks, and continuous and intermittent simulation.

Reference