
*** ACCA INTERNAL AUDIT BULLETIN ***

*** ISSUE 16 - APRIL 2003 ***

INFORMATION FOR INTERNAL AUDITORS ACROSS THE WORLD

This Bulletin aims to provide up-to-date news, information and comment for internal auditors across the world. The success of the Bulletin depends on your contributions. We want to hear your news, views and comment.

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About ACCA

ACCA is the largest, fastest growing, global professional accountancy body, with over 300,000 members and students in 160 countries. ACCA headquarters is in London and it has 70 staffed offices and active centres around the world. ACCA's mission is to provide quality professional opportunities to people of ability and application, to be a leader in the development of the global accountancy profession, to promote the highest ethical and governance standards and to work in the public interest.

Further information on ACCA is available on ACCA's website, www.accaglobal.com

NEWS

INTERNATIONAL CORPORATE GOVERNANCE SEMINAR

ACCA will be hosting a one-day international corporate governance seminar on 17 June 2003 at ACCA's offices in Lincoln's Inn Fields. The theme of the seminar is 'restoring trust in capital markets'

The speakers and topics will be:

* From Canada, Paul Makosz, CEO of PDK Control Consulting and chairman of the IIA International Ethics Committee on how boards can assess the ethical health of their company.

* From Holland, Professor Jaap Winter, who led the EC wise men review of company law and corporate governance, will cover the European perspective and the EC response to his recommendations.

* From the UK: Derek Higgs, author of the Higgs review, on the role of non-executive directors; Angela Knight, chief executive of the Association of Private Client Investment Managers and Stock brokers, on the investors view; and Ken Rushton, Director of the UK

* Listings Authority of the FSA, on the regulator's view.

* From USA, Dr Carolyn Brancato, director of the Global Corporate Governance Research Centre at the Conference Board, on the Conference Board's report on public trust and private enterprise.

The seminar will cost £200. Further details and a booking form can be accessed at www.accaglobal.com/governance

SMITH REPORT ON AUDIT COMMITTEES

Earlier this year, Sir Robert Smith launched his report on audit committees in the UK, Audit committees Combined Code guidance. This report raises three important questions for internal audit:

* Does the audit committee have a clear understanding of what internal audit effectiveness is and the tools and methodologies that would enable it to monitor and review the effectiveness of internal audit?

* Does the audit committee have a good enough understanding of what the potential roles of internal audit are so that it can assess whether the role played by internal audit within the company is appropriate?

* How will the audit committee form an opinion on whether the internal audit function has the 'necessary resources' and that it is 'equipped to perform' its duties in line with internal auditing standards?

The full report is available from:

<http://www.frc.org.uk/publications/content/ACReport.pdf>

INTERNAL AUDIT CODE FOR LOCAL GOVERNMENT

The audit code for local government in the UK is being revised to bring it into line with HM Treasury's Government Internal Audit Standards (UK).

ACCA provided a response to the initial draft which is available from ACCA's website at: <http://www.accaglobal.com/publications/audit/>

CIPFA has now issued the Code for public consultation until 22 May 2003. The document and covering letter is available from:

http://www.cipfa.org.uk/pt/pt_details_c.ihtml?news_id=16027

RISK BASED INTERNAL AUDITING

ACCA has developed a detailed response to the IIA-UK draft position statement on risk-based internal auditing. The response is available from:

<http://www.accaglobal.com/publications/audit/>

The original draft position statement is available from:

<http://www.blindtiger.co.uk/IIA/uploads/48dc2e62-f2a7bd939a--7cee/RBIAexposuredraft.pdf>

RISK MANAGEMENT STANDARD

A standard was issued recently on risk management for the UK. This standard has been developed by the three major risk management organisations in the UK. It was developed to provide:

* agreed terminology

* an agreed process for risk management

- * a common organisation structure for risk management
- * a shared objective for risk management.

The full document is available from:

http://www.iaa.org.uk/knowledgecentre/keyissues/riskandcontrol.cfm?Action=1&ARTICLE_ID=798

POSITION STATEMENT ON FRAUD

A position statement has been developed for internal audit and their responsibilities for fraud. The paper states that the primary responsibility for fraud rests with management. It then goes on, however, to outline some of the roles that internal audit can undertake in relation to fraud.

The full document is available from:

http://www.iaa.org.uk/knowledgecentre/professionalguidance/iiaguidance.cfm?Action=1&ARTICLE_ID=990

IMPROVING BANKING SYSTEMS

The World Bank has developed a specialist site offering over 180 resources for analysing and improving the financial systems and investment climates of client countries through their banking systems. The principal goals of the Bank's work in this area are to strengthen banking institutional and legal, regulatory and supervisory regimes, and to promote the growth and development of the banking industry.

The resources are available from:

<http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/generaldescription/1Banking+Systems?opendocument>

YOUR IDEAS

If you want us to cover any aspect of internal audit then let us know. If you have a favourite tip please send it to us. If you have any comments or questions about the contents of the Bulletin send them to us at: info@accaglobal.com
We can't guarantee to solve your problems or to pass on your tips, but we will try our best. We also welcome non-commercial announcements for inclusion in the Bulletin.

In this issue of the Bulletin we include articles on:

- * Fraud Possibilities in Construction Projects
 - * Corporate Reputation
 - * Audit Guidance on Cash and Banking
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FRAUD POSSIBILITIES IN CONSTRUCTION PROJECTS

By Gursharan Singh, based in Kuala Lumpur, Malaysia E-mail: gsk38@hotmail.com

INTRODUCTION

Authorities and regulatory organisations should create general awareness of the many fraud situations and possibilities in the corporate sector. The word fraud has been defined as deception or cheating for self-enrichment or obtaining an advantage over others.

Fraud generally involves monetary gain and could involve assets. Some possibilities and situations for fraud already appear in existing contractual documents and the implementation processes. However, many more may be created by those who are involved in the inception of projects, their planning, implementation or their monitoring.

CONSTRUCTION INDUSTRY

The construction industry is particularly susceptible to fraudulent situations as it provides a fertile ground due to the large sums of money involved in the many multi billion-dollar projects. The great demand for high calibre management professionals due to the shortage of qualified, experienced and skilled persons at the various level of contract implementation further aggravates the position. Also, projects with short completion periods encourage laxities and ignoring of internal controls.

JUNIOR LEVEL OF FRAUDS

People in junior and mid-management positions have many opportunities to commit fraud, but usually only for small sums of money. However, these can snowball in to large sums. Management can avail themselves of the many sources of knowledge on counter fraud action through the various seminars and training courses that are available both from foreign and local experts. Management should:

- * provide sufficient budgetary provisions for these training facilities
 - * ensure that they have detailed, comprehensive procedures and internal controls to detect and arrest potential situations in the early stages
- and
- * minimise the opportunities for these individual small losses.

HIGH LEVEL FRAUDS

Major frauds are usually committed by the top-level management of companies. These are people who hold positions of trust, as they are professionals who may be internationally recognised and are assumed to have high standards of integrity and ethics. Unfortunately regulatory authorities (both statutory and self regulatory) and society generally appear reluctant to take action against these 'powerful people'. This could be due to the inability or unwillingness to collect sufficient documentary evidence to pursue the case. Another contributory factor could be the assignment of investigators who may be comparatively very junior and with insufficient knowledge and experience, resources and management support, to detect the complicated methods used to perpetrate large frauds. There might be temptations for the investigators and fear of possible damage to their careers and reprisals. The fraudulent practices only come to light if and when there is public outcry and/or the authorities take action against these companies; they go under or become public knowledge due to heavy losses that come to light or default of the companies being unable to settle borrowings.

COMMENT

There has been a recent spate of high-level management frauds which have been discovered in the local and foreign corporate sectors. These have been reported in the media, but could indicate only the tip of the iceberg where only a few cases are actually visible. Most of the people involved were not ordinary persons, but the leaders of major corporations in their respective industries and the professions. Self-regulation appears to have failed, as have the prescribed regulations and enforcement agencies. Can they be effective when the enforcer and the fraudster are, for example, golf partners or members of the same clubs? Subsequent legal action also seems to have been rare compared to the extent of the frauds, the sums involved and the financial future of the many individuals

and companies which have been destroyed. The ultimate losers were the innocent taxpayers and/or shareholders. The latter lose out when large organisations are rescued 'in the national interest'.

QUESTIONS?

There are a range of questions that have been raised on these issues, they include:

- * What can be done to bring the perpetrators to justice?
 - * What about the many victims who suffered financially and mentally?
 - * What is the role of the regulatory authorities and professional organisations?
 - * How to protect oneself against the appointed guardians of our interests when they are the perpetrators?
 - * Can the authorities and the professionals provide the assurances that similar scale frauds will not occur again and destroy the lives of many innocent small people?
-

CORPORATE REPUTATION

By Kastuv Ray kastuv@kastuv.fsnet.co.uk

Corporate reputation is vital. With the current focus on risk management, reputational risk should "ride high" on the list of priorities in the risk register. Public trust in many companies has been damaged by recent corporate scandals and times are difficult for managing directors and chief executive officers. It is interesting to note that even with all the articles being written on corporate reputation, there are still some individuals who are solely concentrating on sales and profits with the perception that "it could never happen to us". Individuals involved in the corporate scandals that have rocked the world may have thought this and look what happened.

Customers influence corporate reputation. Management of corporate reputation is vital to achieving objectives, as is its measurement. The media may be in certain cases be considered a primary threat to corporate reputation. A company may have the best mission statement in the world, brilliant employees and a leading edge knowledge management database but a bad comment from a shareholder can affect corporate reputation.

What can we as internal auditors do to deal with this? Quite simply put, we must do our job. It is strange that reputational risk actually crops up nearly everywhere in the risk register as does the media. For example, a marketing audit may focus on the quality and standard of company literature generated as there is a risk that if the brochure is poor this will reflect badly on the company.

Fraud and whistleblowing policies should tackle the way media attention is handled. Reputational risk plays a key part in a student experience audit, as there should be an effective student support facility available on site or on the internet, which provides counselling, and advice to alleviate difficulties. Certain internal auditors in organisations have been so worried about their corporate reputation that they have undertaken specific audits, which are based on the Enron scenario.

Typical examples of audits that could be undertaken which may encompass reputational risk are: customers services, human resources particularly workplace conflict and

harassment and health and safety, financial management (this should include a review of all key financial systems), corporate governance and corporate social responsibility. Further guidance on stakeholders and reputational management can be found within Tolley's Corporate Governance Handbook by Andrew Chambers (Managing Director of Management Audit Ltd).

This article was originally published on www.AuditNet.org

AUDIT GUIDANCE ON CASH AND BANKING

By Andy Wynne

This guidance is part of our series of guidance notes for internal auditors undertaking internal audit reviews of common systems. We would be pleased to receive comments on this guidance and examples of others for publication in this Bulletin.

System Objective: all cash income is collected, recorded adequately and promptly banked; suitable banking services are obtained.

1. Control objective: Income received through the post and at each cash office is adequately recorded and held securely

KEY CONTROLS:

1.1 All post is opened centrally by two staff. They both check and confirm the total cash and cheques received. This is past promptly to the cash office. Where possible the public is informed to pay at central cashiers etc and to make cheques payable to the organisation. All cash/cheque transfers are adequately recorded and witnessed.

1.2 All cash or cheques received through the post are promptly recorded, coded and witnessed. The post openers record and witness all the cash and cheques that are received.

1.3 Receipts are issued for all income received by hand and if requested income received by post or if greater than £20 (\$30). Cash tills are used properly. Till keys are adequately controlled by supervisors and readings recorded. Till rolls are adequately retained (until the external audit of that year has been completed). The public can clearly see cash register displays. Cash registers are used effectively.

2. Control objective: Cash collection is undertaken securely and efficiently

KEY CONTROLS:

2.1 Comprehensive procedure notes for cash collection etc are available for all relevant staff, are regularly updated and include action to be taken for attempted theft etc

2.2 Segregation of duties. Staff involved with cash collection do not also maintain debtors records nor get involved with debt recovery action

2.3 Adequate insurance. All staff are insured against theft etc and fraud including fidelity guarantee policy

2.4 Staff personal security. All staff have suitable training, personal alarms, vary routes for transfer of cash, etc.

2.5 Each cash office is maintained as a secure environment with limited staff access and suitable security measures are periodically tested. All cash collection points are secure and clearly sign-posted, etc.

3. Control objective: Income is adequately accounted for and banked promptly

KEY CONTROLS:

3.1 There is an established procedure and timetable for daily close down of cashiers tills etc, cashing up/reconciliation and banking. All income is banked intact and promptly each day (or regularly when significant (>£50 (\$75)) income is received for outlying officers etc. Promptness of banking should be checked periodically by manager/chief cashier.

3.2 Daily reconciliation of cash and records. Collection by each cashier is checked and a cumulative total of all unders/overs is maintained and reviewed regularly each month. All direct bank credits are promptly identified and coded.

3.3 Bankings are adequately controlled. Bank paying-in slips record each cheque and cash totals. Bank paying-in slips are reconciled to cash takings and to daily totals on the cash receipting system.

3.4 Actual and expected income is compared regularly. All income streams are reviewed at least quarterly and any significant variations from expected income (budgets) is investigated.

3.5 Bank account reconciliations are undertaken regularly. The balance on each of the bank accounts according to the bank statement is independently reconciled to the figure expected from the financial records at least monthly. This may be relaxed for accounts with few transactions. The person who reconciles the accounts should not have access to cash, cheques etc or the accounting records. Bank statements are received by and the reconciliations are undertaken by staff who do not work in treasury and who do not have access to any cash.

4. Control objective: Banking facilities are appropriate and efficient

KEY CONTROLS:

4.1 Cheque signatories are kept up to date. The bank mandate (cheque signatories, etc) is up to date. Staff are removed from the mandate as soon as they leave the organisation. Back accounts are only opened as necessary in the name of the organisation. There is a pool of 3-5 senior staff who are signatories.

4.2 Banking services are formally reviewed and/or put out to tender at least every seven years. They are covered by a written agreement. Banking services are adequately monitored. Bank charges are formally reviewed for reasonableness and significant changes at least once a year.

4.3 Security of cheques. Unused cheques (no more than three months supply) are held securely. A register is maintained of all cheque books.

4.4 BACS (Banks Automatic Clearing System) is used for regular creditors ie they are paid electronically direct into their bank accounts rather than by cheque. Limited staff access to the relevant terminals and printouts checked and signed by cheque signatories.

PUBLICATIONS AND RESOURCES

AUDITNET

www.auditnet.org

AuditNet was developed by Jim Kaplan. The original concept was for a central electronic resource for the audit community that would provide a link for auditors world-wide. This has evolved into a network of resources available for auditors. A listing of those electronic resources is updated and distributed monthly via the Internet. AuditNet includes Jobs for Auditors and an inventory of Audit Work Programs.

The Auditors Sharing Audit Workpapers Project provides you with the opportunity to share your best practice standard forms with other auditors. To access the documents go to www.auditnet.org and click on Audit Programs or Audit Workpapers from the Virtual Library.

AuditNet added a section for new (and seasoned) auditors detailing the audit process using a step-by-step approach. The section will include templates, sample documents, flowcharts and links to other resources. The success of these pages will rely on the philosophy of Auditors Sharing Knowledge (ASK) for Progress and grow as more seasoned auditors contribute and find value in educating others in their own best and continuing practices!

AuditNet has a free Newsletter, this month it includes an article on Corporate Reputation and Internal Audit by Kastuv Ray (who has also contributed to this Bulletin).

SYSTEMS BASED AUDITING: CONTROL MATRICES - SERIES III (2002)

CIPFA ISBN: 0 85299 764 7 £375

This third series of control matrices extends the range of systems which are covered and provides comprehensive guidance on a range of non-financial systems which internal audit may wish to review in local councils. The guidance for each system incorporates Risk Identifiers (setting out the control objectives, expected controls to meet them, and the organisation's exposure should they be absent), ICQs (internal control questionnaires) and Compliance Tests. This should be of great benefit to all internal auditors, but especially the less experienced and should enable comprehensive and high quality audits to be undertaken with the minimum of supervision.

The publication includes a loose leaf binder and a CD-ROM. The CD-ROM carries the material in PDF and Word formats and has embedded hyperlinks to allow users to navigate easily between the elements of each control matrix, i.e. risk identifier, ICQ and compliance test. The matrices for Series III cover the following areas:

- * Building Control Car Parks Commercial Properties
- * Establishment Visits Housing Inventories
- * Planning Applications Stores.

Series I and II together are also available on CD-ROM. These include the following areas:

- * Payroll Creditors Cash and Bank
- * Main Accounting Systems Debtors Tendering/Contracting

- * Loans Investments Housing Benefits
- * Non-Domestic Rating Improvement Grants Land Charges
- * Council Tax Car Allowances Petty Cash
- * Travel and Subsistence Members Allowances.

See: <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/View/AU017>

THE INTERNAL AUDITOR'S ROLE IN CORPORATE GOVERNANCE

This research report covers the variety of roles internal auditors play in corporate governance. The primary focus is on what internal auditors are doing to help their companies meet the new U.S. listing requirements. The study addresses issues such as balancing the conflicting needs of audit committees and management, and finding the resources to do more with governance. The research is primarily for publicly held companies but the principles can also be applied to all public and private sector organisations.

Several tools gathered during this project are available now on the Internet, these include:

- * an Implementation Guide to Section 302 - CEO/CFO Certification of Disclosure Controls
 - * El Paso Internal Control Assessment Survey
 - * an audit committee charter issue matrix
- and
- * a sample audit committee charter.

The research report is available from:

http://www.theiia.org/ecm/iiaarf.cfm?doc_id=4052

INTERNAL AUDIT ADVISORY ON SARBANES-OXLEY

IIA has issued a new Practice Advisory to clarify and promote the role of internal audit in reviewing and giving assurance to management under the US's new corporate governance regulations contained in the Sarbanes-Oxley Act. The advisory recommends the following good practice in the light of the act:

- * quarterly checklist of procedures and key control elements
 - * standardised control reports on key disclosure controls
 - * management self assessments (such as CSA)
 - * review of draft regulatory filings prior to submission
 - * follow-up on previously reported outstanding items
 - * consideration of internal audit reports issued during the period
 - * special or specifically targeted reviews or high-risk, complex and problem areas; including material accounting estimates, reserve valuations, off-balance sheet activities, major subsidiaries, joint ventures and special purpose entities
 - * conference calls with key management from remote locations to ensure appropriate consideration of and participation by all major components of the organisation
 - * head of internal audit report on internal control, issued at least annually and possibly quarterly
- and
- * regularly scheduled disclosure and audit committee meetings.

This guidance, Practice Advisory 2120A1-3: Internal Audit's role in quarterly financial reporting, disclosures and management certifications, is available from to IIA members from: <http://www.theiia.org>

THE COBIT OPEN STANDARDS FOR IT SECURITY

The Cobit Open Standards for IT security will be of great assistance to internal auditors who are reviewing computer systems. They include:

- * Management Guidelines
- * Executive Summary
- * Framework
- * Control Objectives
- * Implementation Tool Set

These Standards are available for free download from: www.isaca.org/ct_dwnld.htm

INTERNAL AUDIT ALERTS FROM PRICEWATERHOUSECOOPERS

The internal audit website of PriceWaterhouseCoopers has recently been redesigned to 'continuously bring you current thought leadership and information of interest to Internal Audit Professionals'.

The site now provides free registration to 'IA Alert'. This is a periodic e-mail facility which provides news of updates to the site and other initiatives.

The site is at: <http://www.pwcglobal.com/interaudit>

CORPORATE GOVERNANCE LINKS

A range of international corporate governance codes are available from:

www.ecgi.de/codes

A list of links to other international corporate governance sites can be found at:

www.icaew.co.uk/menus/links/corpgov.htm

Resources from World Bank on Governance and Corruption:

<http://www.worldbank.org/wbi/governance/index.htm>

TRAINING MODULES ON IT AUDIT

The INTOSAI Standing Committee on IT Audit has developed a range of training modules for IT audit. These have been specifically designed for external audit in the public sector, but will be of interest to internal auditors. The modules are available from:

<http://www.nao.gov.uk/intosai/edp/trainingindex.html>

PLEASE LET US KNOW IF YOU HAVE FOUND ANY WEBSITES THAT YOU THINK OTHER INTERNAL AUDITORS WOULD FIND USEFUL

PASS ON DETAILS OF THIS BULLETIN TO OTHERS

Please pass on information contained in this Bulletin to anyone in your organisation or any other internal auditors who may find it useful. Information contained in this Bulletin may be freely copied in other publications if mention is made of the Bulletin.

Your internal audit colleagues can register to receive future Bulletins by sending an e-mail to: info@accaglobal.com putting the word 'REGBULL' in the subject line. Please include

your full name, clearly state the type of organisation that you work for and whether you are a member of the ACCA. This will enable us to update our records and ensure that the Bulletin contains information that is of interest to its readers. The service is open and free to all internal auditors across the world, regardless of whether or not they are members of the ACCA. We will not pass on your details to any third party or use it for anything other than the Bulletin or relevant occasional news.

If you no longer wish to receive the Bulletin or if you change your e-mail address, again please contact us at the above e-mail address putting 'DEBULL' or 'CHANGE BULL' respectively in the subject line.

Back issues in Rich Text Format may be downloaded from:

www.accaglobal.com/publications

ARE YOU ALL RECEIVING THE BULLETIN?

Each time we send out the Bulletin, many e-mails are returned to us as they cannot be delivered. This is usually because either the addresses have changed and we haven't been informed, or because e-mail accounts are already at full quota and there is no room for the Bulletin.

Although we make every effort to get the Bulletin to all those who have subscribed to it, we cannot always get through. If you, or anyone you know, have requested to be added to the subscription list but are not receiving copies, please contact: info@accaglobal.com quoting 'CHANGE BULL' in the subject line.

Please also remember to let us know if your e-mail address has changed!

THE END