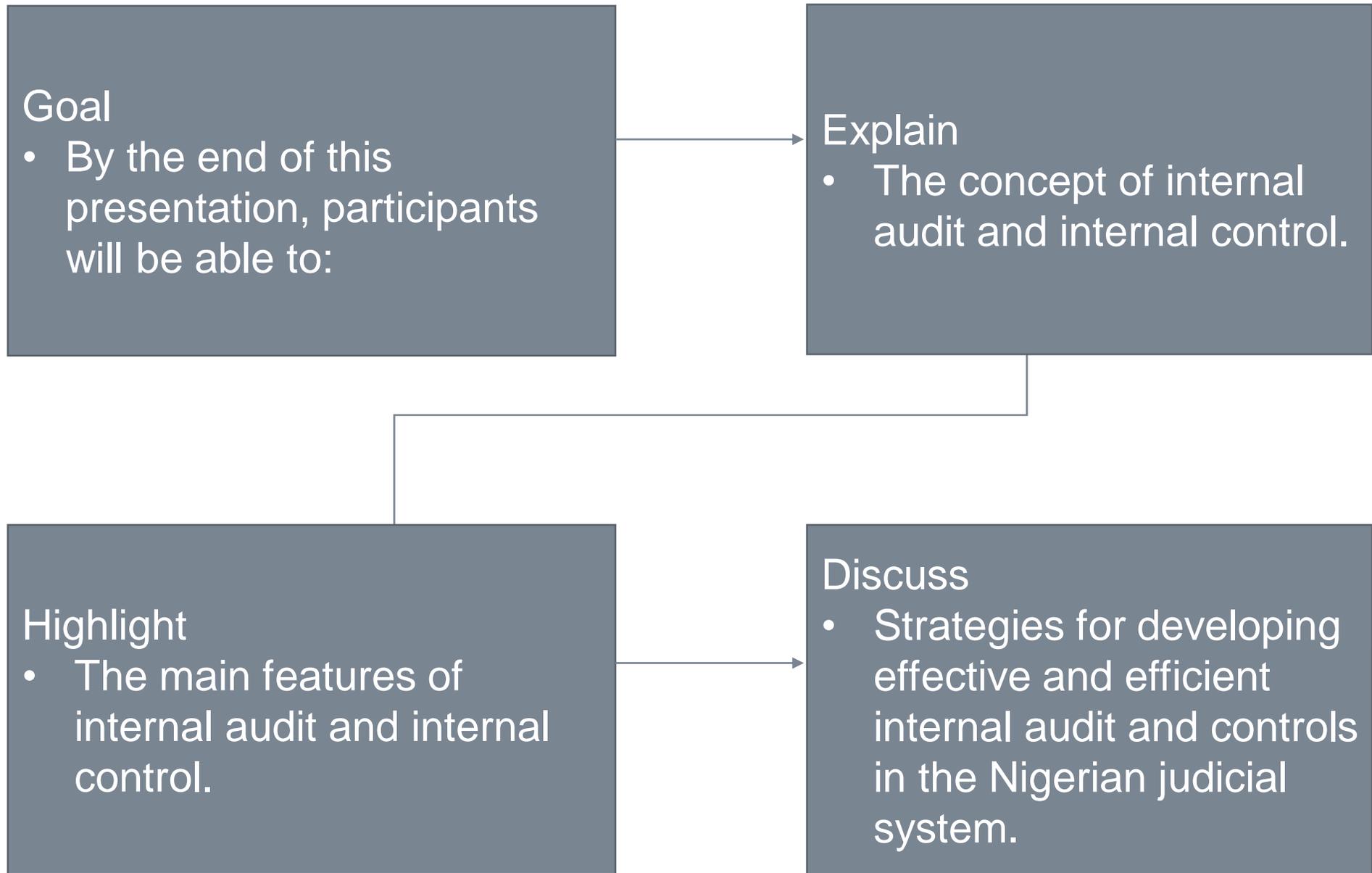


DEVELOPING, IMPROVING AND MONITORING THE INTERNAL AUDIT FUNCTIONS AND CONTROLS IN THE JUDICIARY.

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Learning objectives:



INTERNAL AUDIT: DEFINITION

Internal audit is an independent, objective assurance and consulting activity designed to add value to and improve an organization's operations.

Internal audit is part of the internal control system put in place by the management of an organization to ensure adherence to stipulated work procedure that will serve as an aid to management for smooth administration, control, cost minimization and to ensure capacity utilization and maximum benefit derivation.

OBJECTIVES OF INTERNAL AUDIT

Adequacy and effectiveness	Reviewing the internal control system with an aim to determine its adequacy and effectiveness.
Compliance	Checking compliance with policies and procedures.
Safeguarding	Safeguarding the asset of the organization to prevent and detect errors.
Detecting	Detecting frauds and theft and improving the effectiveness of risk management.
Appraising	Appraising the effectiveness and efficiency in the use of resources.
Goals attainment	Ensuring that the goals and objectives of the organization are attained.
Recommendation	Making recommendations on improvement in the operation of the organization.
In-house Consultant	Acting as in-house consultant on control matters.

INTERNAL CONTROL: DEFINITION

- Internal control is a process designed to provide reasonable assurance regarding the achievement of an organization's objectives in the following categories:
 - Effectiveness and efficiency of operations.
 - Reliability of financial report
 - Compliance with applicable laws and regulations

INTERNAL CONTROL



It is a built-in part of the management process (plan, organize, direct and control)



It keeps an organization on course towards its objectives and the achievements of its mission and minimizes surprises along the way.



Internal control promotes effectiveness and efficiency of operations, reduces risk of asset loss, and helps to ensure compliance with laws and regulations.



It also ensures the reliability of financial reporting (all transactions are recorded, and all recorded transactions are real, properly valued, recorded on timely basis, properly classified, and correctly summarized and posted)



Effective internal control helps an organization achieve its objectives, but it does not ensure success.



Internal control can only provide reasonable assurance



There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved.



They include but are not limited to the following:

Cost/benefit realities, Collusion among employees, and External events beyond the organization's control.

INTERNAL CONTROL: NOTES

THE INTERNAL CONTROL PROCESS



CONTROL (OR
OPERATING)
ENVIRONMENT



RISK
ASSESSMENT



CONTROL
ACTIVITIES



INFORMATION
AND
COMMUNICATI
ON



MONITORING.

CONTROL ENVIRONMENT



The control environment is the control consciousness of an organization;



It is the atmosphere in which people conduct their activities and carry out their control responsibilities.



The control environment is greatly influenced by the assurance that individuals recognize that they will be held accountable for their work.



**An effective
control
environment is an
environment
where competent
people:**

- 1. Understanding their responsibilities;**
- 2. The limits to their authority, and;**
- 3. Are knowledgeable, mindful, and committed to doing what is right and doing it the right way.**



Components of control environment

- 1. Integrity and ethical values**
- 2. Commitment to competence**
- 3. Management's philosophy and operating style**
- 4. Organization structure**
- 5. Assignment of authority and responsibility**
- 6. Oversight groups**

RISK ASSESSMENT



1. Identification of risks to the achievement of an organization's objectives, and



2. To act efficiently in order to manage those risks.



Thus, setting goals and objectives is a precondition to internal controls.

CONTROL ACTIVITIES

Control activities are actions which are supported by policies and procedures that when carried out properly and in a timely manner, manage or reduce risks. Including:

- Approvals, Authorizations, and Verifications

(Preventive).

- Reconciliations (Detective).
- Reviews of performance (Detective).
- Security of Assets (Preventive and Detective).
- Segregation of duties (Preventive).
- Controls over Information Systems (Preventive and

Detective).

NOTE

- No one person should: Initiate the transaction, Approve the transaction, Record the transaction, Reconcile balances, Handle assets, and Review reports.

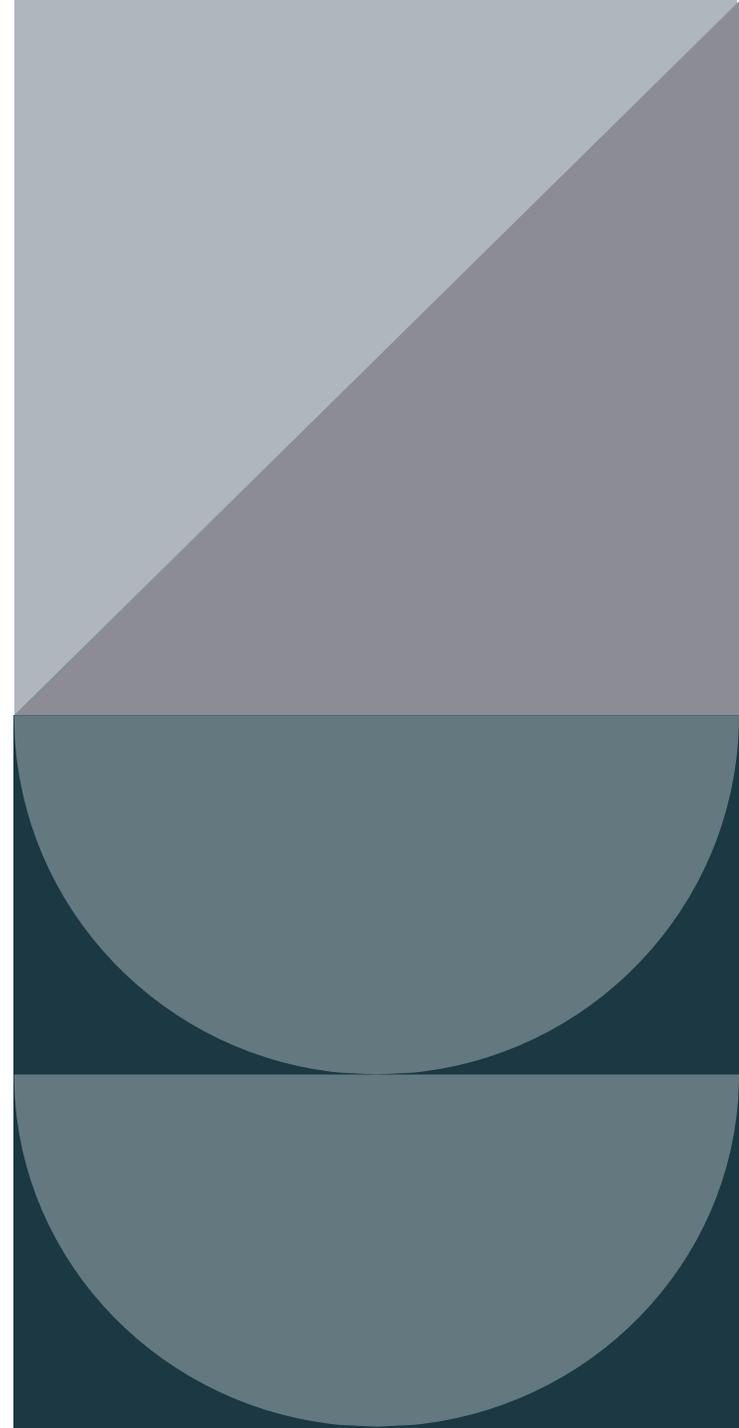
MONITORING

- Monitoring is an integral part of internal control..
 - **It is concerned with the assessment of quality performance over time and ensuring that the findings of audits and other reviews are promptly resolved.**



INTERNAL CONTROL STRUCTURES AND POLICIES RELEVANT TO AUDIT

- ❖ Control Environment
- ❖ Accounting System
- ❖ Control Procedures



CONTROL ENVIRONMENT

1. Management philosophy and operating style : supportive attitude towards control

2. Organizational structure : clear lines of accountability

3. Audit committees : monitor control structure

4. Personnel policies and procedures : employees properly matched with tasks

5. Communication of authority and responsibility : performance reporting, meetings, conferences as effective communication devices.

6. Internal audit : effective control by identifying problems and suggestions solutions

ACCOUNTING SYSTEM



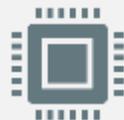
1. Charts of accounts, accounting manuals and other records : complete and accurate recording of transaction and events.



2. Transaction documentation : effective “audit trail” for recording of transactions and events.



3. Transaction review : prevention of unauthorized transactions and detection of errors in transaction processing and recording.



4. EDP controls : imputing, editing and other programmed controls to compensate for lack of transactional controls.

CONTROL PROCEDURE S

1. Job descriptions, training programs,
hiring policies (competence of personnel)



2. Policy and procedure manuals
(adherence to policy)



3. Planning, budgeting and performance
reporting (establishment of long-term
goals and plans to achieve them and to
monitor as well as correct performance)



4. Asset safeguards (asset management,
limited access and accountability controls)



5. Periodic inventories, cash counts and
security counts (monitor access and
accountability controls)

ISSUES IN INTERNAL AUDIT RELIABILITY

Reliability can be seen as the extent to which the accounting information signifies what it purports to represent (Liu, 2013)

Four salient issues considered vital in enhancing or marring the internal audit reliability:

Issue of independence and objectivity of internal auditors

Issues regarding management/stakeholders support and influence

Issue of competency of internal auditors

regulatory issues.

ISSUES IN INTERNAL AUDIT RELIABILITY

INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDITORS: Brinkley(2015)

conceptualized independence and objectivity to be a reflection of an auditor that is self-sufficient, self-reliant, free from undue control, operationally autonomous, and thinking or acting for oneself.

MANAGEMENT SUPPORT AND INFLUENCE:

Without management approval, support and encouragement, the internal audit processes are likely to face failure(Baharud-in et al, 2014). Before an internal audit function can be adjudged to be reliable, the auditor must have the support of the management. This however appears not to be the case at all times.

ISSUES IN INTERNAL AUDIT RELIABILITY II

COMPETENCY OF INTERNAL AUDITORS: Baharud-in al (2014) described competency as the ability of an internal auditor to perform a job or task properly based on the educational level, professional experience and the effort of the staff for continuing professional development. To be effective, the internal audit activity must have qualified, skilled and experienced people who can work in accordance with the codes of ethics and international standards.

REGULATORY ISSUES: Regulations can be described as a sustainable and a focused control by a recognized entity or public agency over the engagement and activities that are valued by the society. However, guidelines issued by the global IIA are not mandatory for operational use in Nigeria—yet to be satisfactorily listed as a professional auditing body in Nigeria. Currently we have ICAN and ANAN who issue standards regulating accounting and auditing activities in Nigeria.

RECAP

- ❖ Internal audit is an independent, objective assurance and consulting activity designed to add value to and improve an organization's operations .

- ❖ The main objective of internal audit is to enable organizations accomplish their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes.

- ❖ Internal control is a process designed to provide reasonable assurance regarding the achievement of an organization's objectives which may include; effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

- ❖ The control environment is the control consciousness of an organization as it is the atmosphere in which people conduct their activities and carry out their control responsibilities.

- ❖ Control activities are actions which are supported by policies and procedures that when carried out properly and in a timely manner, manage or reduce risks.

- ❖ Monitoring is an integral part of internal control. It's concerned with the assessment of quality performance over time and ensuring that the findings of audits and other reviews are promptly resolved

QUESTIONS

