
* ACCA INTERNAL AUDIT BULLETIN *
* ISSUE 2 - DECEMBER 1999 *

Information from the ACCA to internal auditors across the world.

The Association of Chartered Certified Accountants (ACCA) is the largest professional accountancy body operating on an international basis, with more than 200,000 members and students. ACCA is active in 140 countries and, in Asia, Africa and the Caribbean. ACCA's mission is to provide professional opportunities to people of ability and application, to lead the development of the accountancy profession in the UK and internationally and to work in the public interest.

ACCA exists to:

- * support the development of a liberal profession
- * support the practice of accountancy to the highest standards worldwide
- * provide the opportunity for people of ability, regardless of educational background, to acquire a professional accountancy qualification
- * provide an education and training process and structure which combines maximum quality and maximum flexibility.

Aim: this bulletin aims to provide up-to-date news, information and comment from and to internal auditors across the world. The success of the bulletin depends on your contributions so please contact us:

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IFAC issues executive guide to managing technology projects

A new checklist published by the International Federation of Accountants' (IFAC) Information Technology Committee provides valuable guidance to help executives increase the success of their IT projects. The Executive Checklist provides some of the questions which senior managers should address before authorizing any investment in an information technology project.

The Executive Checklist provides some of the questions which senior managers should address authorizing any investment in an information technology project and the related communications support. The questions are organized around the key stages of an IT project and are grouped under the following headings:

- The strategic dimension
- Checking the benefits
- Appraising the project
- Managing the change
- Managing the risk
- Legal compliance
- Security issues

IFAC's IT Committee has also published two guidelines: Managing Information Technology Planning for Business Impact and Managing Security of Information. These documents, as well as the checklist, can be downloaded from IFAC's Web site at <http://www.ifac.org/Committees/ITC/projsandpubs/9812/ITC-ICtechproj-final.htm> or obtained from the IFAC Secretariat.

INTOSAI guidance on internal control

Many governments are looking for ways to provide more economical, efficient, and effective services and to control deficits and debt. This often involves reorganizing old structures, revising old procedures, allowing managers more freedom, and increasing reliance on automated technologies. In such an environment, an effective internal control structure can provide reasonable assurance that management's objectives are being achieved.

The following General Standards form the framework for an internal control:

Reasonable Assurance: Internal control structures are to provide reasonable assurance that the aforementioned general objectives will be accomplished.

Supportive Attitude: Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

Integrity and Competence: Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to understand the importance of developing, implementing, and maintaining good internal controls and to accomplish the general objectives of internal controls.

Control Objectives: Specific control objectives are to be identified or developed for each activity of the organization and are to be appropriate, comprehensive, reasonable, and integrated into the overall organizational objectives.

Monitoring Controls: Managers are to continually monitor their operations and take prompt, responsive action on all findings of irregular, uneconomical, inefficient, and ineffective operations.

The Guidelines for Internal Control Standards issued by the Internal Control Standards Committee of the International Organization of Supreme Audit Institutions (INTOSAI) in June 1992 are now available on the Internet at: http://www.intosai.org/3_INTCOe.html

The International Monetary Fund issues guidance on fiscal transparency

The IMF has developed a code of good practice on fiscal transparency. This could be used by internal auditors to help them review budget setting, monitoring and control and ensure that best practice is being followed. The code is accompanied by a detailed manual that is available from: <http://www.imf.org/external/np/fad/trans/manual/manual.pdf>

Leaked document reveals extent of Unesco corruption

Cronyism reaches into almost every corner of Unesco claim young professionals working for this international organisation. Nepotism is also alleged to be rife, with well paid jobs going to mistresses and

family members. Unesco appears to have reformed little in the decade since its name became a byword for inefficiency, nepotism and corruption – practices that caused the United States and Britain to pull out as members, although Britain later rejoined. A damning independent audit commissioned by the Canadian government is heavily critical of almost every area of Unesco's operation. The report has been in the hands of Unesco's ambassadors and its secretariat for nearly a year, yet staff say they have seen no action taken on its critical conclusions.

The audit report also that Unesco failed to measure programmes to see what recipients and taxpayers around the world have got for the money spent. Neither did it systematically assess the impact of its programmes. Most internal accounting and audit procedures were inadequate and computers were so outdated that this year it is possible that no final accounting figures may be produced.

European Community recommended to improve internal audit and internal control

The second report of the "committee of the wise" - containing senior public auditors – again painted a bleak picture of mismanagement across the European Community (EC). This time though it pinned much of the blame on systematic weaknesses rather than impropriety or incompetence among senior officials. The committee makes 90 recommendations, mostly to strengthen existing procedures and create an anti-fraud culture within the EC. Under the proposals, an internal control would operate within each directorate, reporting directly to the director-general. Internal audit, though would report directly to the president, and not be the responsibility of any directorate. Within the internal audit team, there needs to be stronger audit, forensic accountancy and information technology skills. A new body would advise on finance control procedures, while another should advise on standards in the EU.

Fraud costs European Union billions

For the fourth consecutive year, the European Court of Auditors has effectively qualified the European Union's accounts. It says that 4.25bn euros were misspent in 1998 - 5% of the entire annual budget. In spite of the highly publicised resignation of the previous Commission president Jacques Santer and 22 commissioners

this year, fraud and mismanagement is still rife in the European Union, according to the auditors.

<http://www.accountingweb.co.uk/cgi-bin/item.cgi?id=8153&d=101>

New website for APB

The Auditing Practices Board (UK) has launched a new website to bring its guidance and exposure drafts to a wider audience. Like the Accounting Standards Board's website, which was also designed by the Reading Room, the site provides a basic overview of the board's main projects and allows visitors to sign up to receive APB press releases. Anyone hoping for more detail will be disappointed. 'We make our money from printed publications so we are reluctant to put the full texts online,' explained one insider.

<http://www.apb.org.uk/>

New ACCA syllabus debated at International Assembly

ACCA's new syllabus was debated at the recent International Assembly. The syllabus, which will now go to Council for final approval, has been the subject of an extensive global consultation process.

http://www.acca.org.uk/cgi-bin/astory.cgi?&frm=0&story_id=408

UK Foreign Office publishes Y2K country statements

The UK government is risking upsetting some international allies with the publication of some scathing reviews of their Year 2000 readiness. As part of the wider Government effort to provide the public with the best information available, the Foreign Office is publishing 'country statements' relating to the Y2K preparedness of other countries. Travel advice notices will also be updated to include a reference to the potential for Y2K disruption. The first 50 have been published and a further 75 statements will be added to this list in due course.

<http://www.accountingweb.co.uk/cgi-bin/item.cgi?id=6541&d=101>

Standard on risk management

The first standard on risk management originally issued in 1995, in Australia and New Zealand, was revised earlier this year. The standard is available from www.riskmanagement.com.au for approximately £20.

Banks to step up risk management

A new survey by Deloitte & Touche has found that almost a quarter of leading global banks are to implement additional risk management techniques because existing models failed to prevent losses caused by recent financial turbulence. The banks recognise that 'value at risk models', in particular, fail to perform during rough market conditions, and 24 per cent of respondents will re-enforce existing techniques with the 'extreme value theory' to deal with exceptional events. Over half of those surveyed plan to implement systems to measure extreme stresses on liquidity.

<http://www.deloitte.co.uk/sectors/financial/bankingsecurities/riskmansurvey.html>

Internal Audit Books Available On The Internet

The Chartered Institute of Public Finance (CIPFA) in the UK publishes a range of books on public finance and internal audit. These are now available for purchase, with a 20% discount in December 1999, by credit card on-line at: <http://www.cipfa.org.uk/publications>

AuditNet

AuditNet is a conceptual model developed by Jim Kaplan. The original concept was for a central electronic resource for the audit community that would provide a link for auditors worldwide. The initial concept has evolved into a network of resources available for auditors. The AuditNet concept now has the auditor as the hub of a wheel. The spokes of that wheel represent resources available for professional auditors. Some of those spokes are connected by pointers via the Internet while some spokes are islands unto themselves. A listing of those electronic resources is updated and distributed monthly via the Internet. The AuditNet Home Page at <http://www.auditnet.org> and the hypertext version of the Kaplan's AuditNet Resource List (KARL) now operate as the hub of the wheel for the Auditors Network on the Internet.

ACCA INTERNAL AUDIT SUB-COMMITTEE

The Internal Audit Sub-committee is a sub-committee of ACCA's Auditing Committee. The terms of reference of the sub-committee are:

1. To promote, in co-operation with other relevant professional bodies, the development and best practice of internal audit.
2. To bring to the attention of the Audit Committee developments in internal audit practice which are considered to be relevant to the ACCA and its members.
3. To consider and comment on any significant internal audit issues.
4. To keep under review developments and any policies, procedures or regulations relating to corporate governance so far as these concern internal auditors.
5. To consider whether there are additional services in the form of newsletters, networking facilities or training which ACCA could usefully and practically offer to its members who are internal auditors.
6. To consider whether there are topics for research on internal audit which should be referred through Audit Committee to the Research Sub-committee.

7. To monitor the output of other professional bodies and authoritative groupings in regard to internal audit matters.

8. To be aware of, and through Audit Committee to liaise with the External Affairs Committee on, the public relations potential of the Sub-committee's work.

The Chairman of the Sub-committee is Richard Nelson, Controller of Audit at BG Plc. The other members are senior internal auditors or internal audit specialists covering the public and private sectors. The Internal Audit Bulletin editor, Andy Wynne, is a member of the Sub-committee, and

YOUR IDEAS

If you want us to cover some aspect of internal audit then please let us know. Or if you want to submit your favourite tip then please send it to us. If you have any comments about this bulletin then please let us know.

Please email us at: bulletin@lineone.net

Mark your input as user tips or help! as appropriate. 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 ACCA Internal Audit Bulletin.

UNDP DOCUMENT ON THE IMPORTANCE OF INTERNAL AUDIT

Ato Ghartey (UNDP in Harare, Zimbabwe) has given permission for us to reproduce the following draft paper on the importance of internal audit. If you have any comments on this paper we would be happy to include them in future issues of this bulletin:

(draft 99/04/26)

REJUVENATING GOVERNANCE INTO THE NEXT MILLENIUM THROUGH INTEGRITY, ACCOUNTABILITY AND TRANSPARENCY

THE PUBLIC SECTOR INTERNAL AUDIT MODULE

EXECUTIVE SUMMARY

This proposal is the Internal Audit module of a generic Integrity, Accountability and Transparency (IAT) model developed by the UNDP's Programme for Accountability and Transparency (UNDP/PACT). Internal Audit is a review and appraisal of the accounting and internal control systems of government or management. The IAT model hypothesizes that together integrity, accountability and transparency form a triplet crystal that constitute the foundation, pillars and cornerstone of good governance.

The significance and potency of internal audit as a critical tool for good governance, integrity, accountability and transparency have not been fairly portrayed or adequately explored in recent good governance endeavours. Some of these endeavours have had the tendency of placing the cart before the horse. Primary emphasis has been placed on external or independent audit of the operating performance and financial statements "or value for money audit" of the government or the entity.

Without effective controls and internal audit, an audit trail for operating performance or reliable financial statements may not be available for the external auditor to audit. The more logical, effective and efficient approach to instill discipline and integrity in government or management would be to focus first on the efficacy of operating and accounting system and process. This proposal helps to fill this void and realign priorities in good governance initiatives and endeavours.

The proposal explains what internal audit is, the differences, similarities and linkage between internal auditing and external auditing, why internal auditing is required and how it can help to enhance discipline and integrity in government and management. Internal control is most effective when controls are built into the country's or the entity's infrastructure and as a part of the essence of the society or enterprise. Built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions. Effective internal controls would help a country or an entity to get to where it wants to go, and avoid pitfalls and surprises along the way. Finally, the proposal recommends the creation of a regulatory and institutional framework and capacity for the establishment of internal audit units at the central government level, each unit of government at both centralized and decentralized levels, key public sector institutions, and the banking sector.

BACKGROUND

For obvious good reasons, Good Governance, Integrity, Accountability and Transparency have joined the popular buzzwords in both international and national development, political and socio-economic jargons. Trust or mistrust can have a tremendous impact on the progress of a country. Without a climate of trust, achieving peace, tranquility and confidence may be impossible. A culture based on fabrication, rumour mongering, corruption, graft, greed and avarice, incompetence, inefficiency and such other factors that result in mistrust can be extremely damaging to morale and productivity. Confidence in leadership is lost, breeding apathy, loss of momentum and ultimate ineffectiveness and internecine strife.

Integrity, Accountability and Transparency (IAT) constitute a triplet crystal that form the foundation, pillars and cornerstones of good governance. In environments where good governance is lacking, integrity (trust), accountability (responsibility) and openness (transparency) can help build good governance. On the other hand, in environments where good governance already exists, if trust, responsibility and openness break down, good governance crumples and disappears.

The above and similar concerns have brought forth a plethora of suggestions, blueprints, and frameworks on how to achieve good governance, integrity, accountability and transparency. In the process, priorities have either been forgotten, neglected, displaced, misplaced or confused. Similarly, criminal, civil, ethical and professional lines have been blurred. For example, such issues as extortion, embezzlement, misappropriation of funds and fraud which may qualify as criminal acts; or misapplication of funds, negligence, mismanagement, and inefficiency which may qualify as professional misconduct/incompetence; or nepotism, sexual favours and other immoral considerations, lobbying and undue influence, and tips, gifts and gratuitous offers that deserve subtle cultural considerations, have been accorded global considerations under such themes as corruption or governance. Similarly, the difference, similarities and relative significance of External/Independent Auditing and Internal Controls/Internal Auditing have been glossed over, misunderstood or confused.

It is important to recognize that everybody cannot do everything at the same time. Clarity, focus and shared responsibility with commensurate integrity, accountability and transparency are the keys to making a difference in good governance initiatives. It is also important to recognize that finance constitutes the lifeblood of society. Financial decisions or implications pervade almost every aspect of good governance and human activity.

Internal Control and Internal Audit help to clarify, plan, design, share and focus responsibilities and functions, safeguard assets, and monitor and evaluate performance for integrity, accountability and transparency. Internal Audit nourishes and sustains Internal Control. In turn, internal controls and internal audit together nourish and sustain integrity, accountability and transparency for good governance.

Internal control consists of five components. These five components to be described in detail below are: the Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. There is a synergy among these five components of internal control. The five components form an integrated system that reacts dynamically to changing conditions.

Internal control is most effective when controls are built into the country's or the entity's infrastructure and as a part of the essence of the society or enterprise. Built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions. Effective internal controls would help a country or an entity to get to where it wants to go, and avoid pitfalls and surprises along the way.

OBJECTIVES OF THE INTERNAL AUDIT MODULE

- Clarify the differences and similarities between internal auditing and external auditing.
- Stress the importance of internal control and internal auditing as the most critical strategy for maximizing effectiveness and meeting good governance challenges.
- Help governments and management understand that internal control and internal auditing are inherent to the quality, effectiveness and efficiency of the organization.
- Determine baseline and destination (provide new insights and directions) for internal auditing for selected countries through diagnostic studies.
- Recognize many facets and dimensions of internal auditing.
- Adopt a broad-based, multi disciplinary, and holistic strategy and approach to internal auditing but with emphasis on the public sector.
- Establish or strengthen internal auditing legal and regulatory framework.
- Sharpen existing internal auditing diagnostic, monitoring and evaluation tools and instruments.
- Develop new tools and instruments.
- Consolidate and strengthen existing tools and instrument.
- Strengthen, streamline or create institutional capacity.

OUTPUTS

- Internal audit vision and concept effectively translated and communicated for government acceptance and commitment.
- Internal audit legal and regulatory framework established or strengthened.
- National Government internal audit together with internal audit unit for each government unit at both central and decentralized government levels, key public sector institutions, and the banking sector established by relevant enabling legislation.
- Internal audit institutional capacity strengthened, streamlined, or created.
- Existing internal audit tools and instruments strengthened and consolidated.
- New internal audit tools and instruments developed or strengthened.

INTERNAL AUDITING AND EXTERNAL AUDITING

“Internal auditing” is an appraisal activity established within the government or an entity as a service to the government or the entity. The functions of internal auditing include examining, evaluating and monitoring the adequacy and effectiveness of the government’s or entity’s accounting and internal control systems.

Internal control means all the policies and procedures (internal controls) adopted by the government or the management of an entity to assist in achieving the government’s or management’s objectives of providing reasonable (NOT absolute assurance) of the orderly and efficient conduct of business or discharge of responsibilities in the following areas:

- Compliance with corporate policy and applicable laws and regulations
- Effectiveness and efficiency of operations
- Reliability of financial and operational reporting

The role of internal auditing is determined by government or management. The objectives of internal auditing differ from those of the external auditor (or Supreme Audit Institution) who is appointed to report independently on the financial statements.

The external auditor has sole responsibility for the audit opinion expressed. All judgments relating to the audit of the financial statements are those of the external auditor. The external auditor’s primary concern is whether the financial statements are free of material misstatements.

On the other hand, internal auditing is part of the government or the entity. The objectives of the functions of internal audit vary according to the government’s or management’s requirements. Therefore, irrespective of the degree of autonomy and objectivity of internal auditing, it cannot achieve the same degree of independence as required by the external auditor when expressing an opinion on the financial statements.

Notwithstanding the above differences, some of the means of achieving their respective objectives are often similar. Thus, certain aspects of internal auditing may be useful in determining the nature, timing and extent of external audit procedures. For this purpose, during the course of audit planning, the external auditor should perform a preliminary assessment of the internal audit function when it appears that internal auditing is relevant to the external audit of the financial statements in specific audit areas. Such assessments may include examination of items already examined by internal auditing, examination of other similar items and observation of internal audit procedures. The external auditor would record conclusions regarding the specific internal auditing work that has been tested and evaluated, and determine the extent of substantive tests to be performed.

COMPONENTS OF INTERNAL CONTROL

Internal control consists of specific inter related policies and procedures which are often called "controls". These controls are classified into five categories as follows:

- Control environment
- Risk environment
- Control activity
- Information and communication
- Monitoring

Control Environment

The control environment is the foundation for the other four components of internal control. It sets the tone and influences the control consciousness of the organization. It provides the discipline and structure. It includes the integrity, ethical values, and competence of the people in the organization; management philosophy and operating style; the way management assigns authority and responsibility and organizes and develops its people; and the attention and direction provided by top management.

Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to the achievement of the objectives, and the determination of the basis for managing the risk under varying circumstances.

Control Activities

Control activities are the policies and procedures that help to ensure that management directives are carried out. They include a range of activities as diverse as authorizations, verifications, reconciliations, reviews of operating performance, custody and security of assets, and segregation of duties.

Information and Communication

Pertinent communication must be identified, captured and communicated in a form and timeframe that enables people to carry on their responsibilities effectively and efficiently. All personnel must receive a clear message that control responsibilities must be taken seriously. They must understand their own role in the internal system as well as how their individual activities relate to the work of others. Effective communication both internally and externally must exist.

Monitoring

Internal control systems need to be monitored. Monitoring is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

SCOPE AND OBJECTIVES OF INTERNAL AUDITING

The scope and objectives of internal auditing vary widely. They depend among other things on the size and structure of the entity and the requirements of its management. In general, however, internal auditing activities would include one or more of the following:

- Review, monitor and recommend accounting and internal control systems. The establishment of adequate accounting and internal control systems is a responsibility of government or management. It requires proper attention on a continuous basis. Internal auditing is ordinarily assigned specific responsibility by government or management for reviewing these systems, monitoring their operation, and recommending appropriate improvements and innovations.
- Examination of financial and operating information. This may include review of the means used to identify, measure, and classify and report such information and specific inquiry into individual items including detailed testing of transactions, balances and procedures.
- Review of the economy, efficiency and effectiveness of operations including non-financial controls of an entity or government.
- Review of compliance with laws, regulations and external requirements as well as with government or management policies and directives and other internal requirements.

TURNBULL GUIDANCE: 'INTERNAL CONTROL – GUIDANCE TO DIRECTORS ON THE COMBINED CODE

Issued in September by the ICAEW (UK) Control Working party chaired by Turnbull. This 15 page document is set to become very influential. It is currently available from: www.icaew.co.uk/internalcontrol

The report covers the following five areas:

1. The importance of internal control and risk management
 - links between internal control and risk management
 - profits are the reward for successful risk taking
2. Maintaining a sound system of internal control
 - sets out the responsibilities of the board of directors, management and employees
3. Reviewing the effectiveness of internal control effective continuous monitoring
 - board to receive regular reports
 - board to make an annual assessment
4. The board's statement on internal control: Significant business risks have been identified, evaluated and managed
 - throughout the year
 - regularly reviewed by the board
 - complies with Turnbull
5. Internal Audit
 - need for internal audit varies between companies
 - may provide objective assurance and advice on risk and control
 - without internal audit other monitoring processes are required
 - annual review of internal audit's scope, authority and resources or the need for such a function

The report also contains a new definition of internal control:

"An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of a company that, taken together:

- facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed;

- help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation;
- help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.”

RISK MANAGEMENT

The Turnbull Report emphasises the importance of a formal system of risk management. Below we have provided some guidance for internal auditors to enable them to review the risk management function within their organisation. We would welcome further examples for publication in this bulletin or we can provide further guidance on risk management in this bulletin if you would like.

System Objective: the organisation effectively manages all its significant risks.

- 1 Control objective: The Board is directly involved in developing and approving a suitable corporate risk management strategy
 - 1.1 The Board is actively involved in identifying and prioritising the major risks the organisation faces
 - 1.2 The Board approves the high level responses to the broad areas of risk which are of major concern to the organisation as a whole
 - 1.3 Guidelines that have been approved by the board are communicated to managers and staff
 - 1.4 The Board receives an annual report on risk management
 - 1.5 The organisation’s strategic aims and objectives are formally documented
 - 1.6 The Board has agreed the types and level of risks it finds acceptable and this has been communicated to managers
 - 1.7 A full review of all the risks that the organisation faces is undertaken every three years

- 2 Control objective: All the significant risks that the organisation faces have been identified and prioritised
 - 2.1 Risks have been identified at corporate, departmental and section level.
 - 2.4 A common risk language has been developed
 - 2.5 Appropriate use is made of risk models and/or the organisation’s objectives as aids to risk identification.
 - 2.3 The probability and impact of each risk is reviewed annually
 - 2.5 A risk register is maintained corporately, departmentally and in each section of the key (e.g. top 20) risks and the action taken to manage them.

- 3 Control objective: Suitable action is taken to manage all significant risks
 - 3.1 Responsibility for managing each key risk is formally designated
 - 3.2 Senior Management Team receive a quarterly report on risk management
 - 3.3 Action to mitigate all key risks is recorded - risks may be accepted; managed; modified; or eliminated; or contingency plans may be made for recovery

- 3.4 All managers receive appropriate training on risk management techniques
 - 3.5 All key risks are either accepted, avoided, reduced or transferred

 - 4 Control objective: The organisation has an effective change management process
 - 4.1 All significant changes are clearly identified and their objectives formalised
 - 4.2 Staff are clearly informed of the need for all key changes
 - 4.3 Where appropriate, staff are consulted on changes
 - 4.4 All significant changes have a named manager to be responsible for them
 - 4.5 Change plans and timetables and their timetables are formally reviewed and revised as necessary
 - 4.6 The risks associated with all major changes are clearly identified and action for their management identified and given to a named manager
- *****

THE MORNING AFTER THE MILLENNIUM BEFORE.

The year 2000 problem has been a major risk facing all computer systems. If your organisation has not undertaken appropriate steps to protect itself then significant disruption may result. Even if some action has been taken there are still approaches that should be taken to reduce possible side effects to a minimum. The advice we have reproduce below should allow internal auditors to provide suitable advice to the managers within their organisations on the steps that they can take to minimise potential problems as the dates on their computers change to 1 January 2000. It is reproduced from advice provided by the UK Health and Safety Executive.

Meeting the Year 2000 problem for the first time.

The main requirement is to ensure the safety of everyone who may be affected. You know your own workplace better than anyone else, so you are in the best position to identify the risks associated with equipment failure. Under the law, you should have already carried out risk assessments for each item of equipment and taken action to reduce identified risks to as low a level as is reasonable practicable.

Additional risks posed in the Millennium roll-over period include, but are not limited to:

- failures in equipment and systems caused by Millennium bug faults:
- scarcity of technical support, e.g. the supplier's service engineers may be working elsewhere:
- scarcity of supplies, e.g. the suppliers of the spares and consumables you need may be experiencing their own Year 2000 problems:
- interruption in the supply of utilities, e.g. an overload on the telephone service could result in problems in contracting the emergency services should the need arise.

This list is for purposes of illustration only - coping with the Year 2000 problem requires careful management of these and other associated situations. It is important that you should 'think before you act' on and after the first working day of 2000.

What are the priorities?

Firstly you need to build on the knowledge gained from the risk assessments that should have been undertaken and then consider what you need to do:

- before you begin operations on the first working day of 2000; and

- before you continue them on 29 December 2000 (the 'leap year' problem dates).

Then carry out the 'to do' checklist below. This will reduce the risk of a Year 2000 problem affecting your safety or that of your employees and others who may be affected by your operations, including the public.

Checklist

General pre-start requirements.

1. Appoint someone who will ensure that the remainder of this checklist will be carried out:
 - before any equipment is started (paragraphs 2-9 of this list): and
 - at start-up and in operation (paragraphs 10-19 of this list).
2. Make sure that everyone involved in the operation of the equipment is sufficiently familiar with its operation so that any change from normal operation can be recognised immediately.
3. Make sure that the operators, and other relevant personnel, know how to put the system into a safe state if a change from normal operation is detected.
4. Make sure that the equipment can be shut down safely on the loss of electricity and ALL other services if they fail simultaneously.
5. Check whether the emergency stop buttons operate independently of any computer-controlled system.
6. Test all hard-wired back-up, or protection, systems (if fitted), to ensure their correct operation.
7. Make sure that your on-site personnel are competent to shut down the equipment (or place it in a safe state) in the event of a fault that they are unlikely to have met before.
8. Authorise selected people to shut down the equipment (or place it in a safe state) if they consider that continued operation may be unsafe.
9. Check that if the equipment is shut down it will continue to be safe without the need for external services.

Equipment at start-up and in operation.

10. Decide on the action to be taken on occurrence of a fault in a safety-related control system:
 - is the equipment to be shut down immediately that a safety-related fault is identified?
11. Carry out all reasonably practicable pre-start checks to ensure correct operation before the equipment is started on each susceptible date (including leap year dates).
12. Test standby equipment to prove its operational capability.
13. Decide for how long you will observe the system/equipment following start-up in order to ensure its safety. Remember that all time-based functions should be seen to work correctly before close observation is ended.
14. Before the equipment is put into normal use. Check the functionality of the system/equipment in all modes of operation including those associated with maintenance, while your key personnel observe the system/equipment.
15. Where possible, check the time and date as given by your system clock prior to start-up of the equipment. Is the date correct?

16. Make sure that all key personnel are present immediately prior to the equipment being started.
17. Start up pieces of equipment one at a time and check for correct operation before moving on to the next item. This is especially important when items of equipment are integrated into a production line.
18. Operate the equipment under reduced risk conditions (e.g. reduced output/speed etc.) until you have confidence that the system is free from date-related faults. Make sure your staff are aware of your criteria for deciding that no Year 2000-related faults are present.
19. Make sure that competent observers are positioned at emergency stop buttons and at control panels, and that they are in direct communication with the operator so that if a date-related failure occurs it will be immediately recognised and the equipment placed in a placed in a safe state.

Key Facts

- The overriding requirement for a safe start to 2000, and safe continued operation through the year, is that failures of equipment and systems should be identified and dealt with as quickly as possible. In this respect, staff should be supported by competent supervisors and discouraged from taking action on their own initiative outside normal operating procedures.
- Staff should not be given the opportunity to take short cuts, or make unauthorised modifications in order to 'get things going again'. Any problems identified should be the subject of close co-operation between competent people. If necessary, you should enlist the help of the supplier of the equipment or other competent person.
- Remember that a Year 2000 failure may not be obvious; it may be masked by the operation of other safety-related systems. If a Year 2000 failure does occur, then the law requires you to make the equipment safe and ensure that it remains so, e.g. under manual control or by using a safe system of work.
- If you decide to continue to operate equipment under manual control, or by using a safe system of work as a substitute for a control system that has failed, then adequate management supervision should be provided to ensure continued safe operation.
- Operating for extended periods under these conditions places great strain on operators, supervisors and managers and is therefore not recommended.

BOOK REVIEWS

The Audit Society: Rituals of Verification
 Michael Power hardback 183 pages £ 9.99
 Oxford University Press 1997 ISBN 0-19-828947-2

Despite our professional prejudices, it is still useful to read a book which questions society's, perhaps undue, faith in auditing in all its forms and which also highlights the potential dysfunctional effects this profession can have on the organisations that are its subjects.

The book claims that: "audit has put itself beyond empirical knowledge about its own effects in favour of a constant programmatic affirmation of its potential". But, as this quotation shows, it does so using a vocabulary and style that may not be easily accessible to many readers.

The book sees an increasingly important role for internal audit in the new public management (NPM) where there is a trend for accountability and inspection to be internalised, both as part of the culture of devolution of responsibilities and also to make organisations more fully and formally auditable. Where an organisation's operations are difficult to audit directly, audit is made possible by auditing its internal controls. Where this is

also found to be impractical, auditing is made even more indirect by relying on internal audit or other internal review functions.

Although the book is about auditing generally, it includes a useful exposition of one of the roles of internal audit as a controlling agent within the organisation's external accountability framework. However, many internal auditors may also consider that they have a more positive role to play by introducing best practices and through the facilitation of risk management across their organisation.

If, as I consider, the prime objective of internal audit is to improve rather than merely report on the internal control system, then our opinion on the internal control system is merely a by-product of our work. If we accept this view, we should be able to break away from the idea that internal audit is subordinate to external audit. This view should also have a significant effect on our methodology. Discussions and forming a consensus with managers on the risks that they face and the appropriate controls that are necessary to mitigate these risks become central. The documentation and testing of current controls become less important.

The book is largely a-historic. The growth of auditing is not set in its historical context and descriptions of this process are described without providing adequate explanations for the increased demand for accountability and the associated audit of wider and wider processes. Without this historical context it is difficult to know how auditing will develop in the future. Is the spread of audit in to academic, health and environmental areas merely associated with the policies of NPM and the glorification of the market by recent governments? If so these trends may be reversed by the development and acceptance of alternative political views. If not, it may be a historical development taking place as a result of the public being better educated and more informed.

Whilst we may accept the need for audit to ensure public accountability this book identifies the problem that "audits may turn organisations on their heels and generate excessive preoccupations with, often costly, auditable process." Audit is not necessarily neutral. The audit of performance measurement may lead to organisations changing direction and putting more emphasis on those activities whose outcomes, or at least outputs, can be measured. VFM audit may not ensure that organisations are more effective. It may result in a change to their objectives rather than helping them to achieve their original objectives more efficiently.

"This book is not intended as the final word and ... [the author will] be content if others find it useful, interesting and provocative." I certainly found this to be the case and hope that other authors are able to develop some of its themes and so enable a deeper understanding of the role and possibly conflicting objectives of auditing.

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If you have read a book recently that you think would be of interest to readers of ACCA Internal Audit Bulletin then please send its details with your comments.

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Best wishes, and good luck on 1 January 2000!

Andy Wynne, Editor

* The End *
