

Internal Control in a Basic Audit Concept-Smart SAIC V1

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Abstract—Students’ negative perception towards Auditing has caused them to lose interest in this subject. Most of the students feel that auditing is a dull subject because they are unable to imagine what Auditing is all about. Inexperience in auditing makes them to think that Auditing is a difficult subject to understand. Therefore, the Smart SAIC V1 is a template that has been invented into an innovation approach of learning. This is an alternative method of learning that encourages students to be competitive and interactive learners. The students will use this Smart SAIC V1 template to guide them to a real audit process by themselves. It is expected that they will thoroughly understand the auditing process which involved audit planning and procedures. Additionally, it is also beneficial to the lecturers who have no or less experience in teaching Auditing subject because this template comprises of step by step instructions. Besides, small business entrepreneurs might also find Smart SAIC V1 useful to evaluate their business internal control system.

Keywords—Auditing, Smart SAIC V1, Internal Control System

I. INTRODUCTION

Auditing encompasses a comprehensive and complex body of knowledge [1]. Due to this, auditing concepts are often abstract, difficult to learn, and even considered a bit boring for many undergraduate students [2, 3]. [4, 5] highlighted some potential negative aspects of a formal college course in internal auditing. The researchers pointed that the use of textbook and lecture classroom setting in delivering information might failed to provide students with relevant skills and practical knowledge in real audit practices. This is because the traditional approach is said to be centered on theoretical issues of certain area of audit [6, 7]. Prospective auditors in this case referring to accounting students need more than textbook to develop skills and competencies. [8] stated that communication skills, audit expertise, human relations skills and analytical thinking skills need to be instilled in prospective auditors.

Therefore, a traditional method of teaching audit courses in higher education need to be changed from traditional talk and chalk to a hands-on auditing learning approach. This is not to say that traditional method of teaching audit is irrelevant, but new teaching technique needs to complement the traditional way of teaching as to ensure that students acquire more than just a theory of audit. This is to create an awareness of auditing methodology in the working environment and give the students a taste of practical auditing [6].

In fact, nowadays, various educational games have been available for years but have generally involved complicated apparatus. Hence, this paper presents a simple method of hands-on template which appropriate for basic auditing class specifically with regards to internal control system in response to students which are increasingly visual and kinesthetic learners.

II. PROBLEM STATEMENT

Internal controls play an important role in how the management of an organization meets its stewardship responsibilities. Internal controls are implemented to ensure the effectiveness and efficiency of operations, reliability and timeliness of financial reporting, prevention and detection of fraud and error and compliance with laws and regulations [9]. Students are usually taught to audit internal controls via a ‘show and tell’ approach, and frequently do not understand the purpose behind the audit procedures. This role play exercise utilizes an active learning strategy to increase students’ understanding of the revenue cycle and to be able to perform control testing procedures related to the cycle. Role play has been defined by [10] as ‘a way of constructing an approximation of a “real life” experience, but under “controlled” conditions to facilitate learning’. [11] highlighted the need for simulated audit cases and role playing scenarios that can be used to help students and recently-hired auditors to attain the skills and proficiencies of experienced auditors. In the teaching of auditing, role play has been used by [12] in the examination of internal control and fraud detection concepts, and to a certain extent in a problem-based learning case in forensic auditing presented by [13].

As such, this paper offers an innovation on application of hands-on learning audit while creating fun and enjoying yet informative activities in class. Therefore, it is hope that Smart SAIC V1 can offer interactive learning activity. Smart SAIC V1 required students to be active while learning auditing subject and enjoy them in learning process.

III. LITERATURE REVIEW

There are several non-traditional methods of learning audit have been a major attention of many researchers [1, 2, 3, 4, 5, 6, 7, 8, 14, 15, 16, 17, 18]. These non-traditional methods can be considered more interactive for the students as it will involve students in the process of acquiring knowledge and at the same time will developed skills to practice audit task.

Therefore, many researchers believed that to learn audit effectively, the students need to really experience the process of audit itself [5, 8, 15, 18]. Basically, the concept of experiential learning is not a new learning method especially in auditing courses. The idea that a “hands-on” learning experience may be memorable, bring about a deeper understanding and have a more lasting benefit to students. Among others, there are case studies which serve as illustrations of real world internal auditing problems, the use of guest lecturers who are internal auditing practitioners, simulated practice, on-campus internal audit project and internship programmes [8]. According to [15] the use of case study in auditing course will benefit both students and lecturers. The student learns to analyze the situation presented in the case, identify problems, marshal his or her experience and research knowledge to deal with the problem. Meanwhile, lecturer will benefit in term of exposure of experiential assets and reinforce to the analytical method. According to [6], using a computerized case study to teach computer auditing will provide students with the opportunity to understand and appreciate the audit methodology and objectives. The researcher also believed that the students will also gain computerized data auditing skills plus an insight into the interpretation of test results from an audit standpoint. In addition, [7] used two case studies with different backgrounds to promote a productive learning.

Another non-traditional method of teaching audit as mentioned in the past research would be an interaction with professionals [18]. The interaction between students and professional in a realistic context may improve the acquisition of knowledge while providing students with an interesting perspective on practice not readily available in the traditional classroom setting. Under this method, [18] stated that this method improves students’ performances on a skill test of the relevant audit material. In addition, students’ self-perceptions of their knowledge of the subject matter increase and would consider the learning process as a positive interactive experience. Meanwhile, the audit professionals who were participating in this learning process perceived the experience to be effective for teaching the material and conveying an understanding of audit practice.

As mentioned before, the prospective auditors also need to have a good communication skill and one way to improve their communication skill would be through the group presentation. Past research [3, 19] believes that group presentation on certain area of audit would be a good solution to improve communication skill. The students would be able to build confidence, develop and improve presentation skills and at the same time improve their research skills. [19] believed that presentation can lead to career success. Meanwhile, the research done by [20] focused on the critical thinking of auditing students. The study provided evidence about training in formal and informal logic does help Auditing students avoid errors in critical thinking in real-world settings.

Due to changes and advancement in communication technology, the online learning becomes a focus of the research [21, 22, 23]. Blended learning and digital video technology have become a common learning style to complement the traditional approach. Meanwhile, [17] used different medium to deliver information in auditing courses.

According to [17], a movie can be used to complement the traditional approach of employing lectures and tutorials. In specific, [17] used a movie “Rouge Trader” as a medium of instruction for the larger audit classes. The research findings imply that using a movie provides lecturers with a means of engaging students in a practical setting. However, [2] used a different approach from [17] to conduct audit classes. The students were asked to create humorous movies with various themes including Batman, Star Wars, Charlie’s Angels, families making moonshine, and Scooby-Doo. As the themes vary, each of the movies has related to an auditing concept. As the students prepare the script, they learn the relevant auditing concepts well enough to rephrase them and write them into a situational comedy. Most importantly, this instructional assignment provides for student practice on many of the competencies found in the AICPA Core Competency Framework for Entry into the Accounting Profession.

IV. THE INTERNAL CONTROL AUDITING PROJECT: UNDERSTANDING, DOCUMENTATION & ASSESSMENT

[24, 25, 26] among others, suggested that changes in learning styles make the use of games and simulations even more important. They further suggested that past generations of students may have poured over textbooks, the current generation, groomed on television and computer are more accustomed to other modes of education. This is in line with [27, 28] who suggested that Gen Y students are more visual. In addition, these researchers found a strong preference towards active engagement and innovation in the learning process both from students and from educational oversight commissions such as the Accounting Education Change Commission. According to [29] games and simulation can fulfill this need for active engagement. They found that games promote active engagement in the learning process while providing opportunities for practice and application without rote memorization. [27] called this type of pedagogy “edutainment” as games and simulations capitalize on the entertainment value of the activity to support academic learning.

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In conjunction with the above literature, Smart SAIC VI is developing with the objectives to provide students hands-on experience in gaining an understanding of the internal control system of an organization. In addition, this template will enable students to document their understanding of the internal control system by various methods such as flowchart, narrative, and internal control questionnaire. At the same time,

allows the students to experience a real-world context in making audit judgments relating to the assessment of internal controls, risks, and audit objectives.

The students will be grouped into four or five members. Each group should select an organization, schedule and conduct interviews to obtain an understanding of the internal control system for Sales & Cash collection cycle. Each group will be given a set of Smart – SAIC V1 kit where each set consists of:

- ICSA (Internal Control System Audit) Questionnaires
- Audit Plan Template
- Flowchart of sales and cash collection cycle
- A copy of CD (report template)
- Instruction manual
- Frequent Answer Question (FAQ)

V. HOW TO USE SMART – SAIC V1

Each group should select an organization by using the audit plan template given as guidelines to audit process. Each group shall use ICSA questionnaires given in carrying out the interview process and observation at the selected organization. Then the student should prepare flowchart of sales and cash collection cycle of the organization and compare it with the flowchart provided in the kit. At the end, students must prepare a written report using format outline in CD provided. Written report should consist of two parts:

Part 1: Document your understanding of the internal control structure in the following three ways:

- A narrative description
- A flowchart
- An internal control questionnaire

Part 2: Document your assessment of the auditee’s internal control activities on sales & cash collection cycle, (through observation and interview(s)) on the Internal Control Self-Assessment Questionnaire (provided).

The kit encompasses of facilitator and a group of participants. To make sure the monitoring process becomes easy, it is recommended that each group consist of four to five participants only. The facilitator should have strong auditing knowledge. Participant should be one undertaking auditing subject. The facilitator needs to verify the written report.

VI. CONCLUSION

The goal of this innovation is to provide interactive opportunities to the students where they actively take part in the learning process rather than just sit and listen to the lectures. By completing this hands-on Smart SAIC V1 in class, it is hope that, it may add benefit as it forces all students to participate. Hence, students who are not really understand on that auditing process specifically regarding internal control system eventually being detected. More importantly, it is a creative classroom activity which is both competitive and collaborative.

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