

Using Excel as Audit Tool – Part I

Nikunj S. Shah
Chartered Accountant

Article reading objectives: After reading this article, readers must be able to:

1. Consider use of Excel as an audit software.
2. Import data from various file types in Excel.

Author's Note: 'Using Excel as Audit Tool' is intended to be published as a series of articles. The objective of this series is to enable readers to implement Excel as Audit software.

In previous several articles, we have been exploring features in MS Excel that help to increase our efficiency. However, the million dollar question remains that even after devoting our valuable time in learning advanced Excel, what is the it's ultimate benefit to us? As Chartered Accountants our core competencies include conventional practices of Audit and Taxation. Does advanced knowledge of Excel find any usefulness in our conventional areas of practice?

MS Excel is a powerful spread sheet application package. We are already aware of its powerful number crunching capabilities. Just as the powerful number crunching capabilities of Excel are used to process and analyze financial information, in the same way, these capabilities can be used to process and analysis Accounting Information. Thus we can use Excel as an Audit Software.

A. Advantages of Excel

Of course several specialized audit software are available in the market. However, using Excel as audit software has some obvious advantages over them in terms of costs, familiarity and easiness to use, portability and compatibility, etc. In fact, around the globe, a large many audit and accounting firms are

using Excel as an audit tool. Some of the advantages of using Excel as an audit tool are:

1. Availability
Excel is readily available on the desktop of every accountant
2. Affordable
No separate budget needs to be allocated to purchase an 'Audit Software' since Excel itself is used as 'Audit Software'
3. Compatible
An analysis of accounting information prepared in Excel can be used across wide software platforms, as Excel format files are compatible with large number of spreadsheets and database software. Also, several add-inns (more on this later), both commercial and freeware, are available that are compatible with Excel and are used to perform specific audit procedures.
4. Familiar User Interface
As Excel is one of the most popular spreadsheet software used since a long time, we are already familiar with its user interface, commands and features.
5. Powerful Features
Excel is a host of powerful features. Sort, Filters, Subtotals, Lookups, Pivots, Statistical functions is by no means even a representative list of the powerful features that excel has.
6. Ability to handle considerable volumes of Data
A single worksheet in Excel has 256 Columns and 65536 rows. The number of columns represent the number of Fields and the number of rows represent the number of records that a file contains. This means that even extremely huge data files containing around 65535 records (leaving one line for the header row) can be easily opened in Excel. Practical experience says that so much of capacity is modest enough even to handle data of a company having turnover of up to Rs. 10-15 crores!

In this series of articles we shall discuss some of the common Audit procedures that can be performed in Excel and the Excel features used to implement these audit procedures. Briefly, these can be summarized as follows:-

Audit Procedures	Excel Feature Used
Find missing numbers or gaps in sequential series (e.g. cheque no series)	Sort Command, IF Function
Find Duplicate numbers in sequential series (e.g. sales invoice series)	IF Function, Combination of AND with IF function
Verify Sales having been made at authorised Rates	VLOOKUP Function, Filter and Conditional Formatting
Ledger Scrutiny – Relative Size Factor	Data Analysis Tool Pack – Rank and Percentile, RANK Function
Draw Statistical Samples for Test of Details	Data Analysis Tool Pack – Random Number Generator
Verify classification of expenses Accounts by Summarisation and Tabulation	Pivot Tables

However readers must remember that this list of audit procedures and Excel features used to implement them is only an indicative list to assist understanding. A large number of audit procedures can be carried out in Excel. *The secret to learning is to keep experimenting with data files in Excel with an aim to accomplish specific audit objectives.*

B. Getting Data in Excel Format

The biggest challenge faced by the auditor in implementing Excel is non-availability of client data files in Excel format. Of course no audit procedure can be implemented in Excel

if one is unable to open client's data in Excel. However in majority of cases this challenge is not as difficult as it seems. Most of the popular accounting packages and ERP solutions provide a feature to export data in ASCII (comma delimited) format. ASCII files are simple text files that can be easily opened in most spreadsheet application packages, including Excel. Comma delimited simply means that fields within the files (i.e. columns) are separated by a comma (.). Although comma is the most widely used character as delimiter, other characters used as delimiters include ampersand (&), percentage (%), Dollar (\$), etc.

To open an ASCII file in Excel, click <File> → <Open>. A [Open] dialogue box will open. Locate the path in which the file is saved. In the [File of Types] drop down box, select the option [All Files (*.*)]. Your ASCII file will now appear in the list of files. Select your file and click <Open>.

On this, [Text Import Wizard] of Excel takes charge. In the first step, select the [Delimited] radio button. In the second step, check out the [comma] checkbox as delimiters. In the Third step, click <Finish>. That's it. The text file is now open in Excel with all fields properly separated in columns and records one below other. We are now ready to implement excel features and carry out audit procedures to achieve specific audit objectives.

In the forthcoming issues we shall carry out audit procedures using excel features to achieve audit objectives.