Recap of the Integrated case Study and the „Orotavia“ Quiz

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Internal Audit Training of Trainers
The Case Study “Orotavia - Capital City Municipality”;

Objective: to bridge the gap between theory and the practical application of the International Standards for the Professional Practice of Internal Audit (ISPPIA) by simulating a small audit client scenario.

The Case Study is structured into three sections:
  » Audit Simulation
  » Documentation Templates and Examples
  » Trainers Guide
Audit Simulation
Case Study, Audit Simulation
Located in Central Europe, 4 million people, approximately 500k live in the capital city Orotavia - 1/8 of the country’s population.

The country is divided into 7 regions, one of which is the capital city municipality Orotavia. Regions are the first level of public administration (followed by districts and counties).
Case Study, Audit Simulation, Mayor

» Mayor – Mr. Big for almost 10 years, it is his 3rd term as Mayor,

» Mr. Big supported by politicians from party “League for Citizens Prosperity”,.

» The City Council: an elected body, 30 members, Mr Big is the Chair of the City Council

» The Orotavia is running at 2% of annual deficit,

» The revenue - from: local taxes, local fees, redistribution from Central Government
Case Study, Audit Simulation, Organisational Chart

Mr Big, Mayor

Mr. Munko, Deputy

Mrs. Galusha, Deputy

- Finance (Head, Staff)
- Budgeting (Head, Staff)
- Asset Management and Maintenance (Head, Staff)
- Investment Planning (Head, Staff)
- Education (Head, Staff)
- Culture and Museums (Head, Staff)
- HR (Head, Staff)
- Legal (Head, Staff)
- IT (Head, Staff)
» The Internal Audit Department is an independent unit of the Orotavia municipality, established a decade ago;

» Three junior auditors, two senior internal auditors and a department head – Mr. Sveto (6 people in total);

» Mr. Sveto was appointed 6 months ago, well experienced and qualified;

» The internal auditors are appointed by and report to the Council of the Municipality but in practice there is a close relationship with the Mayor who relies on the internal audit department for daily advice and support.
» Revenue from sales of assets - land, buildings, structures, roads, bridges, city infrastructure, etc.

» Subordinated bonds issued by Orotavia - offered to domestic bond buyers: institutional and private investors. First ever municipal bonds issued last year, 55% of offered bonds were purchased.
Case Study, Audit Simulation, General Issues

» Banks used by municipality – ongoing review of bank accounts used by the municipality and reform of the current bank offerings;
» Old and inefficient IT infrastructure;
» Increasing population – internal migration from rural areas;
» Decreasing public trust of the police force;
» Refugee crisis.
Specific areas of risk for planning IA:

- System of paid parking;
- Refugee crisis;
- Public Private Partnership (PPP);
- Audit of European Institutions;
- Major IT projects – upgrade of systems and infrastructure;
- Improving the Touristic Attractiveness of the Capital;
- Managing the snowfall in winter.
Specific processes of risk for planning IA:
- Authorisation of transactions and payments;
- Management of the assets of the Capital;
- Procurement related processes and authorisations;
- HR and hiring process and issues;
- IT general and access controls.
What has been done?
Fundamentals stream

» Based on the discussions of the members of the Internal Audit ToT Community of Practice at fundamentals workshop in Vienna between 19 – 22 June 2017.

» The tasks, logically sequenced in the context of the audit cycle, including:
   » Planning
   » Execution
   » Reporting

» The proposed approach was just one way to approach challenges related to performing an effective small audit
The objective:
• to approach professional ethics training and education in a practical way, by analyzing threats that arise
• and selecting an appropriate course of action in line with the fundamental principles of the Code of Ethics for Internal Auditors prescribed by the Institute of Internal Auditors (IIA).
Approach to work

» Five table groups, each group ranging between 6-7 participants, which focused their efforts on one, selected area of investigation;

» Areas/processes covered by the case study: (i) Finance Process, (ii) Asset Management, (iii) Procurement, (iv) Human Resources and (v) Information Technology;

» Up to 40-50 minutes for group work, a facilitated group presentation of up to 20-30 minutes (approx. 5 minutes per each table group).
I. Planning Engagement

» **Risks and Related Auditable Processes**

» **The purpose:** to document understanding of the risks and the related auditable areas and processes.

» **Finance process, example:**

» **Identified Risks:** (i) insufficient human capacity of staff of Finance Department, (ii) too many bank accounts, not precise reconciliation of them; (iii) improper usage of petty cash & lack of discipline during trips

» **Related Auditable Processes:** (i) continuous development of people; (ii) management of bank accounts and overdrafts; (iii) management of grants from European institutions - funds usage and payments.
I. Planning Engagement, cont’d

» **Detailed internal audit program**
  
  » To include the information regarding (i) planned scope of work, (ii) timing and (iii) number of budgeted hours.

» **Asset Management Process, example:**
  
  » Audit program: to audit the status of existing legislation for Public Private Partnership (PPP): (i) current legal status of the PPP; the criteria of the PPP contract vis a vis legislation; impact and scope of risks identified; (ii) assessment of underlying assumptions, performance, effectiveness and efficiency of PPP, referring to “best practice”; (iii) potential issues of misconduct or fraud.

  » **Anticipated timing of work:** Preparatory stage of audit.

  » **Budgeted hours of work:** 24 hours (3 working days for one team member)
II. Executing engagement

» **The audit kick-off planning meeting**

» **The purpose:** (i) to introduce the audit team, (ii) explain the scope and approach, (iii) establish communication protocols, (iv) communicate time lines, and (v) inform the counterparts about the role of internal auditing and the value of audit.

» **Participants:** (i) The Head and 4 members of the IA Team, (ii) Mayor and his deputies; (iii) department heads and deputies of: Finance Department, Procurement, Asset Management and Maintenance, Human Resources, Legal, and IT.
II. Executing engagement, cont’d

» **Audit sampling**

» Calculate the sample for confirming accounts receivable

» Requirement to apply Monetary Unit Sampling (MUS).

» MUS is a statistical sampling method used to determine the accuracy of financial account balances
II. Executing engagement, cont’d

» **Review the Design of Controls and Select Controls for Testing**

» The purpose: document an approach to review the design of controls and select controls for further testing

» **Procurement process, example:**

» Management’s objectives: To procure according (i) to the needs of Orotavia, (ii) at the reasonable and justifiable costs, (iii) in line with the current laws and regulations, (iv) performed effectively and efficiently.

» Risk: (i) procurement does not guarantee purchases at the optimum price, (ii) the purchases do not meet the technical or operational needs of municipality.
Review the Design of Controls and Select Controls for Testing, cont’d

Procurement process, cont’d example:

Control response to risk: Detailed specification of assets to assure a selection of items which meet technical and operational criteria in an independent and unbiased evaluation of bidding offers.

Mitigating controls: (i) procurement team task force is formed, (ii) at least three competing offers.

Assessment of controls: Moderate
II. Executing engagement, cont’d

» Review the Design of Controls and Select Controls for Testing, cont’d

» Procurement process, cont’d example:

» Test description:

» (i) inspect of bidding documentation (original and updated),

» (ii) check bids obtained from potential suppliers,

» (iii) check specification papers for potential influence from management,

» (iv) check the composition of the selection team (independent members of various departments),

» (v) verify if decisions taken were unbiased or influenced by any unnecessary factor or person,

» (vi) audit the opinions of the technical department regarding the offers,

» (vii) verify documents and agreement approvals – if in accordance with the procedure.
III. Reporting on engagement

» Summary of Recommendations

The purpose: (i) to elaborate on the observations and findings, (ii) to give recommendations, (iii) to draft a possible management’s response

Human Resources, example:

Observation/finding: IA Team found potential issues of nepotism.

Recommendation: Updating procedures: (i) who could be the member of the hiring committee, (ii) “Chinese walls”, (iii) formalizing the hiring committee, (iv) preventing conflict of interest.
III. Reporting on engagement

» **Summary of Recommendations, cont’d**

» **Human Resources, cont’d example**

» **Management response**: Management would look closely at the current status of hiring process in the municipality, taking into account issues proposed by the Internal Audit Team. Many of suggestions are already implemented, but we would verify formal and informal processes and improve, what needs to be improved.
Orotavia Case Study Diagram
» Prepared by Ozgur Satıcı

» Present in visual way all elements of the audit scenario, including general and specific issues and risks

» Proposes „SWAT” analysis of major cycles and summarises key controls of audit areas.
Orotavia Diagram, cont’d

»Calculates risk scores as an outcome of the assessment of combination of projected risk and mitigating controls.
Quiz
Rules of the Game

» Each table is one group
» Each group has the nickname provided
» Groups vote using laptops through web-browser
» 18 multiple choice questions, 4 answers in each question, only one answer is right
» 65 seconds for answer
» Some questions are negative statement, e.g. „which is not true”
» Some questions are short, some longer

KAHOOT.IT
What to Expect

KAHOOT.IT

Enter PIN given
What to Expect

KAHOOT.IT

Enter specific name provided
What to Expect

Question 1 of 1

Question Sample

Final question! Think hard - you could win up to 1,000 points!

5 seconds

60 seconds
Winning Team Prize

"The Champion of Orotavia Case Study" Certificate
Let's Start the Challenge!
Thank you!