

# Testing Journal Entries for Potential Compliance Issues

ACL analytics can be used to review journal entries for SAS 99 Compliance and review for possible indicators of management overrides. The tests for suspicious entries can fall into the following broad categories:

- Frequency
- Numerical patterns
- Materiality
- Timing
- DR/CR combinations
- Descriptions

## What is SAS 99?

*Statement on Auditing Standards No. 99: Consideration of Fraud in a Financial Statement Audit*, commonly abbreviated as SAS 99, is an auditing statement issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) issued in October 2002.

## Why was it issued?

It was issued as a response to accounting scandals that came to light in the year preceding its issuance. These scandals involved management overrides of controls that resulted in material misstatements in their organizations' financial statements.

## When did it become effective?

SAS 99 became effective for audits of financial statements for periods beginning on or after December 15, 2002

Category	Examples	ACL Procedures
Frequency	<ul style="list-style-type: none"> <li>» Seldom-used accounts</li> <li>» Posters with low number of entries</li> <li>» Posters with high number of reversals or correcting entries</li> <li>» Large postings to new G/L accounts</li> </ul>	<p>Run the Classify command against the account number or against the poster ID field, directing the output to a new table. The output will display the number of postings for each account number or for each poster in the COUNT field.</p> <p>Run the Statistics command against the COUNT field to gain an understanding of how many entries are made on average to each account or by each poster. You may also want to run Stratify against the COUNT field to clearly identify those accounts or posters that have a low number of entries.</p> <p>Once you have identified these outliers, create a filter in the original table containing all the journal entries to isolate the outliers' entries.</p> <p>Run the Statistics command against the value field to identify the total materiality involved. Alternatively, you could run Classify against the outlier account numbers/poster ID to subtotal the materiality for each category.</p>
Numerical patterns	<ul style="list-style-type: none"> <li>» Round dollar amounts (thousands)</li> <li>» Benford's Law analysis</li> <li>» Recurring entries of the same amounts to the same GL accounts</li> </ul>	<p>Define the last three digits before the decimal point as a new character field. Create a filter to identify all urring in this field: transactions with "000" occ</p> <p>Last_three_digits="000" Extract those entries to a separate table and analyze further to determine materiality and possible posting patterns.</p> <p>Run the Benford command against the first digit or first two digits to identify suspicious patterns.</p> <p>Run the Duplicates command using the GL account number and the amount fields as the key fields. If your data is such that all credits are negative amounts, define a new calculated field as the absolute value of the amount field using the ABS() function.</p>

Materiality	» Amounts greater than a certain Threshold	Create a filter on the amount field whereby the criterion is the appropriate threshold: <b>ABS(Amount)&gt;=25000</b> If there are different thresholds for different account classes, create a conditional computed field that applies a different threshold for each class. Then filter as follows: <b>ABS(Amount)&gt;=Threshold</b>
	» Largest JEs for each account	Sort the table on the amount field descending to a new table. In the new table, Summarize using the account number as the key field and select all the remaining fields in the "Other Fields..." parameter to another table. This new table will contain the largest transaction for each JE.
	» Amounts greater than 99 <sup>th</sup> percentile of the population	Sort the transaction table on the amount field ascending. In the sorted table, Extract to a new table with the following command filter: <b>RECNO()&gt;.99*WRITE1</b>
Timing	» Posting of manual entries on weekends or outside of working hours » Postings to accrual accounts outside days reserved for period-end close » Postings after period close exceeding a specified threshold	Segregate the manual entries in a new table by using the Extract command with a command filter. In the new table, create a filter to identify weekend transactions: <b>MATCH(CDOW(Posting_date,3),"Sat","Sun")</b> To identify posts outside of working hours, filter on the time field. Based on a 24-hour clock, if the time field is defined as a character field and the working hours are 8:00 AM to 5:00 PM: <b>NOT(BETWEEN(Time,"08:00","17:00"))</b>
	» Post-closing entries	To identify entries with a post date after the end of the period but with an effective date within the period, filter as follows, assuming the end of the period is June 30, 2007: <b>Post_date&gt;'20070630' AND Effective_date&lt;='20070630'</b>
DR/CR combinations	» Debits/Credits posted to accounts where expected postings would be one or the other	
Descriptions	» Blank description fields	Filter on the description field: <b>ISBLANK(Description)</b> This can also be used to test for blank user IDs.
	» Unusual descriptions	Based on your experience with unusual terms that are often used, filter as follows to allow for multiple keyword searches within the description field: <b>FIND("&lt;term1",description) OR FIND("&lt;term2",description) OR FIND("&lt;term3",description) etc...</b>
Thresholds	» Postings above set authorization limits » Split postings	