

Internal Audit Techniques

What is the internal audit ?

Examine or review critically and systematically for the purpose of arriving at sound conclusions regarding:

- 1. reliability and accuracy of financial reporting,**
- 2. effectiveness and efficiency of operation, and**
- 3. compliance to applicable laws and regulations etc.**

To enable it to provide the reasonable assurance to the management that the organization's objectives has been met with regard to the reliability and accuracy of financial reporting, effectiveness and efficiency of operation, and compliance to applicable laws and regulations etc.

Internal audit techniques:

1. **Analysis and examination of documents**
2. **Observation**
3. **Analytical procedures**
4. **Recalculation**
5. **Tracing**
6. **Vouching**
7. **Confirmation**
8. **Interview**
9. **Physical verification**

What are the audit test to ensure the reliability and accuracy of the financial reporting?

Test of Reliability of Financial Reporting: “Frauds”

- Analysis and examination of the validity of documents
- Confirmation with beneficiaries and suppliers
- Interview with staff and related parties
- Physical verification

Test of Accuracy of Financial Reporting: “Errors”

- Recalculation
- Analytical procedures
- Tracing
- Vouching

How to ensure effectiveness and efficiency of operations?

Test of effectiveness of operation:

The ability to achieve goals/objectives

- Observation
- Interview
- Physical verification

Test of efficiency of operation:

The achievement of goals/objectives with lowest cost

- Confirmation
- Interview

How to ensure the compliance ?

To **ensure** that day-to-day activities of the operations **are operated in compliance** with rules and regulations of regulatory agencies and donors as well as the established internal policies etc.

Test of the compliance to established policies and requirements :

- **Analysis and examination of documents**
- **Vouching**

Audit Staff need to have sound knowledge of the following policies:

- Financial Policies and procedures
- Human Resource Policies
- Admin Policies
- Information Technology Policies
- Audit Policies
- Operational Policies
- Other Applicable policies

What are major types of services that the internal audit can provide in support to management ?

- Compliance
- Verification
- Protection of assets
- Appraisal of control
- Appraisal of performance
- Recommending operating improvement
- Recommending the changes in policies
- Other service training source of information

Output of the Internal Audit:

- Audit Report: List out the keys issues of the following
 - Weakness of the systems issues
 - Non-compliance issues
 - Administrative issues
 - Errors and Frauds issues
- Management Letter/Recommendation
 - Recommend for changes in systems/policies
 - Recommend for the attention to comply with policies
 - Recommend for best practice
 - Recommend to adjust and correct the issues
- Act as consulting body regarding the policies and regulations

Basic techniques to review Financial Report

- **Validity of Reports**
 - Signed and dated by Preparer
 - Signed and dated by Reviewer
 - Signed and dated by Processor
 - Signed and dated by Approver
- **Variance analysis**
 - Variance questions
 - Variance answers
- **Pivot table to ensure accuracy of financial report “Trace”**
 - Financial Report to
 - General ledger to
 - Journal entries to
 - Vouchers

Basic techniques to review Vouchers

Types of Vouchers

- **Cash advance**
- **Advance Settlement**
- **Reimbursement**
- **Direct Payment/Deposit**
- **Journal Entry**

Auditors need to ensure which types of voucher they are reviewing because difference types of vouchers require difference supporting documents and procedures.

Basic techniques to review Direct Payment Vouchers

- **Validity of voucher**
- Correct Classification of Expenditure
- Input in cash/general journal agrees to supporting documentation.
- **Adequate supporting documentations**
- Invoice/Receipt tested for arithmetic accuracy before payment.
- Correct quantities were received and signed for.
- Invoices/Receipts approved.
- Invoices/Receipts canceled as "Paid".
- Required number of bids obtained and evidenced.
- Expenditure agrees to project activities and accomplishments.
- Distribution lists prepared so that the final beneficiaries evidence shown.

Basic techniques to review Direct Payment Vouchers

- **Validity of voucher**
 - Signed and dated by Preparer
 - Signed and dated by Reviewer
 - Signed and dated by Processor
 - Signed and dated by Approver
- **Adequate supporting documentations**
 - Must be in approved budget
 - Prior approval of purchase
 - 3 Quotations obtained
 - Purchase Order (PO)
 - Commission Gift Bribe
 - Original Invoice
 - Original Receipt
 - Copy of ID card
 - Authorized letter

***Strengthening the Capacity of
Professional Accountants and
their organizations in financial
management.***

THANKS !