
* ACCA INTERNAL AUDIT BULLETIN *
* ISSUE 6 - NOVEMBER 2000 *

INFORMATION FROM THE ACCA TO INTERNAL AUDITORS ACROSS THE WORLD.

The Association of Chartered Certified Accountants (ACCA) is the largest global professional accountancy body, with over 250,000 members and students in more than 160 countries. The ACCA's headquarters are in London and it has staffed offices in 35 countries.

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. We want to hear your news, views and comment. A guide to systems audit will be sent to all contributors to the next edition.

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ACCA Web site at: <http://www.accaglobal.com>
Back issues in RTF format may be downloaded from:
http://www.accaglobal.com/tech_dev.html

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1. NEWS

IFAC Issues Study on Corporate Governance

IFAC's Public Sector Committee has released for comment a new study directed at improving governance by public sector entities. Entitled Corporate Governance in the Public Sector: A Governing Body Perspective, the study provides an overview of accountability arrangements in the public sector, discusses various aspects of corporate governance and includes a corporate governance checklist for governing bodies. Internal auditors will find this an invaluable aid to auditing this area.

Governance is concerned with structures and processes for decision making, accountability, control, and behaviour at the top of organisations. For the purposes of this study, the term 'corporate' in corporate governance is given a broad application to all public sector entities. The diversity of the public sector, and the different models of governance that apply in different countries, rule out the development of one framework and one set of recommendations of corporate governance that would be applicable to all public sector entities. The study therefore aims to provide guidance by defining common principles and recommendations concerning the governance of public sector entities.

The study is available through the IFAC bookstore at <http://www.ifac.org>

Comments on the study may be submitted to EDComments@ifac.org or faxed to the IFAC Secretariat (1-212-286-9570) by 30 November 2000.

ESAAG to Revise Internal Auditing Guidelines

The Eastern and Southern African Association of Accountant Generals (ESAAG) is to revise its guidelines for the internal audit of government entities. The editor of this Bulletin, Andy Wynne, has been contracted to ensure that the revised guidelines reflect best international practice in internal auditing. The revised guidelines are to be launched at a workshop that is planned to be held in January 2001.

Deloitte's CSL Slammed By NAO

CSL, the outsourcing arm of Deloitte & Touche, was heavily criticised in September by a powerful UK parliamentary body for its work with a government body which saw a 'breakdown of financial controls'.

<http://www.accountancyage.com/News/1110975>

Ministry of Defence Finances Under Fire

The UK Ministry of Defence has been condemned for poor financial controls which led to millions of pounds of losses and excess expenditure, poorly-managed computing projects and fraud.

<http://www.accountancyage.com/News/1109598>

Kenya MPs Urge Donors to Halt Aid Over Graft Row

At the end of July a group of Kenyan legislators urged the IMF and the World Bank to halt aid talks with the government. They asserted that a select committee report into corruption that named several leading politicians had been amended to delete the names of dozens of politicians and civil servants who would otherwise have been on the "list of shame".

World Bank's IFC Seeks More Corporate Transparency

The IFC is to press companies in which it invests to improve the rights of their minority shareholders and make their financial statements more transparent. "It was time to make access to IFC finance conditional on good corporate governance practices", said IFC Executive Vice President Peter Woicke. "We are thinking that corporate governance should become part of conditionality."

The IFC's support is currently conditional on a range of environmental and social conditions, such as the prohibition of child labour. But corporate governance has so far not been among these considerations. Woicke noted that the IFC has supported efforts by the Brazilian and other Latin American governments to reform company law, and was now considering broadening demands for improvements.

No Guarantees of Quality

Many people may assume that the major international construction firms can be relied upon to provide high quality services. This assumption should not be left unquestioned by internal auditors looking at controls over their capital contracts. These should be as rigorous as for any other contractor. One international firm, Balfour Beatty, was involved in the Lesotho Highlands Water Project bribery and corruption trial in southern Africa that we reported on in the last Bulletin. The firm is also banned in Singapore from bidding for public projects. In June 2000 the FBI launched a major raid with the use of helicopters at their offices in the USA. In the UK they were involved in a tunnel collapse at Heathrow Airport and in July 2000 were fined half a million pounds by the Health and Safety Executive.

For guidance on the audit of the selection of contractors and consultants see the Your Ideas section below.

Aid Fosters Russian Corruption, Critics Say

Finance experts in Moscow said in July that foreign aid programs are feeding corruption and urge foreign lenders to clean up or clear out. Russians involved in the aid arena say while most projects are well intentioned, they are dismally executed and end up lining the pockets of corrupt Russian bureaucrats and ignoring local needs.

National Audit Office (UK) Saves £1.3bn of Public Money

The National Audit Office says it has met its target of saving £8 of public money for every £1 it spends. However, more than half of UK Government departments have had their accounts qualified by the National Audit Office.

<http://www.accountancyage.com/News/1107567>

Copies of the NAO value for money reports are available free from:

<http://www.nao.gov.uk/publications/vfmsublist/index.htm>

Turnbull 'missed opportunity' to improve governance reporting

The annual report and accounts from Boots the Chemist revealed shortcomings in the Combined Code for corporate governance, Edinburgh-based accounts monitor Company Reports has warned. A detailed analysis suggests that the box-ticking approach is still the norm. For more details, see:

<http://www.accountingweb.co.uk/item/23405/101/?128>

Transparency International Releases the Year 2000 Corruption Perceptions Index

The new index is based on multiple surveys from 1998-2000. "Our index is a vital reminder to the international community that far more must urgently be done to fight bribery," says TI Chairman Peter Eigen. <http://www.transparency.org/documents/index.html#cpi>

The World Bank should strengthen its anti-corruption initiatives in developing countries and in the countries in transition in Central and Eastern Europe, states Transparency International (TI), the leading anti-corruption organisation. TI Chairman Dr Peter Eigen said: "The World Bank can play a critical role in countering the global menace of corruption and we believe its work will be improved if it adopts the ten-point programme that we are presenting today."

<http://www.transparency.org/documents/press-releases/2000/2000.08.31.worldbank.html>

IFAC International Public Sector Accounting Standards

The International Federation of Accountants - Public Sector Committee is developing a set of recommended accounting standards for public sector entities. The first eight IPSASs, all on the accruals basis of accounting, were issued in May 2000 and cover the following areas:

IPSAS1 : Presentation of Financial Statements

IPSAS2 : Cash Flow Statements

IPSAS3 : Net Surplus or Deficit for the Period: Fundamental Errors and Changes in Accounting Policies

IPSAS4 : Effects of Changes in Foreign Exchange Rates

IPSAS5 : Borrowing Costs

IPSAS6 : Consolidated Financial Statements and Accounting for Controlled Entities

IPSAS7 : Accounting for Investments in Associates

IPSAS8 : Financial Reporting of Interests in Joint Ventures

All are available from the IFAC web site at <http://www.ifac.org>

IFAC Guidance on Ethics

Michael H Foulds OBE, a recent past-president of ACCA, has become a member of the IFAC Ethics Committee. The Ethics Committee is in the process of developing a new conceptual framework approach to independence based on a review of comments to its "Exposure Draft on Independence -- Proposed Changes to the Code of Ethics for Professional Accountants." At its meeting in Malta in March 2001, the Committee is expected to approve a revised document for either re-exposure for comment or issue as a

final pronouncement. The Committee is also studying recent pronouncements of the SEC and FEE on this subject.

<http://www.ifac.org/Guidance/EXD-Download.tmp?PubID=96087334487341>

The most recent update to IFAC's Code of Ethics and its Statement of Policies may be obtained through the IFAC Web site.

<http://www.ifac.org/Store/Category.tmp?Category=Ethics>

Moving advice from the ACCA

David Harvey, ACCA's Head of Small Business, draws up a checklist for businesses making a move.

<http://www.accountingweb.co.uk/item/23774/101>

Uganda Launches New Action Plan To Fight Corruption

A comprehensive government strategy and action plan on corruption was launched recently in Uganda. The new plan is titled "Government Strategy and Plan of Action to Fight Corruption and Build Ethics and Integrity in Public Office 2000-2002". The plan shows the government's commitment to fighting corruption over the next two years. Though ranked as the 11th most corrupt nation in the world last year by corruption watchdog Transparency International, Uganda has made big strides in the fight against graft in recent times. In 1999, the country's leading anti-corruption agency, the Inspectorate of Government, investigated and completed 2,382 cases out of 4,845 complaints.

In September the revised Leadership Code of Conduct Bill 2000 was tabled in parliament. This bill will require ministers, members of parliament and other high ranking public officials to declare their wealth or face dismissal or imprisonment.

ACCA and ZICA Hold successful meeting on Internal Audit in Lusaka

A successful talk on internal audit was held at the end of September in Lusaka, the capital of Zambia. The meeting was organised jointly by the Zambia Institute of Chartered Accountants (ZICA) and the ACCA. The audience included internal auditors from the Zambian copper mines, the University of Zambia and the Bank of Zambia amongst others. It also included representatives from a number of accountancy firms who are providing internal audit services and a range of financial managers. The meeting was chaired by Marian Munyinda, the Finance Manager at Dunlop Zambia Ltd and a member of the ZICA Committee. The Chief Executive of ZICA, Chitundu N. Mwango also supported the meeting on the platform.

The size of the meeting exceeded all expectations attracting a fee-paying audience of over 150 showing the appeal of this subject in Zambia. However, this did have its drawbacks. Whilst those at the back of the meeting sweated in the heat of Lusaka's late dry season the speaker and those at the front of the hall shivered under the effects of the powerful air conditioning!

Andy Wynne provided a wide-ranging and provocative talk entitled "Internal Audit - what is its value and where is it going?" This included the different types of internal control, the

objectives of internal audit and an introduction to some of the many approaches to internal audit. This led on to a lively and informed discussion on topics such as the value of pre-audit, the introduction of audit committees and the importance of widening the scope of internal audit beyond the financial aspects of internal control.

Pre-audit is the subject of an extract from a Nigerian report in the Your Ideas section below. We would welcome contributions on this subject from internal auditors who use and value this technique or from those who believe that other approaches are more effective.

International Integrity Awards Go To People of Courage

First ever Transparency International integrity awards go to people of courage in Morocco, the Philippines, Sri Lanka and Argentina. Winners of Transparency International's first-ever Integrity Awards highlight the dangers of fighting corruption. Transparency International (TI), the global anti-corruption organisation, announced the first winners of its new Integrity Awards at the end of September. "Fighting corruption requires enormous personal courage in many countries and today we are honouring people who have put their lives on the line," said Peter Eigen, Chairman of TI. He added: "We are recognising the courage and dedication of individuals and organisations fighting corruption around the world." http://www.transparency.org/documents/press-releases/2000/2000.09.28.i_award_winners.html

Need help remembering passwords...

...but don't want anyone else to know them? PassKeeper is a Windows utility keeps a list of your accounts with user name, password and notes - and stores them in an encrypted form. <http://www.passkeeper.com>

National Health Service (UK) Controls Assurance Standards

The National Health Service in the UK has developed a series of nearly 20 Controls Assurance Standards. These cover a number of non-financial areas and provide examples of appropriate controls and best practice. They are available from: <http://tap.ccta.gov.uk/doh/rm5.nsf/AdminDocs/CAStandards?OpenDocument>

Draft Revised Institute of Internal Auditors Standards

The Institute of Internal Auditors (IIA) issued a draft of their revised standards in June 2000. It is planned that the revised Standards will be effective from January 1, 2002. The draft standards are available from: http://www3.theiia.org/ecm/guide-frame.cfm?doc_id=722

Guide for internal auditors and managing risk

The Chartered Accountants in England and Wales have issued new guidance on the role and value of internal audit and the management of risk. This guidance, Risk Management and the Value Added by Internal Audit is available from: the ICAEW's Audit and Assurance Faculty at + 44 (02) 7920 8493

ACCAcademy.com begins life long learning revolution

ACCA has announced far-reaching plans to use the internet to deliver interactive lifelong learning to its global community of 250,000 members and students. The new development - known as ACCAademy.com - offers something for everyone - from interactive tuition and support for ACCA students to online professional development courses aimed at finance professionals in business and practice. Anthea Rose, ACCA's chief executive, commented: "ACCA is already the first body to allow students to register and enter their examinations via the internet. This new initiative makes ACCA qualifications and subsequent professional development even more accessible world-wide. ACCAademy.com will use the power of the internet to create a global learning community, bringing education and training within reach of anyone with an internet connection." <http://www.accademy.com>

2. 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:

<http://bulletin@accanet.com> or elenid.davies@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 ACCA Internal Audit Bulletin.

AUDIT COMMITTEE - PROACTIVE, REACTIVE OR COSMETIC

Gursharan Singh M.I.I.A. (Retired Audit Officer)
Presently giving lectures and in-house training and audit on the subject of Construction Contracts and Technical Consultants' Agreements.

This article was first published in the Institute Of Internal Auditors Malaysia quarterly newsletter 'Keeping In Touch' Issue No.2/2000

INTRODUCTION

1.0 Audit Committees have been generally established in various organisations, be they Government or Non-government organisations, Commercial or others. They are established either voluntarily or in compliance with the constitution or the rules under which

they are established. Organisations that seek external funding or are subject to the relevant regulatory authorities are also generally required to have audit committees. The main objective is that the financiers and the regulatory authorities need some assurance about the internal controls, their implementation and effectiveness, in the organisation's operations and management. It is hoped that the Audit Committee composed of independent members with high integrity and professional auditors with ethics would together create transparency and enable the investors, financiers and the relevant regulatory authorities to have the required confidence in the organisation management. This article will make reference only to companies listed on the KLSE.

STATUTORY REQUIREMENTS

2.0 The Kuala Lumpur Stock Exchange listing requirements [Section 344A] make it obligatory for companies seeking listing on the KLSE to appoint an Audit Committee. The objective is to ensure that the companies comply with the specified financial standards and disclosure policies developed and administered by the Exchange. Also the applicant companies are expected to follow certain practices aimed at maintaining appropriate standards of corporate responsibility, integrity and accountability to shareholders. These are consistent with the Exchange's commitment to encourage high standards of corporate disclosures. Section 344A further prescribes the minimum number, and persons who may not be members, to be appointed to the Audit Committee.

3.0 The main statutory functions of the Audit Committee are listed as

'TO REVIEW' with the auditor, the audit plan, and his evaluation of systems of internal accounting controls and audit reports. Also to review the assistance given by officers to the auditor, scope and result of the internal audit procedures, the balance sheet and the profit & loss account received and to submit them to the directors, and any related party transactions,

And such other functions as may be agreed by the audit committee and the board,

'TO NOMINATE' persons as auditors,

'AUDITOR' has the right to appear and be heard at audit committee meetings and subject to be called by the committee. On request of the auditor, audit committee meeting shall be called to consider any matter the auditor believes should be brought to the attention of the directors or shareholders, and

'TO REGULATE' its own procedures.

AUDIT COMMITTEE OF KLSE-LISTED COMPANIES

4.0 The annual reports issued by the KLSE listed companies, among other matters pertaining to the progress and future plans of the board for the company, will faithfully reproduce some of the requirements of Section 344A. Others will name the prominent members of the audit committee and provide additional information pertaining to terms of reference, functions, number of meetings to be held in a year, and in rare cases, provide a photograph of the audit committee members. This appears to be the extent of compliance of the prescribed listing requirements of Section 344A of the KLSE.

5.0 The annual reports do not provide any information regarding the progress achieved by the audit committee on several important aspects. The more important of these are its terms of reference or functions, the results of any reviews undertaken on the audit plan, evaluations of systems of internal accounting controls and audit procedures, audit reports, annual financial statements and any other functions agreed with the board or any matter brought up by the internal auditor of any subject important enough to be brought to the attention of the shareholders. It is impossible for the shareholders to ascertain whether the objectives and the commitment of the KLSE as envisaged in the KLSE listing requirements have been achieved. Furthermore, there appears to be no way of ascertaining whether the KLSE is satisfied that its objectives and commitment as stated in the Section 344A have been achieved. The shareholders, especially the minority shareholders, can make enquiry at the AGM but they may not be able to pursue the matter if the explanations are not satisfactory. Thus the minority shareholders may be deprived of the expected confidence level from the board, the audit committee and the KLSE.

6.0 The certificate of the external auditors normally express an opinion on the financial statements that they are in accordance with approved standards on accounting and auditing in Malaysia and in compliance with the requirements of the Companies Act. In rare cases a qualified or disclaimer certificate is issued. Again, the external audit certificate is of little help to the minority shareholders as the financial statements, with the notes, are a summarised version for the financial transactions for the year.

SUGGESTIONS & CONCLUSION

7.0 It is not possible to ascertain whether the Audit Committee in its present format is PROACTIVE, REACTIVE or just a COSMETIC addition to the company's organisation chart. It is respectfully suggested that the Audit Committees give their annual reports of what they examined, the recommendations given, their implementation, their effectiveness and the benefits derived.

8.0 Section 344A prescribes those who may not be appointed to the audit committee but make no mention about the duration of the appointment or the remuneration of the members who are appointed by the board. It would be appropriate that some guidelines be provided in this respect. It is suggested that the appointment should be at least of three years duration. This would provide the audit committee members a reasonable time span to make their recommendations and ensure their effective implementation, security of tenure and a reasonable honorarium.

9.0 It may be long overdue for members of audit committee to have some guidelines and training. This would enable them to perform their duties effectively to make their contribution consistent with their high status in the company's organisation and the expectations of the investors, especially the minority shareholders, fund managers [local and foreign] and regulatory authorities. The Internal Auditor looks to the Audit Committee for support and guidance in his endeavours to ensure that the company's financial controls function effectively and efficiently.

Respect for the Internal Audit is in tandem with respect for the Audit Committee

PRE SYSTEM IMPLEMENTATION CHECKLIST

Grant Gooding, Internal Audit Manager, Duncan Lawrie Limited

This checklist is designed to be used by internal auditors who are reviewing the implementation of new computer system. If you have any comments about this checklist please send them to this Bulletin.

1. Initial user requirements

- * User requirements have been identified, defined and costed.
- * Alternative possible solutions have been evaluated.
- * The decision to decide with the chosen solution has been taken following a review of the alternatives. A business case, where appropriate, has been completed in accordance with organisational standards.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

2. Tendering and preparatory work

- * The system tendering specification complies with the organisation's internal financial regulations.
- * The contractual "schedule of requirements" is complete and comprehensive.
- * Any customisation and bespoke work required to implement the system or tailor the system to the user requirements is defined and costed, and responsibilities allocated as to who will be responsible for the completion of these items and activities, and as to who will bear the cost.
- * All deliverables are properly set out and scheduled and responsibilities clearly defined, together with a clear statement as to who is to bear the cost.
- * There are adequate guarantees in the event of a failure of the system within contractual conditions.
- * The software and hardware contracts comply with best practice and provide for the best interest of the organisation. .
- * Appropriate reference sites are being visited prior to a decision on the software selection.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

3. Capacity planning

- * The selected system can cope with expected live data volumes without response time degradation or other functional problems. In addition, no field or file overflow problems are anticipated once the system goes live.
- * The network has adequate capacity to cope with the anticipated traffic volumes for the new system without significant degradation of response times.
- * The system will provide users with adequate response times.
- * Hardware sizing is properly carried out at the project scoping stage to ensure that the system will not be constrained by an inadequate hardware specification with the need for subsequent expensive hardware upgrades.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

4. Security

- * The security of the system is adequate.

- * The security of the hardware is adequate.
- * The security administration resources are adequate.
- * There is adequate off site storage of data.
- * Provisions is being made for an Escrow copy of the software to be filed with a third party for use in the event of the failure of the software supplier.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

5. Business case

- * All the potential costs, benefits, risks, opportunities and assumptions have been appropriately analysed and presented in the business case.
- * The recommendation / solution in the business case will meet the business objective.
- * All relevant aspects have been considered to ensure that the system will be delivered and implemented on time and within budget.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

6. Project and financial management

- * There is adequate segregation of duties for the new system to ensure that there is no possibility of defalcation or manipulation of the system as a result of poor internal controls and meets user requirements
- * Appropriate financial and other standards are complied with.
- * Adequate project management disciplines are employed on the systems selection and implementation plan to ensure that the system will be delivered and implemented on time and within budget.
- * Adequate project management change control procedures have been developed and used with new system.
- * An appropriate level of code control exists, particular where a contract company is used. For example, a source safe may be used.
- * There are adequate budgetary controls to ensure that the system will be developed and installed to the agreed budgetary criteria.
- * There are no changes to the chart of accounts after testing of the software until the live conversation has taken place.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

7. Systems development

- * An appropriate systems development methodology is being properly applied.
- * All feeder systems have been identified and any changes required have been identified and scheduled.
- * All interfaces for the new system have been fully defined and properly specified.
- * Adequate systems change control procedures have been developed and used with new system.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

8. Output

- * Output reports are properly designed and tested prior to going live.
- * Distribution of output has been determined and agreed.

- * If appropriate, there are proper controls to ensure that there is security for pre-printed cheque stationery.
- * Plans have been made for new stationery if required.
- * Archiving procedures are fully developed, scheduled and tested prior to going live.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

9. Testing

- * Pilot runs, or parallel runs if appropriate, are carried out over an acceptable period to ensure integrity of the application software, reconciliation processes and to familiarise the users with the system.
- * All interfaces have been tested.
- * System is properly tested prior to going live.
- * Any proposed changes to the Chart of Accounts are properly controlled and tested prior to going live.
- * Tests are carried out prior to going live to ensure that the system can be restored from back-up copies.
- * Any new screens are fully tested prior to going live to ensure that there are no "knock on" effects.
- * The period end and year-end roll over procedures have been adequately tested prior to going live.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

10. Conversion process

- * All cost and account codes on the system are properly reconciled to ensure that the file creation process has been successful.
- * The file conversion and creation process will allow the open item detail to be brought forward from the old system to the new system without loss of detail i.e. Not merely "balance forward".
- * Accounting balances are accurately and completely carried across and reconciled prior to going live.
- * Arrangements have been made to ensure that the interfaces are fully reconciled during live running.
- * Completeness, authorisation and accuracy controls to provide assurance as to the integrity of the data on the system.
- * There is a complete audit trail for all ledgers.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

11. Contingency planning

- * There is an adequate contingency plan for use in the event that the system does not work or the implementation is delayed to ensure that business continuity can be maintained in the event of a system failure.
- * Going live is contingent on the successful completion of a pilot / parallel run.
- * The system implementation plan is running to schedule.
- * All aspects of this section have been authorised and signed off at the appropriate level of management.

12. Documentation and training

- * The documentation of the system is adequate.
 - * The documentation for the user is adequate.
 - * Adequate user manuals and user documentation on the system is prepared and checked prior to going live.
 - * There is an adequate programme of user education to ensure that the users are fully conversant with the system prior to going live.
 - * All aspects of this section have been authorised and signed off at the appropriate level of management.
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AUDIT GUIDE TO THE SELECTION AND APPOINTMENT OF CONTRACTORS AND CONSULTANTS

This audit guide is designed to be used to review the adequacy and reliability of controls over the appointment of contractors and consultants. If you have any comments about this guide please send them to this Bulletin.

System Objective: Suitable consultants and contractors are appointed for all development schemes

1 The approved lists of consultants and contractors are regularly updated with appropriately vetted contractors

1.1 Each select list is of sufficient size and identifies work type and value to be undertaken. Contractors/consultants can be added during year upon suitable approval

- check when a sample of contractors/consultants were reported to committee
- check number of contractors/consultants on a sample of select lists

1.2 Suitable financial vetting is undertaken dependant on the contract value range

- confirm a/c received for last three years
- credit rating agency report on file dated just prior to invitation to tender and contract signing for each contractor

1.3 Suitable references taken up:

- from other similar organisations
- professional references/warranty insurance companies
- public liability insurance of at least £2m (check insurance certificate is current)

1.4 Other vetting etc undertaken:

- suitable organisation and capacity report from contractor on file
- equal opportunity policy from contractor on file
- Health and Safety policy from contractor on file
- contractors/consultants should declare not related to the organisation's officers and vice versa

1.5 Annual reporting of select list board etc each year. Check:

- when last two reported for consultants and contractors
- that included contracts and value of work in last two years
- report on quality of work on each scheme (especially for consultants) included in the report
- suitable reason provided for any removals
- check (by phone) any gone out of business

2 Suitable contractors are invited to tender for each of the organisation's contracts

2.1 Suitable number selected from select list to tender in accordance with standing orders or Financial Regulations (usually three to six). Contractors are requested to confirm their interest in writing

- record number (from contract register)
- for any refusals enquire why did not return tender
- check those invited to tender are on select list

Tender list is independently reviewed for suitability to project criteria

2.2 Professional consultants are appointed by competitive fee bid for all jobs of more than £10,000 to provide technical assistance. Consultant % or rates should be competitive

- are fee bids obtained?
- are they disclosed in annual report tender board etc?

2.3 Authorisation should be required to appoint specialist contractors/consultants not on the select list who undergo a similar vetting procedure to that to be included on the select list

2.4 Formal tenders are not required for contracts of less than £10k. Three written quotations for contracts less than this but more than £2k

2.5 Contractors given at least three weeks and for larger contracts one to three months to submit tenders

2.6 Tender documentation is independently reviewed by technical staff to ensure project requirements are addressed

2.7 Tenderers are requested to acknowledge receipt of tender documentation and confirm their continued intention to submit a tender

2.8 Double envelope used for tender submission; outer giving tender opening date and time; inner address of contractor so can be returned unopened if late

2.9 Tendering procedures are adequate to ensure that the organisation obtains competitive prices and follow the recommendations in the Corporation's Capital Funding System Procedure Guide and EC Procurement Directives are followed

3 Tenders are received, stored and opened in an adequately controlled manner

3.1 Tenders are received independently of project officers, stored unopened in a secure place. Tender envelopes do not include the name of the contractor. The time and date of receipt are recorded on the envelope and receipt given if delivered by hand.

3.2 Tender opening occurs promptly after closing date/time and suitably witnessed by at least two staff independent of the project office etc

3.3 Tender book suitably written up and ruled off to prevent additions. The following details are recorded:

- scheme name and description or category of work

- date of tender invitation and deadline for receipt of tenders
- list of contractors invited to tender
- tendered figures and the basis of the tender
- the contract period
- recommended action eg refer to quantity surveyor, evaluation panel or re-tender
- the successful contractor

3.4 Tender book and forms of tender signed by all the witnesses at time of opening

4 The contract is awarded to the contractor who appears to provide the most suitable tender bid

4.1 Lowest bid - bill of quantities is called for and reviewed by quantity surveyor (and second if close)

4.2 Quantity Surveyor's report taken to tender board on suggested contractor and confirm that their price and insurance cover OK

4.3 10% performance bond is received from the contractor's insurers or bank, for contracts over prescribed value (eg £100K)

4.4 On negotiated contracts (eg some design and build) the Quantity Surveyor/Project Manager produces a 4/5 page report on estimated costs to be compared to contractor's bid. Acceptance of these contracts is suitably authorised

4.5 The lowest price quoted is accepted unless an adequate explanation is recorded and authorised

4.6 Appropriate standard forms of contract (eg JCT 80/81) are used which are agreed with the Organisation's solicitor

5 Suitable management information is produced to ensure that the selection of contractors can be effectively monitored

5.1 Suitable information is provided for senior managers to monitor the appointment of contractors

- details of the select list are reported each year
- value of work provided by each contractor recorded
- details of any contracts awarded to contractors not on the select list
- details of all significant contracts and who awarded to
- details of contractors' placing in each tender in which they are included

5.2 The tender book is available for members to inspect at relevant meetings
5.3 Suitable monitoring management information is provided to members at least annually on:- The number and value of contracts awarded to each consultant and contractor in the last two years

- The select lists of contractors and consultants and any changes in the year
- An assessment of the quality of work of each consultant and contractor who has worked for the organisation in the last two years

5.4 Unsuccessful tenderers should be informed promptly of the firms bidding (in alphabetical order) and the level of bids (from lowest to highest).

EFFICIENCY OF PRE-PAYMENT CHECKS AS AN APPROACH TO INTERNAL AUDIT

Public Service Review Commission September 1974 Udoji Report, Nigeria
Chapter 7 Finance Management pg 58 - 66
Over-Checking

214. The Commission has found that checking in the civil service is excessive, and indeed is almost carried to a point regardless of cost. A case in point is the situation in "self accounting" ministries - that is, ministries which are themselves responsible for maintaining detailed record of revenue and expenditure. Payrolls once prepared are immediately checked by staff, independent of the preparation function, drawn from within the payroll area. The internal audit division of the ministry then undertakes a further 100 per cent prepayment check and some months later external audit carry out a test check on the payrolls. Two points arise from this example. Firstly, in view of the provision in Financial Instruction 2207 which prohibits internal audit personnel from employment 'on accounting duties or on the internal check of accounting records' we recommend that internal check, provided from within the payroll area be strengthened and that a move be made towards eliminating the prepayment or 'internal check' function of internal audit to comply with Financial Instruction. Secondly, if this were done, internal audit would have more time to pursue its intended functions, which should not be part of the day-to-day control system but rather an independent review of the day-to-day controls, so as to be able to advise management on their effectiveness and means of improvement. The product of such a review should be a reduction in the amount of routine checking and the introduction of more effective control systems. We recommend a programme of training for internal auditing staff in modern auditing techniques, such as random sampling, internal control questionnaires, flow-charting, etc in order to alleviate the problems caused by the present shortage of staff and to increase efficiency.

215. Two other examples of inefficiency in financial control may be cited as illustrative. The authorisation and payment of small amounts for local purchases entails a chain of five staff grades: Executive Officer, Senior Clerical Officer, Clerical Officer, Clerical Assistant and Typist. This could be reduced to two, Executive Officer and Clerical Officer, and two redesigned forms could take the place of seven. Again, each purchase requisition now requires the typing and writing of about 190 words; a simplified procedure could make do with 70 and the work content could be reduced by about 50 per cent. The same chain of five staff is required for the authorisation and payment of staff leave allowances, hotel bills and miscellaneous expenses. Several checks and double checks are made and five different forms are used. An adequate procedure need entail only an Executive Officer and Clerical Officer, with three checks and two forms being eliminated, and the written work per claim being reduced from 70 to 40 words; the clerical work could be roughly halved. (See Appendix 8 for details). A further example of inefficient methods is to be found in the monthly expenses summary, returned from each ministry to the Ministry of Finance. It is an important element in financial control and is often late; expenditures incurred in May and June were being processed in late September. The procedure in the Ministry of Works involves the copying and addition of 1,800 amounts each month. Re-designed forms and

paperwork could reduce the postings to 900 amounts a month and expenditure summaries could be made available more promptly. Mispostings and errors could be minimised by simple clerical aids. Overall, the work content could be reduced by at least 50 per cent.

216. Tightness of financial control makes for lengthy procedures and that the procedures in their turn require inordinate numbers of lower grade staff. Clearly, checking there must be. But the necessity for each check and the time spent on it must be determined in the light of a realistic assessment of the cost in money and time. When the administrative apparatus becomes so clogged with checks and rechecks that the flow of public business is almost halted by bottlenecks at many points on every level, the safeguards may cost more than they are worth. Most important, the existence of bottlenecks makes for corruption, though it would be going too far to contend that they are the only source of corruption. People, however, pay to circumvent the bottlenecks. And the spectacle of the wealthy being able to evade the checks, while the poorer cannot, carries threats to the stability of any political regime. Both on the ground of the misuse of the country's human resources and on the ground of the political implications of corruption, all procedures should be subject to recurrent review and revision by Organisation and Methods experts.

3. PUBLICATIONS AND RESOURCES

Internal control in banks

The Bank for International Settlements has a range of documents - available from <http://www.bis.org/publ/index.htm> - of interest to internal auditors working for banks this includes:

- * Framework For Internal Control Systems In Banking Organisations
- * Basle Committee on Banking Supervision September 1998

The World Bank also published a book on banking risk earlier this year: *Analysing Banking Risk: A Framework for Assessing Corporate Governance and Financial Risk Management* Stock No. 14417 (ISBN 0-8213-4417-X). US\$100.00. Further details of this publication are available from: <http://www.worldbank.org/html/extpb/bankrisk.htm>

AnCorR Web - <http://oecd.org/daf/nocorruptionweb/index.htm>

The OECD has developed a comprehensive world-wide information resource on corruption and bribery. This includes information and data, research and analysis, in-depth diagnosis and policy dialogue. It also includes listings of references on related topics for countries and regions across the world.

INTERNAL AUDIT BOOKS AVAILABLE ON THE INTERNET

<http://www.cipfa.org.uk/publications>

The Chartered Institute of Public Finance (CIPFA) in the UK publishes a range of books on public finance and internal audit. These are available for purchase by credit card on-line.

AuditNet - <http://www.auditnet.org>

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. Pointers via the Internet connect some of those spokes while some spokes are islands unto themselves. 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.

NEWLY ADDED RESOURCES:

Basic Guide for Non-Profit Financial Management

(www.mapnp.org/library/finance/np_fnce/np_fnce.htm) Web site provides all the basics including audits of non-profit financial management practices.

COSO (www.coso.org/main.htm) Web site provides information about the Committee of Sponsoring Organisations of the Treadway Commission.

Internal Financial Controls for Charities (www.charity-commission.gov.uk/cc8.htm) provides guidance for non-profit organisations with basic controls, controls over receipts, expenditures, purchases and assets.

The Southern African Institute of Government Auditors

The Southern African Institute of Government Auditors was founded in 1988.

The objectives of the Institute are broadly defined and encompass the promotion and advancement of accountability and auditing. Since the principles of government auditing are based on the generic principles of auditing, the Institute strives to promote auditing in its wider context.

Unlike most accounting Institutes, the Southern African Institute of Government Auditors is not a trade association, but it focuses on the advancement of the disciplines of accountability and auditing.

Its website at - <http://www.saiga.co.za/default.htm> - includes a range of information including:

news releases & communication; publications; standards & guidelines members courses Public Finance Management Academy; PFMA Discussion Forum; contact details; & links.

FRAUDINDEX - THE WEEKLY E-NEWSLETTER ABOUT FRAUD

In New York City recently, some department store employees were caught illegally swiping customer credit cards into hand-held "scanners." The scanners captured the personal information from the "strip" and were then

illegally used to create fraudulent credit cards.

The solution? Request to swipe the card yourself. Merchants in growing numbers will be happy to accommodate you. It may be an inconvenience, but, it may save you from being a victim of identity fraud.

Visit www.FraudIndex.com for solutions to other fraud scams and schemes making the news.

INTERNAL AUDIT RESEARCH: THE FIRST HALF CENTURY (Gerald Vinten 1996)

A review of the contribution that internal audit research has made in the last 50 years. It focuses on the research work of the Institute of Internal auditors which has helped to propel internal audit from a semi-professional to professional status.'

Order from email: publications@accaglobal.com

Please let us know if you have found any references on the Internet that you think that other internal auditors would find useful, we can then include the information in the Bulletin.

4. BOOK REVIEW

CONTROL MODEL IMPLEMENTATION: BEST PRACTICES

James Roth Published by IIA (USA) ISBN 0-89413-390-X
1997 \$85 Paper back 455 pages

Way back in 1992, in the UK, the Cadbury report recommended that companies should report "on the effectiveness of their system of internal audit control". External auditors have been attempting to avoid their responsibilities under this recommendation ever since, but across the public sector most internal auditors implement this recommendation each year in their annual report.

That is not to say that this is an easy task and many internal auditors have thought long and hard about their annual opinion and what is meant by "effective" in relation to internal control. What we require is a control model that details the requirements of an effective internal control system in a suitable conceptual framework. This framework should allow is to piece together all the myriads of pieces of evidence about our organisation's internal control system into a coherent overall opinion that the members of our audit committee will understand and value.

The COSO report, originally published three months prior to the Cadbury report, provides just such a framework. Although developed in the US it has been accepted as the control model for reporting on internal control in the UK. Guidance issued to companies on the

implementation of the Cadbury recommendation on reporting on internal control used the COSO model. Similar guidance subsequently developed by the NHS Executive and the Housing Corporation also uses this framework.

At the core of the COSO model are the five components of internal control:

- * control environment - the ethical culture of the organisation, its structure and personnel policies and procedures;
- * risk management - the procedures necessary to systematically identify, assess, address and monitor the significant risks that organisation faces;
- * information and communication - the management information, financial and operational, necessary to effectively manage an organisation;
- * monitoring - review of the other four components by managers, internal auditors and others.
- * control procedures - the policies and procedures that ensure employees carry out management directives.

For internal auditors who consider themselves to be professionals the COSO report (available from www.coso.org/main.htm) is required reading. However, it is accepted that this is not an easy read and much work is required to convert the conceptual framework into a workable tool.

"Control Model Implementation: best practices" documents work undertaken by nearly 50 internal audit sections in the US and the UK to implement the theoretical model provided by the COSO report. This is not an abstract volume and most of the book consists of exhibits that provide a wealth of practical detail of a range of approaches to this task. The book recognises that "the state of the art" in control model implementation is still at a relatively early stage in its evolution. However, where attempted it has been successful and the benefits of implementation almost always meet or exceed expectations. "The best news is the remarkable satisfaction implementers express for their results. Almost without exception, their initial fears turn into enthusiasm for the benefits."

The one draw back I found with this book was the lack of criticism of the individual practices that are described. But as long as the reader does not accept the tools described uncritically this should not be a significant weakness. Whether you consider yourself to be on the leading edge of internal audit practice or whether you are merely interested in practical tools that can make your work even more effective, this book should be an important part of your library. Andy Wynne

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. A guide to systems audit will be sent to any contributors who submit a book review for our next Bulletin.

5. 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 liase 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 Lattice Group Plc. The other members are senior internal auditors or internal audit specialists covering the public and private sectors. The Internal Audit Bulleting editor, Andy Wynne, is a member of the Sub-committee.

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Best wishes

Andy Wynne, Editor

* The End *
