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Appraisal of Accounting Information System and Internal Control Frameworks

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Abstract- The advancement in technology has enabled companies to generate and use accounting information systems. The qualitative characteristic of any Accounting Information System can be maintained if there is a sound internal control system. Internal control is run to ensure the achievement of operational goals and performance. When organizations adjust their computerized techniques of internal control mechanism according to accounting information systems they will be able to ensure the reliability of financial information processing. Also, developing an internal control system requires a thorough understanding of information technology, capabilities and risk as well as how to use IT to achieve organizational goals. Therefore the purpose of this study is to look at the accounting information system and the internal control frameworks amongst which was the Control Objective for Information and Related Technology (COBIT)which is a security measure that allows management to benchmark the security practices and IT environment , allow users of IT services to be assured that adequate security and control exist , allow the auditors to substantiate their internal control opinions and advice on it security and control matters .The Internal Control - Integrated Framework was also looked at, which is widely accepted as the authority of internal control and is incorporated into policies, rules, and regulations used to control business activities, which the five component are; looking at the control environment, risk assessment, control activities, information and communication, and monitoring the entire process . Therefore, I recommend that organizations should adopt the use accounting information system because adequate accounting information is essential for taking every effective decision making process and adequate information is possible if the Accounting Information Systems are run efficiently. Also, a proper internal control measures should be adopted to ensure reliability of information and achievement of organizational goals.

Index Terms- Accounting, Information System, Internal control, Organizations.

I. Introduction

Modern world is the information world and every business organization makes it necessary to obtain proper information both for external and internal users for appropriate decision making. The Accounting Information System is a component of administrative management in business organizations, which handles the collection, tabulation, data processing, financial information communicating and the amount needed to make decisions to users. This system provides accounting information on time to assist in preparing, monitoring and implementing the state or organization budget. It also help in making decisions related to financing lending, making financial policies, that means Accounting Information Systems serves the government administration and organizations in planning control and decision making (Al-kasswna,2012).

Wilkinson (2000)noted that effective AIS perform several key functions throughout these various stages such as data collection, data maintenance, data management, data control and information generation. The main function of AIS is to analyze the past, present and future economics events and its produces the financial statements namely income statement, balance sheet, owner's equity statement and cash flow statement. Management compares information about current performance to budgets, forecast, prior periods, or other benchmark to measure the extent to which goals and objectives are being achieved and to identify the unexpected results or unusual conditions that require follow up. The management has line responsibility for designing, implementing and monitoring internal control system for identifying the financial and compliance risk for their operations (www.ucop.edu).

Therefore, if companies are able to adjust their computerized techniques of internal control mechanism according to AIS, they will be able to ensure the reliability of financial information processing and boost the control measures of effectiveness of the financial information reliability. When the controls are used properly there will be better operating effectiveness and efficiency which will result in better financial information reliability. Managers at various levels need AIS to make decisions in internal controls (U.Hoitash and Bedard 2009)

CONTROLS AND ACCOUNTING INFORMATION SYSTEM

Toposh K.(2014) asserted that qualitative characteristics of accounting information can also be maintained if there is sound internal control system in an organization. Internal controls are procedures set up to protect assets, ensure reliable accounting reports, promote efficiency and encourage adherence to company policies. Internal controls are essential to achieve some objectives like efficient and orderly conduct of accounting transactions, safeguarding the assets in adherence to management policy, prevention of error and detection of error, prevention of fraud and detection of fraud and ensuring accuracy, completeness, reliability and timely preparation of accounting data. If good internal control exists in any organization, management can use information with greater reliance to maintain their business activities properly which provide AIS.

(I.X Zhang 2007) Internal controls aim to ensure the reliability of financial information, the effectiveness and efficiency of operations and the compliance of laws and regulations . The validity of an internal control system affects the significance of in-eternal controls. U.Hoitash etal (2009) stated that the value of internal control influences operational performance through information reliability operational effectiveness. Computerized internal controls have effects on the value of internal controls and performance of operations .

(H.Sajad,M.Dastgir and H.Hashem Nejad, 2008) alleged that implementation of accounting information systems caused the improvement of managers decision making process with internal controls, the quality of the financial reports and facilitated the companies transaction. Therefore, the adaptation of internal control techniques is a critical management issue that ensures the usefulness of internal controls and the achievement of operational objectives.

(I.X.Zhang 2007),Internal controls aim to ensure the reliability of financial information, the effectiveness and efficiency of operations and the compliance of laws and regulations .The validity of an internal control system affects the significance of internal controls .Effective internal control systems are essential for successful operation of business as well as accounting control and administrative control. It helps the Accounting Information Systems division to generate reliable and relevant information. (A.Masli G.F.,Peters,V.J.,Richard J.M, 2010) In the AIS environment the qualities of internal controls adaptation affects operations and management and in turn influence internal control. Internal controls are run to ensure the achievement of operational goals and performance.

Grande et al., (2011) outlined the advantages of integrating accounting information into business to include better adaptation of the business to a changing environment, better management of arm's length transactions and a high degree of competitiveness. The integration also helps to boost the dynamic nature of firms with a greater flow of information between different staff levels and the possibility of new business on the network and improved external relationships for the firm, mainly with foreign customers accessed through the firm’s web. With the existence of more intercommunication, there are increased chances for diversification of traditional businesses. However, accounting information may be distorted when efficient and effective system of control is not in operation. A good system of internal control (means of ensuring reliability and completeness of accounting information for management use) therefore, will serve to ensure an adequate procedure for the recording of monetary and all other transactions of an organization. Al-Hantawi, (2001) has indicated that the most important characteristics that qualify accounting information systems as effective an efficient are the accuracy and speed of processing financial data into accounting information, therefore providing management with the necessary accounting information on time; providing management with the necessary information to perform functions of planning, control, evaluation, speed and accuracy in retrieving stored overall and descriptive information when it is needed; adequate flexibility; general acceptance of workers ;simplicity, and to be associated with other information systems in the entity.

Toposh K.(2014) asserted that other qualitative characteristics of accounting information can also be maintained if there is sound internal control system in an organization. Internal controls are procedures set up to protect assets, ensure reliable accounting reports, promote efficiency and encourage adherence to company policies. Internal controls are essential to achieve some objectives like efficient and orderly conduct of accounting transactions, safeguarding the assets in adherence to management policy, prevention of error and detection of error, prevention of fraud and detection of fraud and ensuring accuracy, completeness, reliability and timely preparation of accounting data. If good internal control exists in any organization, management can use information with greater reliance to maintain their business activities properly which provide AIS. But if internal control is not strong, management cannot achieve its goal

CONTROL FRAMEWORK

CONTROL OBJECTIVE FOR INFORMATION AND RELATED TECHNOLOGY(COBIT).

(Marshal and Paul 2015) The Information System Audit and Control Association developed the Control Objective for Information and Related Technology (COBIT) framework. COBIT describes best practices for the effective governance and management of IT. It helps the organization build an effective governance and management framework that protects the stakeholders, investments and produces best information system. COBIT consolidates control standard from different sources into a single framework that allows:

- Management to benchmark the security and control practices of IT environment.
- Users of it services to be assured that adequate security and control exist.
- Auditors to substantiate their internal control opinions and advise on IT security and control matters.

COSO‘S INTERNAL CONTROL FRAMEWORK

The committee of sponsoring organization (COSO) which consist of the American Accounting Association,the AICPA, the Institute of Internal Auditors ,the Institute of Management Accountant, and the Financial Executives Institute in 1992, COSO issued **Internal Control –Integrated framework (IC),** which is widely accepted as the authority on internal controls and is incorporated into policies , rules and regulations used to control business activities. The IC framework also provides users with precise guidance on how to implement and document the framework. Below are the five component of the IC framework:

- ***Control environment:*** This is the foundation for all other components of internal control. The core of any business is its people –their individual attributes, including integrity, discipline, ethical values, the competence, and the environment in which they operate. They are engine that drives the organization and the foundation on which everything rest.
    - Commitment to integrity and ethics
    - Internal control oversight by the board of directors, independent of management.
    - Structures, reporting lines and appropriate responsibilities in the pursuit of objective

established by management and overseen by the board.
- A commitment to attract, develop, and retain competent individuals in alightment with objectives
- Holding individual accountable for their internal control responsibilities in pursuit of objectives.

➢ ***Risk assessment:*** the organization must identify, analyze, and manage its risks. Managing risk is a dynamic process. Management must consider changes in the external environment and within the business that may be obstacles to its objective.
- Specifying objectives clearly enough for risk to be identified and assessed
- Identifying and analyzing risks to determine how they should be managed.
- Considering the potential of fraud
- Identifying and assessing changes that could significantly impact the system of internal control.

➢ ***Control activities***: control policies and procedures help ensure that the actions identified by management to address risk s and achieve the organizational‘s objectives are effectively carried out. Control activities are performed at all levels and at various stages within the business process and over technology.
- selecting and developing controls that might help mitigate risk to an acceptable level
- Selecting and developing general control activities over technology
- Deploying control activities as specified in policies and relevant procedures

➢ ***Information and communication*:** information and communication systems capture and exchange the information needed to conduct , manage and control the organization’s operation s. communication must occur internally and externally to provide information needed to carry out day to day internal control activities, all personnel must understand their responsibilities.
- Obtaining or generating relevant, high–quality information to support internal control.
- Internally communicating information, including objectives and responsibilities necessary to support the other components of internal control.
- Communicating relevant internal control matters to external parties.

➢ ***Monitoring:*** The entire process must be monitored, and modification made as necessary so that the system can change as conditions warrant. Evaluations ascertain whether each component of internal control is present and functioning. Deficiencies are communicated in timely manner, with serious matters reported to senior management and the board..
- Selecting, developing and performing ongoing or separate evaluation of the component of internal control.
- Evaluating and communicating deficiencies to those responsible for corrective action, including senior management and the board of directors,where appropriate.(Marshal and Paul 2015).

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