

Continuous Audit Implications of Internet Technology: Triggering Agents Over the Web in the Domain of Debt Covenant Compliance

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Abstract

The Canadian Institute of Chartered Accountants and the American Institute of Certified Public Accountants have together called on the research community to show how continuous audit (CA) could be implemented in various auditing domains. In response to this call, we look at the domain of debt covenant compliance, and we utilize Cold Fusion, a leading web applications development technology, to design and demonstrate an implementation of a continuous process audit within this domain. We design and demonstrate a system that uses agents sent over the Internet to continuously monitor whether actual values of client's variables are in compliance with standards for these variables set out in the debt covenant agreement – all from a remote location, the loan officer's desk.

Keywords: continuous audit, debt covenant, workflow, Cold Fusion

1. Introduction

In a society that produced instant coffee, instant soup, instant breakfast, and instant pudding, it is not surprising to find out that we are currently developing an insatiable appetite for instant *information*. Web technology is “spoiling” users by eliminating the time between the “wanting” of information and the “getting” of information. From stockbrokers to car dealers, technology is rapidly making the middleman an artifact.

From a single electronic source, users can retrieve sports scores, buy a hot stock, find out weather forecasts for the weekend, view detailed maps and directions, be apprised of traffic updates, purchase a ticket-less airline

reservation, order groceries, and even make a car purchase with customized specifications. Thanks to our new e-culture, we have acquired a taste for instant information, and it is already too late to turn back.

This new culture is having an impact on the information expectations of decision-makers and other users of financial information. Users are becoming less willing to accept static, periodic financial statements presented in a one-size-fits-all format. It is now both technologically and economically feasible for users to have real-time access to corporate databases. This feasibility, coupled with the increasing sophistication of users, opens the way for decision-makers to customize the components of information they use to make investment and credit decisions.

Web technology is increasing the pressure for reports of financial information to be made available to users on a continuous basis, thus creating the need for continuously auditing this information. A continuous audit (CA) is an assurance service where the time between the occurrence of events underlying a particular subject matter and the issuance of an auditor's opinion on the fairness of that report is significantly compressed, or even eliminated. A CA is the natural evolution of the integration of technology into the audit domain. Although the concept of CA is now almost a decade old [9], only recently have technologies emerged that are both widely available and affordable, making implementation of CA feasible.

With this technology, web-based applications can be developed that allow users of financial information to receive audited reports in real-time. Automating audit workflows can make the audit more efficient for the auditor and more affordable for the client. Additionally, automating audit workflows can make the audited report, which is the focus of this paper, more relevant (and thus, more valuable) to the decision-maker. Because of