

CHAPTER

7

Summary

Internal controls

- Internal controls are processes used by management to ensure that the aims and objectives of the company are achieved.
- Internal audits take place by an independent person to measure and evaluate the effectiveness of the internal control processes.

Audits

- Audit evidence is gathered by performing risk assessment procedures, tests of controls and substantive procedures.
- Audit sampling is obtained by using statistical or non-statistical sampling. Auditors use sampling to gather evidence to:
 - test controls for the purpose of expressing an opinion on the business' internal controls
 - test controls for the purpose of assessing control risk
 - test for compliance with company policies, governmental regulations, or other criteria
 - test individual items in account balances as a basis for determining whether material misstatements exist in the account balance.

Sampling techniques

- Random. Random-based methods eliminate the possibility of unintentional bias in the selection process and help ensure the sample is representative.
- Statistical selection. Statistical sampling involves using a statistical plan in such a way that the rules of probability are used to make a scientifically founded statement about the population.

The internal audit report is addressed to the financial manager and addresses the findings on the internal control systems and processes.

Differences between internal and external auditor

Internal auditor	External auditor
<ul style="list-style-type: none"> • Consults with departments to ensure control processes are in place. • Evaluates the effectiveness of risk management, control and governance • Reports to the executive management on findings 	<ul style="list-style-type: none"> • Gives a fair representation of the business position and performance to interested parties.
Role <ul style="list-style-type: none"> • giving assurance on risk management processes • giving assurance that risks are correctly evaluated • evaluating risk management processes • evaluating the reporting of key risks • reviewing the management of key risks. 	Role <ul style="list-style-type: none"> • collects evidence to obtain reasonable assurance that the amounts and disclosures in the Financial Statements are free of material misstatement.