

Reliance on internal audit work essay sample



The explanatory fore word to the international Standards on Auditing (ISA) defines an audit authoritatively as an “ independent examination of an expression of an opinion on the financial statements of the reporting entity by an appointed auditor in pursuance to his/her appointment and in compliance with any statutory obligation. An audit is precisely done by either the internal auditor or external auditor.

An audit is important in business due to the following matters:-

Stewardship accounting - This refers to the accounts prepared and maintained by the directors on behalf of the shareholders or the owners of the company. In the ordinary language, stewardship means, managing the resources belonging to a particular person by another person. The accounts prepared by the directors are primarily to provide records relating to the productive resources belonging to the shareholders.

True and Fairview

The concept of the word true and Fairview is a fundamental principle in an audit and therefore is the main objectivity of the audit assignment. The word “ true” refers to the actual occurrence of the activities and the word “ fair” refers to a reasonable position of the activities. Therefore an audit is necessary for the auditor to proof the true and Fairview on the financial statements.

The confirmation of true and Fairview according to B. N. Tandon (Practical Auditing) is arrived at by the auditor by establishing:-

Whether the accounts are in agreement with the books of account, Whether proper books of accounts are maintained and Whether sound accounting policies have been followed in the preparation of accounts.

Due to the separation of powers and the control of the business between the owners and the management, there is a need for an audit. This is because the independent auditors would provide a report on the affairs of the business which is necessary to allow shareholders to make informed decisions on the accounts. An internal auditor is a professionally qualified accountant as explained by Professor Paul N. Manesseh in his book (Principles of Auditing)(2007). The internal auditor must be a registered accountant with the registration of accountants board (RAB) holding a valid practicing certificate issued in accordance to the Accountants Act. He should also be a member of an institute of certified public accountants and he must be a person of good conduct as per the professional body requirements. He must have had a degree of practical experience from a recognized firm of accountants of not less than 5 years. The nature and scope of internal auditors is defined by the right body. The scope differs from one entity to another and from one management to another. The responsibilities given to the internal auditor include:-

- Regular examination of the accounts.
- Independent appraisals of the entities, activities for adequacy and relevancy. Reporting regularly to the Management and the Board of Directors for establishing of truth and Fairview of the financial statements.

- Ensuring the implementation of the company's policies, procedures and plans.

An internal auditor is a person who should be seen to be independent in discharging his duties and responsibilities as prescribed by the management from time to time. The word "independence" according to Ron Weber (information system control and audit) refers to a state of which the auditor is viewed to be free from any interest that may detract him/her from the main objectivity. The auditor's remoteness of mind, status and outlook would confirm the degree of independence.

His independence is considered to be important in the following ways:-

- An audit is independent examination of accounts and therefore any person conducting the audit should be independent.
- Audit reports require an independent opinion and therefore requires the auditor to be independent.
- A number of parties would depend on the accounts produced by an independent auditor in order to make informed investment decision.

International Standards on Auditing (ISA) requires an auditor to adequately plan, control and record his audit work. Planning the audit constitutes the focal point of an audit which is necessary for the effective control and recording of the audit work.

Audit planning is defined as the arrangement of the audit work by the audit senior from the beginning till the end to enable the auditor to have an organized approach to the professional work.

- Audit planning is considered to be important due to the following reasons;
- Planning the audit enables the principal auditor to complete the audit work and sign the audit report.
- Through planning a practicing firm of accountants is able to attend to more than one client.
- Adequate planning of the audit work allows the audit seniors to identify the problems in the audit which are necessary for control and recording purposes.

As a matter of emphasis and a recruiter, the board of directors and in particular the management are purely responsible in ensuring accuracy and the reliability of the records. The management should implement a sound internal control system. Such internal control systems should call for a proper internal check systems, proper supervision, segregation of duties, and proper internal audit.

An internal audit department is established by the management and the board. It is viewed as an element of internal control system. The scope of the work of internal audit is defined by the management and the same management are responsible to review from time to time the nature, extent and timing of the work of internal audit.

Even though the work of an internal auditor is defined by the management, and this would depend on the entity demands there are areas where the work of an internal audit is specific. The general functions of the internal audit departments are;

- Regular examinations and review of the financial statements.
- Advising the management from time to time on the Company's objectives, policies, procedures and plans.
- Ensuring the accuracy and reliability of the Company's records
- Ensuring and programming of the controls to the entity.
- Detecting and preventing errors and frauds throughout the financial period.
- Performing management reviews, procedures aiming at the revealing work performance below standards.

Primarily, the external auditor would prefer to use the work of an internal auditor. Using the work of an internal auditor according to ACCA study text (Advanced evidence in respect to the audit. However, before relying on the work of internal auditor, the external auditor has to assess for the effectiveness of the internal audit and the relevancy of the internal auditor.

The internal audit would be considered effective if the company is fully satisfied with the following;

- An internal audit department should be recognized by the company organization chart or structure. It should be regarded by other user departments which should also be observed as a cost center within the entity.
- The scope of work and the responsibilities of the department should be defined and provided for well in a France.

There should be a clear defined responsibility which does not create conflicting of duties with other user departments.

- The work carried out by the department under the umbrella of the internal auditor should be good standard and quality which should confirm that the auditors have enjoyed a due professional care.
- In General the company and in particular external auditor would rely on the work of internal auditor;
- Where the work of internal auditor has been properly planned and the work of audit assistant working in the audit department have been properly supervised reviewed, and documented.
- Where the client internal control system established and monitored by the internal auditor do provide evidence of effectiveness. The question of risk exposures has been considered in accounting to be a major problem in particular where the auditor has to report on the financial statements. Fighting against risk exposures is a continuous assignment in the accountancy profession. Audit risk according to Professor Paul N. Manasseh (principal of auditing) is therefore defined as the wrong conclusion drawn by the internal auditor in respect to the financial statements. It means that the auditor failure to carryout those tests and procedures that could be necessary to enable him reach a reasonable conclusion would totally amount to the risks. The common causes of risk exposures are;
- Accepting an appointment without engagement letter.
- Failure to engage technical experts in the sensitive areas of the audits.
- Inadequate planning procedures for the audit.
- Placing reliance on a weak internal control system the general rule is that the responsibility to maintain proper books of accounts which are free from errors and frauds rests primarily with the management.

However, the internal auditor in his earlier stages of planning the audit should incorporate those audit tests and procedures that would provide him a reasonable degree of assurance that any error/fraud would be detected.

In conclusion for the internal audit department to be independent and effective a number of things need to be done by the Board and the management. The chief internal auditor should be professionally qualified, a person of integrity, independent and competence, the internal auditor should be made to report to the managing director and the board, if possible, there should be an audit committee to govern the independence of internal auditor, the scope of work and responsibility of internal audit should be clearly defined, the internal audit department should be properly recommended as a senior department of the management and proper training and continuing education should be mastered to enlighten the internal audit department's staff of any developments both in theory and in practice.

REFERENCES

- 1) Prof. Paul N. Manasseh. Principles of auditing (2007)
- 2) Information Systems Control and Audit (Ron Weber)
- 3) Practical auditing by B. N. Tandon
- 4) ACCA study text (advance audit and assurance audit)