



### Narrative Records

- Complete / exhaustive description of IC system
- Developed after testing & observation
- Recommended – where no formal IC is issued or small businesses
- Disadvantages
  - Difficult to understand system as a whole
  - Identify weakness in system
  - Incorporate changes

### Checklist

- Series of instruction and/or questions
- Auditing staff will follow or answer
- Initials after completion
- Answers – Generally Yes, No, Not Applicable
- On job requirement
- Instructions are framed as per IC system
- Completed checklist studied by – Senior → To ascertain
  - Existence of IC &
  - Implementation of IC

### Internal Control Questionnaire

- A structured set of questions on internal control.
- Most widely used method for evaluating internal control.
- Reduces oversight or omission of control reviews.
- Can be completed at once or in sections.
- Helps disclose control defects systematically.
- Review Process:
  - An Internal Control Questionnaire is issued to the client.
  - Client gets it filled by relevant executives/employees.
  - Conducted annually and recorded in detail.
  - 'Yes' indicates satisfactory control; 'No' suggests weakness.
  - 'No' answers require explanations or further details.
  - 'Not Applicable' for irrelevant questions.
- Follow-up
  - Inconsistencies are discussed with staff and employees.
  - Auditor prepares a report with deficiencies and recommendations.

### MCQ

The auditor is evaluating the most appropriate method to assess the internal control system of the company. The selected method should be widely recognised for gathering information about the existence, operation,

and efficiency of internal controls, while also minimizing the risk of oversight of important review procedures. Furthermore, the method should facilitate easier interim reviews of controls. Which method would be most appropriate for evaluating internal control based on the description provided above?

- (a) Internal Control Questionnaire
  - (b) Flow Chart
  - (c) Check List
  - (d) Narrative Record
- (MTP2, Jan 2025, 2 marks)

### Internal Control Questionnaire – Purchases

1. Centralization of Purchases:
  - Are purchases centralized in the Purchase Department?
2. Supplier Approvals:
  - Are purchases made only from approved suppliers?
  - Is a list of approved suppliers maintained?
  - Does the master list include multiple suppliers for key materials?
3. Authorization of Purchase Orders:
  - Are purchase orders based on valid, authorized purchase requisitions?
4. Competitive Quotations:
  - Are purchases made through competitive quotations from at least two suppliers?
5. Pre-Numbered Purchase Orders:
  - Are purchase orders pre-numbered?
6. Authorization of Signatures:
  - Are purchase orders signed only by authorized employees?
7. Receiving Department Controls:
  - Are all materials received only in the Receiving Department?
8. Segregation of Duties:
  - Do receiving personnel lack authority to issue purchase orders or approve invoices?
9. Inspection & Verification:
  - Are materials inspected, counted, weighed, or measured in the Receiving Department?
10. Goods Received Documentation:
  - Is material receipt evidenced by pre-numbered Goods Received Notes?

### Flow Chart

#### Definition

- Graphic representation of internal control.
- Most concise method for auditor's review.
- Reduces narrative explanation.

#### Benefits

- Provides a bird's eye view of transactions and documentation.
- Helps spot issues and suggest improvements.
- Aids auditors in studying business features and activities.
- Ensures better understanding of internal controls.