

OHRD BOSBERAAD

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PRESENTATION ON
AN INTERNAL CONTROL SYSTEM

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PFMA, 1999 (ACT 1 of 1999)

45. RESPONSIBILITIES OF OTHER OFFICIALS

An official in a department, trading entity or constitutional institution –

- a) Must ensure that the system of financial management and internal control established for that department, trading entity or constitutional institution is carried out within the area of responsibility of that official;

PFMA CONTINUED...

- b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility;
- c) Must take effective and appropriate steps to prevent, within that official's area of responsibility, any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure and any other collection of revenue due;

PFMA CONTINUED...

- d) must comply with the provisions of this Act to the extent applicable to that official, including any delegations and instructions in terms of section 44; and
- e) is responsible for the management, including the safeguarding of the assets and the management of the liabilities within that official's area of responsibility.

DEFINITION OF INTERNAL CONTROL

INTERNAL CONTROL IS A PROCESS EFFECTED BY THE COMPANY'S BOARD OF DIRECTORS, MANAGEMENT AND OTHER PERSONNEL, AND DESIGNED TO PROVIDE REASONABLE ASSURANCE REGARDING THE ACHIEVEMENT OF OBJECTIVES IN THE FOLLOWING THREE CATEGORIES:

DEFINITION CONTINUED...

1. ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF OPERATIONS
2. INTERNAL FINANCIAL CONTROL
3. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

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Auditing Notes for South African Students

DEFINITION OF INTERNAL CONTROL CONT....

THE INTERNAL CONTROL COMPRISES POLICIES, PRACTICES, AND PROCEDURES EMPLOYED BY THE ORGANISATION TO ACHIEVE FOUR BROAD OBJECTIVES:

DEFINITION CONTINUED...

1. TO SAFEGUARD ASSETS OF THE FIRM
2. TO ENSURE THE ACCURACY AND RELIABILITY OF ACCOUNTING RECORDS AND INFORMATION
3. TO PROMOTE EFFICIENCY IN THE FIRM'S OPERATIONS

DEFINITION CONTINUED...

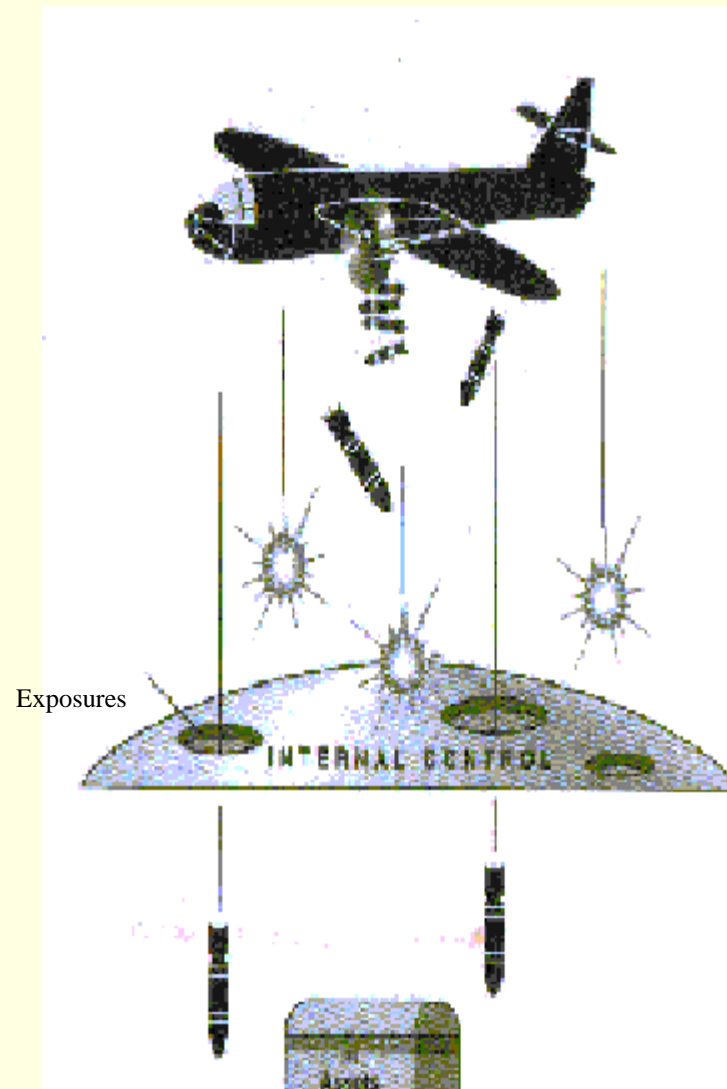
- 4 TO MEASURE COMPLIANCE WITH MANAGEMENT'S PRESCRIBED POLICIES AND PROCEDURES

JAMES A. HALL

Information systems auditing and assurances

Undesirable Events

- Access
- Fraud
- Errors
- Mischief



IMPORTANT ELEMENTS OF CONTROL ENVIRONMENT

1. THE INTEGRITY AND ETHICAL VALUES OF MANAGEMENT
2. THE STRUCTURE OF THE ORGANISATION
3. THE PARTICIPATION OF THE ORGANISATION'S BOARD OF DIRECTORS AND THE AUDIT COMMITTEE

ELEMENTS CONTINUED...

4. MANAGEMENT'S PHILOSOPHY AND OPERATING STYLE
5. THE PROCEDURES FOR DELEGATING RESPONSIBILITY AND AUTHORITY
6. MANAGEMENT'S METHODS OF ASSESSING PERFORMANCE

ELEMENTS CONTINUED...

7. EXTERNAL INFLUENCES SUCH AS EXAMINATION BY REGULATORY AGENCIES
8. THE ORGANISATION'S POLICIES AND PRACTICES FOR MANAGING ITS HUMAN RESOURCES

CHARACTERISTICS OF GOOD INTERNAL CONTROLS

1. CONTROL ENVIRONMENT
2. COMPETENT AND TRUSTWORTHY PERSONNEL
3. SEGREGATION (DIVISION) OF DUTIES
4. ISOLATION OF RESPONSIBILITY
5. ACCESS/ CUSTODY CONTROLS

CHARACTERISTICS CONTI...

- 6 SOURCE DOCUMENT DESIGN
- 7 COMPARISON AND RECONCILIATION

LEVELS OF CONTROLS

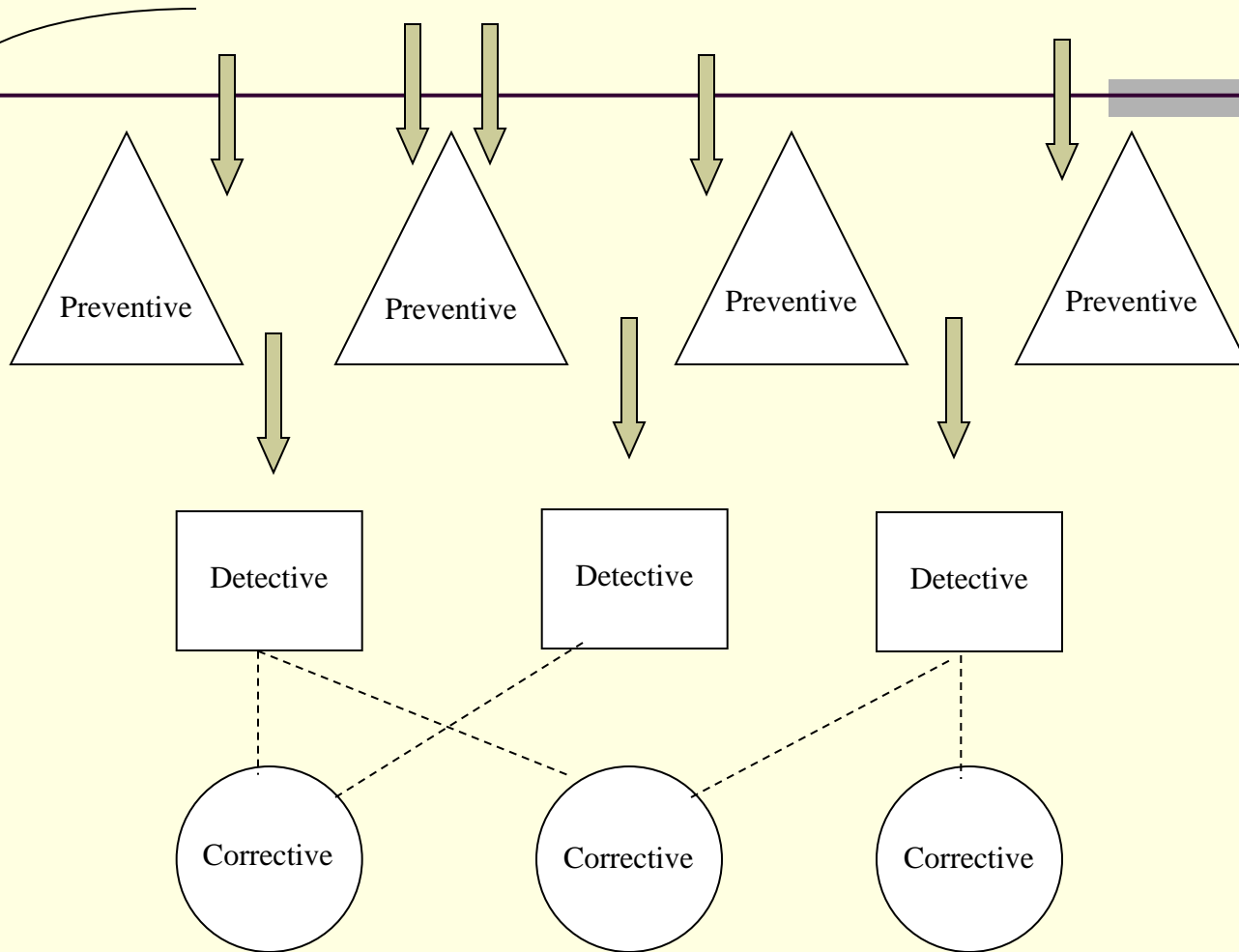
1. **PREVENTIVE CONTROLS:** are techniques designed to reduce the frequency of occurrences of undesirable events
2. **DETECTIVE CONTROLS:** are devices, techniques and procedures designed to identify and expose undesirable events that elude preventive controls

LEVELS OF CONTROLS

3. **CORRECTIVE CONTROLS:** are actions taken to reverse the effects of detected errors. Corrective controls actually fix the problem.

Undesirable Events

Levels of control



LIMITATIONS OF INTERNAL CONTROL

1. REQUIREMENT THAT COST OF INTERNAL CONTROL DOES NOT EXCEED THE EXPECTED BENEFIT
2. INTERNAL CONTROLS ARE DIRECTED TO ROUTINE TRANSACTIONS
3. POTENTIAL FOR HUMAN ERROR

LIMITATIONS CONTINUED...

4. CIRCUMVENTION OF CONTROLS THROUGH COLLUSION OF EMPLOYEES
5. MANAGEMENT OVERRIDE OF AN INTERNAL CONTROL
6. INADEQUACY OF INTERNAL CONTROLS DUE TO CHANGED CONDITIONS

THE AUDITOR'S TOOLS

- THE AUDITOR HAS TWO SETS OF TESTS/ PROCEDURES TO GATHER SUFFICIENT APPROPRIATE EVIDENCE:
 1. TESTS OF CONTROL
 2. SUBSTANTIVE PROCEDURES

TESTS OF CONTROL

- REPERFORMANCE
- INSPECTION
- ENQUIRY
- OBSERVATION

SUBSTANTIVE PROCEDURES

- REPERFORMANCE
- COMPUTATION
- INSPECTION
- ANALYTICAL PROCEDURES
- ENQUIRY AND CONFIRMATION



THANK YOU