

Functional Audit

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Agenda

- Definition
- Case Study
- Recap



What is a Functional Audit?

functional audit

Web definitions

An audit that is held prior to software delivery in order to verify that all requirements specified in the software requirements document have been met. See functional configuration audit.

<http://www.richardthayer.com/glossary2.htm>

ICAI

A Functional Audit deals with one or more functions in an organization. It could concern, for example, the payroll function for a division or for the company as a whole.

(Para 19.8.4 of chapter 19 of Advanced auditing and professional ethics - CA Final (3))

A Big 4 Consulting Firm

Applications supporting business processes and ERP systems have numerous built-in control functions (controls)... are these control functions set properly? Maybe they handle most cases well, but fail in certain examples.

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- Verify
- Requirements are met



Case Study1

Prerequisite: Volunteers

- Exercise 1



Case Study1

Date	Invoice no	Credit Period	Receipt date
22-10-13	PUN/001	20	11-11-13
10-22-13	HP/002	30D	11-11-13
13-10-22	Raj/003	1 month	11-11-13
22/10/13	TN/204	90	11-11-13
22/oct/13	WB/204	90D	11-11-13
22-oct-13	UP/400	3 month	11-11-13
22.oct.13	MP/410	Half year	11-11-13
22.10.13	TN/204	1 week	11-11-13

Organization has a system which they want to use for sending reminders to customer for overdue invoices. Assuming key fields as Invoice no., Invoice date, credit period, received date, what will do you as a functional auditor

Case Study 2 – Vendor Master

- Duplicate Vendors records
- Duplicate Employee Records
- Confirmation of balance featured is not used due to....

Case Study 3 – System not utilisation

- Park and post feature not enabled (4 eye principles)
- Bank reconciliation feature given in system not utilized
- Address is not recorded for customer and vendor
- Manual entry for fixed asset in ERP
- System is not capable of alpha numeric passwords



Case Study 4 - Logics

- Approvals based on certain amounts
- Control reports
- G/L – subledger comparison
- 3-way matching in the purchasing process
- Data input
- Transfer controls

Scoping a Functional Audit

Areas	Issues	Way out
BRS/ SRS/ FRS Business Requirements Specification Software Requirement Specification Functional Requirement Specification	Mostly not available Outdated	Business Policy and Procedures
Software/ System Manual	May not be comprehensive	
Every Field on the screen Every option on the screen Every screen in the system Every option the menu Linkages between input and outputs Checking output is meeting business needs	Too cumbersome	May be used for custom designed application

Output needs to meet business needs

Recap

- Functionality of a system.
- Types of data
- Logics built
- System utilization

Getting the full value from system.

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