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# Internal Audit

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- **External Audit:** Is the process of evaluating company's financial statements by a qualified independent third party (External auditor)
- **Internal Audit:** Evaluate company's internal controls, including its corporate governance and accounting processes.

### Difference between Internal Audit & External Audit

	Internal Audit	External Audit
Performed by	Company Itself	Independent third party
Appointed by	Internal hire	Shareholder Vote
Scope of Work - Department	Financial, Operations, Admin, HR, etc ...	Financial department
Scope of Work – Process	Examine Risk and Internal Controls	Examine Financial records
Report to	Company Management & Audit Committee (BOD)	BOD, Shareholders, Creditors, Donors, Government, Tax Authorities, Investors, etc..
Output	Recommendation	Opinion



# Room for Improvement Internal Audit (for some Utilities)



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- Lack of clear job description
- Provide qualified staff and capacity building.
- Issuing financial reporting in a timely manner
- Change the perception of Internal Audit
- ERP system is not fully integrated (Integration between modules).  
Enterprise Resource Planning



# Room for Improvement IA / Continued (for some Utilities)



- Linking budget to accounting system (Monitoring)
- Segregation of duties (Bank reconciliation, Cash receipt)
- Lack of supporting documents
- Reduction of human intervention. Inputting data manually has the following implications:
  - Inputting data manually is time consuming
  - Due to large volume of Data - Chances of human error increases
- Need to reach a paperless environment – via system integration
- Provide incentives for process improvement

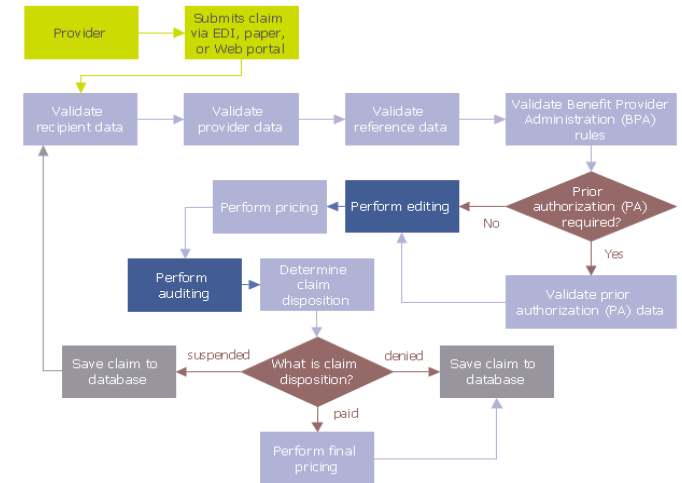


# Room for Improvement IA / Continued (for some Utilities)



Implement Work flow diagram that shows the flow of information needs to be designed.  
Improvement on the workflow needs to take place year after year.

- Can we reduce the # of steps to perform a task
- Can we reduce the amount of time to perform a task
- Risk of timely deposit is present. Collection could take place today and deposit takes place at a later time during the month.





# Difference between Accounting vs. Audit



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- Where the function of Accountant ends, the audit begins
- Ownership of Accounting Knowledge (Data)



# Financial Crimes

## (FRAUD)



# Fraud Definition



- Intentional, unethical, illegal acts committed by an individual in order to deceive, cheat and trick others and defraud them from their properties (Unlawful Gain)
- Fraud is a criminal offense which calls for severe penalty





# Major Causes of Financial Crimes



- Lack of ethics
- Social Pressure
- Inadequacy of controls



# Fraud Ways & Indicators



Most indications of employee fraud fall into one of Five categories:

- **Financial Aspect:**  
(Bribes, Ghost Payroll, Theft of Assets, Year end Entries)
- **Lifestyle Symptoms**  
(Home, Car, Vacations)
- **Internal Control Symptoms**  
Control Environment, Segregation of Duties, Physical Safeguard, Proper Authorization, Overriding of Controls
- **Behavioral Symptoms**  
(Holiday, work replacement) (Personality Traits)
- **Tips and Complaints**



# Conclusion



- Utilities need to be proactive rather than reactive when focusing on Fraud



**Questions**

**Thank You**