Improving Audit Efficiency and Accuracy with ProSystem *fx*® Knowledge Coach

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The introduction of the AICPA's Risk-Based Audit Standards marked a sea change for the accounting profession and an increase in required work for auditors. Designed to strengthen the auditing process, the Risk-Based Audit Standards place greater focus on industry and client-specific planning and require auditors to directly link their audit programs to identified risks. While certainly more thorough, the Risk-Based Audit Standards can also add time and cost to the audit process when many firms are under continued pressure to improve efficiency with limited resources. That's where CCH's ProSystem *fx* Knowledge Coach can help.

CCH introduced ProSystem *fx* Knowledge Coach to streamline the risk-based audit process and to efficiently manage the entire audit process — from planning through final sign-off. Designed to seamlessly integrate with the ProSystem *fx*® Suite, Knowledge Coach goes beyond current checklist-based auditing programs by directly linking audit program steps and procedures to documented risks within each audit engagement. In addition, Knowledge Coach includes dynamic, built-in tailoring tools that guide users through audit planning and help eliminate unnecessary work, along with automatic content flow functionality to reduce repetitive data entry and improve accuracy.

To illustrate the process of using Knowledge Coach within the context of an audit, we've developed two different scenarios that demonstrate the experience of two typical users. These scenarios show how Knowledge Coach can significantly improve both accuracy and efficiency throughout the audit process, creating more time for auditors to get back to the job of auditing.

Scenario One: The Bookworm Foundation

Setting the Stage

Meet Jane Auditor. Jane works for a mid-size accounting firm and has been assigned to audit one of the firm's longtime clients: The Bookworm Foundation, a non-profit organization dedicated to promoting literacy among inner-city youth.

During this year's kick-off meeting with the foundation's Executive Director, Jane learned that the foundation had gone through some significant changes since its last audit. First, the foundation's chief accountant of 10 years retired at the beginning of the year, and finding a suitable replacement had been challenging. The foundation's office manager, who had taken a few accounting courses in college, had stepped in to handle the bookkeeping. This normally would not have been an issue, but this temporary solution has been in place for 10 months, and a recent fundraiser netted a number of large donations for the foundation. As a result, the Executive Director asked Jane to be particularly diligent in her analysis of the last 10 months.

Planning the Audit

After the kick-off meeting, Jane began setting up and planning the audit engagement following the processes she learned through the product and best practice training she received from CCH:

- **Full Integration with ProSystem *fx*® Engagement** — Launching ProSystem *fx* Engagement, Jane rolled forward last year's binder and effortlessly converted all desired workpapers, trial balance and financial reporting information into a current Engagement binder. Because Jane had used ProSystem *fx*® Knowledge Tools workpapers, she converted these to Knowledge Coach and rolled them forward as well. The result was a current year audit binder in Engagement that included almost all of the workpapers and information needed to start the audit, all updated based on the latest industry-specific Knowledge-Based Audit™ workpaper template for not-for-profit organizations.

- **Tailoring the Audit** — Next, Jane answered a series of questions generated by Knowledge Coach, designed to tailor the audit around the specifics of the engagement. Her answers helped the application develop recommendations on relevant audit program steps, and added necessary workpapers and guidelines to address the specific needs of the client and engagement. Additional tailoring questions in the added audit program workpapers fine-tuned the steps and documents even more, providing Jane with a solid baseline for adding new risks and program steps to finalize the audit plan.

- **Eliminating Unnecessary Work** — Based on Jane's answers to the planning questions, Knowledge Coach removed unnecessary sections of certain workpapers that were determined to be not applicable to the audit, saving her valuable time and allowing her to focus on the relevant audit steps. When Knowledge Coach determines that a workpaper is unnecessary for the audit, it provides a diagnostic and gives the user the option of removing it from the workflow. This helps prevent unnecessary effort and costs associated with over-auditing.

Linking Further Procedures Performed to Documented Risks

ProSystem *fx*® Knowledge Coach conforms to the spirit of the AICPA risk-based accounting standards by actively linking audit procedures to documented risks. Once the auditor documents risks within the Risk Pane, he or she can easily link specific program steps to each risk, effectively complying with the standards in a highly efficient manner.

With the audit process mapped out, Jane began identifying and categorizing specific risks that she had uncovered during the initial meeting and data collection phase.

- **Identifying Risks** — Jane initially considered the poorly trained bookkeeper a moderate risk, and was prompted to record it in an easy-to-use Risk Pane, which is accessible from any Knowledge Coach workpaper. Jane was able to enter a significant amount of information about this risk, like any audit assertions and type of risk (e.g. inherent risk, control risk, etc.), which Knowledge Coach flowed to all necessary workpapers and used to recommend program steps and responses.

- **Automatic Content Flow** — As soon as she entered the risk the first time, Knowledge Coach flowed the risk information to the summary audit program workpaper and all of the other appropriate audit workpapers and forms. This data flow is employed for other workpaper content as well, ensuring consistency and saving time by eliminating tiresome data re-entry across multiple workpapers.

- **Assigning Program Steps to Risks** — Upon adding each risk, Jane designed further audit procedures to address the risk of misstatement arising from the added risk. In many cases, she selected available steps from the included, industry-specific program step library. As she completed the procedures, she linked each step to the appropriate risk from selected options presented by Knowledge Coach. Team members from her firm have the ability to review all risks and how they are being addressed on the risk summary section of the Risk Pane, and thorough diagnostics ensure that all risks have the necessary program steps. All program steps have an associated risk.

Tailoring Workflow to Maximize Efficiency

At the planning stage of each audit, ProSystem *fx*® Knowledge Coach poses a series of questions designed to identify and/or design audit procedures necessary to address each risk. The information provided identifies the applicable workpapers required in the audit process, and suggests removal of any that are unnecessary. In addition, all workpaper tables are tailored to reflect information already provided by the questions answered, saving valuable time.

Conducting the Audit

Upon reviewing the financial statements, Jane identified certain donations received in the last 10 months that were not properly accounted for.

- **Full Integration with Accounting Research Manager™** — Using the built-in links to Accounting Research Manager, Jane was able to confirm how each donation type should be treated. Content within Knowledge Coach contains hyperlinks to Accounting Research Manager that provide instant access to official guidance and supporting information on donation classification.

- **Changing the Risk Level without Losing Work** — After confirming the error, Jane changed the risk level to maximum. Knowledge Coach allows for changing risk levels — and even changing the answers to tailoring questions — without losing any work. Changes can be made on-the-fly, and the changes automatically flow to other applicable workpapers and forms.

- **Documenting Risk** — The Risk-Based Audit Standards require that additional steps be put in place to determine the extent of an error. Knowledge Coach allowed Jane to easily add more steps from the Program Step Library with a few mouse clicks.

- **Assigning Steps to Specific Risks** — To better assess the error, Jane selected a number of additional tests. She also set a lower testing threshold, analyzing all donations in excess of $10,000 instead of only looking at those greater than $25,000. Again, this was handled on-the-fly, and the changes were flowed accurately and immediately to all applicable workpapers.

- **Sharing Audit Results** — Upon documenting the extent of the error, Jane completed the rest of the audit as planned. She sent the completed audit to her engagement partner, who was able to generate a high-level overview of the issues at hand using the Knowledge Coach Communications Hub and workpaper diagnostics that helped identify areas of remaining concern or required work. The Communications Hub enables a reviewer to quickly view all of the significant items and risks involved in the audit and see how risks were addressed. Upon review, and being satisfied with the results, the partner signed off on the workpapers and finalized the engagement binder — but not until he added notes to the binder for next year that will roll-forward and be available the next time this audit is performed.

Automated Content Flow to Increase Accuracy and Save Time

Gone are the days of re-entering the same information again and again. Whenever you enter any content in ProSystem *fx*® Knowledge Coach, that content is automatically flowed to all relevant workpapers, tables and forms to save time and increase accuracy.

Scenario Number Two: SnackShack, Inc.

Setting the Stage

Joe Auditor had a new client who had just switched to his small firm. Joe was assigned to audit SnackShack, Inc., a rapidly expanding chain of convenience stores with 125 stores nationwide and hopes of going public in the next few years. The stores carry the typical array of snack foods, candy, soft drinks, newspapers and magazines, along with a selection of fresh groceries and processed foods.
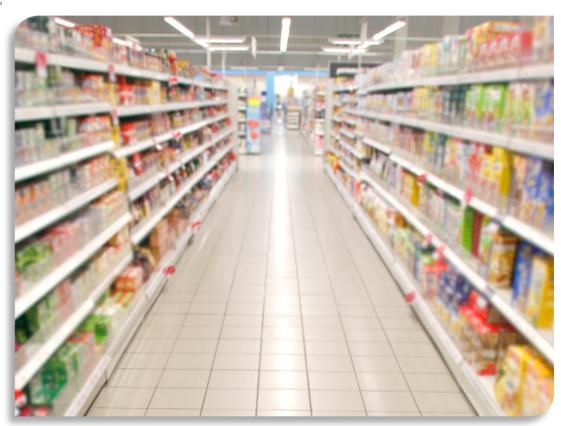
Over the last two years, SnackShack added 20 new stores around the country. The Controller, who has been with the company for the last five years, provided Joe with detailed documentation regarding the internal controls he had put in place. The company had large amounts of inventory and a high volume of low-dollar, cash transactions. In their introductory meeting, the Controller expressed concern about the risk of employees stealing from the register.

Many of the SnackShack products had a limited shelf life, so Joe wanted to be sure that obsolete, expired inventory was not included in the balance sheet. To get an accurate handle on inventory, Joe used local auditors in various SnackShack locations to help with the inventory count in each store.

After meeting with the Controller, Joe got to work setting up the new client and planning for the audit.

Planning the Audit

- **Creating a Client in Engagement** — Joe opened ProSystem *fx* Engagement, which walked him through a quick series of steps required to create a new client and workpaper binder. Once SnackShack was set up as a new client within Engagement, Joe launched Knowledge Coach, which subsequently added steps specifically to address information and processes needed for new clients versus existing ones.

- **Reviewing Analytics** — As a new client, Joe spent extra time reviewing Knowledge Coach-generated analytics to assist in making an initial risk assessment for SnackShack.

- **Tailoring the Audit** — When he indicated that SnackShack was a new client, Knowledge Coach prompted Joe to designate the type of client and to indicate whether or not he would have access to previous audits. The system then walked him through a series of steps to tailor the workflow around the issues at hand. When Joe indicated that other firms would be involved in auditing local store inventories, Knowledge Coach identified the need for specific documents and steps required when third parties are involved, and recommended that these be added to the engagement workflow. Knowledge Coach enabled Joe to add risks specific to this client and audit, and to select the most applicable steps from the program step library instead of using a typical checklist approach that could include steps with no relevance to the actual audit needs.

Conducting the Audit

- **Adding Customized Steps** — Joe entered a specific risk related to the conversion of cash to the Risk Pane. To address the Controller's concerns, Joe added a customized step to reconcile the cash in the register to reported sales, and attached this step to the specific risk. Knowledge Coach enables the user to easily add customized steps unique to the client and the risk, and even re-use these steps in the current audit or any future audits.

- **Managing Diagnostics** — If Joe identifies a client-specific risk but fails to perform procedures to address that risk, Knowledge Coach will flag it immediately, letting Joe know that he needs to address each risk with specific program steps. Knowledge Coach continually monitors incomplete workpapers or steps, changes that need to be reviewed, conflicts that need to be resolved, and more.

- **Automatic Content Flow** — When Joe entered the risk for the first time in the Risk Pane, it flowed to the 5-10 other workpapers that would require information about the risk and the assigned program steps. This means Joe doesn't have to re-enter risk information over and over, and also helps ensures the accuracy and efficiency of the engagement.

- **Sharing Audit Results** — Joe continued the audit, fielded input from the various locations, and was able to have his audit partner access the binder and review and evaluate the completed work. Knowledge Coach incorporates all workflow features of ProSystem *fx* Engagement, including binder sharing, synchronization, sign-off references, reports and more to make this a highly efficient process.

An Integrated, Tailored Solution

ProSystem *fx*® Knowledge Coach will fundamentally change how audits are planned and performed. It is one of the first and only workflow solutions on the market built around the Risk-Based Auditing Standards, enabling auditors to truly focus on what they do best: auditing. Rather than spending time managing workpapers, checklists and administration, Knowledge Coach streamlines the process, saves valuable time, and gives auditors the opportunity to get back to the investigative work of auditing. Created in the true spirit of the Risk-Based Audit Standards, Knowledge Coach gives auditors the flexibility to add their own procedures and processes to the workflow. As a result, each audit is tailored to the unique characteristics of the firm and engagement.

ProSystem *fx*® Knowledge Coach is driving audit efficiency and accuracy to the next level.