
* ACCA INTERNAL AUDIT BULLETIN *
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INFORMATION TO AND FROM INTERNAL AUDITORS ACROSS THE WORLD

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

NEW CONSULTING STANDARDS RELEASED

The Institute of Internal Auditors (IIA) has completed the second phase in the process of significantly revising the its "Standards for the Professional Practice of Internal Auditing". The mandatory implementation date for previously released standards is 1 January 2002. The mandatory implementation date for the new Implementation Standards for Consulting Engagements is 1 July 2002. This grace period will allow for their wide dissemination, translation, and implementation. During the grace period, all other Standards will continue to remain in effect.

Within the new Standards, the definition of the term 'Consulting Services' was changed in recognition of the wide variety of services offered within the profession today.

For additional details, visit the IIA Web site at www.theiia.org

ASIAN AND PACIFIC GOVERNMENTS MOVE AGAINST CORRUPTION

An Anti-Corruption Action Plan was endorsed by 17 Asian and Pacific countries on 30 November in Tokyo. The joint Anti-Corruption Action Plan for Asia and the Pacific - which focuses on identifying national priorities for action by governments - was endorsed at the end of the Third Annual Conference of the ADB/OECD Anti-Corruption Initiative for Asia-Pacific. More details are available from: www.transparency.org/documents/press-releases/2001/11.12.2001.apac.html

UK GOVERNMENT INTERNAL AUDIT STANDARDS REVISED

UK Government Audit Standards have been revised and were issued in final form at the end of October 2001. They now take full account of the requirement for audit committees. They have also been revised to provide less of an emphasis on systems audit as the standard approach. It is suggested that there should be a change of emphasis to reviewing an organisation's risk management processes. This may be appropriate where these are well developed, but internal audit reviews should still be structured around control objectives. Risks do not exist in isolation - they are about whether or not, or how well, objectives are achieved. Internal controls should be reviewed to assess the extent that they will provide reasonable assurance that the organisation's objectives will be achieved. The revised Government Internal Audit Standards are available from HM Treasury's Internet site www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Guidance_for_Government_Departments/pss_ggd_gias.cfm

What do you think? Please e-mail your comments to info@accaglobal.com

LIBYA GETS TOUGH ON FRAUD

In early November, 47 Libyan government officials, including the finance minister, were given prison sentences for negligence and stealing government funds. This shows that internal auditors cannot trust anyone, controls must apply to all!

KENYA ANNOUNCES ANTI-CORRUPTION INQUIRY

Kenya announced in January that it would establish an anti-corruption inquiry. Three experienced practitioners have been appointed. The person who is to head the inquiry was responsible for advising the governor of the then-British colony of Hong Kong on the establishment of an independent commission against corruption. He did the same in Botswana, where he later served as the body's director. The team is to "advise on what is required to create a nationally and internationally credible machinery which will combat corruption and promote integrity in the public sector". President Moi insisted that corruption was not just a Kenyan problem and called for an "international commitment and an international response" to help nations like Kenya tackle the scourge. He pointed out that the problem involved both "bribe-takers and bribe-givers".

OVERSEAS BRIBES ARE MADE ILLEGAL BUT REMAIN TAX DEDUCTIBLE IN UK

The anti-terrorism bill in the UK will outlaw corrupt payments by UK companies to overseas officials from February 2002. However, these payments may still be counted against tax! They are estimated to run into millions of pounds a year. The UK has been criticised by the OECD for several years for not implementing its 1997 convention on bribery in international business. Out of 33 countries that have ratified the convention only four have not incorporated it into national law.

IFAC AND EU UPDATE THEIR MATERIAL ON MONEY LAUNDERING

IFAC issued a new paper on anti-money laundering in November 2001. The objective of the paper is to promote awareness of important issues on the subject by exploring the role of the independent auditor and other accounting practitioners and to provide guidance on best practice. Further details are available from www.ifac.org

The European Union also updated its Directive on money laundering in November. Its scope has been extended to cover the proceeds of all serious crimes, not just the proceeds of drug offences. It now applies

to accountants, tax consultants and lawyers. The Directive can be downloaded from:
www.fee.be/european/directives.htm

APB BRIEFING ON EFFECTIVENESS OF INTERNAL CONTROL

The Auditing Practices Board (UK) recently issued a briefing paper, "Providing Assurance on the Effectiveness of Internal Control". The paper describes a framework for forming an opinion on the effectiveness of internal control which illustrates:

- * the separate elements of an engagement to provide assurance on internal control
- * the range of considerations that apply to each process
- * the inherent complexity of engagements to provide assurance about the effectiveness of internal control.

Further details are available from the APB's website: www.apb.org.uk

IIA RESEARCH FOUNDATION SEEKS PRACTITIONER PANEL

The IIA Research Foundation is sponsoring a project to identify important internal audit topics that would raise interest in internal audit research and actively engage researchers around the world.

As such, the Foundation wants to establish a panel of practitioners who are performing leading-edge work to share their views with the research team as they identify and articulate research issues. Specific experience in the following areas is helpful:

- * Corporate Governance
- * Managing the Internal Audit Function
- * The Organisational Role of Internal Audit
- * Risk and Control
- * Objectivity and Independence
- * Audit Technology, Processes, and Techniques
- * Expanding Role of Assurance and Consulting Services

For additional details, contact Senior Manager of Research, Sue Lione: slione@theiia.org

BP FINED £1 MILLION FOR PUTTING PUBLIC AND WORKERS AT RISK

Health and safety is a major risk that internal auditors should be concerned with. Earlier this month, the oil group BP was fined £1 million after admitting to putting the safety of the public and its workers at risk in the UK. In one incident, a steam pipe exploded close to a main road. In a second case, a leak of flammable gas caused a major fire which led to five BP workers "running for their lives".

THE DANGER OF ASBESTOS

Have you considered the risk that your organisation faces from asbestos? Asbestos destroys the lungs of and eventually kills its victims and can take decades to become apparent. By 2020, it is estimated that there will be 10,000 asbestos-related deaths each year in the UK alone. That is twice the number killed on the roads each year. In addition, many businesses are disrupted as experts are brought in to remove asbestos from their buildings. Asbestos was used very widely in the building trade, most forms are now considered to be too dangerous to use and should be removed under strict security precautions.

The people at risk from asbestos include:

- * the ladders actually working with asbestos
- * people working alongside asbestos ladders
- * relations and friends of asbestos workers
- * people living near to asbestos factories
- * workers who use materials containing asbestos.

Does your organisation have a policy on the use or removal of asbestos? Are appropriate safety precautions used around asbestos and material containing asbestos? We would like to hear your views (e-mail: info@accglobal.com).

AUDIT OFFICE IN CHINA UNCOVERS BANK FRAUD

China's National Audit Office uncovered 22 cases of serious fraud involving Rm 2.7 billion (£227 million) during its regular review of the books of the Bank of China, one of the country's four major banks. Wang Xuebing, the former head of the bank is now the focus of investigations into China's biggest ever banking scandal. The main problems are said to be illegal loans, operations outside the bank's main account and illegal letters of credit.

THE DANGER OF DEPENDING ON A SPELL CHECKER!!

I have a spelling checker,
It came with my PC.
It plainly marks four my revue -
Mistakes I cannot sea.
I've run this poem threw it.
I'm sure your pleased to no.
Its letter perfect in it's own weigh
My chequer tolled me sew.

YOUR IDEAS

If you want us to cover any aspect of internal audit then let us know. If you have a favourite tip please send it to us. If you have any comments or questions about the contents of the Bulletin send them to us at: info@accglobal.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.

CONTRACT REGISTER [CONTRACTS RECEIVED]

Gursharan Singh, Kuala Lumpur (gsk38@hotmail.com)

1.0 INTRODUCTION

1.1 Companies involved in implementation of Civil Engineering Construction Projects such as those pertaining to construction of Buildings and Infrastructure, should normally maintain comprehensive and relevant up-to-date records. These comprehensive records should cover implementation, management and financial aspects of the construction contracts. This would apply to both situations where the company is the main contractor that undertakes the construction of the project as well as where the company appoints sub-contractors to implement part of the works that have been awarded to it. The responsibility of maintaining such records is generally overlooked or left to the project managers or the finance or accounts departments. In most cases this responsibility is also fragmented and distributed among several departments. As an example, the performance bond and insurance policies may be assigned to the administration department or the finance department, variation orders and extension of time certificate could be with the project department and progress or interim payments could be assigned to the accounts department.

1.2 This fragmented system creates situations for perpetuating fraud. Oversights could result in invalid/ineffective performance bonds, guarantees or insurance policies or their lapsed validity that could result in possible claims and losses. It also increases risks for under- or over-payments and short recoveries for contractors and sub-contractors respectively. The client's appointed superintending officer's instructions that have financial implications could be overlooked and that would be detrimental to the interest of the contractors depending on the type of change involved.

1.3 Thus it is essential that there be a single contract register that is self-sufficient to enable the management to monitor all the possible risks. The contract register should be so formatted as to be preventive and also highlight any aspect that may need immediate remedial action in the event of any change in scope, delay or situation that may have any financial implication for the contractor or owner.

1.4 A contract register should be developed that can satisfy all known situations in construction contract implementation. Some modifications to the register may be necessary to cater for specific needs of individual companies/organisations, the scope of works to be constructed and the conditions as prescribed in the contract document used. The advice of technical professionals, legal officers, finance and accounts managers should be sought for any necessary changes to the contract register before it is finalised for usage. The format should be reviewed periodically and revised as and when necessary to ensure its effectiveness in any change of circumstances.

2.0 PROCEDURE FOR MAINTAINING A CONTRACT REGISTER

2.1 All contracts should be registered as soon as the letter of award is received. The contracts should be recorded in numerical and chronological order. An alphabet or an additional number can denote the type of contract, the client or the department responsible for its implementation or management. The numbering should start again for every calendar year. For example, 'A' could denote an 'Infrastructure' contract, 'B' a 'Building' contract, 'C' a 'Maintenance' contract, and so on. Similarly, a numerical indicator could be used for the department responsible for managing and monitoring the contract. The advice and input of the user and other relevant departments should be obtained when preparing the procedures. The clearance of all concerned should be obtained for the finalised draft procedure and format before submitting to management and board of directors for its adoption and implementation.

2.2 The approved contract register should be accurate and kept up to date at all times. It should be accessible to all relevant officers at all times. Management should check the accuracy of the contract register independently and at irregular intervals. The internal audit department of the company should audit the accuracy and effectiveness of the contract register as part of its audit programme.

2.3 All correspondence pertaining to any particular contract should be filed in a separate file. The file should have the same number as the registered contract number. All relevant financial documents should be kept separate from the correspondence file. The important and financial documents would include, among others:

- * the original letter of award [that would be followed by a formal contract document]
- * performance bonds, guarantees, insurance policies with premium paid receipts
- * deposit receipts, progress payments [or interim payments]
- * variation orders [or change orders], extension of time certificates,
- * I & a damages imposition notices.

Where original documents are required to be sent to the client, the company should obtain acknowledgements. The acknowledgements and the duplicate [or photostat] copies of these documents would need to be kept in safe custody. However they must be monitored regularly as appropriate, to ensure that they are kept legally valid and enforceable at all times.

3.0 RESPONSIBILITY FOR THE CONTRACT REGISTER

3.1 The responsibility for maintaining the contract register will be determined by the management. Similarly, the custody of important documents [original, duplicate or photostat as appropriate] such as the contract proper, performance bond, guarantees, deposits receipts, insurance policies and premium paid receipts, advances, could be the responsibility of other relevant departments as designated by management. It is recommended that the custody and maintenance of the contract register should appropriately be assigned to the accounts department. The head of the accounts department should seek the advice of other relevant departments with specialised expertise. These departments would include the legal department, the project department, the relevant in-house specialists and the internal auditor. The responsibility for keeping specific documents renewed, extended and kept valid at all times, would be with the assigned custodian department.

4.0 ROLE OF THE ACCOUNTS DEPARTMENT

4.1 The accounts department must ensure, amongst other things, that:

- * Cheques received in respect of progress payments [and any other recoverables] are promptly recorded in the contract register
- * Final accounts have been agreed with the client
- * Retention monies are claimed and recovered
- * Confirmation is received from the respective departments that all relevant safeguards have been complied with.

These safeguards would include, amongst other things:

- * The validity of the performance bonds, guarantees, insurances [with extensions], etc;
- * Extension of time & variation orders have been approved by client
- * L & A D, where claimed, is legally impossible and computed correctly
- * Guarantees/warranties for defect liability period have been received
- * Legal requirements have been complied with [e.g. settlement of wages, KWSP, PERKESO, others].

5.0 ROLE OF INTERNAL AUDITORS

5.1 It is the responsibility of the internal auditor to periodically scrutinise the contract register to ensure that it is maintained, kept correct and up-to-date at all times and to effectively take into account the needs of the works and current environment.

5.2 Certain contracts should be selected for detailed and in depth audit. The selection criteria could include high costs, escalated costs, delays in completion, disputes and claims, or requests from management, or directions from the board audit committee or directors. The Internal Auditor can use the contract register to audit the various aspects of contract management and implementation. S/he should be able to verify and confirm that all involved persons have complied with the company's prescribed internal controls and that the adequacy and validity of the financial documents such as performance bonds, guarantees and insurance policies can be verified and confirmed. Engineer [or S.O.] instructions that have been identified as having financial implications should be subsequently authorised by an approved variation order and accounted for in the final account of the contract. Insurance policies and guarantees/bonds that could be adversely effected by any delays in completion, whether approved or not, should be mitigated with appropriate prompt remedial action. The accuracy of progress payments and claims of any sums due should be confirmed. In short, the scrutiny and intelligent usage of the contract register could form the basis and documentation of the audit report.

6.0 EVALUATION - CONTRACTORS & CONSULTANTS

6.1 The company could also use the contract register to evaluate the expertise and performance of the appointed sub-contractors and technical consultants. The aspects that could be taken into account would include the insurance policies, variation orders, specification changes, delays, penalties, etc.

7.0 CONCLUSION

7.1 A comprehensive, up to date and accurately maintained contract register is like a one-stop centre that gives the overall position of any contract immediately without the need to make further references to other records. It highlights possible weaknesses and can enable the management and those involved in its implementation to institute remedial measures at the earliest time before those weaknesses escalate into being major financial disasters.

7.2 Management should review the contract register periodically and identify the weaknesses that may exist in its own organisation, procedures and its internal controls for necessary improvements. The performance of the sub-contractors and technical consultants should be recorded in the company records for management of its future projects.

****A WELL MAINTAINED CONTRACT REGISTER IS A ONE-STOP CENTRE THAT CAN RESULT IN SUBSTANTIAL SAVINGS AND BETTER CONTRACT MANAGEMENT****

GUIDANCE ON PRE-AUDIT CHECKS

In some countries pre-audit is the main activity of internal audit, especially in the public sector. The following guidance was developed by the East and Southern African Association of Accountants General in their 'Internal Auditing Guidelines' last year:

"Internal Audit may undertake checks that individual items of expenditure are necessary and have been authorised as required. This may be undertaken before the payment is made (pre-audit) or may be undertaken later (post-audit). Internal Audit may also be required to undertake independent checks on stores and fixed assets. However, international best practice suggests that the core element of Internal Audit work should be systems audit. The objective of systems audit is to improve the controls operated by management rather than Internal Audit acting as a control itself.

If Internal Auditors undertake pre-audit, they should not also undertake system reviews of the same transactions or systems.

Advantages

- Could help to ensure that expenditure is necessary and appropriate.
- Could help to ensure that expenditure is properly authorised before payment is made.
- Could help to prevent management fraud.
- Could help to reduce the incidence of fraud or irregularity.
- Could help to confirm the existence of projects, supplies and stores.

Disadvantages

- May reduce officers' responsibilities for internal control.
- Managers may not check payments properly, but rely on Internal Audit to do these checks.
- Payments may be delayed until Internal Audit has completed their checks.
- It may be an inefficient use of valuable Internal Audit time.
- Could provide an opportunity for unethical Internal Auditors to seek bribes.
- Could relax Internal Audit objectivity when doing systems audit work.
- Could put Internal Audit security at risk.

In some countries, Internal Audit may be required to undertake pre-audit. Where this is the case consideration should be given to reducing this role. This could be achieved by only undertaking pre-audit on larger payments or those that are particularly vulnerable to fraud or irregularity. Public sector organisations with good internal controls could be rewarded with a reduced requirement to have their expenditure subject to pre-audit".

What do you think of the practice of pre-audit? We would be happy to print a selection of views on this topic in a future issue of this Bulletin (e-mail info@accaglobal.com).

PURCHASING COMPUTER SYSTEMS

Many organisations waste significant amounts of money with failing computer systems. The Public Accounts Committee in the UK has summarised the lessons from over 25 reports from the UK National Audit Office about IT over the last decade. Key issues include:

- * failure to link the IT project with overall business change in the organisation. The IT project must be clearly linked with the business processes they are intended to support
- * deficiencies in leadership and responsibility. Each IT project should have one senior officer who is given sufficient power and authority to manage the project, they should stay in charge until the project has been completed
- * the need to raise standards of project management. The senior management of the organisation must fully support the project, receive regular feed-back and stop a project if it is failing. Each IT project must have clear aims and objectives and clear criteria to judge success. Project managers need proper status and rewards for success
- * the importance of risk management. The probability and possible impact of all risks should be clearly assessed. The decision to go ahead with a project must be based on detailed costs and benefits and the risk assessment. The project should included regular high-level review points when the directors should confirm that the project should continue
- * the application of a "big-bang" approach rather than a lower-risk phased development. Smaller step by step projects are less likely to fail. Large projects should be broken up and implemented department by department, for example
- * short-sighted dealings with suppliers. There should be more sharing of progress reporting, success criteria, realism of the project and risk management.

The Public Accounts Committee report can be found at:
www.publications.parliament.uk/pa/cm199900/cmselect/cmpublicacc/65/6502.htm

TOP TEN IT SECURITY MISTAKES MADE BY STAFF

Many of the risks associated with the use of IT are not due to technical problems, they are due to people. Computer Audit is not always a technical subject, it is about people and the silly things we do!

1. Passwords on pieces of notepaper - the 'post-it' note, as it is often referred to, appears to be a major breach of security measures. Leaving a note with your valid password written on it posted on or near your computer is the most frequent violation of information security policy.
2. Leaving your computer on unattended - too many people simply leave their computers on and walk away to do other things. The point is not to save energy, it is to save your company from a potentially costly and embarrassing computer breach.
3. Opening e-mail attachments from strangers - the Love Bug virus cost businesses billions of dollars world-wide. There is no substitute for looking and thinking before you leap to open an e-mail.
4. Poor password etiquette - do not let your default password remain as your primary password. Do not enter the same password you have always had when the system asks you to change it.
5. Laptops on the loose - while theft of a laptop computer, loaded with company secrets, can happen in the airport, it is just as likely to happen in your office overnight.
6. Blabber-mouths - talking about your passwords or other confidential information outside of work, on the train, for example, increases the risk of someone gaining access to information you do not want them to have.
7. 'Plug and play' without protection - in the rush to get things done too many people plug modems straight into servers, thus by-passing firewalls or other company security measures.
8. Not reporting security violations - You may be aware of security breaches, but it is important for the company to know of all violations to prevent them happening in the future. Staff must be encouraged to report security problems.
9. Always behind the time - one of the biggest vulnerabilities of any system is the failure to install updates and patches for software that is being used. Anti-virus software must be updated regularly.
10. Keeping your eyes open inside the organisation - while managers believe an information security breach will come from an outsider, the biggest risk is from people within the organisation.

Source: Human Firewall Council

BOOK REVIEW

If you have read a book recently on internal audit or related issues which you think would be of interest to readers of this Bulletin, please send in a brief review to Andy: andy.wynne@accglobal.com

INTERNAL CONTROL - A MANAGERS JOURNEY

K H Spencer Pickett

Published by John Wiley & Sons Inc (ISBN 0 471 40250 8)

"Bill Reynolds sat in the doctor's waiting room and looked around. Waiting for test results was always difficult. He was an attractive, tall, slimly built man in his early thirties ..." Not the conventional start to a management handbook on internal control, but then this is not a conventional book.

It was devised on Sunset Beach in Montego Bay, Jamaica and describes Bill's week long trip to Jamaica and his discussions with Jack as they tour the island. It also stars Ruth Madoc "with striking hazel eyes framed by the largest lashes Bill had ever seen". A travelogue, a guide to the tourist sites and local customs, a love story, and a well structured exposition of internal control - this book has it all!

Practical ways of managing and controlling risk are essential knowledge for all managers. Detailed professional experience of alternative ways of mitigating risk is a prerequisite for all auditors, internal and external. The problem is how to impart this knowledge and provide the background needed to understand, critically assess and effectively improve specific management processes.

This book is framed around discussions between the two men as Jack shows Bill around the delights of the island. Bill is an uptight, stressed out control freak, Head of Corporate Standards in a company that has just received a critical consultants report. The report indicates that the company's internal control system is inadequate, a major project has just been abandoned and the police are about to arrest the chief purchasing officer for tender fixing. Bill has been tasked with writing a corporate standards manual and establishing a compliance team.

Jack has sun bleached hair and used to be a top business consultant. He came to Jamaica a year ago to write a book, but has found that it is "very easy to relax here and forget about work for a while. Very easy indeed". He now operates on "Caribbean time. It's a little more ... flexible". We think Jack is laid back until we meet Danny-Dread, fishing under a star-apple tree, he turns out to be a successful manager with clear views on how a sound internal control system should operate.

Each of the six core chapters of the book cover a day trip and the discussions between Bill and Jack over their differing views of internal control. Day one sets the scene covering concepts of control. This includes a description of the standard COSO model, but also control as a foreign body and Jack's concept of concentric self-control, with the soul at the centre. Bill's experience of purchasing mangoes for Ruth is provided as a practical example.

On the second day, Bill and Jack visit Negril, enjoy a swim and drink fish tea. They also find time to discuss the role of procedures and how they "outline how an organisation wishes its activities to be conducted". Procedures should be live documents, updated on a regular basis. They should also be useful to the staff concerned.

Day three is devoted to fishing. Discussion covers information systems, financial systems, value for money and quality. We meet Danny-Dread whose view of control, as essentially self-control, is even more extreme than Jack's ideas. "You have to trust yourself and your staff. I spend most days fishing and keeping an eye on things... You think control is something you write down on a piece of paper and that's it. Control is about getting your people to deliver".

On day four, the weather breaks, so the two men stay around Bill's hotel playing pool. The day's topic is fraud and corruption and ends with a stake out! Bigga is suspected of theft, but it turns out that it is the security guard who is stealing from the drink store. Jack manages to stop and take his knife off him. Ruth is suitably impressed with Bill and Jack, "You were both wonderful. My heroes!".

The next day Bill and Jack discuss the conflicts between control and creativity. "Creativity is about freedom to act, to make decisions, a freedom to think. Control is about restraining activities within set parameters". Creativity is needed to deal with people and their desires. Change is needed to keep ahead of the competition. New ideas have to be encouraged and incubated, but their introduction has to be controlled. Creativity is utilised to best effect when everyone in an organisation has the same basic set of objectives. Controls provide a framework in which creative individuals operate. People need to be accountable, need to explain why they take certain courses of action - not punished for trying new ideas. However, they also need to be monitored to identify deviant behaviour that should be held in check.

The final day's discussion covers the concept of a corporate internalised control facility. The aim, through facilitation and risk awareness seminars, is to embed risk assessment and control assurance into all aspects of management. This needs senior management buy-in and a certain level of resources. The corporate internalised control system is considered to be an additional service that could be provided by

internal audit. However, it is recognised that this approach will not work with all organisations.

There are very few criticisms that I could make on this book. The ones I could identify are largely unimportant - I do not think you would get jet-lag between JFK and Jamaica, but the author might have done when he flew from the UK! In the discussion on computer passwords, no mention is made of the necessity of preventing staff changing their passwords and then immediately changing them back to the original password. In addition, the good practice of using the first letters of a phrase as a password (for example, TCSOTM - The Cat Sat On The Mat) is omitted. The book ignores possible conflicts between the objectives of staff and those of the organisation. Both Bill and Jack become self-employed and so avoid the frustrations of compromising their objectives to those of their employers. Finally the reader should be warned of the need to complement the advice in the chapter on fraud with knowledge of their local legal environment and in particular guidance on the interviewing of suspects.

Overall, I believe that this book is a great success. It provides a coherent and detailed account of risk and control in an interesting format. The book should be included in the library of any serious internal audit section and should be required reading for all managers. If there is one professional book that internal auditors read, I suggest it is this one. If they then feeling like a 'heavier' read they could do worse than going on to read Spencer's previous volume, 'The Internal Auditing Handbook'.

ACCA RESPONSES TO CONSULTATION DOCUMENTS ON INTERNAL AUDIT

ACCA has recently provided responses the following consultation documents related to internal audit:

- Code of Audit Practice - Higher Education Funding Council
- Good Practice Guide on Strategy - Audit Policy and Advice, HM Treasury
- The Role of Internal Audit in Risk Management - Institute of Internal Auditors (UK)

ACCA's responses are available by accessing: www.accaglobal.com/technical/ and then clicking on "Responses to consultation documents".

The Executive Summaries of the last two responses are included below.

THE ROLE OF INTERNAL AUDIT IN RISK MANAGEMENT - INSTITUTE OF INTERNAL AUDITORS (IIA-UK)

ACCA welcomes emerging guidance on the role of internal auditors in risk management because many internal auditors are closely involved in the process within their organisations and this close involvement can threaten their independence and objectivity.

The IIA-UK Statement is correct in asserting that there is no 'right' answer to the question 'what role should internal auditors play in risk management?'. It then goes on to say that the internal auditors' involvement in risk management "should stop short of managing risks on management's behalf". ACCA agrees with this assessment, but would like to see clearer guidance for internal auditors on how they can judge whether or not their work is part of managing risks. We suggest that an appropriate distinction to make in establishing a useful boundary would be whether or not the internal auditor is involved in making management decisions on risk management. In our view, internal auditors should not be involved in making such decisions.

Although the statement does not provide specific guidance on how internal auditors can distinguish when their work might actually cross the boundary, it does list types of work which IIA says internal audit can be "involved in without compromising independence and objectivity". Some of these examples seem to us to fail the criterion of "stopping short of managing risks on management's behalf". For example, the guidance seems to look favourably on internal audit "becoming a centre of expertise for managing risk" and "providing enterprise-wide risk management services". We envisage that in both these cases there is a danger that an internal auditor could easily become involved in managing risks.

GOOD PRACTICE GUIDANCE ON AUDIT STRATEGY - APA, HM TREASURY (UK)

ACCA believes that it is an excellent idea for the proposed Good Practice Guide to develop new approaches to audit strategy in line with the revised IIA definition of internal auditing. We commend the useful advice contained in the Guide on the complex task of setting an audit strategy within this new context of internal auditing. We consider, however, that the Guide needs further expansion and development to provide practical guidance on developing internal audit strategies.

ACCA suggests that it is over-ambitious to describe the annual internal audit opinion as "a positive annual assurance". We believe that this may lead to an expectation gap developing between senior managers and internal audit and, indeed, that it is not practical for internal audit to deliver such an opinion.

The scope of the proposed internal audit strategy should be reduced so that it becomes a practical document for audit committees to assimilate. In addition, the extent to which internal audit can rely on the organisation's risk management assessment should be explained in more detail.

ACCA SEEKS TO ESTABLISH AN INTERNATIONAL INTERNAL AUDIT PANEL

ACCA is seeking to establish a panel of experienced internal auditors from across the world to assist ACCA staff in developing responses to consultation documents on internal audit. Please send you details to andy.wynne@accaglobal.com if you would be willing to join such a panel.

PUBLICATIONS AND RESOURCES

AUDITNET - www.auditnet.org

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

Auditors work in a variety of industries. AuditNet is working on an industry link page. The page will provide links to knowledge resources for auditors.

The following are the examples of audit programs that have been added to the site recently:

- Bank Reconciliation Statements
- Credit Collections
- Cash Payments Cycle
- Cash Receipts Cycle
- Consumer Loans Procedures and ICQ
- Internet Banking Audit Program
- Novell Groupwise Review
- SAP Fixed Assets
- Time Budget Excel Worksheet
- Warehousing and Storage Checklist
- Wireless Networking

RISK MANAGEMENT READINGS

The IIA have 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.

www.theiia.org/ecm/guide-ia.cfm?doc_id=1604

UK TREASURY GUIDANCE NOW ON WEB

HM Treasury guidance is now freely available on the Internet. This includes Government Accounting, the financial regulations for central government departments in the UK. Also available is the UK guidance on the introduction of accruals accounting. This is now termed 'resource management'.

www.government-accounting.gov.uk

www.resource-accounting.gov.uk

THE COBIT OPEN STANDARDS FOR IT SECURITY

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

They include:

* Management Guidelines

* Executive Summary

* Framework

* Control Objectives

* Implementation Tool Set

CORPORATE GOVERNANCE LINKS

The Institute of Chartered Accountants of Pakistan's (ICAP) Committee on Corporate Governance has developed 'Recommendations for a Code of Corporate Governance'. These include a brief mention of internal audit as follows:

"9. INTERNAL AUDIT

9.1 The Companies shall enforce an internal audit function.

9.2 The head of internal audit shall have unrestricted access to the chair of the Audit Committee.

9.3 Internal audit reports shall be available for review by the external auditors who may discuss their findings with the Audit Committee, and the latter should report to the Board any matter of importance having regard to all the circumstances".

The full text of the ICAP Code can be found on their website at www.iacp.org.pk A range of other corporate governance codes are available from: www.ecgi.de/codes

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

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

THE GOVERNMENT AUDIT OFFICE (GAO) OF THE UNITED STATES

This website, although for an external audit agency, contains much information of use to internal auditors, for example:

Federal Information System Controls Audit Manual

www.gao.gov/special.pubs/ai12.19.6.pdf

Internal Control Management and Evaluation Tool

www.gao.gov/new.items/d011008g.pdf

IIA - UK HAS A NEW WEBSITE

The IIA - UK has transformed its website, have a look at www.iiia.org.uk

This includes the 'Knowledge Centre' with comprehensive guidance and key documents on corporate governance, risk and control and IT audit.

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: www.accacommunities.com

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

PASS ON DETAILS OF THIS BULLETIN TO OTHERS

ACCA is the largest, fastest growing, global professional accountancy body, with nearly 300,000 members and students in 160 countries. ACCA headquarters is in London and it has 32 staffed offices and 35 active centres around the world. ACCA's mission is to provide quality professional opportunities to people of ability and application, to be a leader in the development of the global accountancy profession, to promote the highest ethical and governance standards and to work in the public interest.

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

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.

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

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

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

THE END