

Internal Control Overview & Collaboration With Accounting Firm during External Audit

The 30th Finance Learning Forum

Diakonia Center

28^h October 2022

Donasco & Co., LTD, CPAs (DCO) Team



Ronald A. Donasco, CPA, CIA, CFE, ACPA

Partner and Quality Control Reviewer

Ronald obtained his Bachelor of Science in Accountancy at the University of the Philippines (UP) in the Visayas, a premier state university in the Philippines in 2000. He obtained his license as Certified Public Accountant (CPA) in May 2001. He has more than 20 years' experience in the practice of public accountancy and financial consultancy in the Philippines, Cambodia, Vietnam, Thailand, Laos, Myanmar, India, Nepal, Sri-Lanka, Bangladesh, Indonesia and Afghanistan.

Ronald is a licensed Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), and ASEAN Chartered Professional Accountant (ACPA).

Donasco & Co., LTD, CPAs (DCO) Team



Chuon Sreynith

Assistant Audit Manager

- Ms. Chuon Sreynith is a graduate of Bachelor of Science in Accounting and is currently pursuing her Chartered Accountant license under the Association of Certified Chartered Accountant in UK. Ms. Chuon have been with Firm for more than ten (10) years, with the current role of Assistant Audit Manager. Before joining the Firm, she worked as Finance Officer of a Catering Company.
- Ms. Chuon performed audits mostly for International and Local NGOs in Cambodia. She has performed Organization and Special purpose framework audits required by donors. She also performed internal audits and finance review engagements for International NGOs in Phnom Penh, Cambodia.

Objectives

At the end of the training, participants will:

Obtain

- Obtain a better understanding of Internal Controls

Identify

- Identify appropriate internal controls for their organizations

Understand

- Understand the key tasks and documents during external financial audit

Know

- Know how to work well with external auditors during the external audit for a successful engagement.

Internal Control Overview

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



Poll 1 & 2

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



Definition & Objectives

Definition 1

- Internal controls are the standards and rules used by companies to ensure that they achieve their stated goals in the marketplace. Profitability is not only achieved through high sales, but also from controlling costs and limiting excessive spending.

Definition 2

- *Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide **reasonable assurance** regarding the achievement of objectives relating to operations, reporting, and compliance, which include*
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness and efficiency of operations

Definition & Objectives

Reasonable Assurance

Reasonable assurance involves two considerations:

- The cost of the entity's internal control should not exceed the expected benefits.
- Limitations exist in any entity's internal control.

Poll 3

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



Control Classification



Primary Control

Preventative Controls
Detective Controls
Corrective Controls
Directive Controls



Secondary Controls

Compensatory (Mitigative) Controls
Complementary Controls

Control Classification

Preventive Controls

- Deter the occurrence of unwanted events

- Income and receipt processes - use of **Official Receipts**, **cash counts**
- Payments - **approval**, **segregation of duties**, obtaining quotation and payment or purchasing and receipt of item
- Payroll Processing - **timesheet**, **HR checking** for legitimate employees and salaries
- Expense Reporting - proper checking of receipts and invoices, preparation of **fictitious receipt**, **overpricing**
- **Locks** on filing cabinets
- **Use of passwords** - **computer access and applications**
- **Approval** of all expenses and timesheets before payment

Official Receipt

Sample Only

ABC CORPORATION
76 Diliman, Quezon City
VAT Reg. TIN: 144-424-024-0000

"Annex C.1.2"

OFFICIAL RECEIPT

DATE _____

Received from _____ with TIN _____
and address at _____ engaged in the
business style of _____, the sum of
_____ pesos
(P _____) in partial/full payment for _____

By: _____
Cashier/Authorized Representative

No. 1001

10 Bkts (3x) 1001-1500
BIR Authority to Print No. 3AU000005222
Date Issued **07-30-13** : Valid until **07-29-2018**
BERTHA PRINTING SERVICES, INC.
Bgy. 789, Quezon City
TIN: 123-456-789-0000

Printer's Accreditation No. P08051200
Date Issued 08-01-12

THIS OFFICIAL RECEIPT SHALL BE VALID FOR FIVE (5) YEARS FROM THE DATE OF ISSUE.

In continuation of the following:	
Billing Invoice No.	Amount
Total Sales (VAT Inclusive)	
Cash VAT	
Total	
Cash BCPND Discount	
Total Due	
Cash Withholding Tax	
Amount Due	
By Cash Sales	
(A) Corporate	
Gen. Inv. Sales	
(A) Amount	
Total Sales	
Type of Payment:	
Cash <input type="checkbox"/>	Check <input type="checkbox"/>

St. Citizen TIN

CRICA/PWD ID No. Signature

DC CPAs

Control Classification

Preventive Controls

- Deter the occurrence of unwanted events

- Hiring of Staff - Background Checks
- Training
- Segregation of duties
- Transaction approvals
- Performance evaluation
- Security
- Information Technology system
- Risk assessment
- Communication system



Control Classification

Detective Controls

- Alert the occurrence of unwanted events

- Monthly bank reconciliation,
- Reconciling actual results with expected results;
- Performing **regular review** of financial reports and supporting schedules
- Audits
- **Review of submitted Financial Reports**



Control Classification

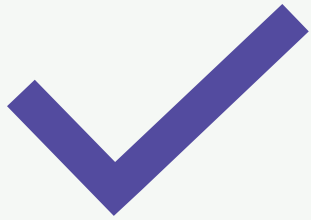
Detective Controls

- Alert the occurrence of unwanted events

- The PD/manager insists on mandatory vacations, during which another employee performs the tasks
- Regularly performing risk assessment
- Regular staff appraisal
- Spot check of staff performance



Control Classification



Corrective Controls

- **Correct the negative effects of unwanted events**

Management variance report

Periodic finance monitoring

Year end Financial Audit

Internal Audits



Control Classification

Directive Controls
ensure a particular outcome is
achieved

- Examples
- guidelines, procedures, policies
- training and
- incentives



4 Internal Control Frameworks

COSO Framework

COBIT –
Control Objectives for Information and related Technology

COCO Model – (IIA)

ESAC –
Electronic System Assurance and Control

Poll 4 & 5

The 30th Finance Learning Forum

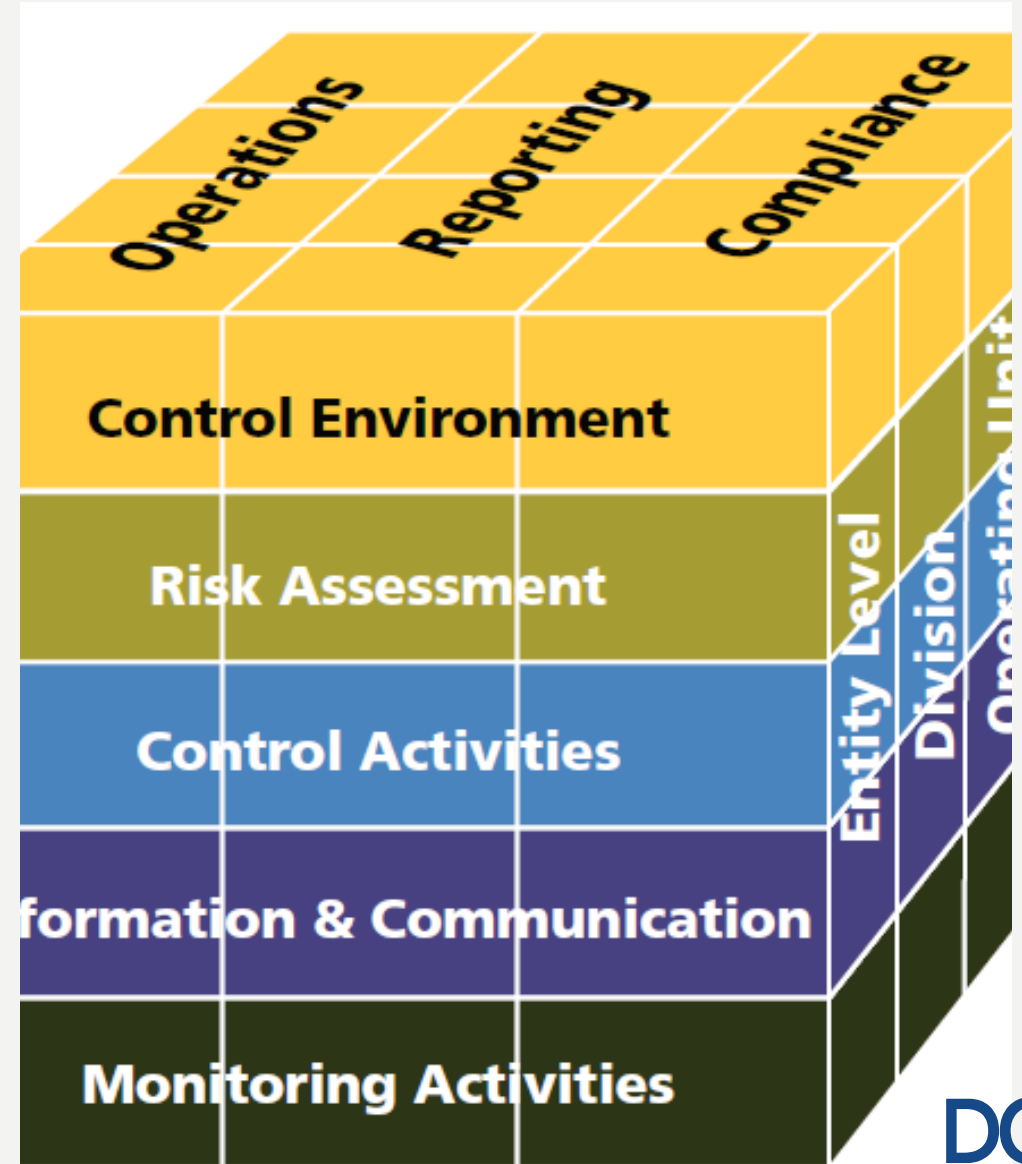
Diakonia Center

28th October 2022



COSO Framework

- The internal control framework for most U.S. companies is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control—Integrated Framework*, issued in 1992.



COSO Framework



THE CONTROL
ENVIRONMENT



RISK ASSESSMENT



CONTROL
ACTIVITIES



INFORMATION
AND
COMMUNICATION



MONITORING

A. The Control Environment

- The control environment is concerned with the actions, policies, and procedures that reflect the overall attitude of the client's top management, directors, and owners of an entity about internal control and its importance.



B. Risk Assessment

Client management's identification and analysis of risks relevant to the preparation of the financial statements in accordance with CIFRS.

Client
Management's
Risk Assessment

Auditor Risk
Assessment

B. Risk Assessment

Client management's identification and analysis of risks relevant to the preparation of the financial statements in accordance with CIFRS.

Client
Management's
Risk Assessment

Auditor Risk
Assessment

C. Control Activities

Policies and procedures that client management has established to meet its objectives for financial reporting.

Adequate segregation of duties

Proper authorization of transactions and activities

Adequate documents and records

Physical control over assets and records

Independent checks on performance

D. Information and Communication

Methods used to initiate, record, process, and report an entity's transactions and to maintain accountability for related assets

For a small company with active involvement by the owner, a simple computerized accounting system that involves one honest, competent accountant may provide an adequate accounting system.

A larger company requires a more complex system that includes carefully defined responsibilities and written procedures.

E. Monitoring

Client management' s ongoing and periodic assessment of the quality of internal control performance to determine whether controls are operating as intended and modified when needed.

For many companies, especially larger ones, an internal audit department is essential for effective monitoring.

Independent and report to
BOD

External Audit – Management
Letter

Poll 6 & 7

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



Summary

Control Environment – Board and Management, policies and procedures on internal controls, oversight

Risk Assessment – Org and Auditor assessment of high risk and actions taken to lower the risk

Control Activities – segregation of duties, approval, safeguarding of assets

Information and Communication – system of recording, documentation and reporting as internal control.

Monitoring Activities – Internal and external audit

IC Components and its Principles

Control Environment –
Tone from the Top, Org
commitment to integrity,
ethical values,
independence and
oversight on IC

Risk Assessment – Org
specifies objectives to
identify and assess risk
and how to manage it to
achieve its objectives

Control Activities – Org
selects and develop
controls, puts policies into
action to achieve its
objectives

Information and
Communication – Org
obtains, uses quality
information to support
functioning of IC

Monitoring Activities –
Org selects, develop and
performs evaluations to
ascertain IC are present
and functioning

Most Common IC Weaknesses observed with NGOs

Control Environment -

- 1. No financial oversight performed for the Organization to ensure IC are in place
- 2. No proper policies and procedures
- 3. No JD or unclear JD.
- 4. Management not requiring Management Financial Report.

Risk Assessment

1. Monthly meetings does not involve review of operation and identification of risks unless something happened.

Most Common IC Weaknesses observed with NGOs

Control Activities –

- 1. No proper segregation of duties, no mitigating controls,
- 2. Proper authorization of transactions,
- 3. Proper supporting documents,
- 4. No access security, password, limits of access,
- 5. Back up and recovery.
- 6. Access to safe,
- 7. Checking of transactions, reports, schedules, supervision

Information and Communication –

- 1. Financial Report not prepared, discussed or checked properly
- 2. No proper system or recording (Use of excel)

Monitoring Activities

- 1. No internal audit
- 2. No external audit for the whole Organization.

Poll 8 & 9

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



Question and Answer

Collaboration With Accounting Firm during External Audit

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



External Financial Audit VS Internal Audit

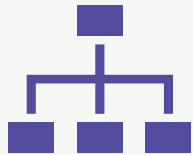
External Audit

- An external audit is an examination that is conducted by an independent accountant. This type of audit is most commonly intended to result in a certification of the financial statements of an entity. This certification is required by certain investors and lenders, and for all publicly-held businesses

Internal Audit

- Internal audit refers to the department located within a business that monitors the efficacy of its processes and controls. The internal audit function is especially necessary in larger organizations with high levels of process complexity, where it is easier for process failures and control breaches to occur.

3 Phases of External Audit



Planning/ Pre- Audit

Auditor - Planning, preliminary understanding and analysis
Org - Preparation of records, documents and schedules



Fieldwork

Auditor - perform audit work (e.g. interviews, walkthrough, analysis, reconfirmation, test of controls etc.


Org - Arrange logistics, schedules for staff and mgt interviews, provide additional documents and information, etc.



Reporting

Auditor - Prepare final analysis, finalize financial statement amounts, prepare reports, exit meeting

Org - Respond to final queries or request of the auditors, arrange meeting with mgt and BOD for exit meeting, respond to management letter and confirm the final amounts



Tasks/ Activities to support the Audit

Planning/ Pre- Audit

- Prepare the year end financial statements, finalize the figures, and prepare the schedules
- Obtain the supporting schedules such as bank statements, cash counts, and agreements, project reports etc.
- Close the books or accounting records
- Print the final financial statements for the year
- Prepare the required documents sent by the auditors

Tasks/ Activities to support the Audit

Example of List of Audit Requirements

	Document Description	Types	Date Requested	Expected Receipt Date
	General			
1	Trial balance as of period	Softcopy	4-Aug-22	8-Aug-22
2	Profit and Loss Statement and Balance Sheet for the period of audit 01 July 2021 to 30 June 2022.	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
3	General ledger and Journal entries for the period of audit	Softcopy	4-Aug-22	8-Aug-22
6	Monthly balance sheet 01 July 2021 to 30 June 2022.	Softcopy	4-Aug-22	8-Aug-22
7	Monthly profit and loss 01 July 2021 to 30 June 2022.	Softcopy	4-Aug-22	8-Aug-22
8	A separate file General ledger for July 2022	Softcopy	4-Aug-22	8-Aug-22
9	Organisational chart updated	Hardcopy	4-Aug-22	8-Aug-22
10	Updated Finance Manual or Policies and Procedures	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
11	Updated Job Description of Finance Staff & Employment contract, one of the Volunteer contract	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
12	Employment contracts, volunteer contracts	Access	4-Aug-22	8-Aug-22
13	Minutes of (Board of Directors/ Head Quarter) with finance	Hardcopy	4-Aug-22	8-Aug-22
14	Insurance policies	Hardcopy	4-Aug-22	8-Aug-22
15	Contracts entered during the year with customers and suppliers	Hardcopy	4-Aug-22	8-Aug-22
16	Contracts entered during the year with landowners	Hardcopy	4-Aug-22	8-Aug-22
17	Contracts entered during the year with donor	Hardcopy	4-Aug-22	8-Aug-22
18	Contracts entered during the year with Organisation partner	Hardcopy	4-Aug-22	8-Aug-22
19	Legal correspondence (if any)	Hardcopy	4-Aug-22	8-Aug-22
20	List of outstanding lawsuits including status of lawsuits (if any)	Hardcopy	4-Aug-22	8-Aug-22
21	Copies of accounting forms used	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
22	The registration with the government (Include Tax Registration Certificate and Card and Patent Certificate for Organization	Hardcopy	4-Aug-22	8-Aug-22
23	The registration with the government (all ministry MOU and by Law)	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
24	Financial budget/forecast for current and Actual Vs Budget succeeding year	Softcopy	4-Aug-22	8-Aug-22
25	Access to all internal audit reports/internal operations manual, regulations and policies	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
26	Access to tax and legal documents	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22
27	Access to Accounting vouchers and supporting documents	Hardcopy/ Softcopy	4-Aug-22	8-Aug-22

Tasks/ Activities to support the Audit

Example of List of Audit Requirements

	Receivables			
1	List of outstanding receivables and ageing analysis as at year-end and subsequent collections (Annex 3)	Softcopy	4-Aug-22	8-Aug-22
2	Confirmation of receivables based on audit selection (Annex 4)	Softcopy	4-Aug-22	8-Aug-22
	Cash advance			
1	List of cash advance or ageing of analysis of cash advance as at year-end and subsequent collections (Annex 3)	Softcopy	4-Aug-22	8-Aug-22
	Prepayments and Deposits			
1	Detailed listing of prepayments for any significant additions during the year and deposits together with the supporting documentation. Please attach the supporting documents like copies of invoice, receipts, contracts and others	Softcopy	4-Aug-22	8-Aug-22
	Inventories			
1	List of outstanding inventories as at 01 July 2020 to 30 June 2021.	Softcopy	4-Aug-22	8-Aug-22
2	Inventory count performed as at 01 July 2020 to 30 June 2021.	Hardcopy	4-Aug-22	8-Aug-22
	Property and equipment			
1	Asset register for the year being audited	Softcopy	4-Aug-22	8-Aug-22
2	Rollforward (asset beginning, additions and disposals) and depreciation schedule of asset register	Softcopy	4-Aug-22	8-Aug-22
	Liabilities			
1	Accounts payable/Trust funds – Aging or detailed schedule and subsequent payments	Softcopy	4-Aug-22	8-Aug-22
2	Detailed listing of Other payable – Severance pay/Medical fund	Softcopy	4-Aug-22	8-Aug-22
3	Confirmation of payables based on audit selection (Annex 4)	Softcopy	4-Aug-22	8-Aug-22
	Equity			
1	Detailed schedule of any fund transfers or movements in capital	Hardcopy	4-Aug-22	8-Aug-22
	Income			
1	List of invoices from the system from operations and reconciliation to the Accounting system	Hardcopy	4-Aug-22	8-Aug-22
2	Donor confirmation (Annex 5)	Hardcopy	4-Aug-22	8-Aug-22
	Payroll			
1	Detailed computation of monthly payroll including Income Tax computations (tax form and Voucher)	Softcopy/Hardcopy	4-Aug-22	8-Aug-22
2	Monthly payroll summary for the year	Softcopy/Hardcopy	4-Aug-22	8-Aug-22
	Others			
1	Legal confirmation (Annex 6)	Hardcopy	4-Aug-22	8-Aug-22
2	Monthly exchange rates used for the period of audit	Softcopy	4-Aug-22	8-Aug-22

Poll 10, 11 & 12

The 30th Finance Learning Forum

Diakonia Center

28th October 2022





Tasks/ Activities to support the Audit

Fieldwork

- Schedule with the auditor the meetings that needs to be schedule from BOD, mgt and staff and beneficiaries
- Accountant/ Finance Manager should be made available during the fieldwork for queries, walkthrough, surprise verification and confirmation of the auditor
- Mgt should be open and provide any necessary information to the auditor including any instances of fraud or areas of concerns to the auditor
- Accounting system should be made available for read only access of the auditor or an extract of the accounting records should be prepared
- Schedule the preliminary exit meeting if requested by the auditor ahead of time with necessary audience present
- During the last day of preliminary exit meeting, mgt and staff should take time to understand the issues or concerns raised and provide explanation as necessary so that such issues are immediately resolve due to lack of information or perspective/ context
- No change should be made to the books of accounts at this time.





Tasks/ Activities to support the Audit

Reporting

- Mgt including the Accountant/ Finance Manager should be available for any follow up question or request of documents from the auditor (probably to be minimal)
- Should there be additional adjustments in the financial statements, this should be immediately be reported to the auditor.
- When the draft report is provided by the auditor, Mgt should review and confirm the amounts and disclosure in the financial statements as this is the responsibility of the mgt.
- If the opinion is not a clean opinion, the Mgt should inquire of the auditor for the reason of the opinion (e.g. unqualified, qualified, disclaimer and adverse opinions)
- Management letter should be provided with the management response as soon as possible



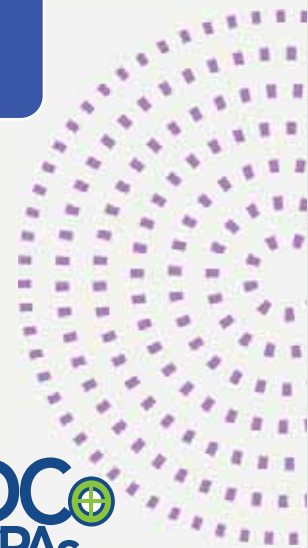
Types of Audit Opinions

Unqualified Opinion

- An unqualified opinion is also known as a clean opinion. The auditor reports an unqualified opinion if the financial statements are presumed to be free from material misstatements. In addition, an unqualified opinion is given over the internal controls of an entity if management has claimed responsibility for its establishment and maintenance, and the auditor has performed fieldwork to test its effectiveness.

Qualified Opinion

- A qualified opinion is given when a company's financial records have not followed GAAP in all financial transactions. Although the wording of a qualified opinion is very similar to an unqualified opinion, the auditor provides an additional paragraph including deviations from GAAP in the financial statements and points out why the auditor report is not unqualified





Types of Audit Opinions

Adverse Opinion

- The most unfavorable opinion a business may receive is an adverse opinion. An adverse opinion indicates financial records are not in accordance with GAAP and contain grossly material and pervasive misstatements. An adverse opinion may be an indicator of fraud. Investors, lenders, and other financial institutions do not typically accept financial statements with adverse opinions as part of their debt covenants.

Disclaimer Opinion

- In the event that the auditor is unable to complete the audit report due to the absence of financial records or insufficient cooperation from management, the auditor issues a disclaimer of opinion. This is referred to as a scope limitation and is an indication that no opinion over the financial statements was able to be determined.¹ A disclaimer of opinion is not an opinion itself.



Poll 13 & 14

The 30th Finance Learning Forum

Diakonia Center

28th October 2022



Question and Answer

Thank You!

The 30th Finance Learning Forum

Diakonia Center

28th October 2022

