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Internal control

Chapter 5: Tools for internal audit/control

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1. Control techniques

1.1. What?

Techniques/tools which can be used ba a ‘controller’ or an ‘auditor’ to obtain the data necessary for performing is checks/controls

1.2. Materiality

An error is so-called ‘material’ when it results in an inacceptable risk material error if resulting in:

- Not (sufficiently) reaching the goals
- Not (sufficiently) protected assets
- Not being (sufficiently) compliant to internal and external rules and legislation
- Information is not (sufficiently) available or reliable
- The is a lack of efficiency
- Fraude is committed

 Level of materility should be determined carefuly

1. Control techniques

1.3. Audit risk

= risk that material errors are not being discovered

1.4. Audit tools

- Inventarisation (counting)
- External confirmations
- Review of books, documents and vouchers
- Observation
- Interviewing (gaining intelligence) employees or others
- Arithmetic review
- Analytical tests
- checklists

1. Control techniques

1.4.1. Inventarisation

- Check whether the status of the assets as presented by the administration corresponds to reality

1.4.2. External confirmations

- Getting confirmation of an external person on company data

1.4.3. Review of books/documents/vouchers

- Niet only accounting data!
- Check whether transactions are legitimate

1.4.4. Observation

- Check whether procedures are being followed

1. Control techniques

1.4.5. Interviewing employees/others

- To gain intelligence

1.4.6. Arithmetic Review

- Re-doing calculations

1.4.7. Analytical tests

- Check data that is related to other data

1.4.8. Checklists

- Standard questionnaires

2. Balanced scorecard

2.1. What are balanced scorecards

- Technique for strategic management
- Means of evaluation
- Not only financial information

2.2. Why ‘balanced’?

- More than one aspect is considered
- Aspects are being weighted differently
- KPI’s

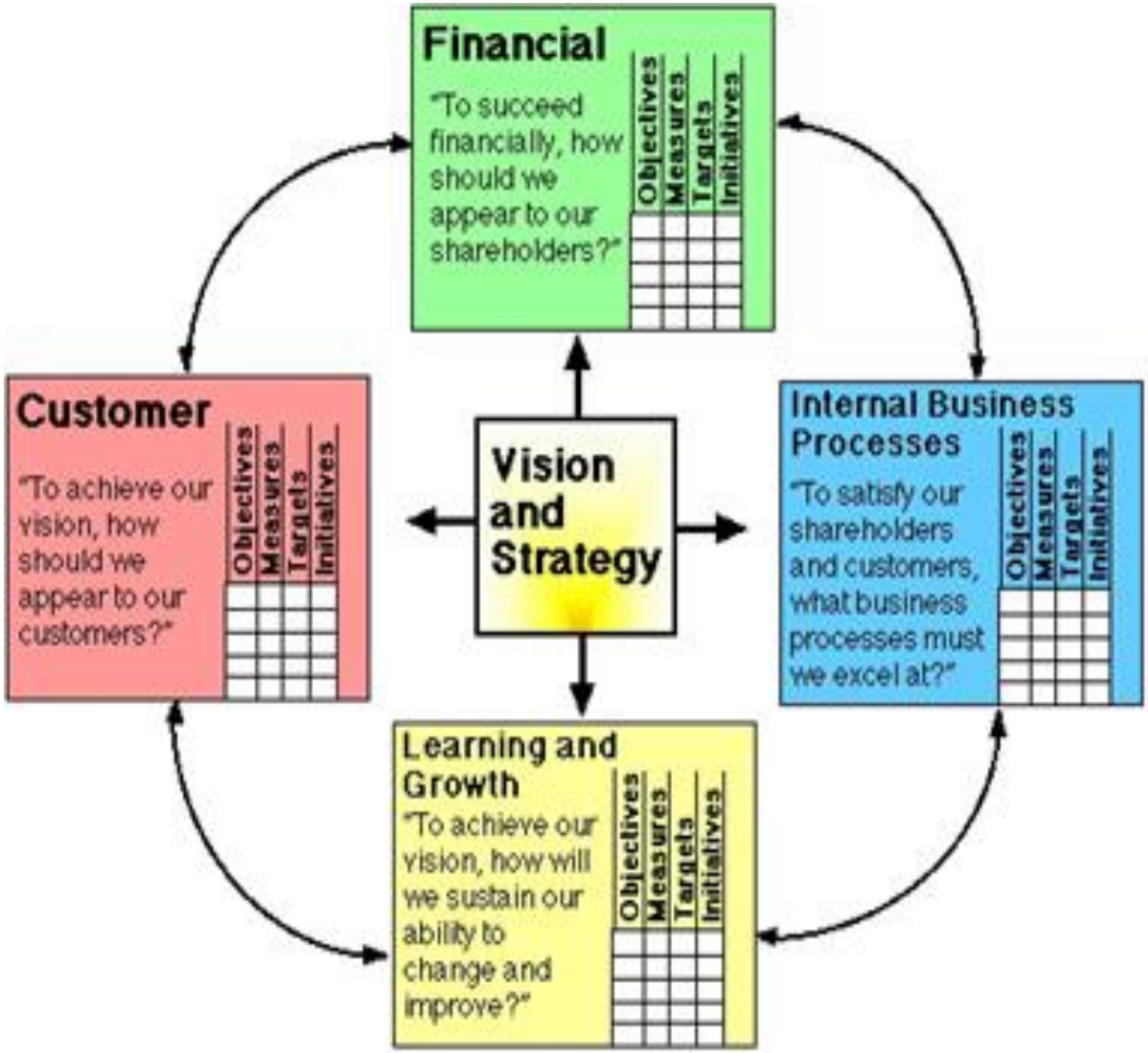
2. Balanced scorecards

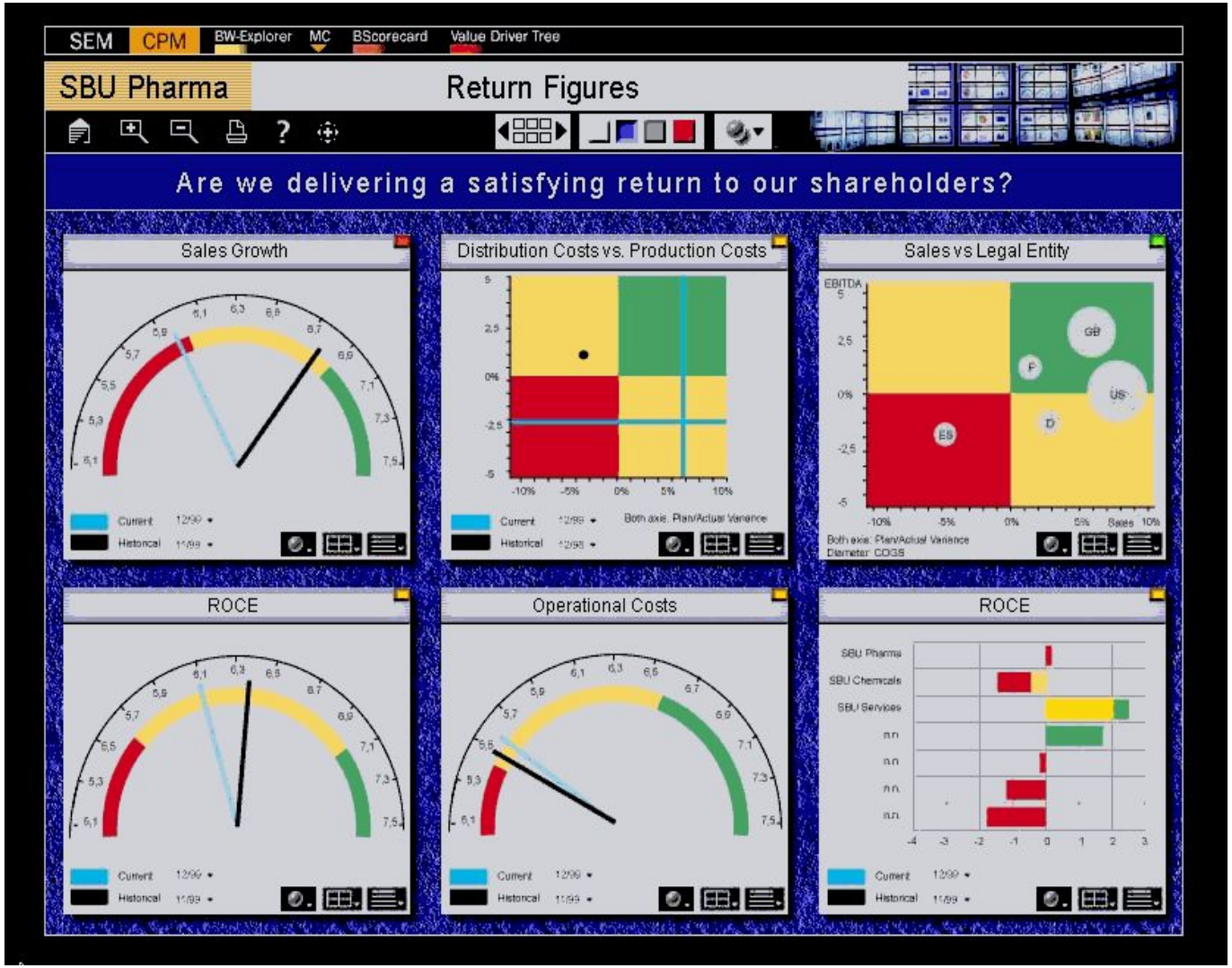
2.3. Pro's and con's

- Focussing on certain area's
- Finding good KPI's is difficult

2.4. BSC and internal control

- Helps to translate, implement and evaluate the company's strategy


Financial
"To succeed financially, how should we appear to our shareholders?"
Objectives
Measures
Targets
Initiatives
Customer
"To achieve our vision, how should we appear to our customers?"
Objectives
Measures
Targets
Initiatives
Vision and Strategy
Internal Business Processes
"To satisfy our shareholders and customers, what business processes must we excel at?"
Objectives
Measures
Targets
Initiatives
Learning and Growth
"To achieve our vision, how will we sustain our ability to change and improve?"
Objectives
Measures
Targets
Initiatives



3. Flow Charting

3.1. What?

- Graphical, simplified presentation of reality

3.2. Advantages compared to descriptions

- Less communication errors communicatiestoornissen
- Increases insight
- Allows to notice errors sooner

3.3. Goals of charts/diagrams/schemes

- Analytical insight
- Informative insight
- Giving (work) instructions

3. Flow Charting

3.4. Rules

- Not too much information in one scheme/chart
- Limit the number of (different) symbols and lines
- Make lines as short as possible
- Limit tekst used
- Avoid crossing lines
- …

4. Sampling

4.1. In general

- To be useful a sample has to meet certain conditions:
  - Non-statistical sampling
  - Statistical sampling
    - Population should be large enough and homogeneous
    - Equal odds for being in the sample

4.2. Sampling risk

= risk that the conslusion drawn from the analysis of the sample are not the same as the conslusions we would have drawn in case we had checked the whole population.

- 2 types
  - No errors are detected but there are errors present
  - Material errors are found but in reality there are none.

4. Sampling

4.3. Two types of sampling

4.3.1. Attribute sampling

- Binairy presentations
- Testing the effectiveness of certain controls

4.3.2. Variabels sampling

- Trying to find evidence for the fact that there is a material deviation between a stated value and the real value.
  - Example: PPS of MUS – most used

4. Sampling

4.4. Sequences in the sampling process

4.4.1. Determine the objectives

4.4.2. Determine the population

- useful
- complete

4.4.3. determine the acceptable level of the sample risk

4. Sampling

4.4.4. Calculate the sample size

Depends on:

- Population size
- Acceptable sample risk
- Variance of the population
- Acceptable error
- Expected error

4.4.5. Compose the sample

- Random
- Systematicaly
- Block(cluster)-method

4.4.6. Execute the checks/controls for the items in the sample

4. Sampling

4.4.7. Evaluate the results

- Extrapolation