Compliance Audit Scenario

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Internal Audit Training of Trainers



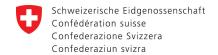


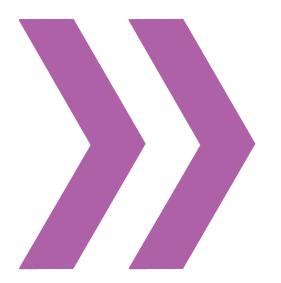




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Recap of the Internal Audit Process



General audit plan

Four phases / chapters:

- Initial planning
- Preliminary survey
- Field work
- Reporting



Initial planning (1)

- Define audit objective(s)
- Define engagement scope
- Define required skills and expertise to perform the audit engagement
- Identify team members
- Identify technical support needed



Initial planning (2)

- Prepare time budget for engagement
- Identify reference framework (criteria)
- Identify relevant information needed
- Prepare engagement memorandum
- Plan kick-off meeting



Preliminary survey

- Gain knowledge of audit area
- Describe process under review
- Prepare risk / control matrix with inherent risks and expected controls
- Prepare working papers



Field work (1)

- Develop necessary steps to assess the design of controls
- Execute the steps to assess the design of controls
- Discuss the observations on the design of controls with auditees
- Conclude on the adequacy of controls
- Submit working papers for review



Field work (2)

- Develop tests to assess the effective implementation of controls
- Execute the tests to assess the effectiveness of controls
- Discuss the observations resulting from the tests of controls with auditees
- Conclude on the effectiveness of controls
- Submit working papers for review



Field work (3)

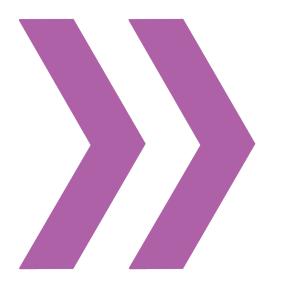
- Prepare overall conclusions with regard to adequacy and effectiveness of controls
- Submit working papers for review



Reporting

- Organize a closing meeting with auditees
- Prepare a draft report
- Submit the draft report for review
- Integrate comments from auditees
- Prepare final report
- Attach action plan to report





Introduction to Compliance Audit



Purpose of Compliance Audit

To evaluate compliance with specific regulatory requirements and/or internal procedures, and assess the ability to continue to operate in accordance with all applicable requirements on an ongoing basis.



Auditors' Competency

Compliance auditors must have the necessary knowledge and skills to:

- » Understand the operations and interpret the applicability of the specific regulatory requirements
- » Effectively apply auditing principles and techniques
- » Maintain objectivity and independence from the activities being audited



Audit Work

- » Specific audit criteria must be defined based on applicable regulatory requirements.
- » Identifying these requirements may first require the completion of a detailed inventory of regulatory requirements.
- » In addition, key items to review to test compliance, such as records, permits, registrations, etc. should be clearly identified.
- » An audit program must be developed to identify the criteria and items to review.
- » The work performed and the auditor's findings will be captured in the working papers.



Audit Program

The audit program should define the specific compliance requirements to be verified and provide the auditor any necessary direction or guidance.

Applicable law, regulation, procedure	Element for compliance review	Items to review	Evidence to be obtained	



Inventory of Regulatory Requirements at Orotavia

External requirements

- » Public financial management (PFM)
- » Donor requirements
- » Other:...

Internal requirements

- » Recruitment procedures
- » Procurement procedures
- » Other...



Risks inherent to procurement:

- » Purchase order information may be incorrect
- » Unauthorized purchases may be made
- » Purchasing systems may be defrauded or abused
- » Adjustments to vendor accounts may not be properly authorized
- » Goods, assets, and other services may not be accounted for on a timely basis
- » Inadequate division of responsibilities between purchasing, receiving, and accounts payable may permit fraud or abuse of the system



Risks inherent to procurement (continued)

- » Duplicate payments for purchases may be made
- » Unauthorized goods or services may be accepted by the organization
- » Purchasing function may not be operated in an efficient, effective, and economical manner
- » Purchasing audit trail may be inadequate so that the procurement department is unable to reconstruct processing
- » Purchasing activity may not meet the needs of the organization
- » Purchasing activity may not receive adequate supervisory review to ensure its propriety



Common key controls in purchasing activity:

- » Pre-numbered purchase orders
- » Multilevel purchasing approvals
- » Centralized receiving
- » Matching receipts to purchase order
- » Purchasing policies and procedures
- » Performance standards against which purchasing performance can be assessed
- » Strict policies against vendor gifts
- » Close purchase order file after payment



Audit evidence:

» The control over purchasing evidence should be at the purchase order level. Maintaining control totals of computer files does not provide assurance that there are not large unrecorded liabilities.

» The auditor should look for evidence at the lowest level and follow that evidence as it is accumulated to the general ledger.



Common purchasing audit evidence includes:

- » Purchase orders
- » Purchasing manual
- » Vendor lists
- » Purchase file
- » Receiving documents
- » Requests for price quotation/Request for proposals
- » Documents asking vendors to bid on particular item



Common purchasing audit evidence also includes:

- » Advertisements and solicitation letters
- » Vendor proposals
- » Vendor catalogs
- » Recordings of past vendor activity
- »Adjustments and write-offs



Compliance audit objective:

To assure that the applicable procurement procedures are being complied with.

Applicable may refer to:

- » National procurement procedures for public procurement
- » In addition, more specific procedures for Orotavia
- » Donor specific procedures,
- » Etc.



Other audit objectives:

- » Procurement is performed in an effective, efficient, and economical manner.
- » The procurement function protects the best interests of the organization in getting the highest quality product at the lowest price.
- » The procurement function ensures continual supply of needed materials.
- » Procedures are established to validate that what has been ordered is received before financial settlement.
- » No undue influence by vendors to get order, or no favoritism shown to vendors.



Nr Process		Inherent Risk (before	RISK	Expected Mitigating	Tests of		Tests of implementation	X-Ref	Conclusion	
NI FIOCESS	controls)	rating Controls/Attributes		design Adequacy			Control effectiveness			

Nr	Process	Inherent Risk (before controls)	Risk rating	Expected Mitigating Controls/Attributes	Tests of design	Control Adequacy	Tests of implementation	X-Ref Control effectiveness	Conclusion
#1	Procurement	Purchases above market price.		Public tenders above certain amount.	Review procedures. Interview staff.		Select 25 procurement transactions from last 12 months and assess compliance with procedures.		Process under control.



Nr	Process	Inherent Risk (before controls)	Risk rating	Tests of design	Control Adequacy	Tests of implementation	X-Ref Control effectiveness	Conclusion
#2	Procurement	Unauthorized purchases may be made.		Review procedures. Interview staff.	not OK	Select 25 procurement transactions from last 12 months and assess compliance with procedures.		Process under control.

Nr	Process	Inherent Risk (before controls)	Risk rating	Expected Mitigating Controls/Attributes	Tests of design	Control Adequacy	Tests of implementation	X-Ref Control effectiveness	Conclusion	
#3		Duplicate payments for purchases may be made.		purchasing	Close purchase order file after payment.	not OK	Select all payments to same supplier and match with authorized purchase orders.		Process under control.	



Nr	Process	Inherent Risk (before controls)	Risk rating	Expected Mitigating Controls/Attributes	Tests of design	Control Adequacy	Tests of implementation	X-Ref Control effectiveness	Conclusion
#4	Procurement	Adjustments to vendor accounts may not be properly authorized.	_	Appropriate authorization for changes to master vendor accounts	Review procedures. Interview staff.	OK not OK	Select all changes to vendor accounts and match with underlying documents and subsequent authorization.	OK	Process under control.



Nr	Process	Inherent Risk (before controls)	Risk rating	Expected Mitigating Controls/Attributes	Tests of design	Control Adequacy	Tests of implementation	X-Ref Control effectiveness	Conclusion
<i>-</i>	Drocuromont	Coods may be	Lliada		Daview procedures	OK	Calant 25 novements to	OK	Drococo undor
#5 Procurement	Goods may be diverted when delivered.	High	One central receiving department signs off receiving document.		OK not OK	Select 25 payments to vendors and check whether the vendor's invoice has been matched to the receiving		Process under control.	
							document and the purchase order.		
					Review procedures. Interview staff.	OK not OK			
			purchase order, receiving document and invoice.						

Detailed testing

- Identify the relevant populations.
- Define the sampling method and size.
- Select the sampled transactions and assess against the criteria (procedures).

