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ACCA Internal Audit Bulletin  
Issue 19 – May 2004

Information for internal auditors across the world  
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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 comments.

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ABOUT ACCA  
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ACCA is the largest and fastest-growing international accountancy body. Over 320,000 students and members in 160 countries are served by more than 70 staffed offices and other centres.

ACCA's mission is to work in the public interest to provide quality professional opportunities to people of ability and application, to promote the highest ethical and governance standards and to be a leader in the development of the accountancy profession.

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

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## 1. NEWS

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### INSTITUTE OF INTERNAL AUDITORS REVISES ITS STANDARDS

The IIA issued its revised and updated International Standards for the Professional Practice of Internal Auditing in December 2003. This update of the IIA Standards became effective from January 2004. The revisions are intended to recognise that internal audit activities are performed in diverse legal and cultural environments; within organisations that vary in purpose, size, complexity and structure; and by persons within or outside the organisation. The 'Introduction' to the standards has been changed to reflect the legal constraints on internal auditors, stating that if "internal auditors are prohibited by laws or regulations from complying with certain parts of the Standards they should comply with all other parts of the Standards and make appropriate disclosures".

Key provisions introduced in the revised Standards are that internal auditors should:

- \* have knowledge of key information technology risks, controls and available technology-based audit techniques to perform their assigned work
- \* consider the use of computer-assisted audit tools and other data analysis techniques
- \* include periodic internal and external quality assessments and ongoing internal monitoring as part of their quality assurance and improvement programme
- \* provide final communication of engagement results and, when appropriate, include the internal auditor's overall opinion and/or conclusions
- \* assess the governance process and make appropriate recommendations for improvement by promoting ethics and values within the organisation.

<http://www.blindtiger.co.uk/IIA/uploads/-470e32aa-fad25fdf5c--7fc2/Standards2004.pdf>

We would be pleased to include your comments on the revised IIA Standards and their suitability for your organisation in future issues of this Bulletin.

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## UN CONVENTION AGAINST CORRUPTION SIGNED BY 129 COUNTRIES

The UN Convention Against Corruption was recently signed by 129 countries. The Convention provides a comprehensive set of standards and measures to promote international co-operation and domestic efforts in the fight against corruption. It will assist particularly in ensuring mutual legal assistance and repatriation of funds sent aboard by corrupt officials – in some cases without the need for a criminal conviction. The Convention also includes an international legal instrument detailing the concept, description and processes for international co-operation in the recovery of such stolen assets.

The Convention will come into force after ratification by 30 countries, but it is not clear how compliance with its requirements will be monitored.

The full text is available from:

[http://www.unodc.org/pdf/crime/convention\\_corruption/signing/Convention-e.pdf](http://www.unodc.org/pdf/crime/convention_corruption/signing/Convention-e.pdf)

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## REGIONAL INTERNAL AUDIT CONFERENCE IN EAST AFRICA

At the beginning of March the World Bank hosted a three-day Consultative Forum on Internal Audit for Anglophone Africa, in Nairobi.

The Forum provided an opportunity for internal auditors from Ethiopia, Kenya, Malawi and Uganda to come together to exchange experiences and consider how best to develop the profession in each of their countries. The action plan agreed for each country, details of the participants, the resource persons and some of their presentations are now available.

<http://www.worldbank.org/wbi/governance/pefa/courses.html#8>

We would be pleased to hear of internal audit conferences you have attended and developments in the internal audit profession from your country for inclusion in future issues of this Bulletin.

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## ACCA ONE DAY CONFERENCE ON CRSA

In March, ACCA staged what is believed to be the first conference on CRSA (Control and Risk Self Assessment) to be held outside the US, on the theme of improving corporate governance and risk management through facilitated self assessment, on behalf of the CRSA Forum. The conference was very well attended by internal auditors and others involved in risk management and corporate governance from both the public and private sectors. Participants heard from ten experts in governance, ethics and CRSA and registered their views on a range of issues using electronic voting technology.

Feedback from the event was extremely good and it is planned to stage a similar event next year. For further information on CRSA visit

[www.accaglobal.com/crsa](http://www.accaglobal.com/crsa)

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## REVISED COSO FRAMEWORK TO BE ISSUED SOON

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is expected to issue its guide on enterprise risk management in the near future – planned for June. The draft for public comment issued last year defined Enterprise Risk Management:

“as a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, including internal control, designed to identify and manage potential events that may affect the entity and to provide reasonable assurance regarding the achievement of entity objectives”.

The final report is also likely to have a very important impact on internal auditors for the following reasons.

- \* It marks a major step towards an agreed and universally accepted definition of best practice in Enterprise Risk Management (ERM).
- \* It expands COSO's 1992 internal control framework to include internal management reports and non-financial information, rather than just financial reporting.
- \* If you adopt the framework you should be able to ensure compliance with the US Sarbanes Oxley Act
- \* The framework expects a lot of internal audit. You need to consider and understand these expectations.

The updated framework will be available from:

[www.coso.org](http://www.coso.org)

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## ACTION ON MONEY LAUNDERING

The second interim guidance on Anti-money Laundering in the UK (Proceeds of Crime and Terrorism) is now available (Technical Factsheet 94). ACCA's money laundering microsite also includes information on the training that is available to assist ACCA members in this increasingly important area.

<http://www.accaglobal.com/transparency/moneylaundering/>

The world’s premier prevention of money laundering operation, the Financial Action Task Force (FATF) of the OECD, has recently released a report describing the approaches which criminals have adopted for money laundering, often advised by accountants or lawyers. The report contains a number of case studies. The report

concludes that a clear legal framework is required to encourage more professionals to report cases of suspected money laundering.

<http://www.fatf-gafi.org/>

The IIA (UK & Ireland) has also issued guidance on money laundering. This provides an overview of the international initiatives and UK legislation to prevent or reduce money laundering. Failure to report suspected cases of money laundering may be a criminal offence. This guidance outlines the warning signs for which internal auditors should look out and suggests approaches for managing the risk of this type of activity.

[http://www.iaa.org.uk/knowledgecentre/keyissues/fraud.cfm?Action=1&ARTICLE\\_ID=1020](http://www.iaa.org.uk/knowledgecentre/keyissues/fraud.cfm?Action=1&ARTICLE_ID=1020)

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## INTERNAL AUDIT IN THE EUROPEAN COMMISSION

Paul van Buitenen, an internal auditor from the European Commission, is standing for the European Parliament as part of the Europa Transparent slate, in the elections to be held in June. The suspended Chief Accountant of the European Union, Marta Andreasen, was also to have stood as part of the slate. She is currently being considered for the post of Head of Internal Audit for the organisation, to replace Jules Muis who is to leave early after only three years in post. Paul's manifesto, giving details of scandals and corruption cases from the European Union, 'In the Trenches of Brussels' is available in Dutch and German from:

<http://www.europatransparant.nl/>

See also a contribution at the end of the next section of this Bulletin.

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## PROPOSED PUBLIC SECTOR CORRUPTION SURVEY

The International Consortium of Government Financial Management (ICGFM) is organising what it hopes will be the first annual survey on prevention of corruption work in the public sector. The aim of the survey is to learn about facets of corruption in government, document the perceptions which finance managers and others have of the problem and then analyse and report on the findings, with a focus on practical recommendations.

The ICGFM is currently developing its draft survey instrument and beginning to identify the participants in the survey. It is planned that the survey will focus on senior government financial managers at decision-making level, a selection of government officers at programme level and senior finance managers from the public sector.

The following survey rules are proposed:

- \* nothing is for attribution
- \* no one apart from the survey managers will know who was interviewed
- \* no lists will be kept or distributed

\* respondents can choose the questions they answer (or not) and may add questions or comments.

If you are willing to be surveyed on the attitudes and actions of your government in relation to corruption then please contact [a.wynne@accaglobal.com](mailto:a.wynne@accaglobal.com)

Further details of the International Consortium of Government Financial Management, including details from its recent annual international conference in Miami, are available from:

[www.icgfm.com](http://www.icgfm.com)

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## 2. 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 cannot 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.

In this issue of the Bulletin we include articles on:

\* construction contracts - letter of award, terms and conditions by Gursharan Singh

\* human capital risks by Kastuv Ray

\* a review of the recently published second edition of The Internal Auditing Handbook by Spencer Pickett, Vice Chair of ACCA's Internal Audit Sub-committee

and

\* some comment on internal audit practice in the European Union.

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### CONSTRUCTION CONTRACTS – LETTER OF AWARD, TERMS AND CONDITIONS

Gursharan Singh, [gsk38@hotmail.com](mailto:gsk38@hotmail.com)

A Letter of Award issued by a construction company for the supply and delivery of ballast included the following condition:

'This Letter of Award is issued to you in duplicate. Kindly acknowledge your receipt of this Letter of Award and acceptance of the Terms and Conditions stipulated therein by returning the duplicate duly signed and witnessed within seven days from the date of issuance of this letter. Otherwise, this Letter of Award shall be considered null and void.'

The Letter of Award was issued on 23 October 2003, but the prescribed condition was not complied with. The supplier did not return the signed copy by the stipulated date. Consequently, the Letter of Award became null and void on 31 October 2003.

The construction company was in need of the ballast for its project, however, and owing to the shortage of acceptable ballast suppliers the company had no option but to approach the same supplier again. The supplier, realising its strong position and the weakness of the company, proposed certain changes to the Terms and Conditions included in the Letter of Award dated 23 October 2003.

The proposed changes increased the cost of the ballast by 20% and required for the payment of an advanced payment of 15% of the total estimated cost of the contract. The construction company agreed to the new proposals at a meeting which was held on 31 October 2003. A new Letter of Award was issued, dated 28 November 2003 and the supplier returned a signed copy as acceptance on 4 December 2003.

### Conclusion

The terminology used in the above Letter of Award had in effect transferred to the supplier the right of acceptance of the contract. Thus the construction company could not take any legal action against the supplier. This terminology had been frequently used by the company in its Letters of Award. It was interesting that suppliers commonly revised the stipulated conditions and increased their rates. It was suspected that the contracts department was in collusion with the suppliers but this could not be proved.

### Recommendation

The client normally determines the terms and conditions of a contract, the rates and the period for acceptance or rejection. The suppliers usually agree to comply with the Letter of Award and keep their prices firm during this period, the tender validity period.

In the above case, the building industry was booming and the supply of ballast could be referred to as a seller's market. Thus the seller was able to take the opportunity to revise the proposed contractual conditions and rates.

It is recommended that the right of acceptance or rejection should be retained and exercised by the company, especially in a seller's market situation. Further, it is not only in the best interest of the company, but it is the normal practice in all contracts that the first party (the client) should reserve the right to accept or reject any tender or offer that is submitted by any second party (the contractor or supplier). The client should also be able to make revisions to the terms and conditions and revise the rates in a buyer's market when there is glut in the market of the required items and where a Letter of Award has yet to be issued.

This case illustrates the importance of the terminology used in construction contracts and its financial and legal implications. Thus it is important that the management of a contracts department obtains relevant legal expertise before finalising any contract documentation. It is equally important that the relevant professionals, including internal auditors, familiarise themselves with these aspects to enable them to implement and manage the contracts efficiently and effectively.

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## HUMAN CAPITAL RISKS

Kastuv Ray [ kastuv@kastuv.fsnet.co.uk ]

### Introduction

It is widely believed that people are the true assets of an organisation. In fact, many organisations have the following corporate goal (or similar) stated in their strategic plan:

“The aim of the organisation is to promote and provide a positive working environment for its employees.”

In addition to this, many employers emphasise the following at job interviews and staff meetings:

“Staff are viewed as a resource and not a commodity”

and

“We promote from within”

### Reality

How many of these intentions are really sincere?

Many individuals think they have found their dream job until they start at the workplace. It is amazing how many times their new colleagues tell new starters in a company that they have made the wrong choice.

There are plenty of managers and directors who make job promises that they may not intend to keep. Typical examples are pay rises, promotions, types of clients and assignments. Usually an employee has to stand their ground and 'fight' for their pay rise or promotion. If this fails, the employee either 'stays put' or they join another company where (it is hoped) they are rewarded justly and quickly promoted. The ultimate losers are the original employers. By not keeping their promises, they lose their key assets. The former employee may not talk about them in a positive light when their name is mentioned. This may not seem to have a big impact but if the employers consider how news travels these days, they will realise that it can affect their reputation.

Summarised below is an action plan for how an organisation may address human capital risks.

### Action plan

#### Corporate Level

The organisation may have the following goal in its strategic or corporate plan:

'To promote a positive, safe and ethical working environment for all our employees.'

To achieve this we aim to:

- \* reduce staff turnover
- \* encourage staff to stay longer with the organisation
- \* reduce sickness/absenteeism levels
- \* promote ethical standards
- \* reduce workplace conflict.'

## Targets

Targets and performance indicators need to be established and monitored. The targets have to start from the top (i.e. the strategic or corporate plan) and have to be cascaded down into the departments, Performance needs to be monitored through personal development plans for employees, departmental meetings, departmental plans and committee/board meetings.

### Reduction of staff turnover/retention of staff

In any organisation, some employees will always leave and a key risk to any organisation is succession planning. How can the risks be minimised and the loss of intellectual capital be reduced? The way to address staff turnover may lie in the initial recruitment phase. Listed below are some ideas for retaining employees.

Establish a structured recruitment/succession plan.

Recruit the right people (this is achieved by screening out employees not exhibiting the desired values or skills required for the role).

Use work-related exercises or psychometric tests as part of the recruitment process.

Ask structured interview questions.

Record details of what has been discussed at interviews, e.g. salary, study leave, bi-annual review, pension, flexi-time, benefits (e.g. gym membership), market supplements and relocation packages.

Induction period for new employees.

Managers should sit down and agree a Personal Development Plan (PDP) with new employees and set realistic targets and goals. This should be signed and agreed by both parties.

The PDP should be reviewed every six months and be subject to a 'grandfather review' by a more senior manager

Reward the employee wherever possible.

A system could be introduced where if an employee carries out an action which benefits the organisation, this is translated into a reward point. These points are then added up at the end of the year and are translated into pay rises or gifts.

Develop staff through training courses covering negotiating skills, presentation and handling difficult customers. This process should be subject to proper authorisation.

#### Reduction of sickness/absenteeism levels

If an employer does not make the working environment bearable, employees will not want to come into work and will exploit some loophole in the system.

To overcome this problem management need to undertake the following:

- \* promote a positive approach to sickness management
- \* provide a free confidential advice line to staff (this includes counselling)
- \* establish a stress committee and hold stress workshops
- \* pre-employment screening.

#### Promotion of ethical standards

This is easier said than done. To achieve this, the chief executive would have to lead by example and adopt the mantle of 'Corporate Champion'.

Some ideas are:

- \* establish an ethical code
- \* promote and communicate ethical values
- \* maintain an ethical violations register
- \* suggest tough penalties for unethical behaviour
- \* make an annual declaration of compliance with ethical standards.

#### Reduce workplace conflict

Conflict occurs nearly every day in the workplace. This is a very difficult risk to address, but the organisation can introduce:

- \* harassment policies
- \* health and safety policies
- \* incident reporting procedures
- \* a health and safety committee.

#### Conclusion

Human capital risks are very difficult to address and there is no single right way in which we should try to resolve them. This article therefore provides suggestions only.

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THE INTERNAL AUDITING HANDBOOK, K H SPENCER PICKETT  
Published by Wiley, ISBN 0-470-84863-4, 2003, Hardback, 786 pages, £85

A review by Andy Wynne

The first edition of this book stated that "Internal Auditing is a developing or quasi-profession that still has some way to go". Six years on, in the second edition, which has been widely re-written and re-structured, the author has much more confidence and states that "internal audit is now a complete profession". This could perhaps be disputed, considering the range of audit practice across the world and even, for example, within the UK public sector. In addition, we have had the so-called paradigm shifts, first to systems audit and then to risk-based auditing as leading edge practices, within the last 25 years. As the introduction to the chapter on audit approach admits, 'internal auditing may be performed in many different ways and there are a variety of models that may be applied to discharging the audit role'.

The book now starts with substantial chapters on corporate governance, risk management and internal control, thus providing the necessary background to the work of internal audit. As Spencer says, 'We need first and foremost to understand the audit context and how we fit into the wider corporate agenda'.

This talk of corporate governance should not give the impression that the public sector is ignored. As should be expected from the Course Director, Internal Audit Programmes at the UK's Civil Service College, the handbook routinely acknowledges and explains the particular aspects of the public sector and the specialist roles and practices which internal audit in this sector should adopt.

What I felt was one of the most imaginative aspects of the first edition, the frequent use of graphs, block diagrams and other figures to summarise the points being outlined, has been retained and refined. The diagrams are now regularly developed through each chapter as the basic concepts are explained and expanded upon. It is standard practice for books on internal audit to recommend the use of such techniques (for example in audit reports), but very few consistently show how this can be done

The first chapter outlines the rapid development of the field of corporate governance and the interplay of recent corporate scandals (from Guinness to WorldCom and others) and the reaction of further corporate codes and expanded roles for internal audit, external audit and non-executive directors, especially those on the audit committee. However, this chapter does not necessarily outline the limitations of internal audit's role in risk management. Spencer has developed what he calls the '5Ts' and '5Cs' as a framework for the alternative responses which organisations may take to the risks they face. As the Handbook recognises, 'every manager at every level needs to recognise risk management as part of their job – to explicitly consider the risk surrounding their everyday decisions'. Risk management is an aspect of general management on which internal audit may be able to provide advice. We should recognise, however, that only one of the traditional '4Ts' of risk response (treat, terminate, transfer and tolerate) refers to internal controls, which are the particular specialist area for internal audit.

My most serious criticism would be that I do not feel that Spencer has gone far enough in explaining that risk-based audit and systems auditing are just two sides of the same coin. The important point is that modern internal audit should concern itself with the

systems of internal control which an organisation has developed to manage the risks it faces, rather than with the accuracy and regularity of its individual transactions. In addition, a clear distinction should be made between the objectives of internal control and the concept of 'control objectives', which should relate to the specific objectives of the individual system which is being reviewed by internal audit. I recognise, however, that these are my own views of a particular approach within a multifaceted and diverse profession.

I also consider that Chapter 6, on professionalism, does not clearly outline why professionalism is so important – surely it is to gain the confidence of managers in our work and so facilitate and increase acceptance of our advice and recommendations. If we compare our 'profession' with that of others, for example, lawyers, doctors or teachers, we have to admit that the practice of internal audit is not 'limited to qualified practitioners who have mastered the common body of knowledge'. Neither is internal auditing regulated in the same manner as other professions. We have made great strides, but we have some way to go (as suggested above) before we can claim to have our own fully-fledged profession.

The final chapter, 'Meeting the challenge', is based "on comments from writers from the internal audit community and beyond", demonstrating Spencer's success at combining an authoritative guide to internal audit with an important source of references to further material. This is also supplemented with a website which is made available to readers of this volume. These challenges include reputation, globalisation and the governance and internal audit arrangements for smaller organisations.

The second edition is more comprehensive and authoritative than the first. Inevitably, however, some topics only receive cursory attention: for example, contract audit is covered in less than two pages! That being said, the claim with which I finished my review of Spencer's first edition is even more true for his second:

"Any serious internal audit library should include this work".

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## EUROPEAN COMMISSION

Letter from Richard James, an internal auditor working for the EC

I couldn't really understand why so much space [in Bulletin Issue 14 - October 2002] was devoted to describing the state of affairs that used to exist in the Commission, but no longer. This practice (of combining the ex ante authorisation of expenditure with the responsibility for independent appraisal of the internal control system) was one of the first to go into the grinder in the Commission's Reform package (which began in earnest – under the direct responsibility of Commissioner Kinnock – following publication of the report of the Committee of Independent Experts, which you quote). It had received massive exposure and (frankly) massively unfavourable comment in the CIE report and in many other documents/publications/for a, notably in the European Parliament (EP), and in the reports submitted to the EP by former Commission auditor Paul van Buitenen, which led directly to the demise of the previous Commission.

Paul van Buitenen's excellent book on the subject, *Blowing the Whistle*, ([www.amazon.com/exec/obidos/ASIN/1902301463](http://www.amazon.com/exec/obidos/ASIN/1902301463)) describes well how the system used to operate, and highlights some of its weaknesses. The final nail was driven into the coffin of the old control structure at the end of 2002, when the Commission's new

Financial Regulation entered into force, and when the Director General who had been responsible under the previous Commission for these two separate control functions in effect ceased to exist. A surprising number of features in the trade magazine published by the IIA-UK over the last 18 months or so have described aspects of the Reform process underway at the Commission, particularly, of course, the aspects that relate to internal audit. Otherwise, the following document describes the basic roadmap of the reform process (Chapter V deals particularly with both Financial Management and Audit) [http://europa.eu.int/comm/off/white/reform/part2\\_en.pdf](http://europa.eu.int/comm/off/white/reform/part2_en.pdf). (Note the publication date, March 2000). Some of the links from the website of the Commission's Internal Audit Service provide still further information: [http://europa.eu.int/comm/dgs/internal\\_audit/geninfo\\_en.htm](http://europa.eu.int/comm/dgs/internal_audit/geninfo_en.htm)

None of this is meant to imply that there are no longer any problems or areas of concern in the Commission's audit services, or that everything is now running like a well oiled machine. (In any case, similar situations to the one you describe may still exist in other organisations, especially in the public sector.)

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### 3. PUBLICATIONS AND RESOURCES

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#### AUDITNET - [WWW.AUDITNET.ORG](http://WWW.AUDITNET.ORG)

AuditNet was developed by Jim Kaplan. The original concept was of a central electronic resource for the audit community that would provide a link for auditors worldwide. 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 [www.auditnet.org](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 grow as more seasoned auditors contribute and find value in educating others in their own best and continuing practices.

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#### INSTITUTE OF INTERNAL AUDITORS (IIA) WEBSITE [WWW.IIA.ORG.UK](http://WWW.IIA.ORG.UK)

##### IIA Practice Advisories

The IIA (UK and Ireland) website provides access to some of the Practice Advisories issued by the IIA Inc. The Advisories help internal auditors interpret the IIA Standards and apply them to specific internal auditing situations. Some Practice Advisories that

are currently available cover topics such as relationships with audit committees, internal auditors providing consulting services, quality assessments, and the use of the phrase 'Conducted in accordance with the Standards' in audit reports.

To access the Practice Advisories go to:

<http://www.iaa.org.uk/knowledgecentre/professionalguidance/practiceadvisories.cfm>

Appraising Internal Audit (December 2003)

This briefing, written for audit committee members and heads of internal audit, looks at ways to assess internal audit effectiveness. It introduces the IIA International Standards as the profession's recognised measure of effectiveness, and includes questions for assessing the quality of assurance that internal audit provides.

[http://www.iaa.org.uk/knowledgecentre/keyissues/auditfunction.cfm?Action=1&ARTICLE\\_ID=1339](http://www.iaa.org.uk/knowledgecentre/keyissues/auditfunction.cfm?Action=1&ARTICLE_ID=1339)

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WORLD BANK INSTITUTE COURSES ON INTERNAL AUDIT IN AFRICA

Details of the courses provided by the World Bank Institute in recent years are provided on dedicated websites. The courses include, for example, the Consultative Forum on Internal Audit for Anglophone Africa held earlier this year and the courses for public sector auditors held in Addis Ababa last May. These websites include details of the participants, the resource persons and some of their presentations:

<http://www.worldbank.org/wbi/governance/pefa/courses.html#8>

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THE ROLE OF INTERNAL AUDIT IN GOVERNMENT FINANCIAL MANAGEMENT: AN INTERNATIONAL PERSPECTIVE

by Jack Diamond.

The internal audit function has received increasing attention as an important component of government financial management and a tool for improving the performance of the public sector. Recently, a consensus has been reached on the audit standards that governments should meet. This paper reviews these standards from an international perspective, noting that a large number of countries would face severe problems in meeting such standards. It is argued that internationally there are many different models for internal audit, and it may be necessary to take into account different audit traditions and different institutional capacities when introducing measures to strengthen internal audit in developing and transitional countries. This paper then discusses the main issues to be addressed in developing internal audit in such countries, and offers a framework for introducing much-needed reforms in this area.

<http://www.imf.org/external/pubs/ft/wp/2002/wp0294.pdf>

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## CHEIA UPDATES ITS STRATEGY

The Conference of Higher Education Internal Auditors (Cheia) has updated its strategy. This is primarily concerned with members in the UK, but may be of interest to internal auditors working for higher educational institutions in other parts of the world. The revised strategy and further material are now available on their website – [www.cheia.org.uk](http://www.cheia.org.uk)

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## GUIDES TO PUBLIC EXPENDITURE MANAGEMENT IN THE PUBLIC SECTOR

There are a number of good guides to budgeting and public expenditure management for public sector organisations which are now available on the Internet. These include the following.

-- Managing Government Expenditure, published by the Asian Development Bank

This is a comprehensive manual, with a deliberate operational thrust, covering the entire public expenditure management cycle – from multiyear expenditure programming and budget formulation through budget execution, audit and evaluation. The approach is largely a synthesis of the literature in this area and of international experience, with a view to a pragmatic assessment of the benefits, costs, risks and implementation requirements for different budgetary practices in different country circumstances.

[http://www.adb.org/Documents/Manuals/Govt\\_Expenditure/default.asp?p=govpub](http://www.adb.org/Documents/Manuals/Govt_Expenditure/default.asp?p=govpub)

-- Public Expenditure Management Toolkit

This toolkit is currently being developed by staff at the World Bank. The toolkit provides an approach to assessing public expenditure institutional ('rules of the game') arrangements. It focuses on the three levels of expenditure outcome: aggregate fiscal discipline; strategic and intersectoral allocations; and operational efficiency and service delivery.

<http://www1.worldbank.org/publicsector/pe/toolkit.htm#toolkit>

-- Understanding and Reforming Public Expenditure Management, Department for International Development (UK)

This working paper was originally produced for economists in the Department for International Development (DFID), and aims to provide practical guidance on the budget process in developing countries, and the role of aid within it. Though aimed primarily at development agencies, the paper should be of interest to anyone involved in the budget process, or seeking to influence it. Though written for economists, the treatment of the issues is largely non-technical, and should be accessible to anyone with a general interest in development and the aid relationship.

[http://www.odi.org.uk/publications/working\\_papers/wp141.pdf](http://www.odi.org.uk/publications/working_papers/wp141.pdf)

-- Systematic Weaknesses of Budget Management in Anglophone Africa – IMF

A summary of common weaknesses in public sector financial management found in English-speaking African countries.

<http://www.imf.org/external/pubs/ft/wp/2001/wp01211.pdf>

-- Public Procurement: Lessons from Kenya, Tanzania, and Uganda:

This paper presents a comparative analysis of the public procurement systems in these three East African countries. In response to both domestic and international pressures, these countries have recently undertaken important initiatives to make their public procurement systems more efficient and transparent, in line with international procurement guidelines.

<http://www.oecd.org/dataoecd/59/11/2503452.pdf>

We would be pleased to receive any comments you may have on these guides for inclusion in future issues of this Bulletin.

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#### TRAINING MODULES ON IT AUDIT

The International Organisation of Supreme Audit Institutions (INTOSAI) Standing Committee on IT Audit has developed a range of training modules for IT audit. These have been designed specifically for external audit in the public sector, but will be of interest to internal auditors. The modules are available from:

<http://www.nao.gov.uk/intosai/edp/trainingindex.html>

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#### COMPUTER SYSTEMS: FREE IFAC GUIDANCE

Help may be found in the following booklets.

\* Controlling Computers in Business: Logical Access Security

\* Controlling Computers in Business: Selection, Implementation and Testing of Packaged Software

\* Controlling Computers in Business: Computer Disaster Recovery Planning

Each booklet contains information on computer control issues, including definitions of key terms, costs and benefits, and risks and practicalities. A 'best practice' checklist is also included. All five documents may be downloaded at no charge from the SMP section of IFAC's online bookstore [www.ifac.org/store](http://www.ifac.org/store)

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OTHER USEFUL SITES ON COMPUTER SECURITY

[www.securitybenchmark.com](http://www.securitybenchmark.com)

[www.sans.org](http://www.sans.org)

[www.cisecurity.org](http://www.cisecurity.org)

[www.theiia.org](http://www.theiia.org) (and the 3 key entry points to the InfoSec resources on this site)

[http://www.theiia.org/iia/index.cfm?doc\\_id=3061](http://www.theiia.org/iia/index.cfm?doc_id=3061) Information security management

[http://www.theiia.org/iia/index.cfm?doc\\_id=4644](http://www.theiia.org/iia/index.cfm?doc_id=4644)

[http://www.theiia.org/iia/index.cfm?doc\\_id=131](http://www.theiia.org/iia/index.cfm?doc_id=131)

[www.theiia.org/itaudit](http://www.theiia.org/itaudit) (and its reference library entry point)

<http://www.theiia.org/itaudit/index.cfm?fuseaction=reflibhome>

<http://www.isaca.org/>

<http://www.isfsecuritystandard.com/> The Standard of Good Practice for Information Security

<http://www.psycom.net/iwar.1.html>

<http://www.fedcirc.gov/>

<http://www.csrc.nist.gov/>

<http://www.infosyssec.com/>

<http://www.sse-cmm.org/index.html>

[www.acl.com/getincontrol](http://www.acl.com/getincontrol) - 'Controls compliance and continuous monitoring: achieving best practice for corporate governance and risk management'.

<http://www.oecd.org/dataoecd/59/0/1946946.pdf> OECD Guidelines for the Security of Information Systems and Networks (in English and French).

We would welcome your views on the usefulness of these sites or any others you use.

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AUDIT COMMITTEE INSTITUTE

Recognising the importance of audit committees, the Audit Committee Institute (ACI) has been created to serve audit committee members and help them to adapt to their changing role. Historically, audit committees have been left largely on their own to keep pace with rapidly changing information related to governance, audit issues, accounting

and financial reporting. The ACI provides knowledge to audit committee members and is a resource to which they can turn at any time for information or to share knowledge. The UK site also includes links to related ACI sites for [Australia](#), [Canada](#), [Germany](#), [Hong Kong](#), [Italy](#), [Switzerland](#) and the US.

<http://www.kpmg.co.uk/aci/>

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GOVERNANCE IN THE PUBLIC SECTOR – AN ECSAFA PERSPECTIVE

This publication provides guidance on best practice for corporate governance for ministries, departments and other public sector organisations which do not have boards of governors or similar bodies. A companion volume is planned for later this year on governance of parastatal organisations. The guide is available from ECSAFA, the regional accountancy body for East, Central and Southern Africa:

<http://www.ecsa.org/TECH-ECS-AFA.pdf>

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ANTI-CORRUPTION NETWORK, UNICORN

UNICORN is the trade union anti-corruption network. It is undertaking policy and empirical research on a range of issues aimed at detecting and deterring international bribery. UNICORN is supported by the TUAC (Trade Union Advisory Committee to the OECD), PSI (Public Services International) and the ICFTU (International Confederation of Free Trade Unions).

The website has recently changed to: [www.againstcorruption.org](http://www.againstcorruption.org)

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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

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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[www.accaglobal.com/publications/audit/](http://www.accaglobal.com/publications/audit/)

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