
ACCA Internal Audit Bulletin
Issue 21 – April 2005

Information for 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.

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About ACCA

ACCA is the largest and fastest-growing international accountancy body. Over 345,000 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

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1. NEWS

INTERNAL CONTROL AND SARBANES-OXLEY IN US

In mid-April 2005, the Securities and Exchange Commission (SEC) in the US hosted a round table on the experience of implementing the Sarbanes-Oxley Act of 2002. The SEC is also asking for written feedback regarding the experiences of registrants, accounting firms and others in implementing the new internal control requirements of the Act. The Commission intended to make the roundtable available by Webcast.

Section 404 and rules adopted by the Commission require companies that file annual reports with the Commission to report on management's responsibilities to establish and maintain adequate internal control over the company's financial reporting process, as well as management's assessment of the effectiveness of those internal controls. Section 404 and the auditing standards of the Public Company Accounting Oversight Board require the accounting firm that audits the company's financial statements to report on management's assessment, as well as on the effectiveness of the company's controls.

The Commission is expected to post all submissions on its own Internet website: <http://www.sec.gov/news/press/4-497.shtml>

In a related development, in February 2005 the Public Company Accounting Oversight Board has issued its Standard 2 covering the 'Audit of Internal Control Over Financial Reporting'.

The auditor's objective in an audit of internal control over financial reporting is to express an opinion on management's assessment of the effectiveness of the company's internal control over financial reporting. To form a basis for expressing such an opinion, the auditor must plan and perform the audit in such a way as to obtain reasonable assurance about whether the company maintained, in all material respects, effective internal control over financial reporting as of the date specified in management's assessment. The auditor also must audit the company's financial statements as of the date specified in management's assessment because the information obtained during a financial statement audit is relevant to the auditor's conclusion about the effectiveness of the company's internal control over financial reporting. Maintaining effective internal control over financial reporting means that no material weaknesses exist; therefore, the objective of the audit of internal control over financial reporting is to obtain reasonable assurance that no material weaknesses exist as of the date specified in management's assessment.

The Standard is available from:

http://www.pcaobus.org/rules_of_the_board/documents/rules_of_the_board/auditing_standard_2.pdf

The SEC's guidance on reporting on internal control is available on their website at <http://www.sec.gov/info/accountants/controlfaq1004.htm>

----- REPORTING ON INTERNAL CONTROL IN UK AND EUROPE

ACCA submitted its response to the evidence gathering phase of the Flint Committee review of the Turnbull Guidance on Internal Control. Our main points were that any revisions to the guidance should reinforce the benefits for boards of considering risk as part of their strategy formulation and that the concept of risk should be broadened so that companies consider 'upside risk', or opportunity, as well as negative risk. This should facilitate a more entrepreneurial culture by reducing the tendency for risk management practices to encourage risk aversion. It should also make risk management more relevant to managerial decision making.

ACCA's response can be found at:

<http://www.accaglobal.com/technical/responses/recent/2307201>

FEE published a Discussion Paper on Internal Control. ACCA's Head of Corporate Governance and Risk Management was a member of the working party which prepared it. The paper analysed the current regulatory situation regarding reporting by companies on internal control, set out a framework with options extending present reporting arrangements called for any extension of

present arrangements only after full consideration of the costs and benefits of such a change.

The paper can be found at <http://www.fee.be/publications/main.htm>

DEVELOPMENTS IN THE AFRICAN INTERNAL AUDIT COMMUNITY

Billy Mwencha is now regional director for the Institute of Internal Auditors for East & Central Africa. This is in addition to his role as Chair of the IIA's Nairobi Chapter. Billy's email address is bsmwencha@yahoo.co.uk and the Nairobi Chapter can be contacted on iia@africaonline.co.ke

In neighbouring Tanzania, internal auditors are also considering establishing a national institute. The Tanzanian government's internal auditors are now using the internal audit manual that was finalised last year and the internal audit sections are being significantly strengthened in each ministry.

Further south, the heads of internal audit in the government service of Zimbabwe have embarked on producing their own internal audit manual. They are also considering best practice for audit committees.

A proposal was made at the recent conference for its technical advisory panels and networks for the African Capacity Building Foundation to undertake a study of best practice for internal audit in African governments.

Please let the editor of this Bulletin know about developments in your country so such news can be passed on to our readers.

PAPER ON THE RISKS AND CHALLENGES OF IMPLEMENTING MTEF AND IFMS

A paper has been developed on the risks and challenges facing African governments in implementing Medium Term Expenditure Frameworks (MTEF) and Integrated Financial Management Systems (IFMS). This is based primarily on a literature review of the recent experience of introducing these types of reform in Ghana, Tanzania, and Uganda. A copy of the paper is available by contacting publicsector@accaglobal.com

GOOD GOVERNANCE STANDARD LAUNCHED FOR THE UK PUBLIC SERVICES

The Independent Commission on Good Governance in Public Services issued the 'Good Governance Standard for Public Services' in January 2005.

The Commission comprised a small group of eminent leaders from the public, voluntary and private sectors in the UK. They found that some parts of the

public and voluntary sectors in the UK have devised good governance guidelines, but these vary enormously. This provides a poor basis for the public to compare and assess the effectiveness of governance arrangements or to demand improvement. The publication, Rubber Stamped? – available from: <http://www.opm.co.uk/publications/book35.htm> – shows that many governors (board members) appointed to public service organisations feel unable to carry out their jobs fully or effectively.

The Standard includes six core principles of good governance. Each principle has supporting principles that explain what is involved in putting good governance into practice. The six principles are as follows.

1. Good governance means focusing on the organisation's purpose and outcomes for citizens and service users.
2. Good governance means performing effectively in clearly defined functions and roles.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.
4. Good governance means taking informed, transparent decisions and managing risk.
5. Good governance means developing the capacity and capability of the governing body to be effective.
6. Good governance means engaging stakeholders and making accountability real.

A copy of the Good Governance Standard is available from:
<http://www.opm.co.uk/ICGGPS/>

2. YOUR IDEAS

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

In this issue of the Bulletin we include articles on:

- * Finance for non-financial officers in the construction industry
- * Shattering the glass ceiling (an article about perseverance)
- * The 'Digital Dozen' – IT security guidance from Visa

FINANCE FOR NON-FINANCIAL OFFICERS IN THE CONSTRUCTION INDUSTRY

by Gursharan Singh, Malaysia – gsk38@hotmail.com

Introduction

The definition of 'non-financial officer' in the construction industry generally includes the various technical and other professionals associated with the implementation of a project. 'Technical professionals' include architects, engineers (civil, structural, mechanical, and electrical), quantity surveyors, land surveyors, landscape architects, interior decorators, etc. The 'other professionals' would include project managers, lawyers, financiers, and financial advisers and insurers. They may be part of the in-house management team or could be provided by outsourced consultants.

The general perception of non-financial officers has been that they are responsible for technical aspects of the respective construction projects. The financial aspects of construction projects are similarly deemed to be the responsibility of the accountants and those with financial expertise. Thus the financial implications arising from the technical aspects of the project may not be given appropriate weight by the non-financial officers, owing to possible lack of expertise and/or the view that it is not their responsibility. The financial/accounting officers may also not give such financial implications due consideration, however, either because they do not possess the relevant technical expertise or because they do not consider these implications to be their responsibility.

Thus a void could exist in the management, procedures, processes, and internal controls of construction projects, including property development projects. The owners or senior managers of such projects may not be aware of the adverse financial implications of this void. If a problem is discovered subsequently, however, they may justify their attitude by explaining that the problem is one of the usual risks of the construction industry.

The objective of this article is to address this lack of understanding and cooperation. It provides suggestions and guidelines for property developers and their management teams, who are mainly non-financial officers, so that they are aware of the financial implications of some of the more important aspects of construction projects.

Non-financial officers

There are standard formats for contracts for non-financial professionals or consultants that have been approved by the relevant regulatory authorities (boards of architects, engineers, quantity surveyors, and land surveyors). These standard formats may need to be suitably modified for specific projects.

Owners and senior managers usually accept the word of their technical consultants and the terms and conditions included in the approved standard

contract formats. This may be due to the assumption that the professionals are experts, having integrity and being bound by the code of ethics of their profession association, or it may be due to the view that any request for clarification may indicate their own ignorance. Most frauds, however, are committed by professionals with codes of ethics and may involve collusion between such professionals.

Prevention is the best cure and is possible only if the owners and their managers are aware and vigilant, and ask the right questions before and after appointment of professional advisers. Contract terms and conditions should never be accepted without a full understanding of their financial and legal implications

It is equally important for the non-financial officers to provide details of the possible financial and legal risks of the proposed terms and conditions, and to recommend improvements as necessary. Any intentional withholding of relevant information by such officers may subsequently be considered to be unethical, unprofessional, and/or fraudulent. Appropriate internal controls and associated monitoring should be implemented to identify any instances where the professionals may abuse their position for self-enrichment.

Property development projects

Property development projects generally consist of buildings and various types of supporting infrastructural facilities. Thus the lead consultant for such a project is likely to be the architect, who has the duty to advise the owner or senior managers on the selection and appointment of any other consultants who are considered necessary. These additional consultants will typically then report to the architect, one of whose responsibilities will be to identify the financial implications of the various terms and conditions of appointment of these consultants. In the case of infrastructure projects such as highways, bridges, railways, etc the consulting engineer [civil and structural] is usually the lead consultant.

Some of the more important financial implications to be considered by the lead consultant are listed below.

[a] Scope of appointment

The scope of appointment of each consultant should relate to the type of project and its demands. This should be documented, including any legal or financial implications, to facilitate monitoring and improve control. The financial implications of any specific requirements defined by the owner or senior managers should also be clearly recorded.

[b] Cost of works

Details of the cost of works should be given in standard contracts. The cost of each significant component should be quantified and justified, because it will affect the total cost of works and so the level of professional fees. These

should be carefully studied and must be understood, so any necessary clarifications should be sought from the relevant consultants or legal advisers. Care should be taken to ensure that any professional services available in-house are not duplicated by inclusion in the consultants' contracts.

[c] Category of works

Building projects (or mixed property development) may be of various levels of complexity. The professional fee rate is usually higher for more complex projects. Broad examples of project complexity, and associated fee rates, at least for the more common type of project, should be detailed in the standard contracts. The actual complexity of a specific building project, and so the fee rate for each technical consultant, should be clearly agreed before such consultants are appointed.

[d] Computation of professional fees and reimbursables

Professional fees may be calculated by alternative methods, for example, they may be fixed; or calculated as a percentage of cost of the project (adjusted according to its complexity); or be related to individual components (including a possible maximum limit); or depend on the duration of the project; or a combination of these approaches may be negotiated. Care should be taken to ensure that the most appropriate method is adopted.

Management should ensure that the type and extent of each subsequent claim is subject to prior scrutiny and approval to ensure that it is fair, reasonable, justifiable, and supported by appropriate documentary evidence.

Property development projects are usually implemented by a lead company and a number of subsidiary or sub-contracted companies. This arrangement may make effective monitoring more difficult to implement and so provide increased opportunities for fraud.

Other non-technical professionals (Project management consultants, legal, finance (banks), insurers).

Other professionals who may have a financial impact on the cost of construction projects (including property development) include project managers, legal practitioners, financial advisers, and insurance companies.

[a] Project managers

Project managers provide expertise in managing construction projects from inception to post-completion stage. At present, however, there is no official regulatory authority to prescribe the scope of their services, remuneration or responsibility. Thus the owners or senior managers of projects may not possess sufficient guidance to be able to negotiate a reasonable fee rate or to evaluate their final performance. Despite some success stories, some recent failures of projects that had been overseen by professional project managers have clearly illustrated their potential weaknesses.

[b] Legal practitioners

The advice of legal professionals is usually essential when developing any formal agreement, and construction contracts are no exception. The terms and conditions specified in construction contracts are varied in scope and type. Thus it is extremely difficult for any construction company or property developer to use standardised terms and conditions. Furthermore, the number of professionals with the relevant legal expertise may be limited, because specialising in construction contracts is not popular with legal professionals.

[c] Financial advisers

There are a limited number of banks or finance companies that are suitable, especially for larger projects. In addition, their professional associations may be able to set the rates to be charged within the limits imposed by the regulatory authority. Thus, the construction industry, especially the property developers, may not have much alternative regarding the fees and other expenses charged by their financial advisers.

[d] Insurers

It is usually mandatory for construction projects (including property development projects) to have appropriate insurance cover. It is important that non-financial officers ensure that the insurance policies protect the interests of the owners and take into account their attitude to risk. They should also be appropriate for the needs of the project and its many associated risks. As with banks, the insurance industry is usually subject to regulation.

Thus, legal practitioners, banks, and insurance companies are usually regulated and may have strong centralised associations, giving at least the perception of a seller's market. As a result, the construction industry may not have many alternatives regarding the services, fees or any other charges tendered. Nevertheless, owners or senior managers should make relevant enquiries of these other professionals and subject them to appropriate controls, as for the procurement of other goods or services.

The role of financial and accounting officers

The role of financial and accounting officers is often perceived to be limited to account keeping. This may be due to their hands-off approach to other aspects of construction projects, perhaps thinking that these are the responsibility of other professionals, such as architects, engineers, quantity surveyors, land surveyors, landscape architects, interior designers/decorators, lawyers, project managers, insurers, internal/external auditors, etc. To be effective, however, financial officers should be playing a more pro-active and participatory role. This should include advising on such issues as sources of funds and economic viability of the project; monitoring significant risks during the life of the project; and ensuring that all financial aspects are adequately

monitored and controlled. Their objective should be to reduce the overall costs and risks of any construction project.

Recommendations

There should be continuous consultation, cooperation, and coordination between all the relevant non-financial and financial officers to achieve optimal cost-effectiveness and cost-efficiency for any construction project.

Conclusion

The completion of construction projects within the agreed time and the approved budget, according to the prescribed specifications and to the satisfaction of the final user, will signify success for all. Both non-financial and financial officers should remember that they each possess expertise in their own fields, while also being dependent on the expertise of professionals in other fields. When all the professionals involved are alert, cooperative, and knowledgeable, the possibility of overclaims, overpayments, or fraudulent payments will be eliminated or minimised.

Beware, be aware, avoid blind trust, and be involved to be profitable.

SHATTERING THE GLASS CEILING (AN ARTICLE ABOUT PERSEVERANCE)

by Kastuv Ray - soloelsondeomasfuerte@hotmail.com - UK

Introduction

Some individuals believe that there is a glass ceiling at work above which some people cannot rise. But what is this glass ceiling? Certain individuals may state that this glass ceiling is a barrier against individuals of a certain race, creed or colour, and some may have experienced it in their own work place.

The glass ceiling at work

There are many instances when we come across extremely talented people, wiser than their years but, despite this, their talents are not recognised. The risk of holding these employees back is either that they may start to look elsewhere or that they stay and become frustrated, leading to a possible epidemic of low staff morale.

The impact of the glass ceiling in the employment market

The world of work is such that everyone seems to know each other and you can bump into your old managers and employers anywhere along the line. In this situation, old complaints may be easy to avenge. Wronged individuals

may embark on a quest for justice. They may chase their previous employer's clients with revenge as the objective rather than merely business competition.

The glass ceiling in your mind

There may be a glass ceiling, but it could also be just in your mind. Examples of such mental glass ceilings are the beliefs that we:

- * cannot pass our professional exams;
- * are too fearful to undertake formal presentations;
- * do not have the capability to carry out certain work assignments.

We face many obstacles in life. To succeed we have to persevere. Look at some of the leading minds and consultants in the business world. Do you think that they got to where they are because things were handed down on a silver platter to them? They had to work hard and overcome obstacles.

Below is a relevant poem by Rudyard Kipling.

IF

If you can keep your head when all about you
Are losing theirs and blaming it on you;
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired of waiting,
Or, being lied about, don't deal in lies,
Or, being hated, don't give way to hating,
And yet don't look too good, nor talk too wise;

If you can dream – and not make dreams your master;
If you can think – and not make thoughts your aim;
If you can meet with triumph and disaster
And treat those two impostors just the same;
If you can bear to hear the truth you've spoken
Twisted by knaves to make a trap for fools,
Or watch the things you gave your life to broken,
And stoop and build 'em up with worn-out tools;

If you can make one heap of all your winnings
And risk it one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: 'Hold on!';

If you can walk with crowds and keep your virtue,
Or walk with Kings – nor lose the common touch;

If neither foes nor loving friends can hurt you;
If all men count with you, but none too much;
If you can fill the unforgiving minute
With sixty seconds' worth of distance run –
Yours is the Earth and everything that's in it,
And – which is more – you'll be a Man my son!

Conclusion

You should absorb all the hardship meted out to you and transform all the negative energy into positive energy. Become a force for all that is good in the world. Of course, this is easier said than done. But try it. To quote the popular saying:

'It is better to have loved and lost than never to have loved at all.'

THE DIGITAL DOZEN – IT SECURITY GUIDANCE FROM VISA

One of the most concise and broadly useful summaries of IT security guidance that spans the different levels of abstraction is that of the VISA Cardholder Information Security Program (CISP), which has proven its value for over two years for VISA credit card network service providers, including banks, processors, merchants, and others. VISA refers to these requirements as its 'Digital Dozen'.

1. Install and maintain a working firewall to protect data.
2. Keep security patches up to date.
3. Protect stored data.
4. Encrypt data sent across public networks.
5. Use and regularly update anti-virus software .
6. Restrict access by 'need to know'.
7. Assign a unique ID to each person with computer access.
8. Don't use vendor-supplied defaults for passwords and security parameters.
9. Track all access to data by unique ID.
10. Regularly test security systems and processes.
11. Implement and maintain an information security policy.
12. Restrict physical access to data.

For more details see:

http://www.visaeurope.com/acceptingvisa/pdf/PCI_Data_Security_Standard_1_0.pdf

For a self-assessment questionnaire see:

http://www.visaeurope.com/acceptingvisa/pdf/PCI_Self-Assessment_Questionnaire_1_0.doc

3. PUBLICATIONS AND RESOURCES

AUDITING FOR MANAGERS By K H Spencer Pickett and Jennifer M Pickett
Reviewed by Paul Moxey, Head of Corporate Governance and Risk
Management, ACCA

The 350 paper back published by John Wiley and Sons has the bold sub-title 'the ultimate risk management tool'. Only time will tell if this claim is justified. What the Picketts have provided, however, is a very detailed resource on governance, internal control, risk, organisational behaviour and self assessment. The term 'audit' is used not so much in the internal or external audit sense but in the sense of managers finding out for themselves what is good and bad within their own organisations. A wealth of models and frameworks is provided to help anyone engaged in this task.

While it would be wonderful if lots of managers read and apply this book, it is likely that the book will be of more interest to internal auditors looking for ways to facilitate improvement in management thinking on risk and control. Hopefully they will be able encourage line managers to use some of the resources and read on.

AUDITNET

AuditNet - www.auditnet.org - 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 worldwide. This has evolved into a network of resources available for auditors. A listing of these 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 Work-papers 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 and click on Audit Programs or Audit Work-papers 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 includes 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!

INSTITUTE OF INTERNAL AUDITORS' WEBSITE

Here are some key questions for internal auditors during 2005.

- > Are the quality of your audits improving and, most importantly, are they having an IMPACT?
- > Do you have a quality improvement programme in place and is it operating effectively?
- > What are your plans for completing a quality assessment? (IIA standards require this by January 2007.)
- > What professional development activities are most effective in keeping your staff ahead of the next 'wave'?
- > Have the regulators visited your organisation recently? Will they be satisfied with your efforts?
- > Finally, is your audit plan BALANCED? That is, is it based on ALL the risks facing the organisation – not just the financial ones?

For further assistance, see:

http://www.theiia.org/index.cfm?act=content.group&subcat_id=662

Position statement

The Role of Internal Audit in Enterprise-wide Risk Management, guidance to IIA members on the roles that are appropriate for internal auditors to play in ERM:

http://www.iiia.org.uk/knowledgecentre/keyissues/riskandcontrol.cfm?Action=1&ARTICLE_ID=1578

A great new IT controls guidance paper has been released by the IIA:

<http://www.theiia.org/itaudit>

Global Technology Audit Guide (GTAG)

The IIA is producing a series of publications giving guidance on information technology. Written primarily for the chief internal audit executive (CAE) and audit supervisors, the guide will address concerns of the board of directors and chief-level executives. Each Global Technology Audit Guide (GTAG) will be written in straightforward business language to address timely issues related to information technology management, control, or security. GTAG will be a ready resource series for chief audit officers to use in the education of members of the board and audit committee, management, process owners, and others regarding technology-associated risks and recommended practices.

INFORMATION TECHNOLOGY CONTROLS

The first GTAG, 'Information Technology Controls', covers technology topics, issues, and audit concerns as well as issues surrounding management, security, control, assurance, and risk management. The guide is now

available globally in electronic format via PDF and will be available shortly in hard copy from The IIA Bookstore.

The IT controls guide provides:

- * guidance on IT topics affecting the organisation's control and audit practices
- * approaches to security, control, auditing, and assurance
- * guidance on compliance with relevant legislation and regulations
- * topical material for CAEs' discussions with executives and management
- * executive summaries addressing concerns of governance and chief-level executives
- * key elements for audit reviews, assessments, and assurance.

Download Information Technology Controls (PDF, 2MB).
<http://www.theiia.org/download.cfm?file=70284>

COSO ENTERPRISE RISK MANAGEMENT INTEGRATED FRAMEWORK

The new Enterprise Risk Management Integrated Framework is now available from the Committee of Sponsoring Organisations (COSO). The framework defines essential ERM components, discusses key ERM principles and concepts, suggests a common ERM language, and provides clear direction and guidance for enterprise risk management.

Download the free executive summary
http://www.coso.org/Publications/ERM/COSO_ERM_ExecutiveSummary.pdf .

Order the framework and application techniques
<https://www.cpa2biz.com/CS2000/Products/CPA2BIZ/Publications/COSO+Enterprise+Risk+Management+-+Integrated+Framework.htm> .

Read the news release
http://www.coso.org/Publications/ERM/erm_pressrelease_20040929.htm

View related FAQs
http://www.coso.org/Publications/ERM/erm_faq.htm

A definition of ERM and a brief outline of its eight components were provided in our Bulletin 20.

GAO'S RESEARCH INTO ITIM MANAGEMENT

For almost ten years now the United States General Accounting Office's research into ITIM management has been extensive. See
<http://www.gao.gov/new.items/d04394g.pdf>

Numerous other GAO best-practice research reports are available at:

<http://www.gao.gov/bestpractices/reviews.html>

The Month in Review is a comprehensive list of all reports, testimony, correspondence, and other publications issued by GAO during the previous month, grouped according to subject categories. The Top 10 list of significant work made publicly available in the last month is available from:

<http://www.gao.gov/press/topten.html>

In 2001, the US General Accounting Office (GAO) and the National State Auditors' Association (NSAA) released a blueprint (on how to establish an IS Security audit capability). This is available from:

www.gao.gov/special.pubs/mgmtpln.pdf

GAO's study on 'Information Technology: Leading Commercial Practices for Outsourcing of Services' GAO-02-214, Abstract, November 30, 2001):

<http://www.gao.gov/new.items/d02214.pdf>

OTHER GUIDANCE ON IT CONTROLS

Two articles appeared recently in ACCA's magazine, 'Accounting & Business', on procuring IT systems for governments of developing countries. They were written by Mike Parry an experienced consultant:

<http://www.accaglobal.com/publications/accountingandbusiness/2303162?session=ffffffeffffff0a012120426785570365a7d1ef3c652cb7f261bcc5b33485>

<http://www.accaglobal.com/publications/accountingandbusiness/2341853?session=ffffffeffffff0a012120426785570365a7d1ef3c652cb7f261bcc5b33485>

Some further IT Audit articles regarding outsourcing IT (and the risks) include:

* 'The Risks of Outsourcing' –

<http://www.theiia.org/itaudit/index.cfm?fuseaction=forum&fid=5465>

* 'Service Management and IT Governance: Review, Comparative Analysis and Their Impact on Utility Computing' –

<http://www.hpl.hp.com/techreports/2004/HPL-2004-98.html>

* '20 Questions Directors Should Ask About IT' –

http://www.cica.ca/index.cfm/ci_id/1000/la_id/1.htm

MICRO-FINANCE REGULATION

The World Bank has recently issued a paper on micro-finance regulation in its 'Findings' series. This reviews the lessons from Benin, Ghana, and Tanzania on this topic. The experience in the three countries does not support the

proposition that establishing new regulatory categories will necessarily promote commercialisation of microfinance or the creation of financially sustainable micro-finance institutions (MFIs) where few or none exist.

Key lessons include the following.

- * MFI legislation has limited use as a promotional tool, and excessive coverage risks giving legal authority to weak institutions that cannot be adequately supervised. Licensing criteria should balance ease of entry for financially sustainable MFIs against the capacity of supervisory authorities to provide effective prudential supervision.
- * Licensing and supervision of MFIs works best when they are narrowly targeted to enable commercially-oriented MFIs to take deposits and attract investors so as to fund their growth.
- * Legal and regulatory requirements should distinguish between when prudential supervision is warranted and when non-prudential regulation is sufficient, with different criteria and regulatory authorities; in particular, regulations should distinguish between deposit-taking MFIs, whose financial soundness needs to be verified through prudential supervision, and MFI categories that may simply be registered and subjected to non-prudential regulations and standards, but do not pose financial system risks for which the financial authorities should bear responsibility.
- * While the self-governance mechanisms of financial cooperatives may be sufficient at relatively small sizes, external prudential supervision is warranted when they reach the financial size of licensed financial intermediaries.
- * Regulatory policy should have a single locus, while application of regulatory functions can be delegated to different regulatory units with specialised responsibilities.
- Capacity-building of supervisory authorities and development of appropriate regulatory requirements in parallel with the application of new legislation is essential.
- * Development of the regulatory framework should occur alongside complementary development of other business laws and regulations, especially those concerning taxation, contract enforcement, collateral, securities' regulation, and consumer protection.

The full paper is available from:

<http://www.worldbank.org/afr/findings/english/find243.pdf>

CORPORATE GOVERNANCE WEBSITE FROM MALAWI

The Corporate Governance Centre in Malawi has recently redesigned its website in an effort to provide easily accessible information on the various services and products available from the Centre. The site includes a section on internal audit: www.governancemw.com

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 that do not have boards of governors or similar bodies. A companion volume was issued earlier this year on governance of parastatal organisations. The first guide is available from the East, Central and Southern African Federation of Accountants (ECSAFA), the regional accountancy body for East, Central, and Southern Africa:

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

Both guides have been published on a CD, which is available from:

Ndung'u Gathinji, Chief Executive ECSAFA
Hughes Building, Kenyatta Avenue,
PO Box 42423, Nairobi, Kenya.
e-mail: ecsafa@africaonline.co.ke

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

IMPROVING THE EFFECTIVENESS OF AUDIT COMMITTEES: A GOOD PRACTICE GUIDE

This Guide addresses how audit committees can operate effectively and contribute to good governance in housing associations. An effective audit committee is a cornerstone of good governance and much has been written about what audit committees should do, but knowing what to do is only part of the issue. In order to be effective, audit committees also need to know how to do it.

This Good Practice Guide aims to address the 'how' rather than the 'what'. It was commissioned by the Housing Corporation and financed, in part, by an Innovation and Good Practice Grant. The Guide is based, in part, on research into current practice and reflects the authors' and their colleagues' experience of attending audit committee meetings. It includes chapters on the audit committee's activities, how the chair and members of the audit committee are selected, how to plan the committee's work programme, how to procure audit services, and how to assess and appraise the audit committee's effectiveness.

[http://www.housingcorplibrary.org.uk/housingcorp.nsf/AllDocuments/9C406E0E555614A080256F2C003BA1EE/\\$FILE/gpguide.pdf](http://www.housingcorplibrary.org.uk/housingcorp.nsf/AllDocuments/9C406E0E555614A080256F2C003BA1EE/$FILE/gpguide.pdf)

ACCA PUBLIC SECTOR WEB PAGES

ACCA has developed an area of its website for the public sector. This area includes material published by ACCA on public sector developments, including booklets, articles, consultation responses, and survey results. It also provides links to resources published elsewhere on the Internet that may be of interest to ACCA members who work in the public sector. In addition, back copies of ACCA's International Public Sector Bulletin are available from these pages.

We would welcome material that you think should be made available on this site, especially if you have any documents developed by your department that you would be prepared to share with fellow ACCA members. We would also be very pleased to receive any comments about this site.

The site is available at
www.accaglobal.com/publicsector

Please let us know if you have found any websites that you think other internal auditors would find useful.

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