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\* ACCA INTERNAL AUDIT BULLETIN \*  
\* ISSUE 13 - JULY 2002\*

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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.

Andy Wynne - Internal Audit Bulletin editor: andy.wynne@accaglobal.com

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NEWS

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WORLDCOM - ONLY A US PROBLEM?

ACCA believes that the discovery of a 3.8 billion US dollar alleged fraud at US telecommunications group WorldCom should serve as a wake-up call for boardrooms and audit firms across the world. Suggestions that this is purely a US problem which cannot be repeated elsewhere are unfounded and complacent. ACCA has told the media world-wide that it 'could happen here'. See also the briefing on Enron later in this bulletin.

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LESS THAN A QUARTER OF FIRMS HAVE ADEQUATE BCPS

A survey has revealed that less than 25 per cent of Fortune 500 companies do not believe that their current contingency planning efforts are adequate. The survey conducted by Factory Mutual Insurance Company nine months after the 11 September disaster also disclosed that more than 75 per cent of firms are not prepared enough to recover from a disruption to business.

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US GOVERNMENT IN 22BN US DOLLAR ACCOUNTING ERROR

The US government has revealed that accounting errors have led it to 'lose' more than 22bn US dollars over the past two years. The costly oversights were unearthed in the 2001 Financial Report <http://www.fms.treas.gov/cfs/01frusg/01frusg.pdf> (in .pdf format - please note it will take a few minutes to download) of the United States Government. The report said: "Reconciliation of the 'Change in Net Position' required that the difference between ending and beginning net position equals the excess of revenues over net cost, plus or minus prior period

adjustments. The unreconciled transactions needed to bring the change in net position into balance, amounted to a net value of 17.3bn US dollars and 4.8bn UD dollars for the years ended September 30, 2001, and September 30, 2000, respectively." It went on: "The three primary factors affecting this out-of-balance situation are:

Improper recording of intra-governmental transactions by agencies.

Transactions affecting Balance Sheet assets and liabilities not identified properly by agencies as prior period adjustments.

Timing differences and errors in reporting transactions".

"The Federal financial community considers the identification and accurate reporting of these unreconciled transactions a priority" the report stated.

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#### INDUSTRIALISED COUNTRIES STILL PAYING BRIBES

Bribery of foreign public officials by companies from industrialised countries is still common despite the two year old OECD convention against bribery. Transparency International (TI) said that amongst the rich countries, US companies were perceived as some of the worst offenders despite having had laws to prevent bribery of foreign officials for more than 20 years.

'Politicians and public officials from the world's leading industrial countries are ignoring the rot in there own backyards and the criminal bribe-paying activities of multinationals headquartered in their own countries while increasingly focusing on the high level of corruption in developing countries,' said Peter Eigen, the Chair of TI.

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#### THE ROLE OF INTERNAL AUDIT IN RISK MANAGEMENT

The IIA-UK issued a position paper on this subject in June which is available from the IIA website - <http://www.iaa.org.uk>

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#### SOUTHERN AFRICAN REGIONAL INTERNAL AUDIT CONFERENCE

Johannesburg, South Africa, August 5-7, 2002

The 6<sup>th</sup> Annual conference hosted by IIA South Africa. Theme: "Back to Basics - Adding Value"

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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: [info@accaglobal.com](mailto:info@accaglobal.com)

We can't guarantee to solve your problems or to pass on your tips, but we will try our best.

We also welcome non-commercial announcements for inclusion in the Bulletin.

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#### ENRON – A LESSON LEARNT?

Lorraine Rowsell FCCA is a member of ACCA's Internal Audit Sub-Committee and is keen to encourage comments on this article: [lorraine@rowsell33.freeserve.co.uk](mailto:lorraine@rowsell33.freeserve.co.uk)

#### INTRODUCTION

Everybody who's anybody has had something to say on Enron: the Board has blamed the auditors, the auditors have blamed the Board, the analysts (with hindsight) have announced they knew something wasn't quite right, the Internal Auditors (those not employed by the external auditors) are presumably licking their wounds somewhere and governments and accounting standard bodies the world over are establishing enquiry panels and review boards. Even the most optimistic are saying it will take years to unravel and reveal 'what went wrong at Enron'.

In the meantime, however, we must consider what we can learn from Enron so far and ensure that we avoid the Enrons of tomorrow. Have we learnt any lessons or do we adopt the 'head in the sand, it couldn't happen here' approach? Have each of you reassessed your organisation in light of Enron and are you

confident that the governance process provides assurance about the efficiency of operations, compliance with laws and regulations, and reliability of financial reporting?

The aim of this article is not to tell you what to do or how to do it but to encourage everyone to take some time out, assess the Enron facts and implications, go back to some of the basics and ensure that within your organisation Corporate Governance isn't simply a tick box exercise but a wholehearted attempt to implement best practice.

## BACKGROUND INFORMATION

A web search on "Enron" (as at 10/07/02) identified 1,140,000 finds! Having neither the time nor inclination to visit them all, I discovered a particularly useful site is that of IIA Inc (<http://www.theiia.org>).

Click on 'The IIAs other Enron-related Initiatives' (on the home page as at 22/07/02).

This provides either information or links to other sites:

Enron fact sheet (updated 17th June 2002 as at the point of writing) – brief facts regarding the company, the issues, the latest news etc. Within this fact sheet are links to the 217-page special investigation report commissioned by Enron's board of directors on 28th October 2001 (can also be accessed via <http://www.findlaw.com>)

'Tone at the Top' - Enron The Lessons that Lie Beneath - links to Issue 13 of a newsletter directed at Senior Management, Boards and Audit Committees.

IIAs Position Paper on improving Corporate Governance

Useful information can also be found at:

<http://www.smartmoney.com> - utilising the 'match exact phrase' search, look for 'Enron express' and you'll find an article entitled 'Next stop on the Enron express: Wall Street' dated 26th February 2002. This article in turn provides numerous links to related articles on the Enron saga including documents relating to LJM2.

<http://www.ft.com> - at the home page search for 'Enron' then change the search to "FT Comment after Enron" last 6 months. This provides access to 6 articles, one of particular interest being 'FT Comment after Enron: Giving Meaning to the Codes of Best Practice', 19th February 2002.

<http://www.iaa.org.uk> - a search for 'Enron' provides a range of links one to an article entitled 'Enron – guidance on governance' (page 2 of the search results as at 10/07/02). This was also issued in hard copy with the IIA monthly magazine 'Internal Audit and Business Risk', March 2002. The magazine and the website also include an article 'Learning from Enron's Errors' which was most thought provoking. I particularly liked the line 'This is why internal audit is no place for the politician or the faint-hearted'.

## THE ISSUES

Many issues have arisen from the Enron affair, for example:

- \* Whether there has been fraud or the law has been broken.
- \* The functioning and regulation of capital markets.
- \* The adequacy and enforcement of accounting and auditing standards.
- \* Matters of Corporate Governance.

Whilst all these issues are of importance to internal auditors, a key interest is likely to be in 'the failure of corporate governance', given that we are an important element of the corporate governance framework. The common themes reported upon include:

Structure of the Board:

- role and independence of non-executives
- technical expertise required to understand complexity of transactions
- wider representation of top management
- separation of chairman and chief executive roles

Role of the Audit Committee:

- recruitment and monitoring of external auditors
- accounting expertise or access to professional advice
- appointment and performance review of CFO
- ensuring adequacy of internal controls

Whistle-blowing:

- process for reporting / raising concerns
- investigation by audit committee or outside experts
- annual report of inquiries

Remuneration schemes:

- risk associated with compensation plans tightly geared to share price
- pressure to report 'good news' where performance related bonuses are disproportionate to the overall compensation package.

## ENRON'S INTERNAL AUDIT

Sometimes, for us to learn how to do something better, we need to focus on what others did wrong.

Little information has yet come to light about the specific role of internal audit in Enron. We do know that Andersen's were the major provider of Internal Audit Services and that a small in-house service of approximately 15 internal auditors was established some 18 months ago. It is reported that these 15 auditors were not totally or solely under the control of the Chief Audit Executive for performance and compensation evaluations.

Given the current situation, we have to ask whether Enron's internal audit was doing the right work and if they were, did they have the stature to challenge management, alert the board / audit committee and, if necessary, the regulator. It is appreciated that none of these are easy but they are essential if there is to be true value in internal audit. It is a matter of professionalism and true independence.

It is important that each of us within our own organisations ensures that we have got the basic foundations of Internal Audit right and Enron presents us with a valuable opportunity for introspection.

## WHERE NEXT

A particularly good starting point when considering your own organisation is to look at the 'flash surveys' of IIA Inc, one aimed at Directors (<http://www.gain2.org/webnacd>) and the other at Chief Audit Executives (<http://www.gain2.org/caeweb>). The surveys and the results can be accessed at <http://www.gain2.org> (select 'Flash Survey Results').

Then consider some of the following points (several of which are considered in greater depth within the document issued by IIA 'Enron – guidance on governance').

Does your company:

- have a formal process of Risk Identification, Assessment and Control?
- have a process to evaluate the effectiveness of internal control and risk management?
- have a robust and independent Audit Committee?
- monitor and ensure the independence of external auditors?
- have 'Whistle-blowing' and Declaration of Interest processes?
- uphold corporate integrity and enforce zero tolerance for compromised ethics?
- send a clear signal that the organisation is serious about corporate governance?

What is Internal Audit's role within the organisation?:

- What do you see as your role - is there an expectation gap between this and management's view?
- Do you spend more of your time in an advisory / consultative role than as a provider of assurance?
- Have you got the balance right?
- Do you engage additional help or professional advice in areas where you have a skills gap?
- Where reliance is placed on external parties such as auditors, is this reliance well-founded, has the associated risk been identified and assessed?
- Do you stay risk based, do you have something to say and the courage to say it?
- Are you truly independent, even if it means putting your bonus or job on the line?
- What is your relationship with the audit committee, are serious issues escalated to a satisfactory conclusion?

## WORKING TOGETHER

The one thing particularly evident in every article, comment, website or conversation is the importance of recognising the collective responsibility for the failure of Enron. Executive and non-executive directors, external and internal auditors, management, regulators, government bodies, investors, analysts, accounting standard setters, financiers, etc have all been put under the spotlight (apologies if I've left anybody out). It stands to reason that all must play a part in suggesting and implementing improvements.

Ensure in your own organisation that you don't attempt to consider the issues in isolation. Take the opportunity to discuss, debate and learn from Enron in conjunction with all relevant parties and, if not done so already, table it as an agenda item for the next audit committee meeting.

Enron has provided us all with the opportunity to re-examine and, where appropriate, strengthen the governance framework. Through open and honest discussion and a willingness to challenge and be challenged we can avoid the Enrons of the future.

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ACCA's comments on Enron are available from <http://accaglobal.com> - you may find it particularly useful to search in 'Accounting & Business', our magazine for members.

We would welcome contributions to the post-Enron & WorldCom debate. Please send contributions for this Bulletin to [info@accaglobal.com](mailto:info@accaglobal.com)

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### PERFORMANCE MEASURES FOR INTERNAL AUDIT

In our last Bulletin, we provided a book review on this subject. Below we provide an actual suite of performance indicators for an internal audit department. Each performance indicator includes:

- the actual measure/mechanism
- a suggested frequency
- comments.

#### 1. COST

##### 1.1 Cost of individual Internal Audit assignments

- Quarterly
- Target of being within 10% of time and cost budgets on individual assignments

##### 1.2 Productive Internal Audit staff time compared with total Internal Audit staff time

- Annually
- Target of 80% directly productive time

##### 1.3 Comparison of actual cost with the budgeted or planned cost

- Annually
- Target of being within 5% of annual budget

##### 1.4 Comparison of cost per audit day with other providers

- Every 3 years
- Target of being comparable to local market rates
- Through market testing or knowledge of actual market rates

##### 1.5 Cost of service compared with similar organisations

- Every 3 years
- Target of having a comparable cost base to similar organisations

#### 2. AUDIT COVERAGE

##### 2.1 Comparison of actual days input with planned days per assignment

- Quarterly/Annually
- All significant variances (above 10%) should be explained to the Audit Committee

##### 2.2 Actual areas covered compared with plan

- Annually
- Target of at least 90% of assignments in the annual plan completed
- Explanation of any planned reviews not completed to be provided to the Audit Committee

##### 2.3 Completion of audit assignments by planned dates

- Quarterly/Annually
- Target of at least 90% of audit assignments completed within two weeks of the planned dates

##### 2.4 Actual time to complete an audit assignment compared to planned time

- Quarterly/Annually

- Target of completing each assignment within 10% of the original budget

### 3. AUDIT PLANS

#### 3.1 Timeliness of preparation of internal audit plans

- Annually
- Audit plans should be prepared in time to present to the Audit Committee before the start of the relevant period

#### 3.2 Content of audit plans and their usefulness to readers

- Annually
- Comments included in management satisfaction surveys

### 4. AUDIT REPORTS

#### 4.1 Draft audit reports issued by the target date included in the assignment terms of reference

- Quarterly/Annually
- Target of 90% of draft reports issued by the date included in the assignment terms of reference

#### 4.2 Draft audit reports produced within 15 days of end of field work or wash-up meeting

- Quarterly/Annually
- Target of 90% of draft reports issued within 15 days of end of field work or wash-up meeting

#### 4.3 Final reports produced within 10 days of receipt of final management response

- Quarterly/Annually
- Target of 90% of final reports issued within 10 days of receipt of final management response

#### 4.4 Quality of Audit Reports

- Quarterly/Annually
- Partly a subjective evaluation, but to include views on following from management satisfaction surveys
  - factual accuracy
  - follow-up procedures
  - clarity
  - control improvements

### 5. RECOMMENDATIONS MADE

#### 5.1 Number of (fundamental) recommendations made

- Quarterly/Annually
- Internal Audit should ensure that the reporting of controversial recommendations is not inhibited and that a proliferation of recommendations of minor significance is not reported.

#### 5.2 Number of (fundamental) recommendations agreed by management

- Quarterly/Annually
- The principle behind all fundamental recommendations should be agreed; 80% of significant recommendations should also be agreed

#### 5.3 Number of (fundamental) recommendations implemented by target date

- Quarterly/Annually
- All fundamental recommendations and at least 75% of significant recommendations should be implemented by their target dates

### 6. RELATIONSHIPS

#### 6.1 Senior managers views of Internal Audit

- Quarterly/Annually
- To include results of management satisfaction surveys and via direct feedback at audit committee meetings. Target of 90% satisfaction with Internal Audit work

#### 6.2 Perceptions of line management

- Quarterly/Annually
- To include results of management satisfaction surveys. Target of 90% satisfaction with Internal Audit work

### 7. REVIEWS BY OTHER AGENCIES

#### 7.1 Extent of reliance on internal audit work by other auditors or inspectors

- Annually
- External Audit management letter should comment on the scope and adequacy of Internal Audit work and the extent that they can rely on it

#### 7.2 Results of external reviews of our work

- As appropriate
- Outcome of reviews by external review agencies

### 8. STAFFING AND TRAINING

#### 8.1 Percentage of qualified staff time used

- Annually
- Target should be at least 80% of audit time by qualified staff

- 8.2 Number of articles published or external training sessions provided by Internal Audit staff
  - Annually
  - Target of at least two per year by internal audit department staff
- 8.3 Provision of appropriate continuing professional development training for Internal Audit staff
  - Annually
  - Target should be an average of 10 days continuing professional development per auditor
- 8.4 Use of specialist staff eg IT or contract audit staff
  - Annually
  - Ensure that Internal Audit has access to the necessary specialist staff
- 8.5 Staff continuity
  - Annually
  - Target should be an annual turnover of less than 10%
- 8.6 Number of vacant posts in the Internal Audit department
  - Annually
  - Target should be an annual vacancy level of less than 5%.

We would welcome any comments you may have on the above performance indicators. What performance indicators does your internal audit department use?

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**ROLE OF THE ACCOUNTING PROFESSION IN MANAGEMENT OF CONSTRUCTION PROJECTS**  
 GURSHARAN SINGH Trainer - Retired Audit Officer (gsk38@hotmail.com)

**1.0 INTRODUCTION**

1.1 The general perception of the role of accountants [or the accounts department] in respect of construction projects has been that of a Recorder of Financial Transactions pertaining to the respective projects. The accountants accept the financial documents [valuations, payments, claims, etc] as certified by the relevant designated experts.

1.2 The accounting profession has further strengthened this general perception of their limited role of account keeping by its hands-off approach on the other aspects of construction projects implementation. The justification provided is that the various aspects of construction projects are the responsibilities of the relevant experts involved in the management, planning, designing, implementing, supervising, monitoring, etc. of the project. The other relevant technical and other professionals are responsible for their specific fields of expertise such as architects, engineers, quantity surveyors, land surveyors, landscape architects, interior designers/decorators, lawyers, project managers, internal auditors, etc. The accounting profession is correct in THIS view but to a limited extent only.

**2.0 ROLE OF ACCOUNTING PROFESSION**

2.1 The professionals possessing accounting expertise are generally part of the team that is involved from the very beginning and inception of any construction project. They advise on the sources of funds that will finance the construction of the project and its economic viability. The role of the accounting department will subsequently be generally relegated to that of examining the financial transactions and record keeping only after a decision has been made by the Board of Directors. The extent of examination by the accountants is generally limited to compliance of the prescribed procedures and accepted financial controls. Thus the possibility of recovery in the future of any overpayment, wrong payment or fraudulent payment would be greatly reduced if and when the loss is ever discovered. In some cases, the individual accountants have gone beyond this limited role due to their personal interest in construction projects and thereby helped in preventing or minimising losses.

2.2 The accounts departments of most organisations are provided with, or have access to, all the relevant documents with financial implications pertaining to the construction projects. These include, among others, the following:

- [a] budgetary approvals, tendering process and management of implementation
- [b] contract documents and technical consultants' agreements
- [c] performance bonds/insurance policies together with extensions granted
- [d] advances, payments, recoveries, penalties, claims, final accounts
- [e] utilities costs, facilities provided, reimbursable claims, variations approved
- [f] local authorities/other payments – deposits or fixed charges
- [g] periodical reports and monitoring/progress briefings

2.3 The accountant is the last stage in the approval process of all financial transactions, particularly payments. He is in a unique position to PREVENT an overpayment or wrong payment or fraudulent payment. He will not be held responsible for any overpayment, wrong payment or fraudulent payment where the payments have been subjected to prescribed and approved internal controls and the payment certificate approved and certified correct by the relevant experts. The possibility of any recovery would be substantially reduced if / when the loss is subsequently discovered.

### 3.0 SCOPE OF EXAMINATION BY THE ACCOUNTANTS

3.1 It is not the intention here to suggest that the accountants take over the role of auditors. The objective is that the accountants should supplement and co-operate with the auditors for the common benefit of the organisation and its staff. The accounts department should examine those documents that have direct financial implications. These would include, among others, those listed in paragraph 2.2 above.

3.2 The accountant may not be responsible for the custody or maintenance of a contract register but he would have access to it at all times. He could base his examination on the information that is required to be recorded in the contract register that is essential for monitoring the financial and physical progress of any construction contract. A reasonably comprehensive contract register would provide particulars about those terms and conditions of contracts that are mandatory for compliance. The aspects would include, among others, the following:

[a] basic information about the contract

[b] security clauses [performance bonds/guarantees]

[c] prescribed insurance policies [fire, workmen compensation, public liability]

[d] mandatory payments [KWSP, SOCSO, C.I.D.B]

[e] payments [interim, final]

[f] contract cost [variations costs, escalation and other claims]

[g] penalties for delays [liquidated & ascertained damages]

[A comprehensive contract register format together with procedure for its maintenance, explanatory notes, checklists and I.C.Q. can be obtained by [gsk38@hotmail.com](mailto:gsk38@hotmail.com)]

### 4.0 ROLE OF MANAGEMENT

4.1 It is the responsibility of any management to provide to the accounting department professionals the necessary support in the form of training opportunities in the construction projects. The Board of Directors can better monitor and control the financial [and physical] progress of the construction projects. Appropriate preventive measures to reduce costs and delays [that also cost money] to some extent can be taken in the early stages. This will benefit the organisation in creating another stage in minimising, if not preventing, overpayments, wrong payments and fraudulent payments.

### 5.0 CONCLUSION

5.1 There may be a possibility of identifying losses and some recoveries if the auditor [internal or external] subjects the project to a comprehensive audit. However this possibility is also very remote because the limited manpower resources and facilities of the audit department may not permit it to spare the required resources and time for the required comprehensive audit. In the absence of any evidence of wrongdoings it may also not be possible for him to justify to the management the need for additional funds and resources for a special comprehensive audit.

5.2 It is important and long overdue for the accounting profession [and the management to support] to play a more proactive and comprehensive role and add value to its services by being involved in examination of the many financial aspects of construction projects. They should not be over dependent on others but equip themselves with knowledge about the financial aspects in construction projects and their implications. This would assist them in upgrading the quality of their duties and add value to their contribution to the organisation besides enhancing career prospects.

5.3 The accounting profession should remember that they possess accounting expertise while being aware that they may not possess in-depth knowledge about the technical aspects of construction projects. Similarly the technical and other professions have the expertise in their respective professional disciplines, not many have in-depth knowledge about financial aspects in the technical documents and that they depend on others who may have some knowledge. Thus it is not in the interest of the accountants to have blind trust in other professionals but they should be aware of the many adverse possibilities. They should be able to ask some common-sense questions from the technical professionals either on their own or with the advice of their colleagues within the organisation. Thus when the technical professionals are aware that the

accountants are alert and knowledgeable, the possibility of over-claims, overpayments or fraudulent payments will be prevented or minimised.  
BE AWARE, AVOID BLIND TRUST & BE PROFITABLE!

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#### FIVE MYTHS OF GOOD TIME MANAGEMENT

Viv Cole, professional training expert, came up with some surprising responses to commonly held assumptions about time management.

#### ALWAYS HAVE A TIDY DESK

While a tidy desk can help you work more effectively by eliminating distractions, you need to weigh up the time spent tidying against the cost of being untidy. Consider your desk "healthily tidy" if you can find what you need quickly and can easily direct a colleague to find relevant information, for example when you're out of the office.

#### GOING HOME AT 5:00PM EVERY DAY SHOWS THAT YOU DON'T HAVE ENOUGH WORK TO DO

If you are confident that you are on track to meet your objectives and deadlines, why feel guilty about going home at 5:30? Partners should assess you on what you actually achieve rather than how much effort you put in. Obviously there are sometimes good business reasons why you will need to work later. If you manage your time effectively you will be clear about the reasons to work later rather than working late being a matter of course.

#### PLAN ALL YOUR TASKS USING 'TO DO' LISTS

If you can complete a task immediately and fairly quickly, just do it! Putting things onto a 'To Do' list may take longer than they're worth. The fewer items on your 'To Do' list, the less time you'll need to spend deciding which to do now. Allocate a time slot to respond to your e-mails/ correspondence. This will give you a motivating sense of having got things done and keep your 'To Do' list more manageable.

#### THERE IS NO POINT BECOMING MORE EFFICIENT AS CLIENTS PAY BY THE HOUR

In the short term, this is true as your clients have agreed a fee. However if your competitors are more efficient and can therefore quote lower fees, at some point you will have no clients left. Use the time that you save to enhance the quality of service you provide e.g. do research on forthcoming changes in tax legislation/ accounting standards and advise your client how this may affect them. This research time will also generate opportunities to impress other clients.

#### NEVER LET YOURSELF GET INTERRUPTED BY YOUR COLLEAGUES

While it is difficult to come back to a half-completed task when you're interrupted in the middle of it, colleagues are one of your most valuable resources. Often you will find out information or improve relationships which will allow you to achieve your objectives. Communicate and agree with colleagues the times that you don't want to be distracted (and vice versa) e.g. when you're working on a report or a proposal.

#### APPRAISALS ARE A HUGE WASTE OF TIME

Not so. An appraisal is one of the best ways to use your time. In a good appraisal you will agree and set objectives which balance your career aspirations with the firm's business plan. If you have clear objectives, you have ready-made criteria for deciding which tasks to fit into your limited available time. Each month allow yourself 20 minutes or so to check your progress against last month's objectives and set new objectives for what you want to achieve in the next month. Compare these with your objectives for the year.

Viv Cole Associates specialises in providing management, business, marketing & accounting skills training and e-learning to professional services firms. Clients range from sole traders to the Big Five firms. If you would like to find out more, please e-mail [info@vivcole.co.uk](mailto:info@vivcole.co.uk)

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#### PREVENTION OF CORRUPTION RECOMMENDATIONS

The Inland Revenue in the UK has developed a series of recommendations directed at minimising the risk of corruption. These include:

REGULAR ROTATION OF KEY STAFF working in high-risk areas to minimise the risk of inappropriate behaviour becoming the norm.

CLEAR DOCUMENTATION to ensure that key events and decisions relating to transactions are properly recorded and authorised.

ROBUST QUALITY ASSURANCE arrangements to ensure that departmental instructions are being adhered to.

INDEPENDENT INVESTIGATION OF COMPLAINTS about members of staff to reduce the risk of inappropriate behaviour being overlooked.

PERIODIC VETTING OF STAFF exposed to significant financial risks to assess whether they are likely to be susceptible to corruption.

PERIODIC STAFF SURVEYS to check their awareness of guidance on the standards of conduct expected of public servants, so that further action and training can be taken, if necessary.

EXTRAVAGANT LIFE STYLE: this is the most common factor in the detection of corrupt employees. Checks should be made on the houses, cars, holidays etc of key staff. How do they afford them?

FINANCIAL PROBLEMS: possibly arising from loan-shark or other unusual debts, or from drug, alcohol or gambling problems.

RULE BREAKING: a person taking corrupt payments will often take action themselves (or direct others to do so) to bend, break or ignore standard operating procedures.

SOCIAL RELATIONSHIPS: with people whom they have professional dealings, particularly people with whom they appear to have little in common.

ACCEPTANCE OF GIFTS: an officer who accepts inappropriate gifts is often open to larger payments. All but the smallest gifts should be recorded in an official gift register that is reviewed regularly.

MAKING EXCUSES: the corrupt employee will often make excuses for deficiencies in the payer's expected performance. There should be independent reviews of all supplier performance.

GENUINE NEED: although greed is the motivating factor in most cases, legitimate pressures, such as family illness etc, can sometimes induce participation in illegal schemes.

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#### ACCA RESPONSES TO CONSULTATION DOCUMENTS ON INTERNAL AUDIT

ACCA has recently provided a response to a consultation document on "The role of the finance director in the modern local authority" (UK). Our response argues that internal audit should be the responsibility of the chief executive rather than the finance director and that audit committees should be established in local authorities. The original document is available from:

[http://www.cipfa.org.uk/pt/pt\\_details\\_c.ihtml?news\\_id=12985](http://www.cipfa.org.uk/pt/pt_details_c.ihtml?news_id=12985)

The IIA - UK is currently asking for comments on its suggested definition of risk based auditing. We would be happy to include comments on this definition in our next Bulletin:

"Risk auditing based is an approach that focuses on the response of the organisation to the risks it faces in achieving its goals and objectives. Unlike other forms of audit it starts with risks rather than the need for controls. It aims to give independent assurance on the management of risks and to facilitate improvements where necessary.

The scope of audit assignments undertaken and the priority given to them should be determined by risk, taking full account of the organisation's own view of risk".

ACCA responses to consultation papers are available by accessing: <http://www.accaglobal.com/technical/> and then clicking on "Responses to consultation documents".

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#### 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](mailto:andy.wynne@accaglobal.com) if you would be willing to join such a panel.

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## PUBLICATIONS AND RESOURCES

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### 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@accaglobal.com](mailto:andy.wynne@accaglobal.com)

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### AUDITNET - <http://www.auditnet.org>

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

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

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

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

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### THE IIA BOOKSTORE

The IIA Bookstore's New Products and Coming Soon sections provide information on new and proposed books and other products:

[http://www.theiia.org/ia/bookstore.cfm?fuseaction=new\\_prod](http://www.theiia.org/ia/bookstore.cfm?fuseaction=new_prod)

<http://www.theiia.org/ia/bookstore.cfm?fuseaction=comingsoon>

Internal Audit Manual Shell on Disk, Second Edition helps practitioners develop or update the internal audit manual by including forms, samples, procedures, and internal audit practices identified through quality assurance reviews and other sources.

As we enter the new century audit professionals and audit consultants share their thoughts in an attempt to provide some insight into 21ST CENTURY AUDIT MANAGEMENT — OPPORTUNITIES AND CHALLENGES.

### ADDING VALUE: SEVEN ROADS TO SUCCESS

Add more value to your organisation by:

- Gaining a broad knowledge of current internal audit best practices.
- Identifying value-added practices and adapting them to your organisation.
- Understanding the link between internal audit and organisational goals.
- Applying methodologies of thought leaders to your departmental process.
- Uncovering innovative risk management processes and approaches.

This research report will not only help you develop internal audit best practices, but will add value to your organisation and its stakeholders. The easy-to-read survey results and case studies will help you refine and transform your departmental strategy and add more value than ever before.

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### THE COBIT OPEN STANDARDS FOR IT SECURITY

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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#### INTERNET FRAUD TIPS

The National Consumers League website offers a collection of Internet fraud tips:  
<http://www.fraud.org/internet/inttip/inttip.htm>

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#### CORPORATE GOVERNANCE LINKS

A range of international corporate governance codes are available from: <http://www.ecgi.de/codes>  
A list of links to other international corporate governance sites can be found at:  
<http://www.icaew.co.uk/menus/links/corpgov.htm>

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#### FREE GUIDE TO CHOOSING A FINANCIAL SYSTEM

CODA Group, a leading global provider of financial accounting software has developed a guide for companies selecting a financial system. The interactive guide will help customers to reduce expensive consultancy evaluation fees by providing a framework for selecting a financial accounting solution from all vendors, up to the point of the first product demonstration. The guide is available to download free from [www.coda.com](http://www.coda.com) and is available in multi-lingual versions.

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#### COMPUTER ASSISTED AUDIT TECHNIQUES

Guidance on this topic has been produced by INTOSAI, the international organisation for auditor-generals. The guidance is available from:  
<http://www.nao.gov.uk/intosai/edp>

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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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Further information on ACCA is available on ACCA's website, [www.accaglobal.com](http://www.accaglobal.com)

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