

# Ace your Audit: Preparing Your Oracle® E-Business Suite for a Financial Audit



**#AceYourAudit**

# Who Is eprentise?

## In 2007 eprentise was founded on its original product, FlexField

- Enables customers to make unprecedented changes to their financial chart of accounts while maintaining transactional history and data integrity.



## In 2009 we introduced our Consolidation, Divestiture, and Reorganization products

- Transformational software which can copy, change, filter, or merge all elements of Oracle EBS financial systems to address ever-changing business needs, such as regulatory compliance and growth opportunities.

Transformation to Optimization

One-time usage to subscription model

## In 2020 we began expanding to new markets with our C Collection analytics suite, and our Audit Automation software

- C Collection analytics provides transparency and identifies potential problem areas with transactional data. This allows users to reduce costs, leverage opportunities across the enterprise, improve business processes, and increase the confidence level of the users in their data, processes, and operations.
- Automated Audit provides finance teams with drill-down data from a balance sheet report into the transaction-level detail. The software covers hundreds of substantive procedures for the entire enterprise domain and builds in consistent audit processes and workflows across the organization.



# Learning Objectives

**Objective 1:** Identify pain points of a traditional audits and understand the challenges of preparing Oracle® E-Business Suite for an audit, including finding and tracing the data.

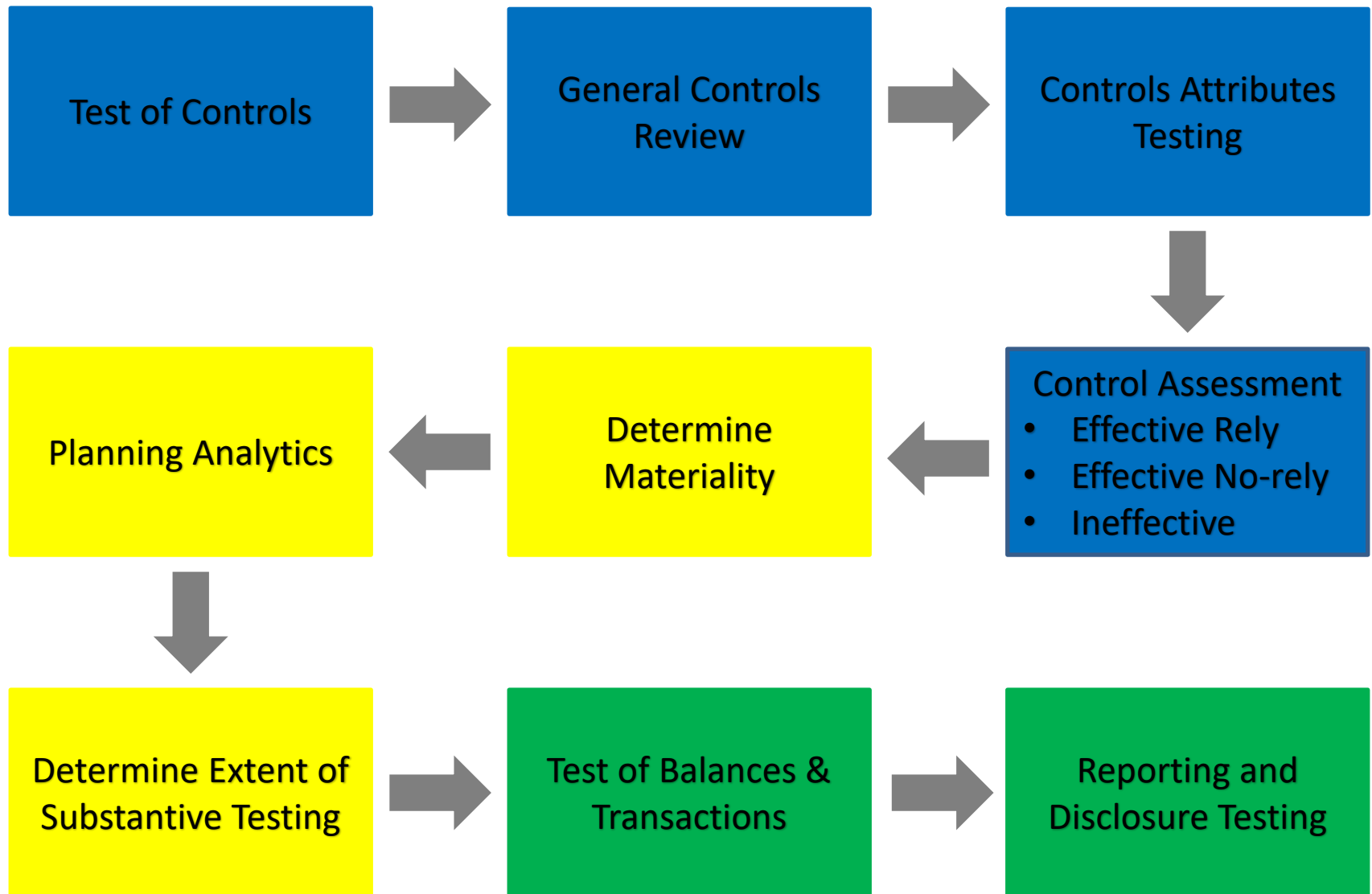
**Objective 2:** Recognize how to leverage EBS to run industry standard audit procedures and identify areas of non-compliance, in order to proactively address and remedy potential issues in advance.

**Objective 3:** Explore how using software for regular self-auditing and establishing controls to minimize recurring issues makes preparation more efficient and effective, and cuts down on the auditing time required.

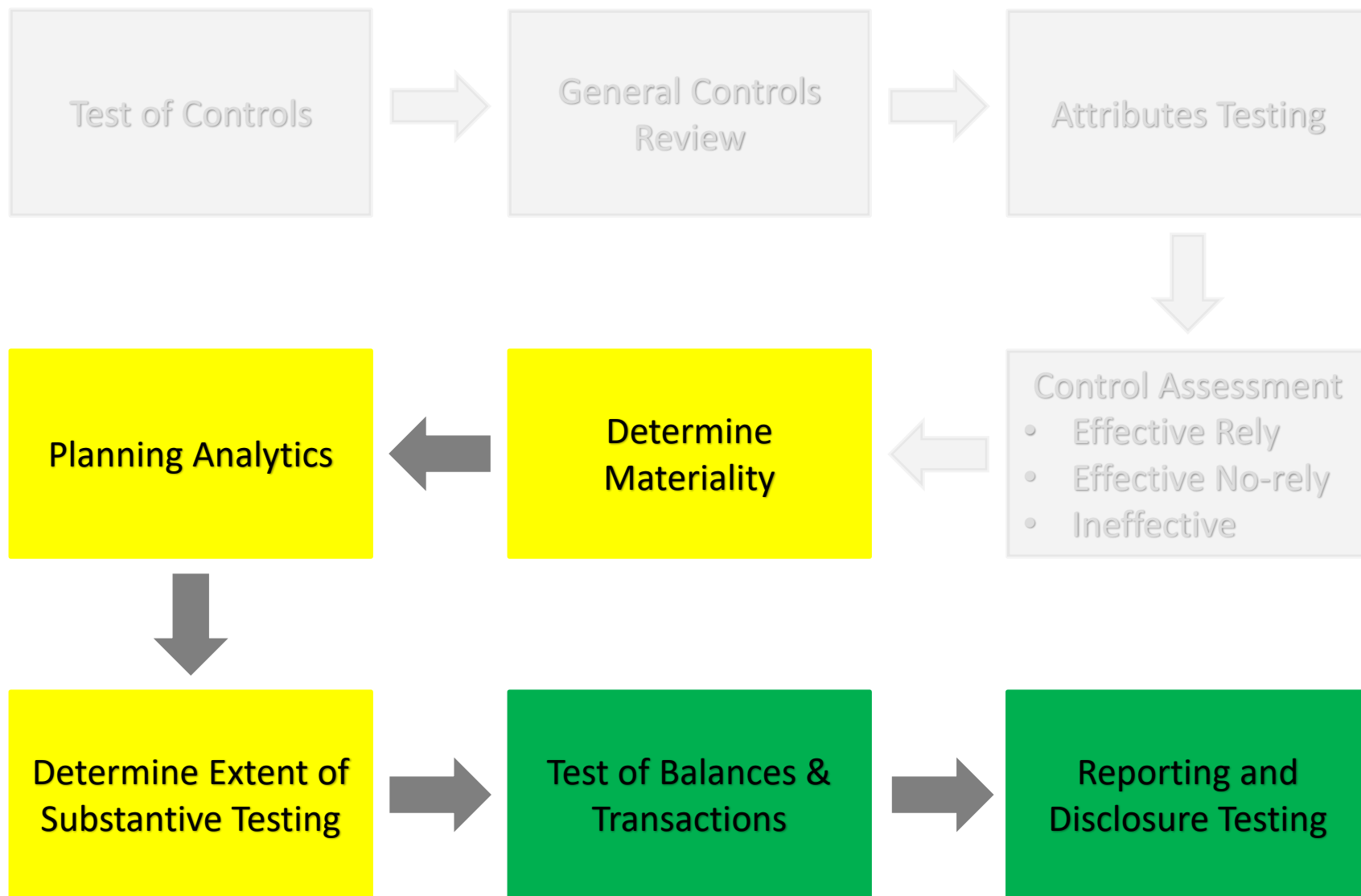
# Agenda

- ❑ Components of a financial statement audit
- ❑ Areas the auditor will focus on for a trial balance analysis
- ❑ Common substantive audit procedures performed on most audits
- ❑ Walk-through of two examples of common substantive procedures to trace the data needed in EBS
  - Accounts Payable- Search for unrecorded liabilities
  - Inventory Cut-off Analysis- Receiving example
- ❑ Review the keys to acing your audit
- ❑ Watch a demonstration of how to automate your audits using software

# Components of a Financial Statement Audit (Simplified)



# Planning Analytics and Substantive Testing



# Planning Analytics - Trial Balance Analysis

- ❑ Run the trial balance for the current audit period (year) and the prior audit period (year)
- ❑ Calculate the \$ and % change for each account
- ❑ Estimate the materiality that your auditor may use
  - 5% of Net Income\*
- ❑ Identify the accounts that have changed by  $\frac{1}{2}$  materiality (2.5%)
- ❑ Run account analysis and drill-down for Accounts
  - All months in the audit period
  - Drill down for periods with significant or unusual activity
- ❑ Document the cause for the significant change (e.g. an increase in constructions costs on a new facility caused a large increase in Accounts Payable at year-end)

There should be supporting explanations and documentation for each change on the trial balance  $> \frac{1}{2}$  materiality.

\* <http://www.materialitytracker.net/standards/financial-thresholds/>

# Trial Balance Analysis (continued)

The image shows two overlapping dialog boxes in a SAP environment. The background dialog is titled 'Submit Request' and contains the following fields:

- Run this Request... (with a 'Copy...' button)
- Name: Trial Balance
- Operating Unit: (empty)
- Parameters: (empty)
- Language: American English

The foreground dialog is titled 'Parameters' and contains the following fields:

- Ledger/Ledger Set: Vision Operations (USA) (Vision Operations (USA) Ledgr)
- Ledger Currency: USD
- Currency Type: Total (Total)
- Entered Currency: N/A
- Pagebreak Segment: Company (Company Segment for Vision (
- Pagebreak Segment Low: 01
- Pagebreak Segment High: 01
- Period: Adj-08
- Amount Type: YTD (Year-to-Date)

Buttons at the bottom of the 'Parameters' dialog include OK, Cancel, Clear, and Help.



# Trial Balance Analysis (continued)

Ledger: Vision Operations (USA)					
Company: 01 Operations					
		12/31/2008	12/31/2007		
Acct	Description	Ending Balance	Ending Balance	\$ Change	% Change
-----	-----	-----	-----	-----	-----
1961	Insurance Receivable	-18,900.00	-18,900.00	0.00	0%
2110	Payable to Bank - Current	-85,993,103.57	-85,993,103.57	0.00	0%
2210	Accounts Payable	-651,597,514.33	-401,996,415.89	-249,601,098.44	62%
2215	Accrued Receipts	-775,460.97	-775,460.97	0.00	0%
2220	Accounts Payable Clearing	-28,738,546.45	-47,069,142.40	18,330,595.95	-39%
2225	Accrued Expenses	21,349.84	21,349.84	0.00	0%
2240	Cost of Removal Clearing	-25	-25.00	0.00	0%
2370	Intercompany Payables	-545,366.57	-511,591.78	-33,774.79	7%
2373	I/C Payables - Distribution	-18,030.00	-18,030.00	0.00	0%
2374	I/C Payables - Services	-13,200.00	-13,200.00	0.00	0%
2381	I/C Payables - Thailand	-49,000.00	-49,000.00	0.00	0%
2410	Accrued Payroll	-1,345,050.33	-1,166,803.83	-178,246.50	15%
2420	Payroll Clearing	-256,913,808.64	-218,488,242.09	-38,425,566.55	18%
2510	Federal Pay Income Tax Withheld	-6,012.68	-6,012.68	0.00	0%
2512	FICA Withheld-Employee	-1,951.73	-1,951.73	0.00	0%
2520	State Sales and Use Tax Payable	-251,221,204.94	-240,132,207.14	-11,088,997.80	5%
2530	Interest Payable	-24,757,940.92	-24,757,940.92	0.00	0%

Net Income = \$43,526,805

5% of Net Income = \$2,176,340 (1/2 of which is \$1,088,070)

# Trial Balance Analysis- Account Analysis & Drill-down

EPRDEV

Account Analysis and Drilldown

Navigator Favorites

## Account Balances

\* Indicates required field

Inquiry Type

### Search

Note that the search is case insensitive

\* Ledger/Ledger Set

Ledger Currency

\* Account From   
Company-Department-Account-Sub-Account-Product

\* Account To   
Company-Department-Account-Sub-Account-Product

Balance Type

Currency Type

\* Period From

\* Period To

Display Summary Accounts

Display Accounts With No Activity

**TIP** For explanation of currency codes used in this page, see the [currency key](#).

Ledger	Account	Period	Currency	PTD	PTD Converted	YTD
Vision Operations (USA)	01-000-2210-0000-000	Jan-08	USD	<28,236,515.03>		<430,232,930.92>
Vision Operations (USA)	01-000-2210-0000-000	Feb-08	USD	<19,818,578.69>		<450,051,509.61>
Vision Operations (USA)	01-000-2210-0000-000	Mar-08	USD	<23,292,958.12>		<473,344,467.73>
Vision Operations (USA)	01-000-2210-0000-000	Apr-08	USD	<17,668,380.58>		<491,012,848.31>
Vision Operations (USA)	01-000-2210-0000-000	May-08	USD	<35,501,448.35>		<526,514,296.66>
Vision Operations (USA)	01-000-2210-0000-000	Jun-08	USD	<16,848,468.63>		<543,362,765.29>
Vision Operations (USA)	01-000-2210-0000-000	Jul-08	USD	<17,256,686.40>		<560,619,451.69>
Vision Operations (USA)	01-000-2210-0000-000	Aug-08	USD	<17,491,603.22>		<578,111,054.91>
Vision Operations (USA)	01-000-2210-0000-000	Sep-08	USD	<12,014,465.79>		<590,125,520.70>
Vision Operations (USA)	01-000-2210-0000-000	Oct-08	USD	<22,978,892.68>		<613,104,413.38>

The payables balance has increased each month significantly during the year. Why are these payables not being paid down at a similar rate?

# Substantive Testing- Common Audit Procedures

- Bank confirmation
- Accounts receivable confirmation
- Inquire of management regarding the collectability of customer accounts
- Match customer orders to invoices billed
- Match collected funds to invoices billed
- Observe a physical inventory count
- Confirm inventories not on-site
- Match receiving/shipping records to inventory on hand or sold
- Confirm the calculations on an inventory valuation report
- Observe fixed assets
- Match purchase orders and supplier invoices to fixed asset records
- Accounts payable- search for unrecorded liabilities
- Examine accounts payable supporting documents
- Confirm debt
- Analytical analysis of assets, liabilities, revenue, and expenses

<https://www.accountingtools.com/articles/what-are-substantive-procedures.html>

# Accounts Payable- Search for Unrecorded Liabilities

“A search for unrecorded liabilities is a fundamental, almost universally applied <substantive> procedure in all audits. The scope of such a search frequently includes a sampling of subsequent cash disbursements, which is an example of testing one population for understatement by sampling through a “reciprocal” population where unrecorded or otherwise missing balances or transactions are likely to reside.”

<https://www.cpajournal.com/2017/11/21/proper-risk-based-approach-search-unrecorded-liabilities/>

# Accounts Payable- Search for Unrecorded Liabilities

A list of payments subsequent to the audit period (year) are reviewed identifying significant payments that may indicate amounts that should have been accrued as a liability (payable) at year-end. Typically this procedure uses a threshold of ¼ or less of materiality (e.g. If materiality is \$2,000,000 then  $\geq$  \$500,000 (¼ of materiality)).

Trading Partner	Supplier Number	Supplier Site	Payment Date	Payment Amount	Trading Partner Address	Bank Account	Pay
United Parcel Service	1003	UPS - HQ	06-JAN-2009	57,461.60	55 Glenlake Parkway NE Atlanta GA 30328	Operating Accour	Unit
Allied Manufacturing	2007	SAN JOSE-ERS	06-JAN-2009	503,309.63	1145 Brokaw Road San Jose CA 95034	Operating Accour	Unit
Consolidated Supplies	1014	SPRINGFIELD	13-JAN-2009	4,489.80	21004 Norcroft Road Springfield TX 75853	Operating Accour	Unit
Advanced Network Devices	1013	FRESNO	13-JAN-2009	105,692.03	5600 Independence Ave Fresno CA 95602	Operating Accour	Unit
Building Management Inc.	2012	HQ - NYC	13-JAN-2009	144,467.76	345 Industrial Way New York NY 10234	Operating Accour	Unit
United Parcel Service	1003	UPS - HQ	13-JAN-2009	57,461.60	55 Glenlake Parkway NE Atlanta GA 30328	Operating Accour	Unit

Number	Date	Amount	GL Date	Payment Amount [ ]
ERS-12256-180329	21-NOV-2008	503,309.63	06-JAN-2009	503,309.63

**Invoice Overview (Payables, Vision Operations (USA))**

Trading Partner	Allied Manufacturing	Site	SAN JOSE-ERS
Supplier Num	2007	Operating Unit	Vision Operations
Invoice Num	ERS-12256-180329	Type	Standard
Batch Name		Currency	USD
Voucher		Amount	503,309.63
PO Number	6083	Unpaid	0.00
Receipt Num	12256	Release	
		Unapplied	
		Settlement Date	

Date: 21-NOV-2008

Invoice Status:  Invoice Status

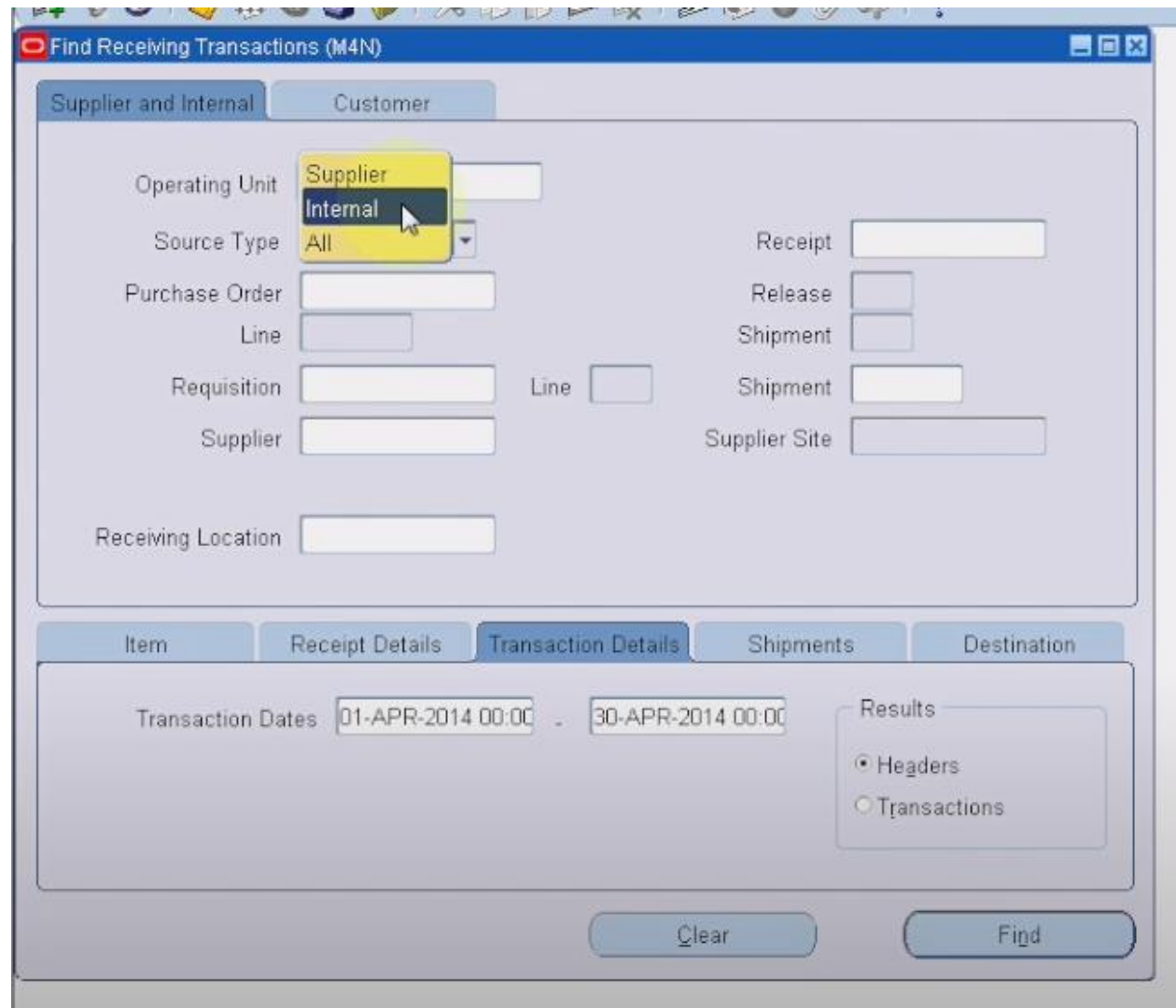
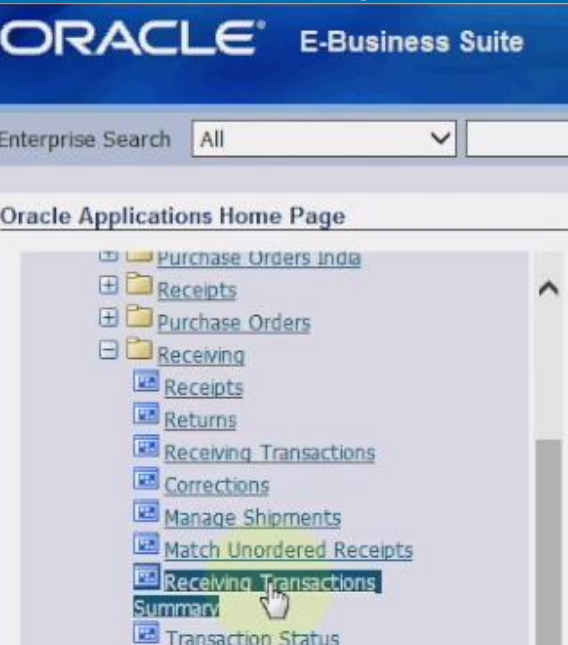
Per the EBS AP invoice detail, this amount was properly included in AP at year end (invoice date of November 21, 2008)

# Inventory- Cut off Analysis

“Cutoff analysis. The auditors will examine your procedures for halting any further receiving into the warehouse or shipments from it at the time of the physical inventory count, so that extraneous inventory items are excluded. They typically test the last few receiving and shipping transactions prior to the physical count, as well as transactions immediately following it, to see if you are properly accounting for them.”

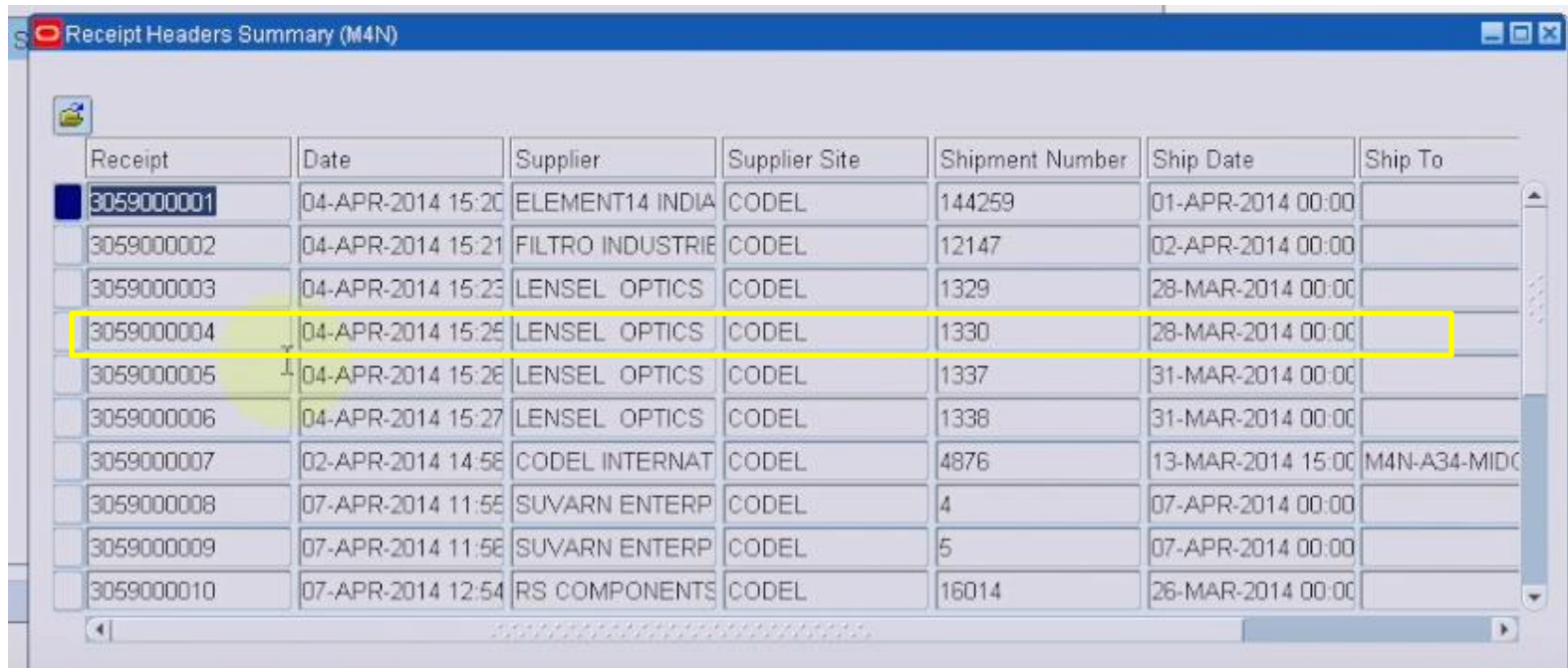
<https://www.accountingtools.com/articles/2017/5/13/inventory-audit-procedures>

# Inventory- Cut off Analysis (Receiving Transactions)





# Inventory- Cut off Analysis (Receiving Transactions)



Receipt	Date	Supplier	Supplier Site	Shipment Number	Ship Date	Ship To
3059000001	04-APR-2014 15:20	ELEMENT14 INDIA	CODEL	144259	01-APR-2014 00:00	
3059000002	04-APR-2014 15:21	FILTRO INDUSTRIE	CODEL	12147	02-APR-2014 00:00	
3059000003	04-APR-2014 15:23	LENSEL OPTICS	CODEL	1329	28-MAR-2014 00:00	
3059000004	04-APR-2014 15:25	LENSEL OPTICS	CODEL	1330	28-MAR-2014 00:00	
3059000005	04-APR-2014 15:26	LENSEL OPTICS	CODEL	1337	31-MAR-2014 00:00	
3059000006	04-APR-2014 15:27	LENSEL OPTICS	CODEL	1338	31-MAR-2014 00:00	
3059000007	02-APR-2014 14:56	CODEL INTERNAT	CODEL	4876	13-MAR-2014 15:00	M4N-A34-MIDC
3059000008	07-APR-2014 11:56	SUVARN ENTERP	CODEL	4	07-APR-2014 00:00	
3059000009	07-APR-2014 11:56	SUVARN ENTERP	CODEL	5	07-APR-2014 00:00	
3059000010	07-APR-2014 12:54	RS COMPONENTS	CODEL	16014	26-MAR-2014 00:00	

- March 31<sup>st</sup> fiscal year end.
- For receipt 3059000004 the ship date (March 28<sup>th</sup>) was before year end but it was received subsequent to year end. This may either be included in inventory if the freight terms were FOB (freight on-board) shipping point or excluded if common carrier.

This procedure requires the auditor to request that the supporting documents be provided. Key to acing the inventory cut-off audit is to review the shipping transactions just before and after year end.



# Keys to Acing Your Audit

- ❑ Be ready to explain and have documentation available to explain significant changes in your trial balance(s) current year to prior year.
- ❑ For accounts that have either significant changes or large balances at year-end be familiar with the normal audit procedures that are performed as part of substantive testing and perform those tests on at least a limited basis to identify errors before the auditors do.
  - This type of testing should become part of the normal internal control process and be performed periodically.
- ❑ Consider implementing continual auditing using software tools to enhance internal control.

## Contact



**Brian Lewis, CPA**

Corporate Controller and VP of Finance

[blewis@eprentise.com](mailto:blewis@eprentise.com)



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# Automated Audit Software for Oracle EBS

## Contact



**Harrison Figura**  
*Product Manager*  
[hfigura@eprentise.com](mailto:hfigura@eprentise.com)



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