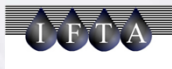


# IFTA - IRP 2013 AUDIT WORKSHOP

RECORD RELIANCE:  
INTERNAL CONTROLS



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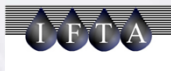


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## INTERNAL CONTROLS

- Definition
  - Wikipedia defines Internal Controls as:
    - “A process effected by an organization’s structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives.”
    - Internal Controls are further defined as “a means by which an organization’s resources are directed, monitored, and measured.”



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## INTERNAL CONTROLS

- Internal Control Objectives (General)
  - Reliability of financial reporting
  - Timely feedback on the achievement of operational or strategic goals
  - Compliance with laws and regulations

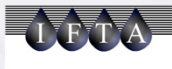


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## INTERNAL CONTROLS

- Internal Control Objectives (Specific)
  - Existence (Validity)
  - Occurrence (Cutoff)
  - Completeness
  - Valuation
  - Rights and Obligations
  - Presentation and Disclosure
  - Reasonableness



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## INTERNAL CONTROLS

- Control Activities
  - Segregation of duties
  - Authorization of transactions
  - Retention of records
  - Supervision or monitoring of operations
  - Physical safeguards
  - Top level reviews
  - IT security
  - Controls over information processing



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## INTERNAL CONTROLS

- What does IFTA and IRP say?
  - IFTA (IFTA Audit Manual Section A640)
    - Several identifiable phases
      - Review and Documentation (.100)
      - Preliminary Evaluation (.200)
      - Test of Compliance (.300)
      - Report on Weaknesses (.400)
  - IRP (IRP APM Section 702)
    - Three identifiable phases
      - Review and Documentation (a)(i)
      - Tests of Compliance (a)(ii)
      - Report on Weaknesses (a)(iii)



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## INTERNAL CONTROLS

### General Questions:

- Which of these processes are part of an internal controls evaluation?
  - Sample Selection (Qtr/Units)
  - Pre-audit Questionnaires
  - Records Evaluation
  - Company History
  - Conference Location



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## INTERNAL CONTROLS

Question: Can a sample period be selected prior to looking at the records or internal control of the company under audit?

- What risks are present if the selection is made without evaluating the internal controls prior to selecting the sample quarter/units?



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## INTERNAL CONTROLS

- Name some of the more common internal control points?




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## INTERNAL CONTROLS

- Agree or Disagree:
  - Many strengths = less intensive tests
  - Many weaknesses = more intensive tests
- Why?




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## INTERNAL CONTROLS

Case Study:

- ABC Trucking has their drivers attach over the road (OTR) fuel receipts to the Trip Reports. They also have an area on the front of the sheet to record the purchases.
- Except for minor transposition errors, the trip sheet fuel matched to the recaps.

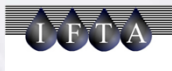


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## INTERNAL CONTROLS

- Are fuel receipts stapled to a trip sheet a sufficient control by the licensee?
- Is this is strong internal control?
  - Why or why not?



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## INTERNAL CONTROLS

- The licensee uses bulk fuel and drivers are instructed to write withdraws in a withdraw log notebook. The tank is not monitored and some non-taxable equipment also uses the bulk tank. No bulk fuel reconciliation is done.
- The licensee sums up withdraw notebook monthly.
  - Is this sufficient?
  - How would you handle this audit?



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## INTERNAL CONTROLS

- The accounting personnel have minimal qualifications and experience as relates to IFTA and IRP. They only report on the returns what is shown on the trip sheets that were given to them.
  - Does this matter? Why or why not?
  - Would additional sampling be required?
  - True or False: The greater understanding and training personnel have in IFTA/IRP, the greater the reliance you can have on the records.



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## INTERNAL CONTROLS

- The licensee has monthly, quarterly, and annual summaries, but the data on these summaries does not show the details on a per trip basis – only quarterly totals.
  - Is this acceptable?

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## INTERNAL CONTROLS

- The license verifies total distance reported by comparing monthly trips reported to monthly odometer readings. Extra distance is added to the base jurisdictions.

– Is this an acceptable internal control? Why or why not?

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## INTERNAL CONTROLS

- The Licensee discloses that there have been changes to accounting procedures and operations during the audit period.

– What should you do?

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## INTERNAL CONTROLS

– Types of changes:

- Odometer based to pre-determined miles
- Accounting system
- Addition of GPS units
- Change in operations i.e. more regional, less long haul
- Company drivers replaced with Lessee/Lessor contracts (Owner/Operators)



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## INTERNAL CONTROLS

**NOTE:** When operations or reporting methods have changed, the application of any error rates found need to be carefully applied so they only affect the time periods where the type of operation occurred.

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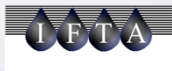
## INTERNAL CONTROLS

- Pre-numbered trip reports are used by the licensee.
  - What do you do when trip numbers are missing?

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## REVIEW

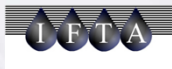
- The purpose of an internal controls review is to give you a greater sense of reliance on what you find during the audit.
- Watch for discrepancies. **DO NOT ASSUME** they are just bookkeeping errors. They may tell you more than the records provided for review.



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## REVIEW

- Did anyone notice anything unusual about the slides in this presentation?



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## FINAL THOUGHTS

- A thorough and complete Evaluation of Internal Controls
  - benefits the auditor as well as the auditee.
  - discovery and disclosure of deficiencies in the recordkeeping system provides valuable information.
  - understanding the potential flaws in the system may lead to the discovery of greater errors.
  - results in a more efficient, expedient, and equitably conducted audit examination.



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