On Some Internal Auditing Procedures to Verify the Operating Risk Due to Accountancy Errors

Procedure di Revisione Interna di Verifica del Rischio Operativo dovuto alla Presenza di Errori nella Contabilità Aziendale

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Riassunto: L’esigenza delle aziende di un controllo di tutte le fasi dell’organizzazione, ha condotto a un diffuso impiego di procedure di analisi statistica per l’individuazione di situazioni anomale del sistema. Il lavoro si propone di analizzare alcune procedure per lo svolgimento di revisione interna della contabilità, al fine di minimizzare il rischio della presenza di errori che possono comportare distorsioni ed errate decisioni.

Keywords: real risk, auditing sampling, statistical procedures, multiplied tests of hypotheses.

Abstract

The demands of the firms have led to a wide use of statistical analysis procedures in order to warn the firm situation, to locate the system irregularities, to weigh up an audit, to come to operational or strategic decisions under conditions of uncertainty.

Another characteristic of the present firm organization and of the decision making by the management is the remarkable “dynamism” of the events, due to the markets, of the customers and of the suppliers, and to the use of innovation technical and communications means, that leads to follow the various operations made by the firm, emphasizing at once the irregularities that can give crisis, economic losses or reductions in market share (Chiodini, Magagnoli, 2004).

The purpose of this paper is to examine some suitable procedures for verifying and doing an internal auditing in order to define the error risk that could imply distortions and wrong decisions by the management. The given model is different from the sample techniques that are used in the auditing field in which the sample plans are used to estimate the amount of the accountancy during the time (i.e.: one year), with an inference about the already obtained series of transactions that is assumed as the definite “statistical population”. Such assumption could be denoted as “static” or “ex post”. On the contrary this study, using as well the same information, follows the data in their development during the time (Brown, Rozeff, 1979) and estimates their behaviour from a “dynamic” point of view, with tests of hypothesis and signals of occurring irregularities, that can be connected with the ones applied in the production processes and known as “control charts” (Montgomery, 2005).

In auditing, both internal and external, the concept of risk is very complex (Teitlebaum, Robinson, 1975), with reference to the different kinds of fraud and their acceptability.
that also has a degree of subjectivity. Therefore the study assumes as risk measure, as much as possible objective, the probability of “no signal” when irregularities happen in the natural accountancy condition and hence in terms of a probability of the second kind \( \beta \), in function of the accountancy depart from the standard condition. Thus we define the model of the error rising process in an accountancy book in a regular condition as a Poisson’s homogeneous stochastic process with a parameter \( p \) and we assume that the conditional distribution of the error random variable \( E = V_c - V_r \), due to the difference between the real book value and the recorded value, is distributed with a known law depending on a location parameter \( \theta_l \) and on a dispersion parameter \( \theta_d \), assumed constant. The given check procedure is a multiple test of hypothesis, iteratively applied to the accountancy records that belong to homogeneous classes and referred to a short time space \( k = (t - \Delta t, t] \), with \( \Delta t = 1 \), (i.e.: one day), in which \( N \) accountancy records are available and \( n \) constant of them are analysed. Then we compare different sampling procedures referred to the distinct ones (marginal), relating to the parameters. Defined the decisional procedures, based on the sampling dimension and the test significance level (\( \alpha \)), by means of simulations we estimate the risk in terms of the probability \( \beta \) in function of the possible accountancy irregular conditions.

In particular, the null hypotheses (marginal) are the following:

- \( H_0^{(1)}: p \leq p_0 \) where \( p \) is the frequency of a book error, \( E \neq 0 \) or \( (E^+ > 0, \ E^- < 0) \), in \( I \) period;
- \( H_0^{(2)}: \theta \leq \theta_{L0} \) where \( \theta \) is the average of the book error conditional distribution, \( E \neq 0 \) or \( (E^+ > 0, \ E^- < 0) \), in \( I \) period;
- \( H_0^{(3)}: SE \leq SE_0 \) where \( SE \) is the sum of the book errors, \( E \neq 0 \) or \( (E^+ > 0, \ E^- < 0) \), in \( I \) period;
- \( H_0^{(4)}: \eta \leq \eta_0 \) where \( \eta = SE/\sum_{j=1}^{N} V_r \) is the ratio between the sum of the book errors, \( E \neq 0 \) or \( (E^+ > 0, \ E^- < 0) \), and the total record values in \( I \) period.

The values \( p_0, \theta_{L0}, SE_0 \) and \( \eta_0 \) are boundary values in the regular conditions of the accounting.

The main results are compared in the different conditions and we remark them in order to suggest some practical uses.

References

Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level. 30. In accordance with ISA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.11 (Ref: Para. A37â€“A40). Audit Procedures Responsive to Risks Related to Management Override of Controls. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. (Ref: Para. In designing further audit procedures, the auditor should consider such matters as: â€¢ The significance of the risk. 26 Testing the operating effectiveness of controls is different from obtaining audit evidence that controls have been implemented. 27 Although some risk assessment procedures that the auditor performs to evaluate the design of controls and to determine that they have been implemented may not have been specically designed as tests of controls, they may nevertheless provide audit evidence about the operating effectiveness of the controls and, consequently, serve as tests of controls.