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Research Article

New Rules For Audit Committees (Perspective In Sarbox Internal Control)

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Abstract

Accountants have a role to evaluate internal controls into automated information systems, in the Sarbanes-Oxley Act. Competence in the field of IT (Information Technology) and the automation of internal control are required tasks for the evaluation. Accountants have limited exposure to IT and automation in their professional training. To prepare accountants in evaluating automated internal controls and also to strengthen internal controls of accounting information systems, this paper discusses the modeling and implementation of automated internal controls in Relational Database Management Systems. The strengthening of automated internal controls benefits disciplines such as accounting, business management, and IT.

Keywords: *Internal Controls, Relational Database Managements Systems*

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1. Introduction

The new Auditors Act and audit regulation became effective 1 January 2021. At the same time there have been amendments in the Norwegian Public Limited Liability Companies Act and the Financial Undertakings Act on audit committees. The amendments involve more responsibility and new tasks for the audit committee in public-interest entities. The reason for the changes is mainly to strengthen the role of the audit committee and elucidate the tasks of the audit committee towards the statutory auditor, as further described in chapter 2.2 on the work of the audit committee. Among the new requirements for the audit committees the most important is the extended responsibility to assess and monitor the statutory auditor's independence in public-interest entities (listed companies, banks, credit institutions and insurance companies). The responsibility includes monitoring the appropriateness of the provision of non-audit services to the audited entity. The audit committees also have to initiate a tender process for the appointment of a statutory auditor or an audit firm every 10 years. Public-interest entities are not allowed to have the same statutory auditor or audit firm for more than 20 consecutive years. Changes in tasks and increased responsibility also require, in addition to broad experience, competence from other subject l fields. The audit committee should have sufficient

competence to assess and ask questions related to the financial statements, the quality of internal control over financial reporting and to understand and form an opinion on significant and complex accounting issues.

2. Literature Review

2.1 Committee Audit

The audit committee must have sufficient competence to challenge both management and the statutory auditor in areas where there is a risk that errors may occur in the accounts, the level of internal control over financial reporting and the auditor's approach in significant areas. Further, the audit committee must be able to form an opinion on the quality of the audit. This involves the understanding of situations that may Jeopardise the auditor's objectivity and thus the auditor's independence, including the safeguards applied to mitigate threats to the auditor's objectivity.

Audit committee activity is indicated by the number of meetings audit committee organized by the audit committee during one year is an indicator of the effectiveness of the audit committee because by holding a member meeting audit committee, each member of the audit committee can exchange ideas about the company's internal control. An audit committee was formed to supervise management so that control risk can be minimized. High control risk will increase integrity financial reporting so that earnings management is carried out companies are getting smaller. Audit committee meetings can also be indicates the audit committee function is running well.

The audit committee is responsible for ensuring the accountability and quality of financial reporting (Elisabeth et al., 2018). Independent and competent audit committee members alone are not enough to produce effectiveness, however, the audit committee must play an active role and have sufficient members in carrying out supervision. Audit committees are focused on three key areas of responsibility: financial reporting, internal control and internal and external auditors (Blue Ribbon Committee (BRC), 1999; DeZoort et al., 2002).Many sources have specifically emphasized internal control oversight as a vital role of the audit committee (BRC, 1999; DeZoort, 1997;Ernst & Young [EY] LLP, 2014; Public Company Accounting Oversight Board [PCAOB], 2015). This emphasis on internal control oversight is reiterated by Carcello et al. (2002) and Hassab Elnaby et al. (2007),who find that 91% and 98%, respectively, of their audit committee samples identified internal control monitoring as a key function of the audit committee. The prominence of internal control has evolved because it is considered a critical determinant of quality in financial reporting (Doyle et al., 2007; Krishnan, 2005; PCAOB, 2007), and the role of the audit committee has similarly evolved as a corporation's gatekeeper for effective internal control (Austin, 2012; White, 2015).

2.2 SARBOX

As a regulated profession, accounting must adapt to regulatory changes, one dimension of which is the accountant's statutory responsibilities in audit engagements. The Sarbanes-Oxley Act (SOA) imposes federal requirements for management to assess the effectiveness of internal control systems, and the accountant to attest to such assessments. SOA has important implications on automated accounting information systems. The SEC (2003), in Rule No. 33-8238 codifying SOA requirements, stipulates that management's assessment must be supported by evidential matter, including documentation, regarding both the design and testing of internal controls. For businesses using computerized accounting information systems, many internal controls such as input validation, reconciliation of subsystems, and generation of exception reports are automated. Automated elements enabled by IT are often embedded in computer programs to prevent, detect**,** and correct errors (American Institute of Certified Public Accountants or AICPA 2017).

Compliance with Rule 33-8238 therefore requires management to assess automated internal control design and testing. To attest to management's assessment, the accountant must understand the design and testing of automated internal controls. Strengthening of IT training will enhance the accountant's capacity to assess these controls. In response to changes in the information environment and statutory responsibilities, the U.S. Public Company Accounting Oversight Board (PCAOB 2017) asks the accountant to understand the client's use of information technology (IT) and automated

controls. In addition, U.S. auditing standard AU-C Section 315 acknowledges the role of automated systems in initiating, authorizing, recording, processing, correcting, and reporting transactions supporting financial statement assertions, and asks the accountant to understand the related IT and IT procedures (AICPA 2017). Such moves to emphasize IT and automated control manifest a concerted international effort spearheaded by the International Auditing and Assurance Standards Board (IAASB 2010) whose International Standards on Auditing (ISA) No. 315 contains a similar language to AU-C Section 315. In fact, major economies such as Australia, Canada, China, Hong Kong, New Zealand, the U.K. and most European countries, as ISA adopters, all include a section in their respective auditing standards or guidelines acknowledging the role of IT and automated internal control in auditing.

Recognizing internal control risk as an element of the risk of material misstatement, the SOX Act (U.S. House of Representatives[SOX], 2002) highlights the importance of internal control through its mandate for separate reporting on ICFR for U.S. public companies. SOX Section 301 also formally establishes audit committee responsibilities for handling complaints regarding matters such as faulty inter-nal control. Thus, SOX has greatly expanded the audit committee's charge concerning ICFR, but SOX does not provide specifics in terms of how audit committees should approach their ICFR-related responsibilities or even how auditors should do so. Also, COSO's (2013) revi-sion of the COSO internal control framework focuses squarely on the board's and audit committee's role in ICFR oversight, as Deloitte (2014a) notes as well.

3. Methodology

The descriptive approach was adopted in this study through a collection ofprevious literature on Research new rules for audit committees (perspective in SARBOX internal control). Based on the literature review that has been described, this study tries to explain how audit committees from the perspective of SARBOX internal control. The purpose of this journal is to show readers what it is audit committees from the perspective of SARBOX internal control.

4. Result And Discussion

4.1 Result

Researchers describe current accounting and auditing methods in jeopardy as companies increasingly see data as the most significant asset by strengthening internal control database systems is a relevant research topic. Agrawal et al. (2006) proposed the application of database technology to the implementation of internal control over financial reporting as required by SOX. Extending Agrawal at al. (2006), this study shows accountants and other interested readers how automated internal controls are modeled and implemented. Automatic internal controls define the conditions under which the data is valid, thus allowing the desired business rules to be defined. Automatic internal controls can be implemented as constraints, statements, and triggers, which are supported by the RDBMS. An attribute value constraint states the requirement that an attribute value must be taken from a specific set of values or fall within a specified range. The referential integrity constraint requires that the values referenced by some object actually exist in the database. Statements enforcing internal controls that affect some tables and abstract business rules such as "the category of equipment that functionally determines the useful life of the equipment". A trigger is a means to implement a specific class of internal control that requires follow-up action.

4.2 Discussion

Here we present constraints at work, and how they are modeled and implemented. These discussions alone will not turn an accountant into an IT expert, they illustrate the important concepts of automated

controls and help readers gain an understanding of the role of database internal controls. The contribution of this paper is to help non-technical audiences understand the technical concepts underlying automated internal control. To make this paper suitable for accountants, we have taken care to stay within the context of accounting and auditing, selected the most straightforward illustrations, and systematically introduced technical concepts. Wherever possible, jargon is replaced with or immediately followed by non-technical descriptions. However, due to the inherent technical nature of relational algebra and SQL, we acknowledge that some readers may still find the material challenging.

5. Conclusion

This paper has accountants' understanding of these automated controls by examining the modeling and practical implementation of internal controls in RDBMS. SOA requires public accounting firms to demonstrate that management's assessment of the effectiveness of internal controls. Accountants need to understand the modeling and implementation of internal control to be able to verify management's assessment of the design and testing of internal controls as required by the SEC. Automatic internal control has never been discussed in the accounting literature. On the other hand, the constraints, statements, and triggers discussed in the computer science literature are usually jargon-laden and lack meaningful auditing or internal control contexts. To open this topic to accountants, this paper highlights the relevance of automated internal control to accounting and auditing, and discusses automated internal control in a simple example closely related to SOA.

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