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**ACCA Internal Audit Bulletin**  
**Issue 22 - November 2005**

**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.

Andy Wynne - Internal Audit Bulletin editor: [a.wynne@accaglobal.com](mailto:a.wynne@accaglobal.com)

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**About ACCA**  
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ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing international accountancy body with 240,000 students and 105,000 members in 170 countries. Our mission is to be the leading global professional accountancy body by reputation, influence and size, offering the first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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 SIGNS GLOBAL PARTNERSHIP AGREEMENT WITH ACCA**

The Institute of Internal Auditors (IIA) and ACCA have signed a global partnership agreement. Under the agreement, the two organisations will cooperate, collaborate and share resources across their global networks of offices and affiliate bodies.

Under this agreement, ACCA will strongly advise its members that any internal audit work they conduct should be performed in accordance with the IIA's International Standards for the Professional Practice of Internal Auditing and the IIA's Professional Practices Framework.

Allen Blewitt, ACCA chief executive, said: 'Our focus, as a global leader of accountants, has been general in nature and broad in scope. By contrast, the IIA represents and advocates for those who are internal audit specialists. We at ACCA recognise the IIA for its authoritative guidance, and complying with the standards will ensure that our members who perform internal audit services have the "specialist perspective" they need to meet effectively the high expectations of stakeholders.'

IIA President David A. Richards said: 'The IIA and ACCA are both long-standing, highly-respected professional associations, each with members from all around the world. Although we represent two distinctly different professions, our codes of ethics and perspectives on enhanced professionalism, ongoing education, and quantifiable research mirror one another. This agreement is the first step toward a variety of joint projects on issues such as ethics and sustainable development or corporate social responsibility, as well as a unified approach to professional growth for the members of both organisations.'

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### **APB GUIDANCE FOR AUDITORS OF BANKS AND BUILDING SOCIETIES**

The Auditing Practices Board's Bulletin 2005/6 provides supplementary guidance for auditors of banks and building societies on audit risk and fraud. While this guidance is aimed specifically at external auditors of banks and building societies in the UK, it may also be of interest to internal auditors of similar institutions in other countries.

The APB is expected to issue a revised version of its Practice Notes for Banks and Building Societies later this year.

Copies of the Bulletin may be downloaded from the Publications (Bulletins) section of the website: [www.frc.org.uk](http://www.frc.org.uk)

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### **UN CONVENTION AGAINST CORRUPTION COMES INTO FORCE IN DECEMBER 2005**

Ecuador was the 30th country to ratify the United Nations Convention against Corruption, ensuring that the treaty comes into force this December. The Convention is the first global instrument designed to assist Member States fight corruption in both the public and private sectors and will allow countries to recover billions in stolen assets.

The principles articulated in the Convention require Member States to construct compatible and concrete legislation to counter corruption. States are also required to establish criminal and other offences to cover a wide range of acts of corruption. The Convention is also remarkable in its call for significantly increased cooperation between States and mutual assistance, especially in the area of money laundering.

The coming into force of the Convention will also enable the convening of a Conference of the States which have ratified the Convention within one year of the treaty's implementation mechanism, thus creating a forum for technical assistance.

Further details are available from:

[http://www.unodc.org/unodc/crime\\_convention\\_corruption.html](http://www.unodc.org/unodc/crime_convention_corruption.html)

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## **PEFA ISSUES FINAL PERFORMANCE MANAGEMENT FRAMEWORK**

PEFA has recently issued the final version of its framework of benchmarks for public financial management. PEFA is a multi-agency partnership sponsored by the World Bank, the International Monetary Fund (IMF) and a number of European national aid agencies. With the move to general budget support and a more co-ordinated approach by the various aid agencies in recent years, this authoritative framework will be vital reading for all public-sector accountants and auditors in countries in receipt of significant external assistance. Although written as a guide for external assessors, the framework could also be used to assist a self-assessment of public financial management.

The PEFA framework identifies the following reasonable objectives of an open and orderly public financial management system:

1. Credibility of the budget - The budget is realistic and is implemented as intended.
2. Comprehensiveness and transparency - The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. Policy-based budgeting - The budget is prepared with due regard to government policy.
4. Predictability and control in budget execution - The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. Accounting, recording and reporting - Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. External scrutiny and audit - Arrangements for scrutiny of public finances and follow-up by the executive are operating.

ACCA provided comments on an earlier draft of this document and we are pleased to see that there have been some improvements, for example, the emphasis on minimising fiscal deficits has been reduced. In other respects, however, the final version is more problematic. The most notable case is the new requirement for consolidated government financial statements to be produced annually. If this is not the case a score of D has to be applied, the lowest of the four scores. This would currently apply to the UK Government, which is in the process of producing consolidated accounts for the last financial year. This is the first year ever that such accounts will be produced, audited and published.

In contrast, the requirements for the prompt submission of audited financial statements to the legislature appear to be rather lax. The highest score of A is achievable if the statements are submitted within 10 months of the end of the financial year and a score of B if they are submitted within 18 months. In contrast, Uganda, for example, has achieved this within 9 months in recent years and the UK is moving to a target of only three months. In addition, the PEFA framework does not require the audit reports to be made public for six months after the audit has been completed.

Interestingly, the framework appears to be indifferent as to whether the financial statements of governments should be produced on the cash or the accruals basis. The framework certainly includes many areas for possible reform and refinement of public-sector financial

management, which appear to be given far more weight than any possible move from the cash to the accruals basis.

Inevitably, some aspects of the framework will not be clear to all readers, but further guidance is to be made available on the PEFA website, including a frequently asked questions section. In addition, the PEFA framework is to be reviewed in 2006. We would be interested to hear how successful the application of the framework has been and the particular challenges which have been met. Please send any comments you may have on this framework to:

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

The final version of the PEFA Performance Management Framework is now available from:

<http://www.pefa.org>

The post of Secretary of PEFA will be available for appointment from the end of March 2006, further details are also available from the above site.

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## **TAX JUSTICE NETWORK**

'Tax is the forgotten issue in the debate about how to tackle poverty and must be added to trade, debt and aid if the world is serious about meeting the Millennium Development Goals. For decades, poor countries like Kenya and Bolivia have been haemorrhaging money to which they are properly entitled,' says Andrew Pendleton, senior policy adviser at Christian Aid when introducing the Tax Justice Network's new publication Tax Us if You Can, available from: [http://www.taxjustice.net/cms/front\\_content.php?idcat=30](http://www.taxjustice.net/cms/front_content.php?idcat=30)

The Network is now well established in Europe and would like to extend its remit, especially across Africa. John Christensen, the Tax Justice Network's coordinator, would be keen to hear from tax administrators and experts (including internal auditors working for tax agencies) from Africa who would be interested in establishing a network to consider the challenges facing African tax authorities in a globalised world. He can be contacted on:

[christensen.tjn@neweconomics.org](mailto:christensen.tjn@neweconomics.org)

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## **CITIZEN REPORT CARD TOOL USED IN GHANA**

As part of the joint Department for International Development (UK) Ghana/World Bank Public and Social Accountability Fund, the Controller and Accountant General Department (CAGD) in Ghana recently prepared a report on participatory audits. CAGD's responsibility includes overseeing the disbursement of all Government funds, including highly indebted poor countries (HIPC) and poverty-related funds.

In cooperation with the non-governmental organisation (NGO) Institute of Policy Alternatives, the Internal Audit (a unit within CAGD) used the Citizen Report Card (CRC) tool to carry out an impact assessment of Government anti-poverty and HIPC projects in four pilot districts. The purposes of this project were to:

- \* build capacity in the Internal Audit
- \* make the CRC a regular complement to the normal financial audit
- \* track government expenditures down to the level of local communities
- \* assess the extent to which service providers involve civil society in planning and executing development projects
- \* assess the impact of Government projects in local communities
- \* enhance usage of projects sited in the communities, and
- \* build a platform by which civil society can express its opinion about government projects.

In each of the four pilot districts, the Internal Audit and Institute of Policy Alternatives brought together local opinion leaders to assess the projects being examined. Their views were then relayed to service providers, and draft reports were prepared for key stakeholders. A forum was organised to bring together opinion leaders and service providers in each of the districts

to discuss the issues raised and find solutions. A final report on the programme is to be issued by the end of October.

The programme's ultimate goal is to improve Government accountability by expanding popular participation at the local level. The project also seeks to inform service providers of what they need to do to enhance service delivery, ensure that communities' development requirements are considered during the planning of the budget, and bridge the communication gap between communities and service providers.

For further information, contact Med Gyamfi at [medgyamfi@gmail.com](mailto:medgyamfi@gmail.com)

Reported in International Budget Project Bimonthly Newsletter, No. 29, September 2005  
<http://www.internationalbudget.org/resources/newsletter29.htm>

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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 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:

- \* Audit of Construction Projects, Buildings and Infrastructures, by Gursharan Singh
- \* Focus of Audit, by Frank Field
- \* Two Views on Pre-Audit or Financial Control
- \* Corruption, by Kastuv Ray
- \* Customer Relationship Management, by Sharmain Solomon

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### **AUDIT OF CONSTRUCTION PROJECTS, BUILDINGS AND INFRASTRUCTURES**

by Gursharan Singh, Audit Trainer, based in Malaysia - [gsk38@hotmail.com](mailto:gsk38@hotmail.com)

#### Introduction

The construction industry is a multi-million/billion dollar industry in most countries in the world. Unfortunately it is given comparatively low priority by the audit profession.

The audit of construction projects is a multi-faceted assignment that should receive high priority and be given serious attention by auditors [internal/external]. One reason for this is the high risk associated with the significant dependency on external technical and other professional expertise for advice in all spheres such as planning, design, implementation, supervision, monitoring, post-construction aspects, etc.

#### **Objectives of audit**

Objectives of an audit of construction projects include reviewing:  
[a] the economic viability of the project

- [b] the selection of implementation methodology, evaluation of contractors and contract values and implementation
- [c] relevancy of terms and conditions and documentation and monitoring
- [d] causes of claims, delays and changes and their financial implications
- [e] fraud situations and possibilities and suggesting preventive measures
- [f] justification, accuracy and suggesting alternatives to minimise costs
- [g] recoveries from third parties, where applicable.

### **Scope of audit**

The scope of an audit in this area would include, among others, the following.

- [a] land - acquisition, usage, and conversion, if necessary, conditions and availability
- [b] reports/studies [impacts and costs]
- [c] funds [sources, costs and rate of return for commercial projects]
- [d] project implementation procedures and safeguards, company guidelines
- [e] professional consultants' agreements [technical and other]
- [f] construction contract formats
- [g] statutory requirements, approvals, special conditions and transfer of technology
- [h] construction supervision and monitoring - documentation, controls and reports
- [i] performance bonds, advance payments, guarantees and insurance policies
- [j] engineer's instructions and site records
- [k] contract register and site records
- [l] specifications, changes and delays
- [m] interim payments, claims, compensation, advances, penalties and final accounts
- [n] post-construction period aspects [guarantees, warranties, etc.]
- [o] as-built drawings, manuals and certificate of fitness
- [p] evaluation of contract implementation, including performance of contractors and technical consultants and other appointed professionals.

The scope of the audit can be either comprehensive to cover every known aspect of the project or be targeted and limited to any specific aspect of the project. However the scope of the audit should be flexible and expanded or reduced as the confidence level in the process varies. The rationale of any subsequent change should be subject to prior approval of the relevant authority and properly documented. The cost of the audit should be borne in mind during selection of any project/contract for audit.

### **Audit assignment**

Where the selected project is particularly large or could be controversial in nature the auditor should prepare a project paper to obtain the prior approval of the management. The paper should provide the minimum information listed below:

- [a] project particulars [scope, cost, locality, technical (and other) consultants, etc]
- [b] audit team [scope, manpower, time, cost, logistics, anticipated benefits, etc]
- [c] audit process [interviews, access and scrutiny of documents, site visits, compliance with company policies, guidelines, controls, industry standards, reports, etc]
- [d] anticipated benefits of the audit assignment.

The comprehensiveness of the project paper should be commensurate with the scope of the audit assignment. Prior approval of the board may be required only in exceptional cases as the internal auditor generally has discretionary powers in most audits.

However the scope of the audit should be flexible and expanded or reduced as the confidence level in the process varies. The rationale of any subsequent change should be subject to prior approval of the relevant authority and properly documented. The cost of the audit should be borne in mind during selection of any project/contract for audit.

### **Audit programme**

The audit team leader should:

- [a] prepare an audit program listing the manpower and its individual responsibilities
- [b] infrastructure requirements: type and duration
- [c] period of audit
- [d] relevant notes, checklists, Internal Control Questionnaires (ICQs) and time sheets with unit costs
- [e] working files of previous audits, if any, for clearance of any outstanding matters.
- [e] permanent file and formats to be completed for proper documentation
- [f] informing the auditee department of the scope of audit
- [g] providing the auditee with a list of requirements, especially documents and availability of personnel who may be needed, including duration.

### **Meeting with auditee**

The team leader should always ensure that the audit will not disrupt the duties of the auditee and his or her staff nor hinder the smooth operations of the department being audited. Thus it is of the utmost importance that the audit be flexible as far as practical, and able to accommodate the needs of the auditee. In addition, the auditee should be convinced that the objective of the audit is to assist and ensure that all company operations and transactions are in compliance with approved company procedures and guidelines. It is not the function of audit to find mistakes or punish but to learn from any mistakes that may be discovered during audit.

### **Location of documents**

Most of the documents, especially the more important ones, will be available at the various departments [finance, accounts, legal, company secretary, project development and management] situated in the main office. However some documents will be available at the site office where the project is being constructed.

In some cases, it may be more beneficial to view some documents that may be in the offices of technical [and other] consultants. To obtain the best results, the auditor should take the opportunity to visit these consultants, as this will also create good communications. It may be necessary to make provision in the agreements to authorise the auditors to visit the consultants' offices and have discussions and scrutinise the project documents.

### **During the audit**

The Auditor should ensure the following:

- [a] have an opening conference with the auditee and those involved, explaining the scope, duration, need for documents, etc, providing explanations as necessary
- [b] visit the site of the project, obtain a briefing and get the feel of the works
- [c] scrutinize engineer's instructions, site conditions, progress, materials, etc.
- [d] examine documents pertaining to financial aspects and those having financial implications, including justifications and computation accuracy.
- [e] verify the legal validity of the relevant documents [contractual documents and agreements, bonds, insurances, guarantees]
- [f] scrutinise the implications of special conditions, endorsements, non-standard documents or any changes to terms and conditions in standard forms or company-approved formats/procedures.
- [g] clarify, obtain explanations and remedy where necessary with verbal/ written responses
- [h] brief the auditee and management periodically, either verbally or with written reports.

### **At the end of audit**

The auditor should have a final closing meeting with the auditees, both on site and at the main office, covering all relevant matters. The following steps may be important:

- [a] the result of the discussions should be documented

- [b] instances where the auditee disputes the auditor's findings or recommendations should be recorded, together with the auditee's rationale and supporting reasons
- [c] prepare the working papers and file and index them in acceptable formats
- [d] update the permanent file where necessary
- [e] prepare a draft final audit report [in summary and detailed form] and send it to the management and other relevant persons for their responses before finalising it
- [f] prepare and issue a final audit report [summarised and detailed] to the audit committee for discussions where necessary before it is submitted to the board.

It is important that due appreciation be recorded in the audit reports regarding the performance of the auditee and staff and the level of cooperation and assistance provided during the audit.

### **Performance evaluation report of the audit assignment**

The result of the audit should be evaluated in line with the objectives and scope of the audit. A performance evaluation report should be prepared, including:

- [a] cost of audit against budgeted cost [savings or overrun, with reasons]
- [b] extent to which the objectives were achieved
- [c] financial recoveries achieved
- [d] potential savings identified
- [e] fraud situations identified, with remedial measures recommended
- [f] weaknesses observed in policies, guidelines and procedures, with proposed remedial recommendations
- [g] recommendations in construction projects management and implementation with emphasis on contract/agreement documentation formats, terms, conditions, specifications, pricing, claims, delays, contract register, etc., where necessary.

The performance evaluation report should result in improvements to the audit department and the company's operations that should bring greater financial rewards and job satisfaction to all.

### **Audit report**

There may be a temptation to concentrate on individual cases of possible fraud, error, overpayments etc, but recommendations on improvements to internal control will be more important for the future.

It may be noted that while the audit may have identified overpayments and quantified and substantiated the amounts overpaid, managements may decide not to pursue and recover the amounts overpaid. The management decision could be based on other considerations which it feels should not be disclosed to the auditor. The auditor would then submit his or her report to the audit committee for appropriate action and decision. It could be possible that the audit committee also decides not take further action. This does not mean that resources on the audit have been wasted or that the auditor is not effective.

### **Conclusion**

It must be remembered that the responsibility and role of the auditor ends with the audit report and recommendations being submitted to the audit committee, who may accept the board's reasons or decision for not instituting recovery action. Auditors should not be disheartened or feel frustrated by this lack of action or perceived lack of support for the efforts of the auditor. They should continue to perform their audit functions and discharge their responsibilities to the best of their abilities, as is prescribed in the audit charter and as is expected of them.

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### **FOCUS OF AUDIT**

by Frank Field, International Public Sector Consultant - [knightfold@ripnet.com](mailto:knightfold@ripnet.com)

The auditor can look at an operation in different ways. For example the audit can be:

- 1 transaction oriented
- 2 systems oriented, or
- 3 results oriented.

In practice, most audits are a mix of these approaches but the underlying focus of these different ways of carrying out an audit is worthy of examination, because the approach will have implications on the type of audit conclusions and on the impact of the audit report.

Each of these three approaches is reviewed below.

### **1. Transaction oriented**

**Audit objective**

To determine whether the operations are being carried out in compliance with the standards and procedures as laid out in the Accounting Manual.

**Audit approach**

Select a representative sample of transactions and check whether they have been carried out according to the procedures outlined in the Accounting Manual.

Follow up on any transactions that have not been properly carried out: not properly authorised / errors in amounts / indicate waste or abuse / not properly recorded / etc.

Determine underlying reasons for observed findings.

**Form of report**

**Findings:** list of transactions that have not been properly carried out or recorded.

**Conclusions:** certain areas of the Accounting Manual are not being complied with.

**Recommendations:** correct wrong transactions and increase compliance with certain controls as set out in the Accounting manual.

**Impact of report**

With its predominant emphasis on individual transaction, there is a serious danger that this report does not get the attention of management. In fact, it can have a negative impact. If when a manager reads it and finds that the total impact of the weaknesses listed is small, the conclusion derived is that what the auditor finds is not of significance.

### **2. Systems oriented**

**Audit objective**

To determine whether the internal controls are adequate to ensure that operations are being carried out properly; that assets are safeguarded; and that there is minimal waste, misuse and abuse.

**Audit approach**

Examine the controls in place and, on the basis of a risk assessment, professional judgement and comparison with standards, determine whether these controls are adequate and whether, in the opinion of the auditor, any controls are missing.

Select a sample of transactions to test whether the controls in place are operating as intended.

Conclude on the adequacy of the internal controls.

**Form of report**

**Findings:** List of inadequate or missing internal controls (illustrated with examples of transactions that have not been properly carried out).

**Conclusions:** assessment of the strengths and weaknesses of the controls in place.

**Recommendations:** strengthen certain controls and introduce certain additional controls.

#### Impact of report

The report focuses on what needs to be done and therefore any management actions are likely to improve the controls and reduce the likelihood of the waste or abuse observed by the auditor.

### 3. Results oriented

#### Audit objective

To determine whether the operations are being carried out economically, efficiently and effectively and whether the organisation's objectives are being met.

#### Audit approach

Identify the major expenditures, revenues, outputs and outcomes of the entity and conduct a risk assessment.

Assess the appropriateness of management reports on expenditures, revenues and outputs. Review studies and reports on the effectiveness of the operations and on programme performance.

On the basis of these reports conclude whether managers have appropriate information to know how economic, efficient and effective are the operations.

If these reports do not contain sufficient information to assess performance properly, the auditor can decide to conclude on the inadequacy of the measures or to determine directly whether performance is adequate.

Where the auditor decides to assess performance, this can be done by:

- \* comparing results against plans and budgets
- \* performing analysis (such as trends in unit cost or in levels of efficiency), or
- \* making comparisons with standards or with the performance of other organisations.

#### Form of report

Findings: Clarity of objectives and accountability / the extent and quality of the measurement and reporting of performance / examples of failures in performance / trends in performance.

Conclusions: Appropriateness of the performance framework / adequacy of the measurement and reporting of performance / adequacy of the internal controls / an assessment of performance or changes in performance.

Recommendations: Review of programme / improve measurement and reporting of performance / improve operations / strengthen internal controls.

#### Impact of report

By focusing on the impact of what the auditor has observed, the message of the audit report is most likely to capture the attention of senior management.

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### **TWO VIEWS ON PRE-AUDIT OR FINANCIAL CONTROL**

by Andy Wynne - [a.wynne@accaglobal.com](mailto:a.wynne@accaglobal.com)

#### **Against**

'The pre-audit offices were replaced by internal auditing as from 1 January 1998. Before that, personnel had been installed in the departments and authorities to check the current management of funds and to carry out ex-post control of data. These personnel were functionally subordinated, and were obliged to report, to the Supreme Audit Institution. As this

form of auditing produced very little by way of results in the course of the years, internal auditing was introduced as a self-check, focusing on specific points of emphasis.

The reform promotes the "two person" principle within the departments, and the control function stems in part from the very fact that specific transactions can be checked at any time. Setting main points of emphasis in the audit reports enables internal auditing to target specific areas, thus going far beyond the checking of warrants and the plausibility of calculations.'

Replacement of pre-audit offices by internal auditing - accountability and control, Federal Republic of Germany, Federal Ministry of Finance, January 2004, page 17.

## **For**

'Financial control is the sole means of preventing those with responsibility for placing orders of entering into irregular commitments.

Pre-audit financial control, has the advantage of being regular and exhaustive; it enables the prevention of expenditure commitments which are not authorised or are irregular. In effect, all payments are checked with regard to their coding, the availability of funds, the application of financial orders, laws and regulations, their conformity with parliamentary authorisation and the consequences the measures proposed could have on public finances.

The decentralisation of this control by attaching delegated financial controllers to purchasing sections has made this process more efficient and effective.'

Evaluation of the National Department of Financial Control - Country Financial Accountability Assessment for Mali, the World Bank, November 2002, page 34, translated from the French original.

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## **CORRUPTION**

by Kastuv Ray - [soloelsondeomasfuerte@hotmail.com](mailto:soloelsondeomasfuerte@hotmail.com)

### **Introduction**

Corruption - the very word is spine tingling!

Corruption is described within the United Nations Manual on Anti-Corruption Policy, Vienna, June 2001 as 'an abuse of power for private gain that hampers the public interest.'

### **Mitigating corruption**

To combat corruption, both hard and soft controls are required. The strength of these controls depends on the individual or organisation utilising them and their attitude and commitment. Examples of these controls may be the following:

- \* Legislation
- \* Regulation
- \* Top management commitment and support
- \* Commitment from both central and local government
- \* Commitment from employees and citizens, or
- \* Use of internal and external audit.

### **Statement of values**

A starting point in an organisation may be to have a Statement of Values. This can take the form of a Code of Conduct. The Statement of Values could include the following:

- \* An overall policy statement

- \* Commitment statements detailing the principles by which the organisation is governed (for example, a commitment to displaying honesty in all business practices and displaying an open and transparent business culture)
- \* A statement detailing the purpose of the Code of Conduct and its objectives
- \* Responsibilities of officers within the organisation (this should include individuals such as the chief executive, directors, various departments and functions and individual employees, and
- \* Examples of practices which the organisation deems as honest and transparent.

The statement of values should capture the very essence of the organisation and the individuals within it, all of whom should be dedicated to honest practices. Unfortunately, we do not live in a perfect world and not everyone is honest!

Certain excerpts of a poem by Rabindranath Tagore (India's first Nobel Laureate) from the famous Gitanjali - Song Offerings (published by UBSPD) capture the very essence of a Statement of Values and Standards of Business Conduct. These are detailed below:

'Life of my life, I shall ever try to keep my body pure

I shall ever try to keep all untruths out from my thoughts

I shall ever try to drive all evils away from my heart,'

### **Management of corruption**

An anti-corruption policy may be used in the same way as an antibiotic is used to combat disease or pain. Some suggestions from an internal audit point of view are provided below to militate against corruption:

- \* A policy statement on corruption (which has board approval)
- \* Appointment of a corporate champion responsible for anti-corruption practices
- \* Wide publication of the policy statement on corruption within the organisation
- \* Cross-referencing of the anti-corruption policy to the fraud policy, Code of Conduct, whistle blowing policy and various human resources policies
- \* Monitoring of corruption risks through risk registers
- \* Procedures for reporting suspicions of corruption
- \* Provision of contact names for reporting suspected corruption
- \* Operation of a corruption hotline
- \* Investigation procedures to be invoked when suspected corruption is reported, and
- \* Requirement for employees to sign off an annual statement stating they have not been involved in any type of corrupt practices.

### **Conclusion**

Corruption is like a cancer and needs to be terminated/treated. This article merely provides some basic suggestions but what is ultimately required is a strong commitment and decisiveness of management to take action when instances of corruption are reported to them. Management should not shy away when they are faced with allegations of corruption within an organisation and if they do turn a blind eye to the problem then they may as well throw all their codes of conduct and ethical standards in the bin!

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### **THE UN GLOBAL COMPACT**

The Global Compact was launched in July 2000. In addition to private companies, the Global Compact's participants are governments, trade unions, as well as non-governmental organisations (NGOs). The Global Compact asks companies to 'embrace, support, and enact, within their sphere of influence' to support universal environmental and social principles. It is available from: <http://www.unglobalcompact.org>

The Global Compact's ten principles are derived from:

theUniversalDeclarationofHumanRights  
<http://www.un.org/Overview/rights.html>

theInternational Labour Organisation's  
(ILO's)DeclarationonFundamentalPrinciplesandRightsatWork  
<http://www.ilo.org/dyn/declaris/DECLARATIONWEB.INDEXPAGE>

theRioDeclarationonEnvironmentandDevelopment  
<http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=52>

theUNConventiononCorruption  
[http://www.unodc.org/unodc/en/crime\\_convention\\_corruption.html](http://www.unodc.org/unodc/en/crime_convention_corruption.html)

### **Human Rights**

Businesses should:

- support and respect the protection of internationally proclaimed human rights
- make sure that they are not complicit in human rights abuses.

### **Labour Standards**

Businesses should strive to:

- uphold the freedom of association and the effective recognition of the right to collective bargaining
- eliminate all forms of forced and compulsory labour
- abolish child labour
- eliminate discrimination in respect of employment and occupation.

### **Environment**

Businesses should:

- support a precautionary approach to environmental challenges
- undertake initiatives to promote greater environmental responsibility
- encourage the development and diffusion of environmentally friendly technologies.

### **Anti-corruption**

Businesses should work against all forms of corruption, including extortion and bribery.

Beginning in June of this year, all companies participating in the United Nations' Global Compact initiative must submit a communication on progress (COP) describing the actions and outcomes achieved in their pursuit of the Global Compact Principles. A practical guide has been developed to provide simple advice to companies of every size, industrial sector and geographical origin when developing such a COP. The guide is available from: [www.globalreporting.org/eshop/products.asp](http://www.globalreporting.org/eshop/products.asp)

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**CUSTOMER RELATIONSHIP MANAGEMENT**  
by Sharmain Solomon - [sharmsa@hotmail.com](mailto:sharmsa@hotmail.com)

The full paper from this abstract is available from the author.

This dissertation represents a move away from the traditional internal audit focus on internal controls to consider the role of the Internal Audit Activity (IAA) in the effective management of an organisation's external environment and the interface between the internal and external

environment. With customer relationships being an integral part of the organisation's external environment and also linked to its internal environment the researcher has considered whether customer relationship management (CRM) is critical to modern organisations and whether the IAA can add value through involvement in this area.

The literature search revealed that customer relationships are vital organisational assets with a lifetime value which organisations must effectively manage because of the link to financial and non-financial performance. Additionally, that CRM has been widely adopted being ranked as the 2nd most popular management tool globally in 2004. However, despite its widespread adoption and potential for success, CRM has a high probability for failure. Additionally, that risk management, internal control and corporate governance which are key internal audit areas, are all important to the effectiveness of external CRM.

The empirical research comprised a survey of the views Heads of Internal audit and the customers of the Internal Audit Activity (IAA) namely Managers, Audit Committee and other Board members, who being responsible for the strategic direction of the organization are in the best position to indicate the full role CRM plays within their organisations and whether this is an area where the IAA can add value. Research participants were selected from the private, government and voluntary sectors in the UK and North America. Interview and questionnaires were the data collection methods used. Research limitations included a small sample size as well as scarcity of literature available with joint studies on internal audit and CRM.

The results demonstrated that there is a lack of internal audit involvement in CRM, although 85% of the respondents felt that the IAA could add value to external CRM. Within the constraints of the sample examined, the findings suggest that managing customer relationships is critical to organisations in all sectors and that internal audit can add value to an organisation's external CRM because it provides an opportunity to contribute to the achievement of organisational objectives, reduction of risks through assurance and consultancy and enhancement of operations.

The issues emerging from the research requiring further investigation include the need for:

- \* an investigation of the factors affecting the IAA involvement in CRM
- \* a framework for internal audit involvement in external CRM
- \* an internal audit role in Total Relationship Management
- \* managing internal audit customer relationships.

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### **3. PUBLICATIONS AND RESOURCES**

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#### **INSTITUTE OF INTERNAL AUDITORS WEBSITE**

Global Technological Audit Guide (GTAG) - [http://www.theiia.org/index.cfm?doc\\_id=5365](http://www.theiia.org/index.cfm?doc_id=5365)

Continuous Auditing: Implications for Assurance, Monitoring, and Risk Assessment is the latest handbook in the GTAG Series. The other two publications in this series are:

GTAG 2: Change and Patch Management Controls

GTAG 1: Information Technology Controls  
[http://www.theiia.org/index.cfm?doc\\_id=4706](http://www.theiia.org/index.cfm?doc_id=4706)

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#### **IIA GUIDANCE FOR THE PUBLIC SECTOR**

The IIA provides a wealth of guidance and resources for the public-sector auditor. Check regularly for updates. [http://www.theiia.org/go?to=link\\_05\\_headfraudgpublic](http://www.theiia.org/go?to=link_05_headfraudgpublic)  
[http://www.theiia.org/?doc\\_id=1203](http://www.theiia.org/?doc_id=1203)

The IIA's IT Audit Reference Library: Government contains links to information published in government audit and regulatory websites in areas related to technology. The section also provides links to the extensive government resources available, such as guidelines, checklists, audit programmes, case studies, and research results.

<http://www.theiia.org/itaudit/?fuseaction=catref&catid=15>

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## AUDITNET

AuditNet ([www.auditnet.org](http://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 those electronic resources is updated and distributed monthly via the Internet. AuditNet includes Jobs for Auditors and an inventory of Audit Work Programs.

### Auditors Sharing Audit Programs and Working Papers

The following audit programs, Internal Control Questionnaires (ICQs), checklist or working papers were added this month. Some may only be available in exchange for an audit work program contribution not currently in the inventory.

Accounts Payable Questionnaire (Healthcare) (Oct 05)  
Cataclysmic Disasters ICQ (Oct 05)  
Claim File Review Form (P&C) (Oct 05)  
Claim Sample Testing Worksheet (P&C) (Oct 05)  
Physician Contract Review (Healthcare) (Oct 05)  
Quality Assurance Risk Library (Oct 05)  
Scaffolding ICQ (Construction Industry) (Oct 05)

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## TOP TEN ARTICLES FROM THE CONSULTANTS MCKINSEY

Every quarter, McKinsey, the global consultants, choose the best articles from their quarterly insights. An overview of the ones from the third quarter of 2005 are available from:

[http://www.mckinseyquarterly.com/newsletters/topten/2005\\_Q3.htm](http://www.mckinseyquarterly.com/newsletters/topten/2005_Q3.htm)

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## CORRUPTION RESOURCES

'Corruption and other forms of rent seeking have been well-documented in every society on earth, from the banks of the Congo River to the palace of the Dutch royal family, from Japanese politicians to Brazilian bankers to the New York City police department', World Bank, June 1997.

Recent overviews on this subject are available from:

UNDP Anti-Corruption Practice Note, February 2004

<http://www.undp.org/governance/docsaccount/Anti%20Corruption%20Note%20FINAL%20VERSION%20031704.pdf>

Resisting Corruption in the Public Sector, International Consortium on Governmental Financial Management (ICGFM) and Grant Thornton, May 2005

[http://www.grantthornton.com/downloads/GPS\\_113703.pdf](http://www.grantthornton.com/downloads/GPS_113703.pdf)

The Corner House

<http://www.thecornerhouse.org.uk/subject/corruption/>

According to Joseph Stiglitz (ex-Chief Economist at the World Bank)

'Privatisation has made matters so much worse that in many countries ... privatisation is jokingly referred to as briberisation.' In addition, public opposition to privatisation is now a significant risk in many countries. This risk is reviewed in a paper published earlier this year, Public Resistance to Privatisation in Water and Energy, June 2005:  
<http://www.psir.org/reports/2005-06-W-E-resist.pdf>

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 Organisation for Economic Cooperation and Development (OECD)), PSI (Public Services International) and the ICFTU (International Confederation of Free Trade Unions) - [www.againstcorruption.org](http://www.againstcorruption.org)

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#### **FEE DISCUSSION PAPER ON RISK MANAGEMENT AND INTERNAL CONTROL**

The Fédération des Experts Comptables Européens (FEE), the regional accountancy body for Europe, has issued a discussion paper on risk management and internal control entitled Risk Management and Internal Control in the EU.

The paper provides a review of current best practice in risk management and internal control and reviews recent regulatory developments in the US and EU. The paper is available from:  
[www.fee.be](http://www.fee.be)

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#### **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 which 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 which you think should be made available on this site, especially if you have any documents developed by your department which 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](http://www.accaglobal.com/publicsector)

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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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#### **4. ABOUT THIS BULLETIN**

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

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

ACCA is better able to serve its members if your membership details are up to date. If you have changed your contact details recently then please go to the following site and provide ACCA with an up-date:  
[http://www.accaglobal.com/members/administration/essential\\_info/change\\_details](http://www.accaglobal.com/members/administration/essential_info/change_details)

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