

Information System Audit for Companies – Voluntary or Compulsory?

The need for Information System (IS) Audit cannot be overemphasised. There are approximately 10,000 companies, which are at various stages of computerisation for various functions within the organisation. The areas are wide and varied. Right from plain and simple gate entry/security scanning to the most complicated areas like production process, all are controlled by the IT setup of an organisation. This article discusses the need of the IS audit and the need to spread awareness about the strengths of the professionals in this area.

The 'Information System Audit' is the latest buzzword in the world of auditing. The ICAI has taken upon itself the task of ensuring that there is enough supply of qualified Information System (IS) Auditors. The process has been put on fast track and the initial thrust is indeed showing the desired results, slowly but surely.

As a holder of DISA (ICA) what will be bothering the Members most? I tried to put things in the right perspective and came up with some more questions! Mind you, we are looking for some answers here!

Is there awareness amongst the Companies/ Corporates about the need for IS Auditors? Is there a real need for this kind of audit? What is the level of awareness amongst the Chartered Accountants about the need and utility of the IS audit? What value gets added to the CA who qualifies as DISA (ICA) or CISA? Easy questions? Not really. These are the fundamental issues that we, members, need to collectively ponder so that we can make better utilisation of the highly qualified and large numbers of professionals with deadly combination of dual qualification – CA and ISA.

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companies, which are at various stages of computerisation for various functions within the organisation. The areas are wide and varied. Right from plain and simple gate entry/security scanning to the most complicated areas like production process, all are candidates for being controlled by the IT setup of an organisation. In most cases the employees do not even realise that they are using computerised processing in their daily routine. In the present scenario of almost complete dependence on the computerisation of the activities of the corporate world it becomes necessary to give some sort of assurance to the stakeholders and the users of the reports on the management's assertions with reference to accounts, corporate governance and the operations of the companies in general.

Surely, none of the corporates would dispute over-dependence on the computerisation. What we are really interested in is the assurance that the system setup is appropriate for the business today, and that this system is appropriate for the same business tomorrow also. What is the assurance that the financial statements presented to us are exact reflections of the books of accounts of the company? In a computerised environment it is very difficult to keep track of the accounting. How can the shareholder be satisfied that what he sees is what he gets? Since the accounts are audited by Chartered Accountants, there are hardly any doubts about their reliability or authenticity.



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But what we are not aware of or probably do not want to be aware of is the discrepancy which is not apparent. The discrepancy can be noticed only if you look for it in places other than in the area of accounting.

Are the companies aware of the IS audits? Yes and No. We can easily put the companies into three groups. The first category comprises companies that are highly progressive, forward-looking and completely run by automated processes. They are not only aware of it but also insist on periodical IS audit as they are conscious about the interests of their stakeholders and cannot risk a fraud due to laxity in systemic control. They define the scope, verify the tools needed and stringently interview the IS auditor before assigning him the job.

The second group comprises companies, which are not middle-sized but are not in the

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large segment either. These companies are aware of the need of IS audit but are not willing to accept that this is a must. Even the middle-sized companies today extensively use ERP in view of the availability of good ERP in a very affordable range. The practice of using ERP has penetrated deep into the hierarchy of these middle class and upper middle class companies, as we may call them. These companies, which are in transition mode, are fully automatic physically but the controls are still very much the traditional one- or two-man based.

How do we create awareness about IS audit in these companies? How do we make them aware that we are as much capable and qualified as anybody else to carry out IS audit?

In fact I would go a step further. Considering our training and experience in dealing with a variety of organisations as also the financial background that we possess, we as members of ICAI have an edge over other IS audit professionals. I believe that the best way to create awareness is to market our services in the most aggressive manner. This is not to say that we start hiring out hoardings or advertise on TV. Please. No. What we need to do is to get out of our comfort zone and highlight this part of our skills whenever an opportunity knocks.

The third category of companies comprise 'lower middle class' companies who are using computerised processes to run their business but are not highly dependent on them. The result is a mix of automatic, semi automatic and manual controls. These companies are at greater risk of being victims of the automatic processes than the others. Why? You may well ask. Simply because they are overly dependent on the manual and semi-automatic processes, more than the automatic process. In fact, these companies would be almost arrogant about the strength of the controls outside of their computerised environment. The holes in the security or the internal control defined in their computerised process would be of a secondary or lower priority as compared to signing of vouchers or approval of advance or issue of material through a process, where the owner or owner's right hand man 'Mr. Know-it-all' is involved. The question of awareness does not arise in this category. They are blissfully ignorant about the state of computerisation. In some cases they may not even be keen on it. These are the touch targets, the clients who would benefit most from IS audit of their organisation.

In this background, the voluntary compliance of IS audits would be immediate in the first category of companies and to some extent in a few companies falling in the second category. Then how do we spread the awareness about IS audit among a large number of the remaining corporates? Will legislation be effective? Or will it end up as one more unwanted compliance of

law? We will come to this later.

On the other side, how many members, who are now qualified as ISA, do actually believe that they have enough capabilities to actually perform the audit effectively? Let us not arrive at any judgment but despite this aspect being discussed in our seminars and conferences, much remains to be done to instil confidence in general public and particularly the corporate world about the abilities of CAs to perform this job professionally. The tools for conducting the audit are not cheap. There is also very little awareness about such tools. The awareness about the vendors for this job is also not so great.

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Too many questions! I hope there are people who are thinking or have started thinking. I had the pleasure to be part of a sub-committee, which presented a white paper to the Corporate and Allied Laws Committee of ICAI, where we recommended that the best way to begin the compliance could be with the Listed companies. More so because a lot of users of their annual financial statements are not having enough resources to understand the complicated process by which these statements are prepared and sent to them. Not only this but also the fact that these financial statements are widely publicised in newspapers and are also used as USP by them to show the growth and efficiency.

It would be really reassuring to the members who are performing the attest function for these companies to know that the systems and processes are checked by another set of professionals who have certified its integrity and robustness.

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of effort has been put into by ICAI too. What it all boils down to is the practical experience that one has. In many cases we find that the requirements of the clients are such that

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prequalification of small or medium sized firms is out of question. In some cases a corporate structure is required. In all cases, high Turnover criterion, threshold on clients' turnover, number of clients, number of employees, etc. are required for prequalification, effectively reducing the number of firms/organisations that can hope to qualify in the process and render the service to get some valuable experience. The CAs receive a lot of enquiries from banks and companies outside India (awareness?). That itself is a good barometer of our value.

The question remains as to how to increase the awareness. An idea floated some time back was that tools like Clause 49 of the listing agreement should be used to enforce IS audits. The extract of the white paper which is reproduced hereunder, deals with the fact that all the listed companies need the IS audit, and that reduction in the number by any filtration process does not achieve the ultimate objective:

“The reasons and justification for focusing on listed companies are:

1. The number of stakeholders is huge. Customers, Suppliers and the organisation itself are heavily dependent on the

information systems used by such companies.

2. Being listed, they have a responsibility to the users of the reports that these companies periodically publish. When the company asserts that the reports are made by their Computerised system it becomes imperative for the users of such report to know how reliable these are.
 3. Even if these companies do not make such assertions it becomes necessary for the users to know how good the system is so that they get a fair idea about the forecasts and predictions that are being made quarterly by them.
 4. That the companies in which they have placed faith have proper control over its assets, what is the quality of the system, and, what are the procedures that they follow to assure themselves about the strength of this system.
4. For all the other companies, which have lower turnover and are what is called Medium Scale or Small Scale and yet are Listed on the Stock Exchange also face similar problems, but they do not have IS audits in their list of priorities.
 5. Which means that when we restrict the compulsion to get IS audit done to larger companies we are, in fact, not doing anything new. It would be a great value addition to the investing public and the regulators if we can make all the listed companies undertake the IS audit.

Why should all listed companies undertake IS Audits?

We can always reduce the number for beginning the process by prescribing a slab on the basis of the turnover or profit or asset base, etc. but then what are we going to achieve by this exclusion?

1. It would reduce the scope and importance of the prescribed audit.
 2. The larger companies in any case have got an enlightened management, which are proactively getting the audit done. While there is no standardisation of the reporting or the process or the authority that these audits have, they are nevertheless conducted.
 3. Currently the larger companies, say those worth over Rs. 500 crore, also have an infrastructure in place to identify the defect in their Information System. They also get inputs from the supplier and customers, which are in the formats compatible with
6. There are possibilities of weakness in selection of applications for accounting or production, there could be lack of knowledge about security, there could be a hacking incident which is far more likely in case of medium-scale industries, for two major reasons a) because of the sheer number of such medium scale/small scale companies and b) the lack of awareness in this segment about the necessity to keep the IS infrastructure protected and fine-tuned.
 7. A few companies in this segment might be getting some kind of report in this area for their satisfaction but that doesn't serve the purpose. We need assurance from an independent source about the reliability and controls of IS infrastructure of these companies." □

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