



THE CORPORATE GOVERNANCE & LEADERSHIP CONFERENCE

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**TOPIC: EFFECTIVENESS OF INTERNAL
CONTROLS OVER FINANCIAL REPORTING,
DISCLOSURE CONTROLS & PROCEDURES**

Introduction

A hand holding a magnifying glass is shown in the center of the slide. The magnifying glass is focused on the text 'Internal Controls'. The word 'Internal' is in white, and 'Controls' is in red. The background is a blue gradient with a faint grid pattern.

Internal
Controls

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Session overview



Internal Control on Financial Statements

“Internal Control the process effected by an entity’s supervisory organ, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, REPORTING and compliance.”

Discussion points include:

1. Importance of internal control
2. Internal control basics
3. Establishing internal controls
4. Internal controls implementation approach
5. Monitoring controls
6. Auditor communication of internal control deficiencies
7. Optimizing of effectiveness of internal control

WHY? ACCURACY & TIMELINESS



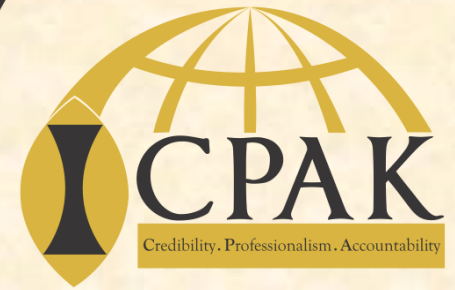
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Importance of an internal control framework



1. Fiduciary responsibility e.g., maintaining financial books & records, filing complete & accurate annual return – Companies ACT 2015
2. Errors & fraud can and do occur – establish safeguards for your plan
3. Reduces the risk of asset loss (misuse of assets e.g. motor vehicles)
4. Ensures complete & accurate information – reliable financial statements
5. Ensures operational compliance - applicable legislation (drug wholesalers)
6. Preventive control - minimize opportunities for unintentional errors/fraud
7. Detective control – designed to identify errors/fraud after occurrence

Summary Objectives



- Operative Objectives: Effectiveness and efficiency of the entity's operations safeguarding financial loss.
- Reporting Objectives: Internal & external financial reporting to stakeholders which encompass reliability, timeliness, transparency & other regulator requirements.
- Compliance Objectives: Adhering to laws & regulations that the entity must follow.(Legal Audits)

LEGAL AUDIT

The systematic, objective & impartial examination of processes, policies, documents, records, practices and acts of an organizations with a view to assessing compliance with the entire legal and regulatory framework to which the organization is subject. E.g. A University

- (i) Higher Education Act
- (ii) Land Act
- (iii) Labour & Employment
- (iv) Procurement laws etc

Meant to mitigate Legal risk, establish gaps

Internal Control Basics



COMPONENTS OF INTERNAL CONTROL.

IDEAL FRAMEWORK:



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Control Environment



Tone setter

- Culture
- Environment
- Board of Directors attitude e.g on independence
- Employee Attitude towards the ICFR
- The foundation on which internal control are built and operated
- Exercises oversight responsibility, development & performance of internal control
- Establishes structure, reporting lines, authority and responsibility
- Demonstrates commitment attract, develop & retain competent individuals
- Enforces accountability to those responsible for internal control

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Risk Assessment



- Risk can be Internal or External
- Identification & analysis of risks hindering achievement of financial report goals
- Establish possible risks that can affect your organization brought about by;
 - ❖ Economic changes – exchange rates, govt policy
 - ❖ Industry changes – fuel cars to electric cars
 - ❖ Regulatory – Covid -19 guidelines on hotels & bars

Control Activities



- Actions that help management mitigate risks
- These are generally described in policies, procedures & standards
- Differ from industry to industry e.g. Schools terms, Agricultural estate, Hotel Industry, Media & Banking
- Select and develop control activities

Information & Communication



- Information – obtained or generated by management from internal & external sources to support internal control components
- Communication – used to disseminate important information throughout and outside the organization
- Uses relevant information
- Allows senior management to demonstrate to employees control activities should be taken seriously

Monitoring Activities



- Periodic/ongoing evaluations to verify internal control components are present and functioning
- Evaluate and communicate deficiencies

Establishing internal controls



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Internal Controls implementation approach



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Internal Controls implementation approach



1. Planning & scoping – done once support is garnered and team is identified, scope focuses on high-risk areas
2. Assessment & documentation;
 - a) Assess the existing control structure ;
 - centralized Vs. decentralized system structure
 - entity – level control structure
 - a) Fraud risk assessment ;
 - consider various types of fraud

Implementation approach cont'd

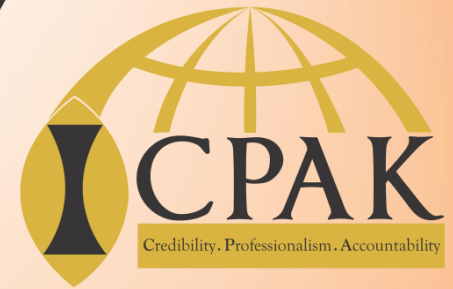


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- Assess incentives and pressures to commit fraud
- Assess opportunities
- Assess attitudes and rationalizations – justification of inappropriate actions
- Identify scope of a process selected for documentation
- Review existing documentation – go to Whitesands/Naivasha- (ambience)
- Conduct interviews
- Identify risks, controls and gaps in the process
- Prepare final process documentation with controls

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Implementation approach cont'd



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3. Remediation planning & implementation

- Remediation – takes into account severity of each identified deficiency
- Implementation – establish buy – in from those involved before starting process

4. Design, testing and reporting of controls

- Select controls for testing
- Design tests of controls
- Perform test of controls and report

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Monitoring Controls



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Monitoring Controls



- Designed to identify and correct weaknesses in internal controls
- Periodically review the design and operation of internal controls
- Monitoring activities should address the following:
 1. Are controls in place & operating?
 2. Is the system working as designed?
 3. Are exceptions & problems identified resolved promptly
 4. Are controls reviewed periodically?

Auditor communication of internal control deficiencies



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Auditor communication of internal control deficiencies



- Auditor is required to communicate *in writing* significant deficiencies & material weaknesses
- Communication be made annually, even though it has been communicated in the past
- Must include an explanation of the potential effects of deficiencies/weaknesses identified
- Helps improve your awareness of internal control over financial reporting
- Enables you in cost – benefit analysis of adequate controls implementation
- Enables you to weigh the risks of each significant deficiency/weakness
- Enables you determine how to address them

ICFR QUESTIONS & COMMENTS



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