



Electronic Audit Confirmations

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As we bring the tax season to a close and look forward to the rest of the year, I felt it very appropriate to alert CPA firms of some technology that might make a significant difference in their audit practice. Time to dust off the audit tools and get to work; right? In fact, the April edition of the Journal of Accountancy has a nice article on confirmations that only alludes to this technology of which I write.

At K2 Enterprises, we are always looking for new and cool technologies for CPA firms. A year or so ago, my partner, Randy Johnston, and I got a look at some cutting edge technologies; one of which I will discuss here. Electronic audit confirmations are not only possible now, but also very useable as well. Over the years, I have always been keen on “useable” technologies, not just the “bleeding edge” technologies. By the time we had the opportunity to get a good look at Capital Confirmation’s electronic confirmation system, it was way past the bleeding and leading edge; it had already moved on to useable in our opinion.

As far as we know, at the time of writing this article, Capital Confirmation was the only solution available for electronic audit confirmations related to bank accounts. We certainly are open to any other players out there in this market. If there are any, please feel free to contact us.

My experiences with audit work have never been all that positive. I remember long hours; ticking off compliance in loan application documents, looking for assets that were really hard to locate, and mainly just grunt work. I do know that one of the greatest frustrations in an audit is the significant waiting period related to confirmations. Traditional paper confirmations always take a significant amount of time and delay audits for weeks.

Bank confirmations can now be done quickly and accurately bringing to play effectiveness and efficiency; the two favorite Es of an auditor. Also, this technology is supported under the standard of AU 330 which states the “properly controlled electronic confirmations can provide reliable audit evidence”.

The four key elements of this solution that should warrant your attention are:

1. Time saved on audit due to quicker confirmations (real world results reported as high as 50% of confirmation time saved)
2. Reduced exposure to fraud due to encrypted electronic communication
3. Improved consistency and accuracy of audit confirmations
4. Banks are very eager participants in this technology as it reduces their exposure to loss and fraud as well as the CPA
5. This type of technology allows staff to perform pre-audit work that will automatically engage on a given date making staff chargeable (billable) during October, November, and December.

Let’s look at a simple real life use of this technology:

Smith, Turner & Reeves

Smith, Turner, & Reeves has offices in Jackson and Oxford Mississippi and used Capital Confirmation to streamline the audit confirmation process by replacing paper-based processes with electronic confirmations.

Key points of this success story:

- Web-based interface for performing audit confirmations, enabling electronic transfer of financial data
- Multiple layers of authentication and security to validate the authenticity of users, protect user logons, and encrypt data
- A record of activity with all confirmations, providing a traceable path of accountability to each individual involved in the confirmation process
- Significantly reduced exposure to fraud due to encrypted electronic transfer of information directly from financial institutions to CPAs

“In the past we had relied on manual confirmations to get both bank account balances and loan balances. That involved a lot of time on our part to get the numbers. We’re very pleased with the solution. Using it, we’ve cut our time spent on doing confirmations in half.” – George Smith, CPA Partner

FAQ List

Here are some frequently asked questions (FAQs) regarding electronic audit confirmation service:

1. **Q** - How many banks are involved? **A** - Over 200 banks are currently using CONFIRM™. Included in that group are 8 of the Top 10 banks in the country and 60% of the Top 50 banks in the country.
2. **Q** - What does the professional guidance say about electronic confirmations? **A** - Both the Interpretation on Electronic Confirmations issued in March of 2007 and the Updated Practice Alert 2003-1 on Confirmations issued in June of 2007 support and encourage the use of electronic confirmations, stating that electronic confirmations may be considered to be reliable audit evidence and are as valid as paper confirmations received via the mail.
3. **Q** - How does the system deal with banks not already in the electronic system? **A** - There will always be banks that are not a part of the system – new banks start up every day and there are some local community banks that may never sign up because they only do just a couple of confirmations each year – which is why the CONFIRM™ service includes a “paper” module. The benefits of the “paper” module are:
 - Automatic Document Creation
 - The auditor can create confirmations for every bank needed– regardless of whether the bank is on CONFIRM™ or not. If the confirmations go to a partner bank then those become electronic confirmations. If the confirmations go to a bank which is not a member of the service, then CONFIRM™ creates a formatted PDF of those confirmations for the auditor on the standard Bank Confirmation form.
 - Address Verification
 - Audit Documentation – the report is provided in PDF format which can be downloaded and included in the workpapers. With the ACFE reporting that the typical fraud goes on for 18 months before it is discovered, and a court case often coming a year or more later, if an audit ends up in court, you certainly don’t want your staff auditors trying to remember how or if they

validated a mailing address. With the Address Verification report in the workpapers, it's all properly documented as it should be.

4. **Q** - What security is involved in this system? **A** - CCI uses VeriSign's SSL EV 128 bit certificates. VeriSign is the leading secure sockets layer (SSL) Certificate Authority enabling secure e-commerce and communications for Web sites, intranets, and extranets. The VeriSign certificate uses Server-Gated Cryptography (SGC) which enables 128- or 256-bit SSL encryption (depending on the browser and host server operating system); the most powerful SSL encryption commercially available today.

5. **Q**- What about A/R and A/P confirmations? **A** - The CONFIRM system handle's both A/R and A/P confirmations today for the auditor. It does so with the "paper" module, which is convenient and saves time for the auditor. The Address Verification tool is available for both A/R and A/P confirmations as well.

6. **Q** – What is the typical cost per audit? **A** - Typically \$100-\$120 dollars per audit. The cost is based on the number of confirmations for an audit. Clients with only one or two bank account confirmations will cost less; while larger audit clients with more confirmations will cost more.

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