SCHOOL OF CS

PAPER NO. 18

Certified Secretaries (CS) Examination Syllabus

COURSE TITLE: GOVERNANCE AND SECRETARIAL AUDIT

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CHAPTER 1

GOVERNANCE AND SECRETARIAL AUDIT

18.1: Introduction to Governance Auditing

Definition: This is the examination of the administration procedures, finance procedures and ethics of the organization to give an independent and fair view of the current position with regard to the professional and legal standards. It is independent and expression of opinion on the administration and governance procedures in accordance with the appointment and statutory requirements.

Governance is term used to describe persons entrusted with the supervisory, control and direction of any entity, like board of directors, audit committees and any other auxiliary committee which has the responsibility of managing any organization.

Governance" applies to nearly all entities: for-profit businesses, nonprofit organizations and governmental entities. It relates to the relationships between management, the board of directors, and other stakeholders, such as stockholders, donors, or citizens. At the fundamental level, good governance is all about Checks and Balances. Auditors love checks and balances, although we usually say "internal control." Same thing. But what does that have to do with governance?

Organizations have a governance audit to gain assurance about their governance statements. To have a good governance audit, you generally need good internal control. How does an organization find out if they have good governance checks and balances? And why would it want to?

Let's focus on the nonprofit and governmental sectors. Many of us volunteer on boards of local nonprofits, or are appointed to advisory boards for local governments. Some even hold an elected office. In these capacities, we are impacted by the effectiveness of the organization's governance structure and how it functions. In fact, we are active participants in the system of governance. Can we just assume that the governance system is operating as it should? How would we know if it is not? And why should we be concerned about this?

Take a nonprofit that has a strong executive director. Let's call him ED. He recruits the members of the board and, naturally, they all happen to be his buddies. They like ED because he lays out his plan for the organization and provides information to the board to support that plan. ED makes the board's job easy. But the board doesn't realize that they are not getting the full picture. ED tells them only enough to get approval for his plan. So instead of the board guiding the organization, ED is really calling the shots. This arrangement can accomplish some amazing things, or it can blow up in the board's face. After all, it is the board of directors that is ultimately responsible for the organization, not the executive director.

Or let's take a different organization with a weak but likable executive director. Let's call him Nerdly. The board is made up of directors with big egos who are fond of micro managing. Actually they are addicted to micro managing. They stick their nose into everything. Nerdly owes his position to keeping the board happy, so he goes along with the board members. This too can result in some worthwhile accomplishments, but they may not be aligned with what is best for the organization. Does this arrangement really provide for the best utilization of resources?

In the first situation, ED's power is not checked because he stacked the deck and is the only dealer. ED receives a 360-review, but it is filtered by an evaluation committee made up of ED's board buddies. Staff comments that describe ED's bullying of staff are filtered out and not seen by the full board. To the board, it looks like ED is doing a great job. How would they know otherwise?

Nerdly is reviewed only by his board. That is why he works so hard to keep the board happy. The organization's staff have no input to Nerdly's evaluation, so he can be indifferent to staff input. Staff are not even allowed to initiate communication to board members, so the board is not aware of staff concerns. Besides, the board members get their way with Nerdly, so they are happy. But who is looking out for the organization's best interest? Certainly not this board or Nerdly.

One answer to these questions can be a Governance Audit: an objective review of how an organization is governed. This review looks at how the governance structure is designed, but also how it is actually operating. It assesses whether there adequate checks and balances in place for effective governance. Larger organizations may have their internal audit department perform the governance audit. Smaller organizations are, for the most part, unaware that a governance audit is even an option to consider.

18.1.1: Nature, purpose and scope of governance audit

Governance audit describes the overall management approach through which senior executives direct and control the entire organization, using a combination of management information and hierarchical management control structures. Governance activities ensure that critical management information reaching the executive team is sufficiently complete, accurate and timely to enable appropriate management decision making, and provide the control mechanisms to ensure that strategies, directions and instructions from management are carried out systematically and effectively.

18.1.1.1 Nature and development

The word “audit” is an in independent examination. It comes from the Latin word audire which means “to hear” because, in the middle Ages, accounts or revenue and expenditure were “heard” by the auditor.

Statutory audits (i.e. carried out in accordance with statutory provisions) become mandatory for companies in 1900. At this time the purpose of an audit was to detect fraud, technical errors and errors of principle.

However, the recognition in case law that it is unreasonable to expect auditors to detect all aspects of fraud, even though they exercised reasonable skill and care, means that this is not now a primary purpose.

With improvement, auditing profession has sought to broaden its role (e.g. with value for money and operational audits.

18.1.1.2 Purpose and objective of governance audit is to:-

- Provision of checks and balances on governance information and reports given.
- Deduction of uncertainty of risks.
- Adds value to information given and running of an entity.

- Help stakeholders to make decisions
- To uncover misstatements and frauds
- Provision of confidence in any entity to external and internal stakeholders
- Reviewing of the systems of the organization to ensure that they are working well
- Review the reports provided to determine whether they portray a fair vies of what is on the ground.

18.1.1.3 Scope of audit

The scope of governance auditing means the procedure that is necessary to achieve the desire objectives of governance auditing which must cover the following:-

- The legal conditions that follow the rules and regulations applicable to the work that it should operate within the legal framework.
- The governance audit must cover all aspects of the business not ignore or assume anything material great and small.
- Apply the skills necessary when preparing reports so as to prove the facts
- Compare records with record statements given to arrive at a fair view of the situation at hand
- Be able to evaluate the internal checks system to the satisfaction that whatever they provide is what is required and supported.
- The conclusion of the exercise of governance auditing report be based on persuasive auditing opinion not on probability.
- Legislation and regulations (e.g. Companies Acts);
- The terms of the audit engagement and reporting requirements.

Fundamental Concepts

Reasonable assurance – in an audit engagement, the auditor provides a high, but not absolute, level of assurance, expressed positively in the audit report as reasonable assurance, that the information subject to audit (i.e. the governance statements) is free of material misstatement.

· To provide such assurance, the auditor assesses the evidence collected in respect of the governance statements as a whole and expresses a conclusion thereon.

· Inherent limitations – However, the auditor may not be able to detect all material misstatements because:

Testing is on a sample basis

Any accounting and internal control system has inherent limitations.

Most audit evidence is persuasive rather than conclusive (e.g. an asset purchased by an entity, though physically possessed, may be longer b owned if title has been transferred to another);

Transactions between related parties (i.e. where one has the ability to control or exercise significant influence over the other) may not be identified as such.

The rule of judgment – There are two areas in which judgment is particularly important.

· In gathering audit evidence (e.g. in deciding the nature, timing and extent of audit procedures);

Nature (e.g. whether to test controls over transactions or substantiate them "in depth" or using analytical procedures);

Extent (e.g. sample sizes);

Timing (e.g. at an interim visit during the year, the year-end or after the year end at the final audit visit.· In drawing conclusions based on that evidence (e.g. in assessing the persuasiveness of conflicting evidence from different sources)

18.1.2: Authority and Responsibility of the Governance Audit

The authority and responsibility of governance audit is important to an organization to discharge functions and duties:

- Authority to demand information from any officer charged with the responsibility of keeping information.
- To report on all accounts examined without any under influence
- Has authority to carry out any in suspected fraud and report on the same.
- To make any enquiries into certain matters under his authority
- Detect and prevent any fraudulent action of the entity
- To carry out reviews of performance of internal controls required by statutes
- Oversight the governance reporting
- To report to the Board about the compliance to regulations.
- To ensure that the company complies with the applicable governance and secretarial standards.

- To provide to the directors of the company the guidance they require in discharging their duties, responsibilities and powers.
- To facilitate the convening of meetings and attend Board, committee and general meetings and maintain the minutes of these meetings.
- To obtain approvals from the Board, general meeting, the government and such other authorities as required.
- To assist the Board in the conduct of the affairs of the company.
- To assist and advise the Board in ensuring good corporate governance and in complying with the corporate governance requirements and best practices.

Auditor's professional responsibilities and the auditor is expected to follow:

a) **Confidentiality**: the auditor should maintain complete secrecy of his client's business and information. He should disclose the information to others with the permission of his client and as per his legal or professional duty.

b) **Work performed by others**: the auditor can delegate work to his assistants or others but he cannot escape from his responsibilities. As per SA-610, SA 620, SA 600 and SA 299, the auditor may take the help of others but ultimately he will be held responsible.

c) **Audit Evidence**: While doing audit, the auditor should obtain sufficient information, written or oral, called audit evidence. Audit evidence is necessary to draw conclusions on governance statements.

d) **Documentation**: the auditor should maintain sufficient working papers for each audit assignment. These working papers help him to establish that he has worked with due care and diligence.

e) **Accounting system and internal control**: The internal control system and accounting system enables the auditor to reach the conclusions that all the accounting information has been duly recorded.

f) **Audit conclusion and reporting**: It is the duty of the auditor to make conclusions that the governance statements have been prepared by using the generally accepted accounting principles and comply with relevant statutory requirements and regulations.

“Principals Governing an Audit”, describes the basic principles which govern the auditor’s professional responsibilities and which should be complied with wherever an audit is carried. They are described below:

(i) **Integrity objectivity and independence**: An auditor should be honest, sincere, impartial and free from bias. He should be a man of high integrity and objectivity.

(ii) **Confidentiality**: The auditor should respect confidentiality of information acquired during the course of his work and should not disclose the information without the prior permission of the client, unless there is a legal duty to disclose.

(iii) **Skill and competence**: The auditor must acquire adequate training and experience. He should be competent, skillful and keep himself abreast of the latest developments including pronouncements of ICAI on accounting and auditing matters.

(iv) **Work performed by others**: If the auditor delegates some work to others and uses work performed by others including that of an expert, he continues to be responsible for forming and expressing his opinion on the governance information.

(v) **Documentation**: The auditor should document matters which are important in providing evidence to ensure that the audit was carried out in accordance with the basic principles.

(vi) **Planning**: The auditor should plan his work to enable him to conduct the audit in an effective, efficient and timely manner. He should acquire knowledge of client’s accounting system, the extent of reliance that could be placed on internal control and coordinate the work to be performed.

(vii) **Audit evidence**: The auditor should obtain sufficient appropriate evidences through the performance of compliance and other substantive procedures to enable him to draw reasonable conclusions to form an opinion on the governance information.

(viii) **Accounting System and Internal Control**: The management is responsible for maintaining an adequate accounting system incorporating various internal controls appropriate to the size and nature of business. He auditor should assure himself that the accounting system is adequate and all the information which should be recorded has been recorded. Internal control system contributes to such assurance.

(ix) **Audit conclusions and reporting**: On the basis of the audit evidence, he should review and assess the audit conclusions. He should ascertain:

(a) As whether accounting policies have been consistently applied;

(b) Whether governance information complies with regulations and statutory requirements; and

(c) There is adequate disclosure of material matters relevant to the presentation of governance information subject to statutory requirements.

The auditor's report should contain a clear written opinion on the governance information. A clean audit report indicates the auditor's satisfaction in all respects and when a qualified, adverse or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons thereof.

18.1.3: Users of Governance Audit Reports

Beneficiaries of governance Audit

The major beneficiaries of governance and Secretarial Audit include:

(a) Promoters: Secretarial Audit will assure the Promoters of a company that those in-charges of its management are conducting its affairs in accordance with requirements of laws.

(b) Management: Secretarial Audit will assure the Management of a company that those who are entrusted with the duty and responsibility of compliance are performing their role effectively and efficiently. This also helps the management to establish benchmarks for the compliance mechanism, review and improve the compliances on a continuing basis.

(c) Non-executive directors: Secretarial Audit will provide comfort to the Non-executive Directors that appropriate mechanisms and processes are in place to ensure compliance with laws applicable to the company, thus mitigating any risk from a regulatory or governance perspective; so that the Directors not in-charge of the day-to-day management of the company are not likely exposed to penal or other liability on account of noncompliance with law.

(d) Government Authorities / Regulators: Being a pro-active measure, Secretarial Audit facilitates reducing the burden of the law-enforcement authorities and promotes governance and the level of compliance.

(e) Investors: Secretarial Audit will inform the investors whether the company is conducting its affairs within the applicable legal framework.

(f) Other Stakeholders: Governance Institutions, Banks, Creditors and Consumers are enabled to measure the law abiding nature of Company management. Corporate conduct manifesting good Governance is vital for the healthy, vibrant and ever growing corporate sector in global economy. In developing economies, inclusive growth is more than imperative. Adopting effective management tools like Secretarial Audit can go a long way in fulfilling these objectives.

18.1.4: Advantages and Disadvantages of Governance Audit

With new approaches of the governance audit, the board's responsibility for ensuring the effectiveness of their organization's internal control framework. The key role that internal audit can play in supporting the board in ensuring adequate oversight of internal controls and in doing so form an integral part of an organization's governance framework.

Characteristics for perfect audit:

a) Unbiased
b) Periodic
c) Systematic
d) Independent
e) Efficient
f) Standard and documented
g) Skilled and Qualified team

Advantages of having the accounts audited by an independent auditor are:-

- Provision of assurance to the creditors through reports
- Protection of 3rd parties who have no part in running the business
- Reduction of disputes among parties as accounts are audited by 3rd independent auditors
- Makes those responsible for accounting to be vigilant as they know that auditors are coming
- In case of destruction of records the business can use those of auditors

- Audited accounts are used for borrowing
- Assurance to all parties
- The audited reports serves as a basis of valuing business for sale or admission of new partner.
- It safeguards the governance interest of persons not associated with the management
- Like partners or shareholders.
- It acts as a moral check on the employees from committing fraud.
- It is helpful in settling tax liability, negotiations for loans and for determining
- Purchase consideration for sale/merger.
- It is also helpful in settling trade or labour disputes for higher wages/bonus.
- It helps in detection and minimizing wastages and losses.
- It ensures maintenance of adequate books and records, statutory register

While examining the evidences relating to business organization or the state of the affairs of the company, the auditor's duty is limited only to the verification of the evidence that is made available to him in ordinary course of audit or that which he would call upon to examine on a doubt having arisen that there is something wrong. Hence auditor is not an insurer.

The key role and advantages of governance secretarial audit is to assist the board and/or its audit committee in discharging its governance responsibilities by delivering:

- It ensures the owners that management and affairs of the company are being conducted in accordance with statutory requirements, and that the owners' stake is not being exposed to excessive risk.
- Ensures the Management of a company that those who are charged with the duty and responsibility of compliance with the legislation requirements are performing their duties competently, effectively and efficiently, so that the people in-charge of the day-to-day management of the company are not likely to be exposed to penal or other liability (and consequential risk and embarrassment) on account of non-compliance with law.
- Assures them that they have done everything required under law.
- Ensures them that the company has complied with the laws and, therefore, they are not likely to be exposed to action by law enforcement agencies for non-compliance by the company.

- ♦ The secretarial audit being pro-active measure for compliance with a plethora of laws, it will have a salutary effect of substantially reducing the burden of the law-enforcement authorities
- ♦ The secretarial audit provides assistance to bodies like SEBI, Stock Exchanges, Governance Institutions, Banks, etc. to gauge or measure the levels of compliance and non-compliance by the companies with whom they are concerned
- ♦ The Secretarial Audit can be an effective due diligence exercise for the prospective acquirer of a company or controlling interest or a joint venture partner.
- ♦ To provide comfort to investors that the company has been conducting its affairs following laws and, thus, their investment is safe and being taken due care of. SA will help unearth and check these practices and also enable law-enforcing agencies take well-timed corrective action by brining to book the guilty. In the era of Corporate Governance, SA will provide comfort to shareholders regarding the compliance as also to feel secured about their investments

Also the following processes are carried out:

- ❖ A review of the organization’s control culture, especially the "tone at the top".
- ❖ An objective evaluation of the existing risk and internal control framework.
- ❖ Systematic analysis of business processes and associated controls.
- ❖ Reviews of the existence and value of assets.
- ❖ A source of information on major frauds and irregularities.
- ❖ Ad hoc reviews of other areas of concern, including unacceptable levels of risk.
- ❖ Reviews of the compliance framework and specific compliance issues
- ❖ Reviews of operational and governance performance.
- ❖ Recommendations for more effective and efficient use of resources.
- ❖ Assessments of the accomplishment of corporate goals and objectives.
- ❖ Feedback on adherence to the organization’s values and code of conduct/code of ethics.

Audit committees are vital to investors and internal auditors. For the investor, they have to provide confidence in corporate governance. For the internal auditor, they have to assure his independence. Recent developments have given audit committees more authority on the one hand and more responsibility on the other.

The main disadvantages of governance audit:

- May not be affordable by small organizations
- It is expensive
- The audit exposes the secrets of the company that can be used by competitors
- Qualified report gives negative publicity to management eroding the goodwill of company.
- The management may forgo their duty being trustees and depend on auditors to do the correction of messes
- It increases the liability of auditors
- There may be no proper cooperation with the auditors that giving them faulty information leading to unbalanced decisions.
- The audit may disrupt the management work.

Procedural error arises when there is error in implementation of the procedure. If transaction has been recorded in a fundamentally incorrect manner it will result in error of principle.

Like most thing in life, audits are not entirely without their disadvantages. There are two main points to make here:

a) The audit fee. Clearly the services of an auditor must be paid for. It is for this reason that few partnerships and even fewer sole traders are likely to have their accounts audited. This brings extra cost burden to the organization

b) The audit involves the client's staff and management in giving time to providing information to the auditor. Professional auditors should therefore plan their audit carefully to minimize the disruption which their work will cause. Also constant disruptions

Limitations of audit include:

a) An audit does not assure future viability of the organization audited

b) It does not assure the effectiveness and efficiency of management

c) Auditors express opinion and therefore does not give total assurance of the true fair presentation of annual reports.

During the boom times people might trust in business growing along with rising stock prices. Serious interest in risks, controls, and ethics on the part of the media and many investors is limited. Although internal audit leads to allocate resources based on risks and the function's visibility increases, staffing levels tend to be relatively constrained and audits often focused on performance improvement opportunities.

In attempting to adequately discharge their responsibilities, internal auditors often find themselves in an anomalous position. They report to senior management within the organization, yet are expected to objectively review management's conduct and effectiveness. The only satisfactory solution to this problem is for internal audit to report primarily and directly to the board and its audit committee rather than to senior management.

18.1.5: Types and Timing of Governance Audits

Types of Audits and Timings include:

The reports may be classified in many ways according to the nature of work

- Statutory report required by statutes
- Public audit required by public
- External audit / internal audit

<u>Application</u>

- Procedural audit – review of internal procedures
- Standard audit
- Management audit

1. Operational Audits
2. Department Reviews
3. Information Systems Audits
4. Integrated Audits
5. Investigative Audits or Reviews
6. Follow-up Audits

- **Statutory Audit**:
  - Required by the company's act that accounts and procedures be audited
  - The scope of work designed by company act
  - Report addressed to the members of company
  - Appointment of auditors according to company act
  - Auditor should be qualified
  - Auditor governed by professional ethics
- **Public Audit**:
  - It's always authorized by the companies act cap 486. The act outlines the scope of work materials to be used
  - The act requires that the audited profit and loss, and balance sheet be laid before the members after the auditing
  - The report is always done to the share holders
  - Shareholders have authority to add on the scope of the report but not to subtract
- **Internal Audit**:
  - It's independent appraisal of the activities of organization arrived at ensuring that managements works appropriately
  - Auditing done throughout the year and the scope of work is determined by the management

Objectives

- Safeguard of assets of the business against misuse
- Assists management to run the organization in an orderly manner
- Detect and prevent errors and frauds
- To minimize the work carried by external auditors and their cost
- Maintenance of strong internal control
- Helps in implementation of company policies and procedures

- **Procedural Audit**:
  - The examination of the company internal procedures, policies and record to determine whether the accuracy, reliability of the systems are updated.

- Procedural is applicable to large organizations that have complex operations and the procedures that are found below standard be adjusted.

  During audit it is checked whether:-

  a) Laid down policies are followed
  b) Ensure that changes aren't made without notification
  c) Ensure that records are reliable

Advantages

- Provision of feed to management on whether procedures are being followed
- It reveals out dated procedures
- Identification of weaknesses in the system
- Ensure harmony and condition of the company operations

Disadvantages

- Expensive to carry out
- Can be frustrated by management
- Tedious as the company has numerous procedures
- It is suitable for large companies

- **Management Audit**:
  - Aimed at investigating management aspects from the highest to the lowest assessing the efficiency of management in running the system
  - It gauges the management decision making process to ensure efficiency.

Advantages

- Improves the quality of the management in the business which boosts its profitability
- It reveals other managerial weaknesses which are addressed
- It reveals the strengths of internal control systems
- Identifies areas that have not been managed adequately

Disadvantages

- The insufficiency of one department might affect others the fore identification of the one which is weak is very necessary
- In case one manager is penalized as a result of the audit report it might demoralize others causing gap
- The report might be biased to the audit question therefore not being realistic
- Some organizations do not have organizations charts which may give auditors problems in identifying the authority given to special individuals
- The management may try to hide their inefficiencies during the auditing

- ♦ **Operational Audit**: A future-oriented, systematic, and independent evaluation of organizational activities. Governance data may be used, but the primary sources of evidence are the operational policies and achievements related to organizational objectives. Internal controls and efficiencies may be evaluated during this type of review.
- ♦ **Department Review:** A current period analysis of administrative functions, to evaluate the adequacy of controls, safeguarding of assets, efficient use of resources, compliance with related laws, regulations and University policy and integrity of governance information.
- ♦ **Information Systems (IS) Audit:** There are three basic kinds of IS Audits that may be performed:
    - **General Controls Review:** A review of the controls which govern the development, operation, maintenance, and security of application systems in a particular environment. This type of audit might involve reviewing a data center, an operating system, a security software tool, or processes and procedures (such as the procedure for controlling production program changes), etc.
    - **Application Controls Review:** A review of controls for a specific application system. This would involve an examination of the controls over the input, processing, and output of system data. Data communications issues, program and data security, system change control, and data quality issues are also considered.
    - **System Development Review:** A review of the development of a new application system. This involves an evaluation of the development process as well as the product.

Consideration is also given to the general controls over a new application, particularly if a new operating environment or technical platform will be used.

- **Integrated Audit:** This is a combination of an operational audit, department review, and IS audit application controls review. This type of review allows for a very comprehensive examination of a functional operation within the University.
- **Investigative Audit:** This is an audit that takes place as a result of a report of unusual or suspicious activity on the part of an individual or a department. It is usually focused on specific aspects of the work of a department or individual. All members of the campus community are invited to report suspicions of improper activity to the Director of Internal Auditing Services on a confidential basis. Her direct number is 562-985-4818.
- **Follow-up Audit:** These are audits conducted approximately six months after an internal or external audit report has been issued. They are designed to evaluate corrective action that has been taken on the audit issues reported in the original report. When these follow-up audits are done on external auditors' reports, the results of the follow-up may be reported to those external auditors.

18.1.6: Professional Framework of Governance Audits

- It should be capable to apply professional ethics in all undertakings assigned
- It should have a well-organized and experienced internal audit management to develop and manage internal audit factors
- It should have business expertise in the particular industry with deeper understanding of the particular organizational factors
- Innovate enough to impress the everyday changes and take charge of driving change to the advantage of the organization
- Persuasive and collaborative to motivate others to work towards better governance
- Be able to communicate with impact on those being communicated to

Professional Guidance the IIA is the standard and guidance setting body for the governance audit profession globally and promotes guidance following rigorous due process. By providing authoritative guidance, The IIA sets the bar for internal audit efficiency, effectiveness, and professionalism.

International Professional Practices Framework (IPPF) forms the cornerstone of internal audit practice.

It consists of three mandatory components:

- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (*Standards*)

These mandatory components are principles-based and are relevant for any governance audit activity, whether in-house, outsourced or a combination. Mandatory components are part of The IIA's global efforts to define minimum standards for internal audit practice.

The IPPF also comprises three strongly recommended components:

- Position Papers
- Practice Advisories
- Practice Guides

Recommended guidance has been developed to provide a wide range of applicable solutions to meet the requirements of the IIA's mandatory guidance. Demonstrated compliance with the IIA's *Standards* is a key way for organizations' to ensure they are getting an appropriate level of assurance from their internal audit activity. Anyone with a strong interest in internal audit is encouraged to download and read these *Standards*, and ensure their internal audit activity is in compliance with these

CHAPTER TWO

GOVERNANCE CONTROL AND COMPLIANCE

18.2 Governance Control and Compliance

Governance

Governance is the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

IIA Guidance on Governance

Governance: The governance audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization
- Ensuring effective organizational performance management and accountability
- Communicating risk and control information to appropriate areas of the organization
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management

The governance audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. The governance audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

18.2.1: Management Control Systems in Corporate Governance

Management control systems is putting in place a series of activities that gather information to evaluate the performance to evaluate the performance of various organizational resources like hours, physical, finance and organization as a whole in the right of the strategies being pursued

In order to succeed in its quest to improve and maintain compliance to the requirements. Corporate governance the audit and governance should have in place the control systems that will signal whether things are going out of hand to institute corrective action.

Importance control systems/ objectives

- The main aim is to enable the business to be carried out in an orderly and efficient manner by laying down procedures to be followed in business affairs.
- It ensures that management policies and procedures are adhered to in all areas of operations from purchases, cash handling, decision making.
- Ensure safeguards of company assets against theft, deterioration and are utilized for the best interest.
- Ensure that the records maintained are complete and accurate as required by company policies and statutes.
- Ensure that there is planning and detection of errors and frauds by ensuring that there is separation of internal control systems to counter check each other
- Ensure compliance with the applicable rules and regulations the management has to ensure that bills are promptly paid including statutory
- Establish standards of performance in the enterprise to monitor performance and give adequate rewards.

The purpose of corporate governance and internal control is to maintain management soundness and transparency, and to achieve fair and efficient management, through which we aim to realize the Management Rationale of the organization. To establish a sound corporate culture, the organization implements the following measures through the practice of the governance.

Internal corporate governance controls (internal controls) play a vital role in ensuring the success of a business organization and preventing corporate fraud.

Internal control activities that ensure proper corporate governance include:

- Monitoring by board
- Internal audits and robust policies

- Proper balance of power
- Performance based remuneration
- Monitoring by large shareholders and other stakeholders

Monitoring by board: The board should monitor the corporate governance of the company through continuous review of its internal structure. This ensures that there are clear lines of accountability for management throughout the company.

The board should also monitor and review:

- Corporate strategy
- Major plans of action
- Risk policy
- Annual budgets and business plans
- Corporate performance
- Major capital expenditures, acquisitions and divestitures
- Governance practices and changes
- Selection, compensation and succession planning of executives
- Key executive and board remuneration

Internal audits and robust policies: Regular internal audits have to be carried out by auditors employed by the organization in order to assess the health of governance processes, operational health and governance reporting.

Robust internal control policies should also be implemented to ensure that the company lives up to its obligations to investors, stakeholders, employees, the environment, the government and the public at large.

Proper balance of power: A separation of powers and responsibilities between management groups ensures that there's a proper system of checks and balances in place, with one group implementing policies and another ensuring that these are implemented and functioning in the right manner.

Performance based remuneration: Executive pay, a contentious, is expected to be linked to performance in order to ensure that management is rewarded for operating the company keeping in mind the rights of investors and other stakeholders.

Monitoring by large shareholders and other stakeholders: Individuals and institutions that have large shareholdings (and governance institutions such as banks who are creditors) have the right to monitor the performance of the management, acting as an effective internal control measure.

Corporate Governance System

1. Directors shall accommodate requests for reports by corporate auditors.
2. Internal audit departments shall provide regular reports to corporate auditors on the state of internal audits.
3. Establishment of the Board of Corporate Auditors Reporting System to enable employees, suppliers, customers and other individuals or organizations associated with the organization to report directly to the Board.
4. Corporate auditors have the authority to attend important meetings and to inspect important conference minutes, documents, contracts, etc. Corporate auditors may call for meetings with representative directors to exchange opinions concerning management of the organization in general.

Internal Control Systems

The systems of control are governance and none governance put in place to ensure that business of the organization is done in an economical manner in accordance with both internal procedures and policies as well as statutory

(i) Establishment of the organization Disclosure Committee as a means for making timely and appropriate disclosure of management information outside the company.
(ii) Establishment of a Risk Management Division, as part of the organization risk management system.

(iii) Establishment of an Employee Consultation Hot-Line Center as part of the organization internal complaint system, where employees can report violations of laws, company regulations or other matters.

(iv) Introduction of an Executive Officer System to clearly delegate authority and related responsibilities; and construction of an effective and efficient business execution system.

A. Governance control systems

- Control over cash and receipts
- Control over accounts receivables
- Control over stocks
- Control over fixed assets
- Control over creditors

B. None governance control systems

- Control of human resource
- Operations control
- Control over policies and procedures
- Control over decisions

Feature of effective internal control systems

- Organization charts or plan that shows the structure of the organization, division into departments, sections with responsibilities assigned and the reporting. There should be no duplication.
- Record keeping systems that is recording of transactions at all stages of business which should be properly allocated and separated to ensure accuracy by different people
- Division of duties to avoid manipulation and ensure that there is overall checking
- Authorization and approvals must be done by responsible persons to prevent frauds
- Supervision of the day to day transactions and recording be done under the vigilance of responsible people to ensure compliance with procures and policies. However it should be done in a human manner.

- Safeguarding of assets that should be kept safely and access to some assets must be limited and procures for their security should be adequate and comprehensive.
- Internal audit always be carried out to appraise the internal systems of the organization which include governance, physical and the rest which management need to
- Competency of the staff as the function of any effective system depends on the experience and ability of the staff.
- Routine and automatic checks takes form of surprise checks on sensitive areas.
- Control of documents such as receipts, invoices etc.

18.2.2: Objectives and Importance of Governance Control Systems

Advantages of governance control systems include:

- Provide management with an assessment of the effectiveness of the information security management function
- Evaluate the scope of the information security management organization and determine whether essential security functions are being addressed effectively
- Allow directors to differentiate themselves from their competitors.
- The voluntary, internal and additional governance controls can make sure that their stakeholders such as customers, employees and investors are well protected and looked after.
- Internal corporate governance mechanisms are established to insure the proper actions of management.
- Because providers of capital do not control the daily operations of the business, so they set up corporate governance mechanisms to insure that management acts in the best interest of the owners.
- This mechanism is controlled directly by the owners of the firm. It can be applied to monitor corporate risks and assurance corporate controls

18.2.3: Management of Information in Governance Audit

Information Governance Audit is a framework for evaluating, assessing and managing the on-going compliance of all entities connected to the N3 network - both NHS and commercial organizations.

Under the Code of Connection and the new Information Governance Statement of Compliance, new connections complete an Information Governance Toolkit self-assessment before they are allowed to connect to N3.

The Audit framework introduces a baseline check by independent auditors against that of the environment you submitted your self-assessment from.

Audits can cover a sample section of the Information Governance Toolkit headings or could be more exhaustive, especially as the Audit framework is linked to the Security Incident monitoring scheme. Regular or repeat offenders may find themselves under greater scrutiny and in a much shorter timeframe.

External audit firms will be used in Rota and will themselves conduct assessments based up strict guidelines and templates prepared by Information Governance.