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\* ACCA INTERNAL AUDIT BULLETIN \*

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Information to and from internal auditors across the world.

ACCA is the largest global professional accountancy body, with nearly 300,000 members and students in 160 countries. ACCA headquarters are in London and it has 31 staffed offices around the world. ACCA's mission is to provide quality professional opportunities to people of ability and application, to be a leader in the development of the global accountancy profession, to promote the highest ethical and governance standards and to work in the public interest.

Further information on ACCA is available on ACCA's website: <http://www.accaglobal.com>

This Bulletin aims to provide up-to-date news, information and comment for internal auditors across the world. The success of the Bulletin depends on your contributions. We want to hear your news, views and comment. A set of audit guides for the audit of finance systems will be provided to all contributors to the next issue.

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Back issues in Rich Text Format (.rtf) may be downloaded from: [http://www.accaglobal.com/tech\\_dev.html](http://www.accaglobal.com/tech_dev.html) (select 'Technical publications and links')

#### IMPORTANT - ARE YOU ALL RECEIVING THE BULLETIN?

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

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

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

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## NEWS

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### LOCAL GOVERNMENT'S GOVERNANCE - THE CIPFA/SOLACE FRAMEWORK

The Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Chief Executives and Senior Managers (SOLACE) (both UK) have published a key Framework document on Corporate Governance in Local Government. This carries the endorsements of the Local Government Association (LGA), Audit Commission, Accounts Commission and Convention of Scottish Local Authorities.

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

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### NEW GUIDE AIMS TO TAKE 'MYSTIQUE' OUT OF RISK MANAGEMENT

The Association of Insurance and Risk Managers (AIRMIC) has published new professional guidelines for risk reporting, which will help organisations meet the challenge of complying with corporate governance requirements. The guide will help organisations comply with the Combined Code, the standards under which companies listed on the London Stock Exchange are managed. It recommends managing risk for reward applying a process architecture and using risk management information to aid decision making.

The A5 booklet is free to AIRMIC members and costs £30 for non-AIRMIC members. It can be ordered on 020 7480 7610 or via: <http://www.airmic.com>

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### IIA ISSUES IT DISASTER GUIDANCE

The Institute of Internal Auditors (IIA) (UK) in May published new guidance on IT disaster recovery which is intended as a blueprint for action when catastrophe strikes. David Bentley who led the IIA's IT Committee in developing the guidance, highlighted pre-emptive planning, focussing on all systems and leadership, as crucial in times of emergency.

Bentley said: 'The frenetic pace of commerce, the need for round-the-clock, global accessibility and the growing expectations of the marketplace mean that organisations must address - and readdress - the possibility of disaster before it strikes. The role of internal auditors and risk managers in creating the right control culture to ensure business continuity is pivotal. This guidance gives them a blueprint for action'.

The guidance is available free to members, and for £10 to non-members by e-mail from:

[publications@iia.org.uk](mailto:publications@iia.org.uk)

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### AUDITOR UNEARTH'S MULTI-MILLION POUND NHS FRAUD

The suspicions of an internal auditor eventually led to four years' imprisonment for a doctor found guilty of fraud. An auditor at Gwynedd Hospital in Bangor, Wales (UK), spotted that Dr Dimitri Padelis had been submitting inflated invoices. Padelis, who ran a locum agency, is believed to have made up to £4m from the act.

Found guilty of two counts of fraudulent trading and three of false accounting between 1991 and 1995, Padelis was jailed for four years, fined £100,000, and banned from being a director for five years. Among the victims was the Great Ormond Street Children's Hospital, duped out of £12,000, however, the actual number of National Health Service trusts affected will never be known. Southwark Crown Court heard that one in five invoices sent out by Allcare, Padelis' agency, contained inflated hours. Repeated claims for travel expenses and National Insurance Contributions were also made.

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### UK LEADING LIGHT IN HEALTH AND SAFETY IN THE WORKPLACE

The UK leads in Europe on health and safety, independent research has revealed. A report on European Health and Safety week, which took place last autumn, revealed that the situation in the UK is exceptional in comparison with other European countries, with more than 5,000 activities, major advertising initiatives and a variety of actions every year.

This year's European Health and Safety Week will begin on 15th October and will focus on the prevention of workplace accidents with the theme 'success is no accident'.

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### UK FIRMS ARE DANGEROUS PLACES TO WORK

In complete contrast to the report above that the UK is a leading light on health and safety in the workplace, research conducted by RRC Business Training has determined that up to a quarter of the UK's leading businesses are breaking related law. Such businesses are failing to ensure that staff receive the required health and safety training, and also failing to assess the workplace to guarantee it is a safe and healthy environment.

RRC Business Training claims that UK firms are taking too many chances with the health and safety of their workers and reports that the Health and Safety Executive (HSE) has assessed the cost to employers of workplace injuries and work-related ill health to be up to £7.5 billion a year.

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#### IPPR BOOST FOR NATIONAL AUDIT OFFICE

The Institute of Public Policy Research (IPPR) has backed demands for more power for the UK National Audit Office and the Public Accounts Committee.

The report said that there should be no boundaries to public private partnerships. However, it called for reforms to the way they operate, along with better protection of staff which are transferred from the public to the private sector. It demanded: 'The National Audit Office should have statutory powers to access information on private providers relating to public contracts above a certain size'.

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#### SHELL IS TOP OF THE EUROPEAN ENVIRONMENTAL REPORTING POPS

Shell International was one of four companies to collect awards in the fifth European Environmental Reporting Awards (EERA), ACCA has announced. Shell, Joint Winner of the 2000 UK Environmental Reporting Awards, took top prize at the EERA. Novo-Nordisk, of Denmark, a regular winner in previous EERA competitions, took the award for the Best Sustainability Report. Austria's Obermurtaler Brauereigenossenschaft was voted Best Small Business Reporter and Acquedotto Pugliese, of Italy, received an award for Best First Time Reporter.

Twenty-four nationally winning reports from 12 countries were submitted into the scheme. The countries taking part this time were: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Portugal, Sweden, Switzerland and the United Kingdom. Roger Adams, ACCA Executive Director - Technical, is the non-voting chair of the panel of judges. He said: 'This has been another year of achievement for European companies in making the move to effective environmental reporting. In future, the panel would like to see more benchmarking especially on key issues with companies in the same or similar sectors. Additionally, we encourage the inclusion of stakeholders in the formulation and development of reports'.

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#### ARE ACCOUNTANTS DOING ENOUGH TO SAVE THE PLANET?

ACCA has been commissioned by the United Nations Environment Programme (UNEP) to assess whether the global accounting profession is meeting the challenges set down at the first Earth Summit in Rio in 1992. The Association will spend four months preparing a study which will be placed on the agenda for the World Summit on Sustainable Development in South Africa in 2002.

Roger Adams, ACCA Executive Director - Technical, said: 'ACCA has probably the longest and richest track record of any professional accounting body in the area of environment and sustainable development. We are immensely proud that UNEP has asked us to prepare this study and we hope an agenda will flow from it which can be adopted by the global accounting profession. It is critical that the profession, which is central to world commerce, is seen as being concerned with more than just profit and loss and recognises the impact which business is having on the environment'.

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#### CHANGING THE CORPORATE AGENDA

'Social and green responsibility are key to sustainable development', says World Bank. The World Bank President James D. Wolfensohn appealed to business leaders in June to further expand their notions of corporate responsibility beyond earnings in order to encompass obligations to society at large, especially in developing countries.

'Corporate sustainability today includes recognition of the leadership role that the private sector must take in ensuring social progress, improved equity, higher living standards, and stewardship for the environment',

Wolfensohn said recently in a World Bank-sponsored workshop. 'Corporate responsibility is not philanthropy: it is good business'.

For more information, visit: <http://www.worldbank.org/developmentnews/stories/html/062601a.htm>

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#### UK AUDITOR HEADS EUROPEAN CONFEDERATION

The current president of the Institute of Internal Auditors in the UK and Ireland (IIA), Gerry Cox, has been elected president of the European Confederation of Institutes of Internal Auditing (ECIIA). The ECIIA is a confederation of national associations of internal auditing from countries within the wider European economic area, including the European Union, Eastern Europe, Scandinavia and the Mediterranean basin. There are 29 member countries with several prospective members waiting to join.

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#### MUIS ISSUES WARNING TO EC CHIEFS

Jules Muis, Head of the European Commission's newly revamped internal audit service, has said that he will make enemies within the organization during the course of his work. 'We would want the director generals to not just be the first line of defence, but also the main line of attack and know how to run their businesses properly and take responsibility for the financial statements, and not to point the finger at anonymous figures', he said.

Internal audit has undergone wholesale change at the commission following Neil Kinnock's recommendations for financial control and the appointment of new president Romano Prodi. Muis is two months into his new job and comes with a tough reputation following his appointment of 120 accountants to the World Bank to overcome its problems.

Full interview is at: <http://www.accountancyage.com/News/1121874>

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#### CALL FOR CORRUPTION CLAMPDOWN.

Ministers and senior officials from 142 countries agreed in May at a Global Forum on Fighting Corruption and Safeguarding Integrity held in The Hague to co-operate in fighting corruption and to work to create a UN legal instrument governing the issue. International co-operation should extend to offshore centres, they said, in order to secure the return of misappropriated funds to their country of origin.

It was stated that whistleblowers should be given a 'supportive and safe environment' and reliable and impartial institutions should be set up to handle reports of corrupt practices from civil servants, employees and citizens. However, in a 29-point declaration, it was said: 'Participants have not attempted to prescribe specific solutions to corruption, but envisage offering one another guidance and assistance'.

The Dutch hosts of the Global Forum stated that they hoped this declaration would 'serve as a political point of reference for the negotiations'. A pledge to move towards a system of returning embezzled funds, which won the backing of various countries including as Switzerland, was regarded as among the Global Forum's more concrete achievements.

Respondents from throughout the world to a recent World Bank Survey focussed on the following:

1. Corruption at the highest executive levels was regarded as the most prevalent, and misgovernance within rule of law institutions was often cited as well.
2. State Capture, when corrupt elite interests are instrumental in shaping laws, policies, and regulations, was regarded as the most costly type of corruption, and was also seen as a key impediment to a transparent judiciary.
3. Formulating anti-corruption programs in a participatory fashion by a broad coalition of stakeholders is crucially important.
4. Donors should dispense funds only where serious commitment to better governance is already in place.

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#### CORRUPTION IN AFRICA IS COSTING THOUSANDS OF LIVES

Corruption is costing thousands of lives in poor countries and moves by the rich world to help alleviate the AIDS pandemic must be accompanied by vigilance towards governments which steal from their own people, claimed Transparency International (TI) in June.

Launching the latest index, TI Chairman Peter Eigen highlighted the health impact of corruption. He said: 'AIDS is killing millions of Africans and in many of the countries where [it is] at its deadliest the problem is compounded by high corruption levels. While it is imperative that richer countries provide medical research to address this human tragedy, it is essential that corrupt governments do not steal from their own people. This is now an urgent priority if lives are to be saved'. Aware of the criticism that corrupt countries are often recipients of bribes from rich nations, the group said that it would publish a 'bribe-payers' index' next year.

'There is a worldwide corruption crisis. That is the clear message from the year 2001 Corruption Perceptions Index (CPI), which reflects the degree to which corruption is perceived to exist among public officials and politicians. Scores of less than 5 out of a clean score of 10 are registered by countries on every continent', Eigen said.

<http://www.transparency.org/documents/cpi/2001/cpi2001.html>

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#### EVERYTHING YOU EVER WANTED TO KNOW ABOUT CORRUPTION, BUT WERE AFRAID TO ASK.....

It's all in the new edition of the TI Source Book which can be accessed on the TI website. The first version of this Source Book (now translated into over 20 languages) argued the case for a 'National Integrity System', a holistic approach to transparency and accountability which embraces a range of accountability 'pillars' democratic, judicial, media and civil society. The expression has since passed into common usage within development circles and the argument for a holistic approach to anti-corruption efforts has similarly achieved a widespread consensus, however, anti-corruption success stories remain largely elusive.

<http://www.transparency.org/sourcebook/index.html>

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#### MONEY LAUNDERING CLAMPDOWN: PROFESSION HOLDS IT BREATH

UK Treasury Minister, Melanie Johnson, has revealed to Parliament that more measures will be brought in by the Government to prevent money laundering within the City in London. Some of these measures are already providing the accounting and tax profession with a great deal of concern.

The Minister said: 'The United Kingdom already has comprehensive provisions in place to prevent money laundering, irrespective of where the funds originated. Money laundering is a serious criminal offence in the UK and attracts penalties of up to 14 years imprisonment - among the highest in the world. The UK anti-money laundering regime has been praised by the financial action taskforce as a model for other countries. Nevertheless, the Government is committed to implementing further measures to strengthen the laws against money laundering. Furthermore, the UK has taken an active role in updating the EU money laundering directive. The directive will be updated to expand the range of predicate offences giving rise to an obligation to report suspicions and will impose reporting obligations on lawyers and accountants. It will thereby ensure that the minimum standards applicable in other member states are brought close to the tough standards already applied in the UK'.

Prevention of Money Laundering: Guidance Notes for the UK Financial Sector issued in March 2001 is available from: <http://www.bba.org.uk/html/2206.html>

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#### US FAILS ANTI-MONEY LAUNDERING TEST

The United States has failed to comply with 11 of the 28 anti-money laundering directives of the Financial Action Task Force. The majority of these related to the control of criminal activity involving international money transfers.

The US failed to follow FATF recommendations regarding the examination of large and complex transactions, as well as guidelines for dealing with funds arising from suspected criminal activity, or suspicious behaviour by customers of financial institutions. In addition it did not take adequate steps to ensure criminal organisations did not gain control of its financial institutions, the report found.

Reacting to these findings, the US Treasury said that it was willing to 'live with the results' although it questioned the way in which the scores were tallied. Despite this, it pledged its support for the FATF's anti-money laundering drive.

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## SEVEN OUT OF TEN UK COMPANIES HIT BY FRAUD

Seventy per cent of major companies within the UK report that they have been subject to economic crime in the past two years, according to PricewaterhouseCoopers. The firm's 2001 Economic Crime Survey reveals that 89% of all frauds are committed by employees through scams such as embezzlement and breach of trust. Over half the responding UK organisations believe that they are at risk from cybercrime. More than eight out of ten companies fear that incidence of fraud will stay at this level or increase in the future.

<http://www.pwcglobal.com/extweb/ncpressrelease.nsf/DocID/535EA24CAE61F54080256A78003D4145>

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## YOUR IDEAS

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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:

[bulletin@accanet.com](mailto:bulletin@accanet.com)

We can't guarantee to solve your problems or to pass on your tips, but we will try our best. We also welcome non-commercial announcements for inclusion in the Bulletin.

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## INTERNAL AUDIT IN SOUTHERN AFRICA

Earlier this year, Andy Wynne, FCCA, led a workshop of Internal Auditors from 12 countries in east and southern Africa. This article was published in the most recent edition of Auditing SA, a periodical of the Southern Africa Institute of Government Auditors (SAIGA - <http://www.saiga.co.za/default.htm>).

This article describes central government internal audit functions in the five southern African countries of Botswana, Malawi, Namibia, Zambia and Zimbabwe. It is based on questionnaires which were completed in 1998 and 1999. Like the countries themselves, the internal audit sections are very varied; for example, the number of staff employed in central government internal audit ranges from 18 to 350 staff. However, the heads of internal audit all recognise that their service could improve, in almost all cases through further training. I hope that this article can lay the basis for greater knowledge and understanding of the role of internal audit in southern Africa and that it will facilitate the further development of these internal audit sections and lead to further improvements in the quality of the services that they provide.

Basis statistics for Southern Africa:

Botswana: area = 567,000 km<sup>2</sup>; population = 1.6 million; GNP = \$5.2 billion; Per capita GNP = \$3,200

Malawi: area = 94,000 km<sup>2</sup>; population = 10.8 million; GNP = \$1.9 billion; Per capita GNP = \$200

Namibia: area = 823,000 km<sup>2</sup>; population = 1.7 million; GNP = \$3.2 billion; Per capita GNP = \$1,900

Zambia: area = 743,000 km<sup>2</sup>; population = 9.9 million; GNP = \$3.3 billion; Per capita GNP = \$300

Zimbabwe: area = 387,000 km<sup>2</sup>; population = 11.9 million; GNP = \$6.3 billion; Per capita GNP = \$500

### \*Organisational position of Internal Audit\*

In most of the countries the head of internal audit has a direct reporting line to the Permanent Secretary (or equivalent, for example, the Secretary to the Treasury in Zambia) in their ministry. In Zimbabwe, the head of internal audit reports to the deputy accountant-general and in Malawi internal audit is in the Accountant-General's Department. To be effective, internal audit needs to have adequate authority and report at a sufficiently senior level within the organisation. As a result, the head of internal audit should report at a level at least equivalent to the Accountant-General in the Ministry of Finance or the Permanent Secretary in other ministries.

It is generally considered that internal audit should not report to a manager if internal audit regularly reviews systems that this manager is directly responsible for. In some countries, for example, Botswana, it is considered inappropriate for the Accountant-General to be in charge of internal audit. The reason for this is that the Accountant-General is the accounting advisor to the Permanent Secretary in the Ministry of Finance and is also in charge of the treasury and the national accounts. The Head of Internal Audit regularly reviews systems that the Accountant-General is responsible for and so should not report on these systems to the same officer. In other countries it is suggested that a unit in the President's Office and not the Ministry of Finance should be responsible for internal audit. Recent guidance on internal audit from the UK recommended that the head of internal audit should report to a senior director, preferably the chief executive. There may be merits in all these alternative approaches. The important principals being that

internal audit has the necessary independence and authority or status to ensure that it can achieve its objectives effectively.

In Botswana and Zambia the independence and status of internal audit is strengthened as internal audit sections in each ministry are seconded from the internal audit department in the Ministry of Finance. The head of this internal audit is a very senior official in the Ministry of Finance with status equivalent to the Accountant-General.

#### \*Scope of Internal Audit\*

In all of these countries the scope of internal audit is included in legislation and/or government regulations. In each country the scope of internal audit in central government includes reviewing the following seven aspects of internal control:

- \* design and operation of the accounting system and related internal controls

- \* prepayment checks to ensure that:

  - (i) expenditure is allowed by parliament etc and has a suitable budget

  - (ii) there is appropriate backing documentation

  - (iii) the cost is appropriate

- \* financial and operating management information and the methods of producing and reporting it

- \* compliance with laws, regulations, policies and procedures

- \* procedures to safeguard government money and property

- \* the economy, efficiency and effectiveness of operations

- \* fraud investigations

In Botswana the scope of internal audit also includes reviewing and evaluating the adequacy, reliability and effectiveness of internal controls within the system. Prepayment checks are not generally undertaken by internal audit. However, internal audit does undertake checks on pensions and gratuities before they are paid to retiring officers.

In Malawi the scope of internal audit also includes measuring, evaluating and reporting on the effectiveness of internal controls as a contribution to the efficient use of resources within the relevant ministry or department. However, in Namibia, internal audit also reviews and evaluates the adequacy, reliability and effectiveness of internal controls, undertakes special investigations at all ministries as required by management; and also provides advice to management on the financial activities of government. Prepayment checks are not undertaken by internal audit in Namibia.

In addition to the above bullet points, the scope of internal audit in Zambia includes reviewing and appraising the appropriateness, adequacy and application of authorisation and other operating controls and promoting effective control at reasonable cost. It also includes appraising the quality of performance achieved by units in carrying out their assigned responsibilities. Zambian internal audit only undertakes pre-payment checks for larger payments of, for example K50,000 in smaller departments and over K1million in larger ones.

The scope of internal audit in Zimbabwe includes all of the above bullet points. In addition, it also includes monitoring the financial administration and procedures of the relevant ministry, carrying out value for money audit and undertaking special investigations or assignments as required by the treasury.

Internal audit in each country, except for Namibia, spends a significant proportion of its time undertaking pre-audit checks. That is ensuring that payments are valid, accurate and proper before the payment is made. In these situations internal audit is itself acting as a control rather than being responsible for reviewing and improving other internal controls.

International best practice on the scope of internal audit suggests that internal audit will be more effective if it resists the pressure to undertake prepayment checks. Internal audit should instead concentrate on the twin objectives of:

- (1) providing reasonable assurance that the organisation's significant risks are being appropriately managed, with an emphasis on the role of internal controls

- (2) ensuring that the organisation's risk management and internal control systems are continually being improved and optimised in response to an ever-changing environment.

#### \*Internal Audit Reports\*

In each of the five countries, regular internal audit reports are sent to the permanent secretary at the relevant ministry. In Zambia, they are also sent to the Controller of Internal Audits in the Ministry of Finance and Economic Planning. The Auditor-General in each country receives copies of all internal audit reports.

Internal audit in each country also produces an annual report, although in Botswana, this was undertaken for the first time in 1999. The annual reports are reported at the same level as the regular internal audit reports.

An audit committee is increasingly seen as good practice. Audit committees are just being established in these countries. In Zambia they are in the pipeline and have been set up in some ministries. In the other countries audit committees have yet to be established although they have been proposed or talked about.

Annual internal audit plans are produced in each country. They are developed by the head of internal audit and authorised by the accountant general / permanent secretary. In Zambia a strategic audit plan is also produced. This should encourage a wider scope for internal audit beyond the basic financial systems.

#### \*Manuals and Training\*

The government internal audit services in Malawi and Botswana have internal audit manuals, although in the case of Malawi, this is over 12 years old. Internal audit manuals for the government internal audit service are being developed currently in the other countries. One has been written in the last year by internal audit management in Namibia.

Training was an area that heads of internal audit in each country mentioned could be improved. However, auditors in each country had received some training within the last year. Auditors from Malawi and Namibia attended training courses organised by ESAMI and auditors from Botswana are sent regularly to the City University Business School Internal Audit course in London. Some training is also provided by the Auditor-General's Staff in each country, although the extent of this training varies from country to country.

In addition, a number of the internal audit staff have formal professional qualifications. However, this varies greatly between countries, as shown below:

#### \*Number of internal audit staff\*

Botswana - 38  
Malawi - 21  
Namibia - 18  
Zambia - 164  
Zimbabwe - 350

#### \*Percentage of internal audit staff who are professionally qualified\*

Botswana - 53  
Malawi - 4  
Namibia - 22  
Zambia - 70  
Zimbabwe - 6

The level of technical support, in the form of books and periodicals, available in each country for internal audit staff is limited. Only the section in Botswana plans to receive periodicals from the Institute of Internal Auditors (UK). The Botswana section also has access to several internal auditing books, as do the sections in Malawi and Zimbabwe. However, audit staff in Namibia and Zambia do not have access to any internal audit textbooks.

In each country, except for Namibia, the Auditor-General reports to parliament on their review of central government internal audit. As mentioned above, the Auditor-General also provides training for internal audit in each of the five countries. In addition, the Auditor-General usually relies on the work of internal audit to target their effort or to highlight weak areas.

#### \*Support for Internal Audit \*

In each country, except for Malawi and Zambia, the government internal audit service has received external support within the last two years. In Malawi and Zambia external funding for internal audit is expected over the next year. This support has been from a variety of sources including the UN, the Commonwealth and the UK Government (DfID). However, as this survey has shown, further support is still needed if internal audit in each of these five countries is to reach its full potential. This should allow each of them to assist in

ensuring accountability and transparency in their countries and helping to reduce the occurrence of fraud and corruption.

The most effective aid would appear to be in the development of internal audit manuals that are up to date and tailored to local needs. Training of internal audit staff could then be focused on the audit manual. This should ensure that all auditors have access to a reference work on effective internal audit techniques and they have received suitable training on their practical implementation.

A major step forward was made earlier this year when a workshop was held in Botswana with the heads of internal audit, or their representatives, from 12 countries in east and southern Africa. This workshop, organised by the East and Southern African Association of Accountants General (ESAAG), agreed revised *Internal Auditing Guidelines*. These should assist with the adoption of best international auditing practice in each of the member countries. The formation of an Internal Audit Association was also floated at the workshop. Such an organisation would be able to assist with the obtaining of cost effective training for internal audit staff in each country.

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### SPOTTING A BAD BUSINESS: YOUR QUESTIONS ANSWERED

There are numerous indicators of an unhealthy organisation. Andrew Gibbons, an independent UK management development consultant, wrote the list below to point up the tell-tale signs which are the early indications of all not being 'corporately well'. Andrew says: 'Clearly, these are generic thoughts, though not without merit. Any organisation will have its own specific indicators of ill-health. Future organisational success in my view, will depend as much on the efforts made to put right what is going wrong, as 'just' focusing upon building on the positive factors.'

#### \*50 signs of an unhealthy organisation\*

1. Influential senior managers are in their last jobs, with no desire or incentive to rock the boat. As a result, change and those that crave it are viewed as threats and blocked or worse.
2. Confidence in the leadership diminishes and may even be challenged.
3. Managers are reluctant to develop their people for fear of creating rivals.
4. Employees get little or no feedback on their performance.
5. Needlessly bureaucratic and obstructive administrative systems get in the way of the real business of the organisation.
6. Internal, inter-functional conflicts are not confronted, and these escalate.
7. Rumours abound.
8. New starters are left to 'sink or swim'. Induction is seen as an event and not a process.
9. Individuals feel they are not rewarded in relation to their specific contribution and effort.
10. There is no sense of urgency where this should be seen.
11. New ideas and innovations are suppressed by a management that feels it must be the source of all that is creative and praiseworthy.
12. Key decisions are taken without consultation or perceived consideration of those most affected – no thought is given to the fact that people will support what they helped to create.
13. Too long passes between deciding to do something and the implementation of decisions.
14. Rules and procedures are openly broken with impunity.
15. The purpose of the organisation is unclear – or senior managers have very different thoughts on what this is. This confusion is passed down with adverse operational effects.
16. Too many people play the 'that's not my job' game – doing the bare minimum and displaying a lack of concern for their colleagues.
17. Roles and responsibilities are unclear and/or overlap.
18. Even relatively minor decisions are made at higher levels than is sensible. Employees at all levels are typically unempowered to make their own decisions without reference upwards.
19. Praise is rare, particularly from senior managers, who if ever seen, are felt to be remote and uncaring.
20. People in one part of the organisation have no idea what other parts do – nor do they care enough to find out.
21. Meetings proliferate, often without purpose or structure, with too little happening as a result to cause those who take part to feel they were a good use of time.
22. There is little or no enthusiasm for learning and development, especially amongst senior management who lead by poor example, and know it all thank you very much.
23. Training courses are not based on learning and development needs, and are amongst the first cuts as employee development is felt to be a cost, and not an added-value benefit.
24. Resignations take management by surprise – when they should be close enough to people to know what was on the cards.

25. Incompetent people keep each others' company to moan and groan – and 'better' people gather together in the same way, creating self-sustaining tensions.
26. Good people leave because other organisations want them, leaving 'the sediment', of people who have given up getting out, but may not yet realise that nobody else wants them.
27. Things move so fast that nothing stands still for long enough to get real value from efforts and initiatives that could have significant impact.
28. A blame culture stifles innovation and discourages people from taking personal responsibility – 'it wasn't my fault'.
29. Recruiters take on people in their own image – often out of a desire to maintain the status quo, and of a fear of the unknown...or even prejudice.
30. Genuine efforts to change things for the better are 'ridden out' by a hard-core of moaners and mutterers who reckon whoever is upsetting their placid existence only until s/he moves on.
31. In the opinion of employees, redundancies are managed badly, with lasting negative effects.
32. Fads and/or quick fixes are adopted as a means of confronting major issues.
33. No support, and more likely discouragement, awaits those who return from training events.
34. A major distinction exists between success and effectiveness within the organisation. Thus, successful people may well not be effective, and effective people are neither recognised or rewarded, and therefore unlikely to achieve success.
35. Capable, highly competent people leave the organisation without making the positive contribution they wanted, and very often end up achieving their ambitions with a competitor.
36. Staff feel under-valued to the point that this gets in the way of performance
37. Cost-cutting measures are imposed, often without warning. These are felt by many to be unfair, petty, and unlikely to make any lasting significant effect.
38. Poor performance is not confronted – for fear of what? There may be a culture of 'acceptable underperformance' – letting inadequate achievement, collective or individual, go when it really needs to be tackled.
39. Senior managers are felt to be remote and unknown – would they be recognised if they walked into a workplace? They may also be like the Olympic torch...they never go out!
40. An immense amount of time within the organisation is wasted.
41. Willing horses are overloaded with work because they are dependable, and in contrast, unreliable people are given less or nothing to do, because they can't be trusted to do it right.
42. Strong financial performance discourages any serious effort to anticipate future demands, and to identify deep-rooted people-management issues and incompetence.
43. Key performance issues are not personally targeted – so it's nobody's fault when these are not achieved.
44. The organisation's structure encourages a 'dead man's shoes' syndrome, with little or no promotion opportunities or efforts at genuine succession planning.
45. Quite simply, people within the organisation don't feel good - few if any, are having fun. This may be due to many things – for instance insecurity and uncertainty over future work.
46. The organisation is dependent upon one or a small number of customers or suppliers.
47. Employees pursue their own goals and interests ahead of those of the organisation.
48. Empire building and internal politics get seriously in the way of operational performance. People, in numbers that matter, put effort into making life harder for colleagues, not better.
49. Too many people new to the organisation, with important roles and contributions to make, go on about how things were in their past organisation, and seek to replicate all that recent past, without due consideration of how different things are in their current role.
50. People who no longer have a job are kept on, sometimes with little or nothing to do.

If you have a view on any of these, please feel free to get in touch with Andrew Gibbons at: [Andrew.gibbons@lineone.net](mailto:Andrew.gibbons@lineone.net) or see his website <http://www.andrewgibbons.co.uk> or tel: (+44) (0)1666 826533

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#### MANAGEMENT OF SICKNESS ABSENCE

The National Audit Office (NAO) (UK) have issued four reports covering the management of sickness absence, the most recent being on the Prison Service. From this work they have identified the following fourteen key principles for the effective management of absence due to sickness.

1. Formulate a clear policy for sickness absence in a statement linked to business objectives.
2. Develop performance measures and set targets for reducing existing levels of sickness absence.
3. Demonstrate the organisation's commitment to care for staff health, safety and welfare.
4. Establish and disseminate clear procedures on the management of sickness absence, which define the roles and responsibilities of staff, line managers, local and central personnel managers.

5. Establish procedures for local reporting and recording of sickness absence, which are clear, precise and well publicised.
6. Provide appropriate and reliable information on sickness absence to senior management and to line managers, who should use the information to regularly review staff sickness absence at corporate and individual levels.
7. Supervise sickness absence effectively. Make early contact with absent staff and maintain regular contact with them.
8. Carry out return to work interviews in cases to establish underlying reasons for absence.
9. Take early and effective action by referring staff on long-term sickness absence, or whose attendance is irregular, to an occupational health advisor.
10. Where appropriate, identify the scope for offering recuperative or restricted duties to staff returning from long-term sickness absence.
11. Encourage attendance. Recognise good attendance.
12. Take sanctions against staff suspected of inappropriately taking excessive sickness absence.
13. Provide appropriate training in sickness management for all management grades.
14. Arrange effective recruitment procedures. Reduce the risk of recruiting people who will be poor attendees.

Further details and other NAO reports are available from: <http://www.nao.gov.uk/>

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#### READERS QUESTIONS

'I am working with a Malaysian multinational with businesses within the Asia Pacific region (excluding US, Korea and Japan). We are actually looking into revising of group policy to incorporate a risk management policy for compliance by many subsidiary companies. I hope your ACCA network can help me with a few definitions'

[From: Ganesh Sivaji]

The definitions requested by Ganesh are set out below, together with our suggestions. Please help Ganesh Sivaji by sending comments or alternatives to the above definitions. Responses may be published in the next Bulletin.

(i) 'Operating systems (non - IT)' - more a Business operating system like the Sales cycle system, Production system, HR management system, Warehousing system. An organised and co-ordinated method of employing interacting / interrelated / interdependent elements or resources and processes to meet the operation's objectives.

(ii) 'Risk management' - the formal identification, assessment and planned management of significant risks facing the organisation.

(iii) 'Risk' - the chance (or probability) that one or more of the organisation's objectives will not be achieved. It may refer to the failure to achieve objectives efficiently or the occurrence of unwanted outcomes. It may also refer to the inability to exploit possible opportunities.

(iv) 'System of internal control' - is a process, effected by an entity's board of directors, management and other personnel (people), designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. effectiveness and efficiency of operations; (basic operational objectives, performance goals and safeguarding resources)
2. reliability of financial reporting
3. compliance with applicable laws and regulations.

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'In Internal Audit methodology, participation is one of the methods. Is there any one who knows and practices this methodology and can s/he share his/her experience? How do we ensure the independence of the internal audit function with participatory practice when carrying out audits?'

[From: Ngo Thi Minh Huong; e-mail: [HuongNTM@aaviet.netnam.vn](mailto:HuongNTM@aaviet.netnam.vn) ]

Please help Ngo Thi Minh Huong by sending in suggestions. Responses may be published in the next Bulletin.

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## BOOK REVIEWS

If you have read a book recently that you think would be of interest to readers of this Bulletin, please send in a brief review.

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### CORPORATE GOVERNANCE: THE STAKEHOLDER CHALLENGE

By Roger Cowe

[ISBN 1 85908 340 4 £10]

ACCA has commissioned an award-winning journalist to examine the boardroom of the future. His booklet (40 pages) looks at the tests which governance must face. The following summary illustrates the scope of this publication.

Britain has come a long way in ten years. In the early 1990s the fundamentals of effective corporate governance were being formed. Some organisations – whose names echo down the years – still embodied the worst practices of unregulated directors. Maxwell, BCCI, Polly Peck and many more continue to feature in the lexicon of abuse.

Today, under the sustained pressure of corporate shareholders, government, regulators and advisers, companies are obliged to consider more than the profit motive. For decades British companies were distinguished from their mainland European competitors by a simple definition of purpose.

UK businesses were designed solely to make money for their shareholders. Continental cousins and competitors had a much wider policy and objective. In Scandinavia, Germany, the Benelux and France especially, social structures, legislative programmes and the strength of lobbying groups determined that companies had a wider range of responsibilities.

Some of the dialogue demanded of British businesses in the nineties appeared somewhat alien at first. But slowly the majority of companies embraced the findings of a series of industry-led but government-sponsored corporate governance initiatives. Committees of inquiry, including those established by Cadbury, Greenbury and Hampel, provided the motor for the change in direction. They also created a framework or code of corporate behaviour.

In short, they inspired businesses to consult more widely, to report more fully and to involve a broader community of interests in their deliberations. Among these stakeholders are employees, unions, customers, suppliers and representative groups from the geographical locations where corporate offices and plants are sited.

In the larger world, government has sent signals that encouragement will be given to companies which respond to its challenge to be more transparent. Projects such as the ACCA UK Environmental Reporting Awards have demonstrated how purposeful environmental and social reporting can be achieved with losing any commercial edge. In fact, many potential business partners will expect to see that their colleagues are open and honest reporters setting standards of high quality dialogue with stakeholders.

A key element in the development of corporate governance in the immediate future will be the issue of policing. The Combined Code, a product of Hampel's deliberations, obliges shareholders to be guardian of a company's ethical behaviour. All public company directors have had to come to terms with more rigorous expectations of their conduct.

But a code is only as good as its implementation. Effective corporate governance is achieved by the directors and large commercial shareholders – investment funds, for example – understanding and meeting their obligations. Both have a responsibility for interpreting and implementing the Combined Code intelligently.

Non-executive directors have a particularly important role. Formally, they are directors of the company with the same broad duties and responsibilities and liabilities as other directors. But under the Combined Code they also have a type of supervisory duty especially for the functions of good corporate governance.

Since the cavalier days of the early 1990s, a great deal of progress has been achieved. But the focus remains narrow. The issues of boardroom pay and shareholder voting, for example, still have to be seriously examined.

The purpose of corporate governance should be to make sure that the pursuit of profitable opportunities is carried out responsibly. It is more about the way in which things are done than about what is done.

The Internet and, with it, e-business has provided a fresh challenge. The new generation of Internet companies carry special governance risks. Although expertise in technical and marketing disciplines may feature highly in some of these companies. Many pay scant attention to administration, proper consultation and transparent operation. For many, corporate governance is low down their list of priorities.

Advisers to such companies will need to be particularly vigilant and persuasive to ensure that they do meet the demands of modern society. A considerable impact will come from e-voting. Electronic voting will enable all shareholders to take part in annual general meetings or other collective corporate occasions.

The birth of instant electronic communication will also give lobby groups greater power to organise members and pressurise corporate directors into responding to their demands.

There remains a lot still to do. The UK may be a recognised leader in the field but stakeholders will want more. Also the advancements in technology give them a perfect opportunity to realise their objectives.

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## INTERNAL AUDIT IN A CENTRAL BANK

By Christopher Scott

[ISBN 1 85730 044 0; also available in Russian as ISBN 1 85730 049 1]

Internal audit is carried out in most major organisations. It is by no means unique to central banking. However, this *Handbook* has been prepared with central bankers in mind. It sets out the basic concepts, practices and standards that might be applied in a central bank.

Internal audit should be an independent function within a central bank, reporting directly to the Governor or equivalent. Its task is to identify the risks to which the bank is exposed, whether in a material or reputational sense, to advise on appropriate controls and to ensure that control systems are operated effectively.

Part of the auditor's responsibility should be to rank risks according to the likelihood of the event of a loss or failure, and the significance of any resulting financial or reputational loss. Such rankings will guide the auditor to deploy inevitably limited resources in the most efficient way.

The effectiveness of internal audit depends also upon good organisation and appropriate staff resources, as well as on good communication and relations (albeit at arm's length) with other parts of the bank.

Although the *Handbook* reflects the professional standards of internal auditing which are applied in the United Kingdom, these standards should in broad terms be appropriate anywhere in the world.

Download the full document from: <http://www.bankofengland.co.uk/ccbs/publication/ccbshb04.htm>

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## PUBLICATIONS AND RESOURCES

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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 world-wide. This has evolved into a network of resources available for auditors. A listing of those electronic resources is updated and distributed monthly via the Internet. AuditNet includes jobs for auditors and an inventory of Audit Work Programs.

### \*Newly Added Resources\*

- Software piracy is at an all time high. Check out the Software Compliance Auditing page at:

<http://www.auditnet.org/sca.htm>

- Internal Assurance Feedback Form (Word)

- Audit Satisfaction Survey (Excel)

### \*NEW - Discussion Forum for Auditors! - Audit-L Discussion List\*

A generalized audit discussion list open to all auditors irrespective of industries and organizations. The list is intended to have a diverse membership so that broad perspectives from all auditors could be gained through interactive communication. While many specialized lists were created to address the unique needs

of specific industries or special interest groups, the concept of this list recognizes that many audit issues cross industry/organizational lines. Send subscription requests to [imailsrv@list.auditnet.org](mailto:imailsrv@list.auditnet.org) with one line in the body of the letter: SUBSCRIBE AUDIT-L your name. (Leave the subject line blank)

**\*KnowledgeSpace® Internal Audit and Risk Management Community\***

Auditors have a lot on their plates. Staying on top of emerging risks, managing knowledge, developing work programs and audit plans, surveys and tools, and keeping up their own professional development. Arthur Andersen's KnowledgeSpace® website helps with all these responsibilities. Auditors use the site to do research and to save time. They follow weekly articles on business risk, download templates tools, work programs, models, and checklists, learn new approaches from profiles of other departments and access customized news. KnowledgeSpace® can be a valuable time saver and toolbox for any auditor. Free 30 day trials are available from: [http://www.auditnet.org/advertisers/Knowledgespace\\_jr/index.htm](http://www.auditnet.org/advertisers/Knowledgespace_jr/index.htm)

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**ORDER INTERNAL AUDIT BOOKS 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 on-line purchase by credit card.

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**FRAUD AND CORRUPTION NEWS**

The CIPFA Better Governance & Counter Fraud web pages now offer free access to a news alert service on fraud and corruption. The service selects specific items of news from over 4000 sources in the UK and beyond, and is refreshed every five minutes, 24 hours a day. It is an essential source of information for public sector practitioners interested in counter fraud activity.

<http://www.ipf.co.uk/governance>

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**ACCA CAREERS**

More than 8,000 jobs are currently advertised in the dedicated ACCA Careers site. They range from trainee to senior posts in the UK and abroad. Whether you are looking for a job or want to recruit an ACCA member, visit the site and see what's available: [http://careers.accaglobal.com/cgj-site/acca\\_jobs.cgj](http://careers.accaglobal.com/cgj-site/acca_jobs.cgj)

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**RISK MANAGEMENT READINGS**

The IIA has produced a list of risk-related articles, books, and other publications to assist internal auditors and their organisations in monitoring, evaluating, and improving the effectiveness of risk management systems and processes. Internal auditors are encouraged to evaluate risk management information from a wide variety of sources, to ensure that they can effectively add value to their organisations through monitoring and evaluating the effectiveness of their organisations' risk management systems.

[http://www.theiaa.org/ecm/guide-ia.cfm?doc\\_id=1604](http://www.theiaa.org/ecm/guide-ia.cfm?doc_id=1604)

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**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.

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.

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**NAO (UK) VALUE FOR MONEY REPORTS**

Copies of the National Audit Office value for money reports are available free from:

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

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**THE COBIT OPEN STANDARDS FOR IT SECURITY**

These are available for free download from: [http://www.isaca.org/ct\\_dwnld.htm](http://www.isaca.org/ct_dwnld.htm)

They include:

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

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#### CORPORATE GOVERNANCE LINKS

A comprehensive listing of links to international corporate governance sites can be found at:

<http://www.icaew.co.uk/menus/links/corpgov.htm>

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#### PROFESSIONAL SELF-HELP FROM BLACKWELL'S BOOKS

A selection of books for accountants and auditors to read on holiday is available from:

<http://www.accountingweb.co.uk/item/51982/448>

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#### ACCA COMMUNITIES

ACCA Communities is a free Internet service for ACCA members and students and their business contacts. They can use the service to set up or take part in virtual interest groups, to provide secure virtual workspaces for collaboration on projects or business deals or to support self-help study. Each virtual group has its own document area, database, group mailing list, calendar and voting mechanism. Since the launch, communities have been created to discuss tax and audit issues, ACCA's practice support tool, Business Navigator and its lifelong learning proposals. To find out more visit: <http://www.accacommunities.com>

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

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#### PASS ON DETAILS OF THIS BULLETIN TO OTHERS

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

Your internal audit colleagues can register to receive future Bulletins by sending contact details including telephone number by e-mail to: [info@accaglobal.com](mailto:info@accaglobal.com) putting the word 'regbull' in the subject line.

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

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

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I will soon start in my new role as ACCA *Head of Public Sector Technical Issues*. Editing this Bulletin will then be part of my responsibilities rather than a hobby. So the Bulletin should improve further, especially with your contributions!

Best wishes,  
Andy Wynne, Editor

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The End

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