

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

Piotr Pyziak

5 June, Vienna

Internal Audit Training of Trainers



Co-funded by



European
Union



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Orotavia Capital City Municipality – Case Study, Objective

- » 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 (ISPPPIA) by simulating a small audit client scenario.
- » The Case Study is structured into three sections:
 - » Audit Simulation
 - » Documentation Templates and Examples
 - » Trainers Guide

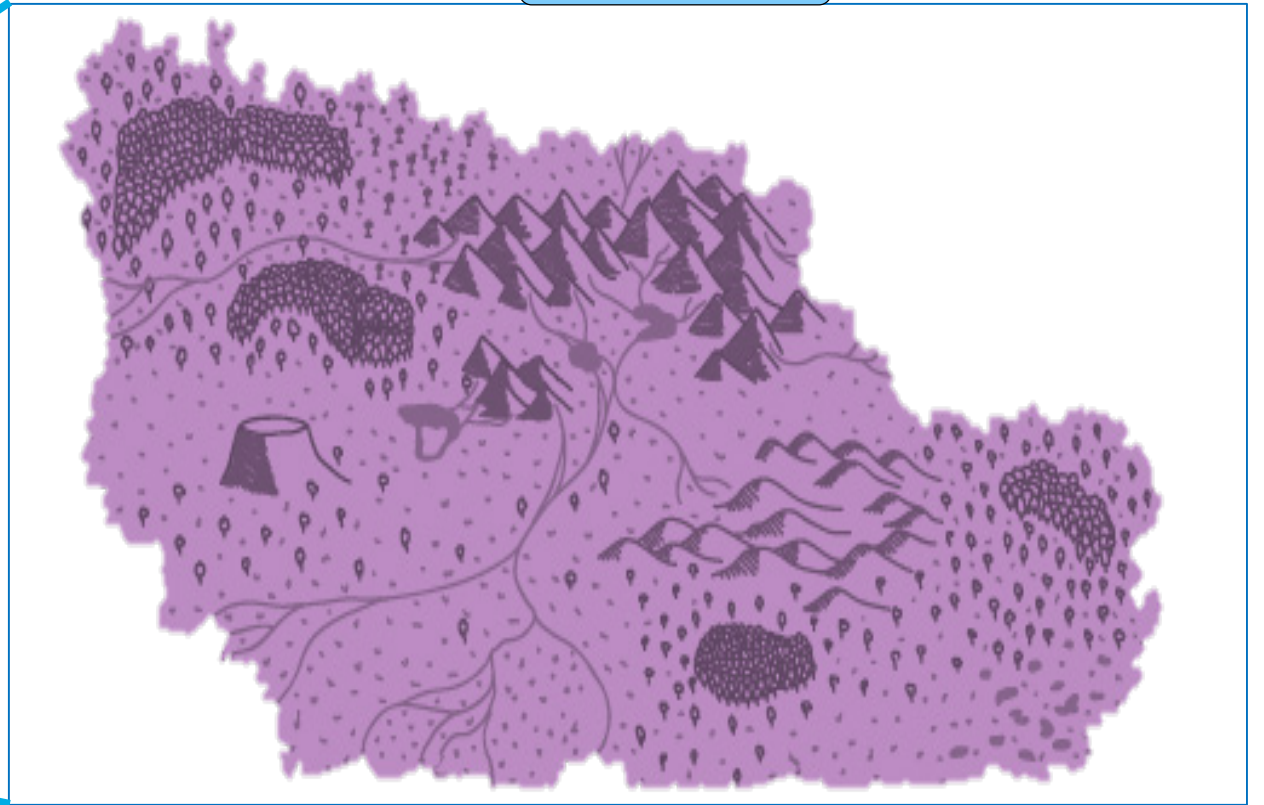


Audit Simulation

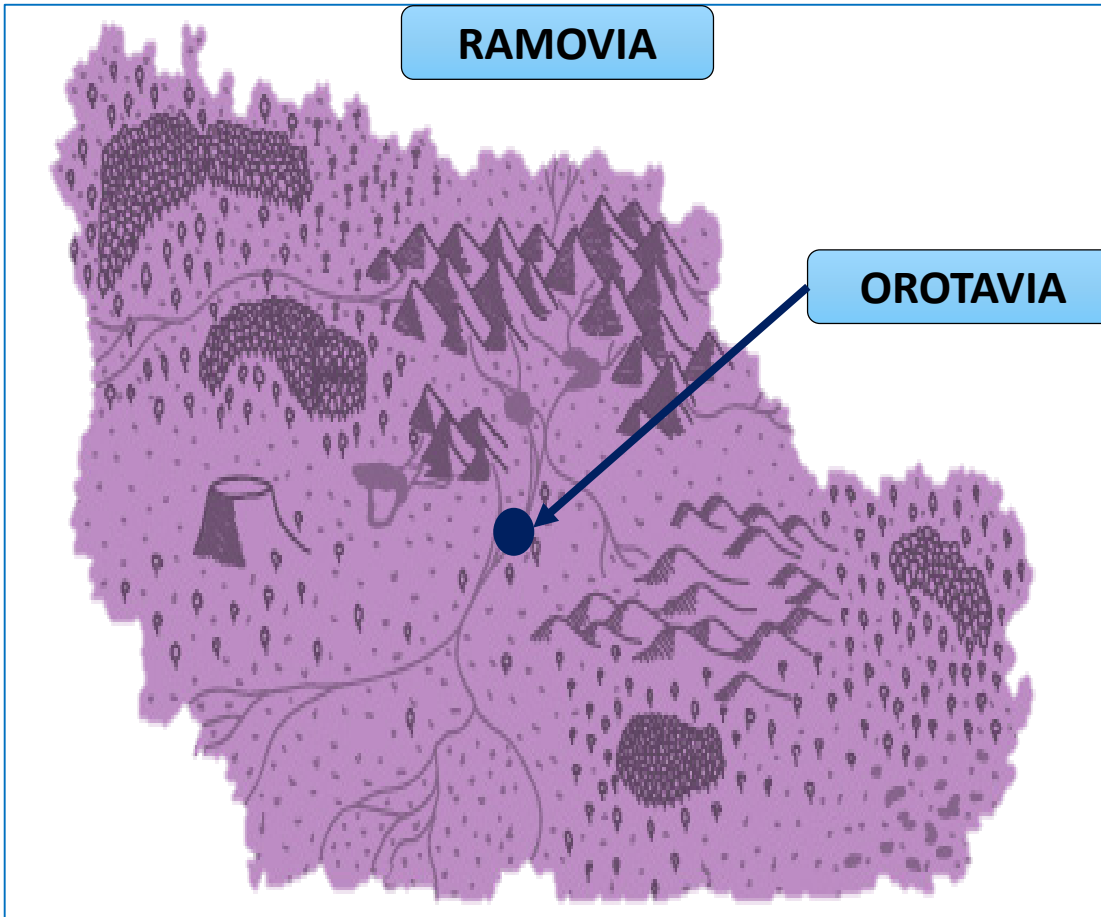
Case Study, Audit Simulation



RAMOVIA



Case Study, Audit Simulation, cont'd



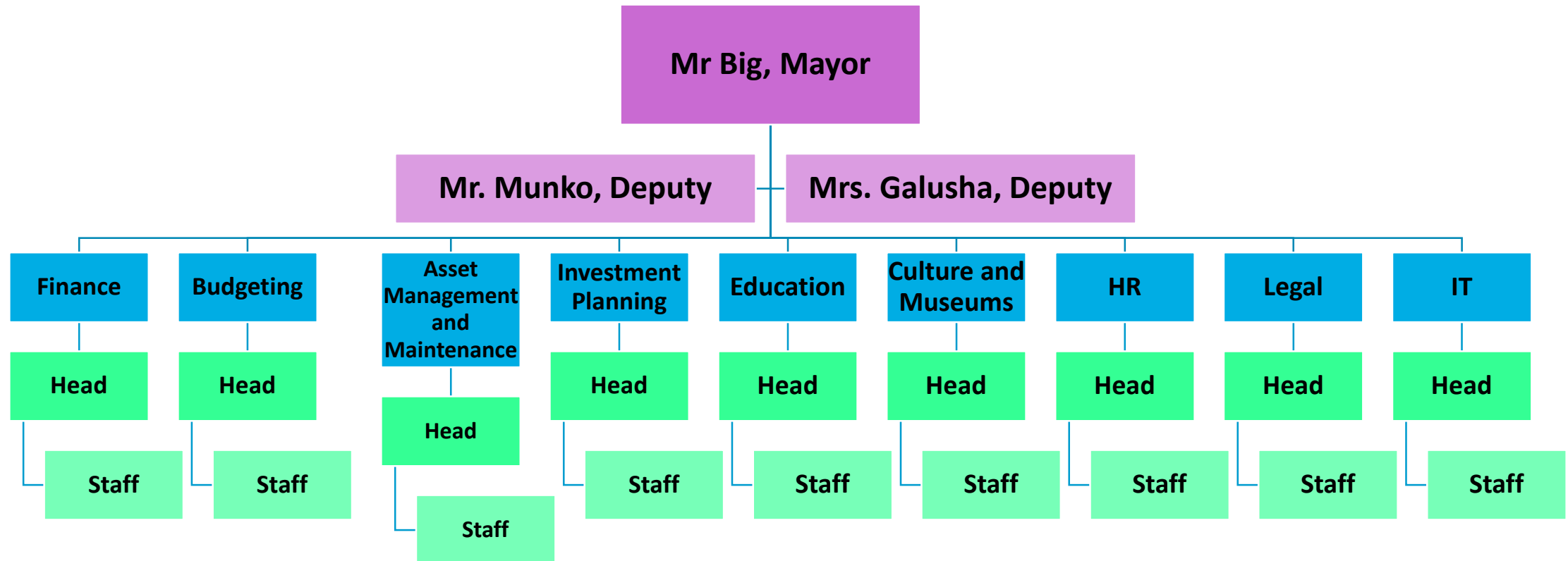
- » Located in Central Europe, 4 million people, approximately 500k live in the capital city Orotavia - 1/8 of the country's population.
- » The country is divided into 7 regions, one of which is the capital city municipality Orotavia. Regions are the first level of public administration (followed by 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



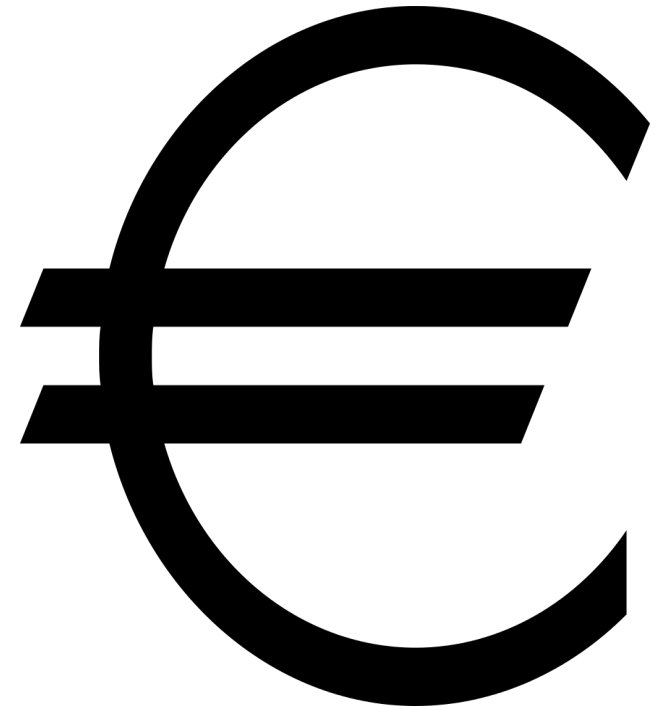
Case Study, Audit Simulation, Internal Audit

- » 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.



Case Study, Audit Simulation, General Financial Situation

- » 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.



Case Study, Planning the Internal Audit Engagement

- » 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.



Case Study, Internal Controls

- » 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

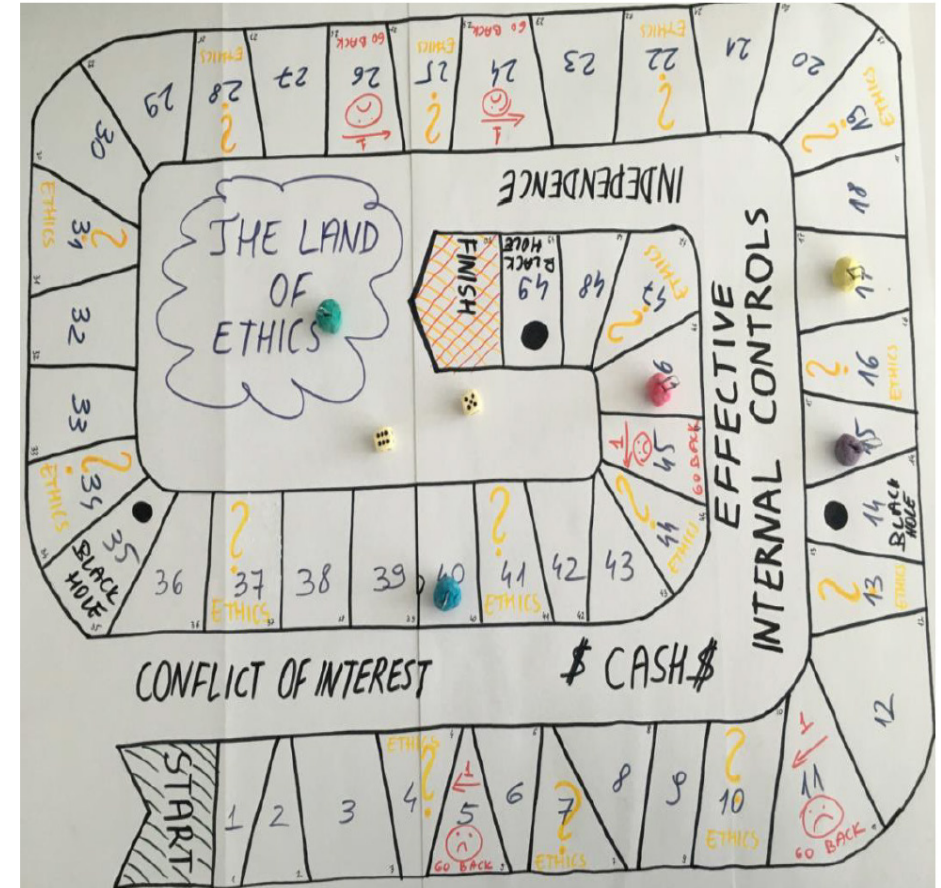
- » Based on the discussions of the members of the Internal Audit ToT Community of Practice at fundamentals workshop in Vienna between 19 – 22 June 2017.
- » The tasks, logically sequenced in the context of the audit cycle, including:
 - » Planning
 - » Execution
 - » Reporting
- » The proposed approach was just one way to approach challenges related to performing an effective small audit



The Ethical Dilemmas Board Game

» 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.

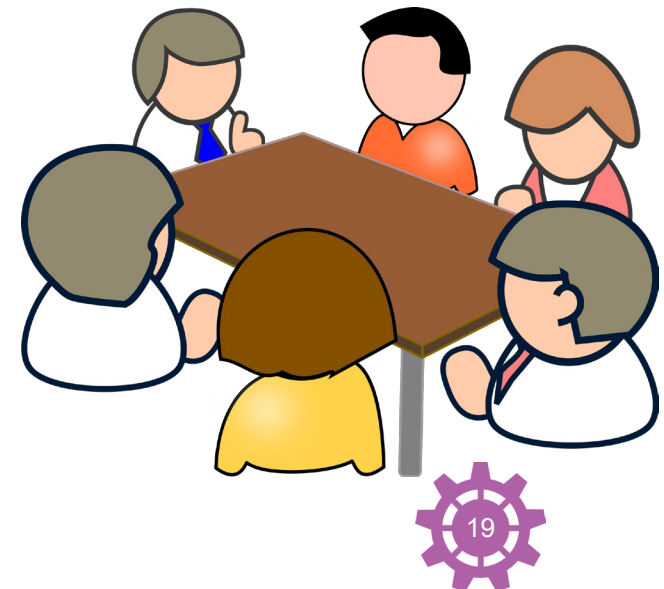
» Budgeted hours of work: 24 hours (3 working days for one team member)

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.



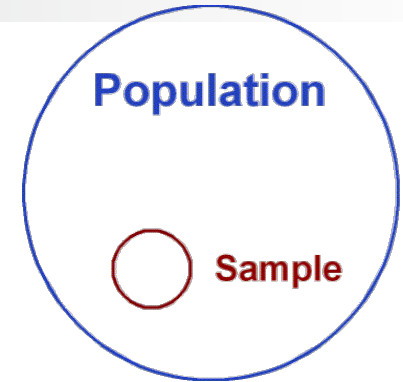
II. Executing engagement, cont'd

» 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.



II. Executing engagement, cont'd

- » **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

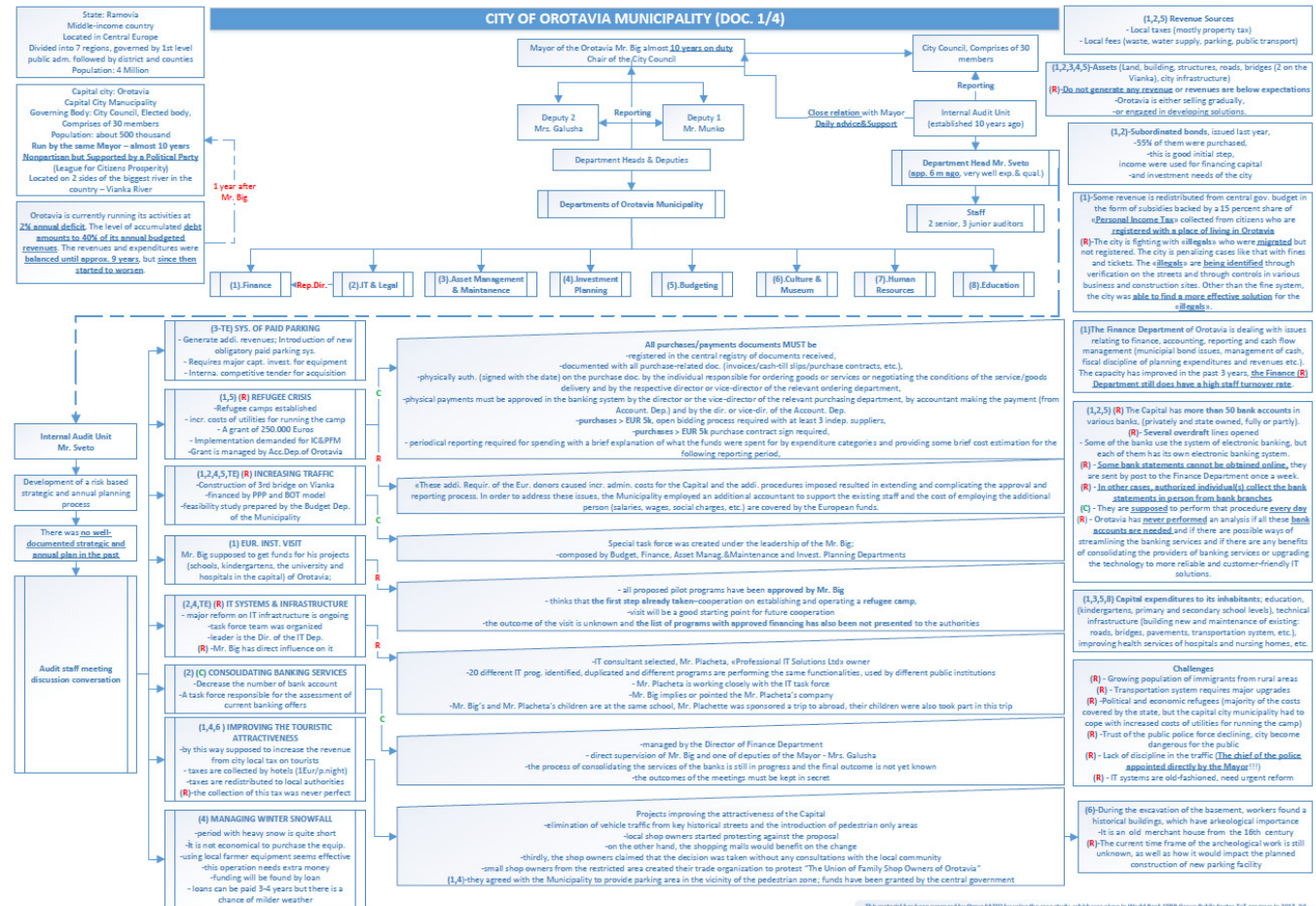
- » **Summary of Recommendations, cont'd**
- » **Human Resources, cont'd example**
- » Management response: Management would look closely at the current status of hiring process in the municipality, taking into account issues proposed by the Internal Audit Team. Many of suggestions are already implemented, but we would verify formal and informal processes and improve, what needs to be improved.



Orotavia Case Study Diagram

Orotavia Diagram

- » Prepared by Ozgur Satici
- » 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.

CITY OF OROTAVIA MUNICIPALITY (DOC 4/4)							
	ISSUE	CONTROLS	EFFECT	PROBABILITY	RISK SCORE		
FINANCE DEPARTMENT OF MUNICIPALITY OF OROTAVIA	2027Tst_MOC_FD_R1: Not having a well-documented strategic and annual plan, unexpectedly increased amount of expenditures of the Municipality (such as growing population of villages and increased costs of utilities for heating the camps, modernization of IT system infrastructure, installation of new paid parking system, capital expenditure to its inhabitants and major upgrade security of transportation system) will cause the unbalanced budget and come out as urgent financing need for the Municipality.	2027Tst_MOC_FD_C1: Key performance indicators and realization of the budget are monitored regularly. 2027Tst_MOC_FD_C2: Finance Department initiates ad-hoc meetings with key personnel, including the Mayor if there are any major issue to be discussed or in case deviations from budget and key performance indicators are observed, more formal meetings are organized every quarter with key personnel in order to discuss the performance indicators and realization of the budget. 2027Tst_MOC_FD_C3: While the administration needs to be prepared their strategic plan by using participative methods with a view to establishing their policies and vision, determining strategic goals and measurable objectives as well as measuring, monitoring and evaluating their performance, there is no written document have been found, which is related to this subject (According to Communication on Public Internal Control Standards, Standard 5: Planning and Programming).	4	5	20		
	2027Tst_MOC_FD_R2: High staff turnover rate and lack of skills of experienced staff, makes the capacity of Finance Department is not well enough to deal with more complex finance issues (such as: municipal bonds, management of cash, fiscal discipline of planning expenditures and revenues). Thus, this may probably will cause to mismanagement of the Finance Department, and will cause losses or resources or decrease the income of Municipality (such as: municipal bonds, cash and revenues).	2027Tst_MOC_FD_C4: There is a well-defined recruiting process defined in Human Resources department. The performance of the staff is being evaluated and they are also encouraged to discuss their career development with possible changes of their responsibilities.	3	4	12		
	2027Tst_MOC_FD_R3: Excessive amount of bank accounts which have also old-fashioned complex IT infrastructure and lack of online banking system in some, will probably may cause fail to trace the Municipality's accounts, revenues, expenditures, overdrafts and cash flows.	2027Tst_MOC_FD_C5: Some of the banks use the system of electronic banking, but each of them has its own electronic banking system. Some bank statements cannot be obtained online, they are sent by post to the Finance Department once a week. In other cases, authorized individual(s) collect the bank statements in person from bank branches. They are supposed to perform that procedure every day. 2027Tst_MOC_FD_C6: Payment limits were introduced (modified permits are: clerks up to Euro 50, clerks and head of finance or his deputy between Euro 50 to 1,000, and clerks and head of finance or his deputy and the Mayor for payments above EUR 1,000). Verification of authorizations of costs should be done by Department head checking invoices for proper authorization.	4	4	16		
ASSET MANAGEMENT & MAINTENANCE DEPARTMENT OF MUNICIPALITY OF OROTAVIA	2027Tst_MOC_AMM0_R1: Inoperational management of assets and lack of some asset management tools, such as asset book, asset registers, will cause to underestimate the value of assets, fail to determination of accurate operational prices for assets and may lead to loss of revenues which are expected from its existence.	2027Tst_MOC_AMM0_C1: The Asset Management Department keeps records and documentation of the existing assets of the Capital (asset registers), all assets of the Capital are registered on a document, depreciation rates of asset additions are estimated periodically, periodical physical verification of assets are recorded in to asset register.	3	5	15		
	2027Tst_MOC_AMM0_R2: Insufficient feasibility and preliminary studies for the new asset investments may cause to fail in the expected profits.	2027Tst_MOC_AMM0_C2: Department staff are selected with technical background, mostly engineers. Depending on the needs, external consultants can be used on a daily basis, who specialize in specific areas. Preparation costs of projects incurred (e.g. feasibility study, salaries and other costs) are recorded in the accounting system in order to reflect the later in the value of the project.	4	3	12		
PROCUREMENT/CONTRACTING DEPARTMENT OF MUNICIPALITY OF OROTAVIA	2027Tst_MOC_PC_R1: In case of representatives of all related departments are involved in the procurement and contracting process, there is a risk of some unexpected conflicts of interests and some unexpected issues may occur owing to the different view of aspects.	2027Tst_MOC_PC_C1: All contract conditions are reviewed and approved internally by Orotavia's lawyers and by the Finance Department. Selection of the supplier is suggested by the relevant Department and must be authorized by the Department Head and by the Mayor or one of his deputies.	3	3	9		
	2027Tst_MOC_PC_R2: Uncertainty in bidding process, insufficiently prepared technical specifications and projects, may cause inequality in competitive conditions and prevents getting best price/conditions, for the best product/service for the Municipality.	2027Tst_MOC_PC_C2: There is a specific procurement processes if the total value of the investment exceeds 10,000 Euro, below this value are concluded within the relevant requisition Departments. 2027Tst_MOC_PC_C3: For all procurements, at least 3 competing offers should be obtained for the bid. 2027Tst_MOC_PC_C4: Bidding are evaluated by some predefined criteria, price, payment conditions, reputation or experience of supplier, assessment of prior cooperation with supplier. Selection of the supplier is suggested by the relevant Department and must be authorized by the Department Head and by the Mayor or one of his deputies.	5	3	15		
HUMAN RESOURCES DEPARTMENT OF MUNICIPALITY OF OROTAVIA	2027Tst_MOC_HR_R1: For not being had a unified one-handed managed long term policy for Municipality's human resources, departments are having a risk of losing their key staff and having a risk of not accurately planning.	2027Tst_MOC_HR_C1: While, written procedures, which are required for administration activities, need to be prepared and updated by administrations, and also need to be given to the relevant personnel access, there is no written and well-planned long-term human resource policy have been found for the departments. (According to Communication on Public Internal Control Standards, Standard 8: Determination and documentation of procedure).	5	3	15		
	2027Tst_MOC_HR_R2: For not being had an identified recruiting process, may cause a negative bias feeling amongst others who are not being recruited while hiring a new staff. As a result, this situation have a harmful effect on Municipality's reputation.	2027Tst_MOC_HR_C2: Human Resources department have well-organized recruiting flow chart.	4	1	10		
	2027Tst_MOC_HR_R3: Existence of short term-contract hired employees not only will hinder their performance and career development but also will prevent the performance of their Departments and Municipality.	2027Tst_MOC_HR_C3: While, personal competence and performance need to be assessed at least once a year and need to be measured to improve the performance of the staff, this standard have not been applied to short term hired staff (According to Communication on Public Internal Control Standards, Standard 3: Competence and performance of personnel).	3	5	15		
IT DEPARTMENT OF MUNICIPALITY OF OROTAVIA	2027Tst_MOC_IT_R1: To have a complicated IT systems and its infrastructure, and not having kept these systems up to date, will not only be a threat for IT Department but also will negatively affect all activities of Municipality.	2027Tst_MOC_IT_C1: While, written procedures, which are required for administration activities, need to be prepared and updated by administrations, and also need to be given to the relevant personnel access, there is no written and well-planned long-term IT policy have been found. (According to Communication on Public Internal Control Standards, Standard 8: Determination and documentation of procedure). Besides, opposite to the Communication on Public Internal Control Standards, Standard: 12. Information system control, The administration seemed not to develop control mechanisms in order to ensure the continuity and security of information systems.	5	5	25		
	2027Tst_MOC_IT_R2: Because of the, undefined and complicated access rights of IT systems, there is a risk of any kind of corruption and fraudulent in accounts and misuse of information in Municipality's activities.	2027Tst_MOC_IT_C2: Each employee has a specific ID with its password allowing access to the network. 2027Tst_MOC_IT_C3: There is a requirement to change the passwords every 90 days and systems controls prompt users by demanding this change. 2027Tst_MOC_IT_C3: Access to banking systems is restricted by using specific banking security tokens.	4	4	16		
	2027Tst_MOC_IT_R3: Inadequacy of IT staff in terms of quality and quantity will cause an insufficient control and maintenance activities which also make systems an open target for the mischief activities.	2027Tst_MOC_IT_C4: According to Human Resources policy of the Municipality all new hiring and request activities are commenced by department heads. Human Resources department have well-organized recruiting flow chart.	4	3	12		

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

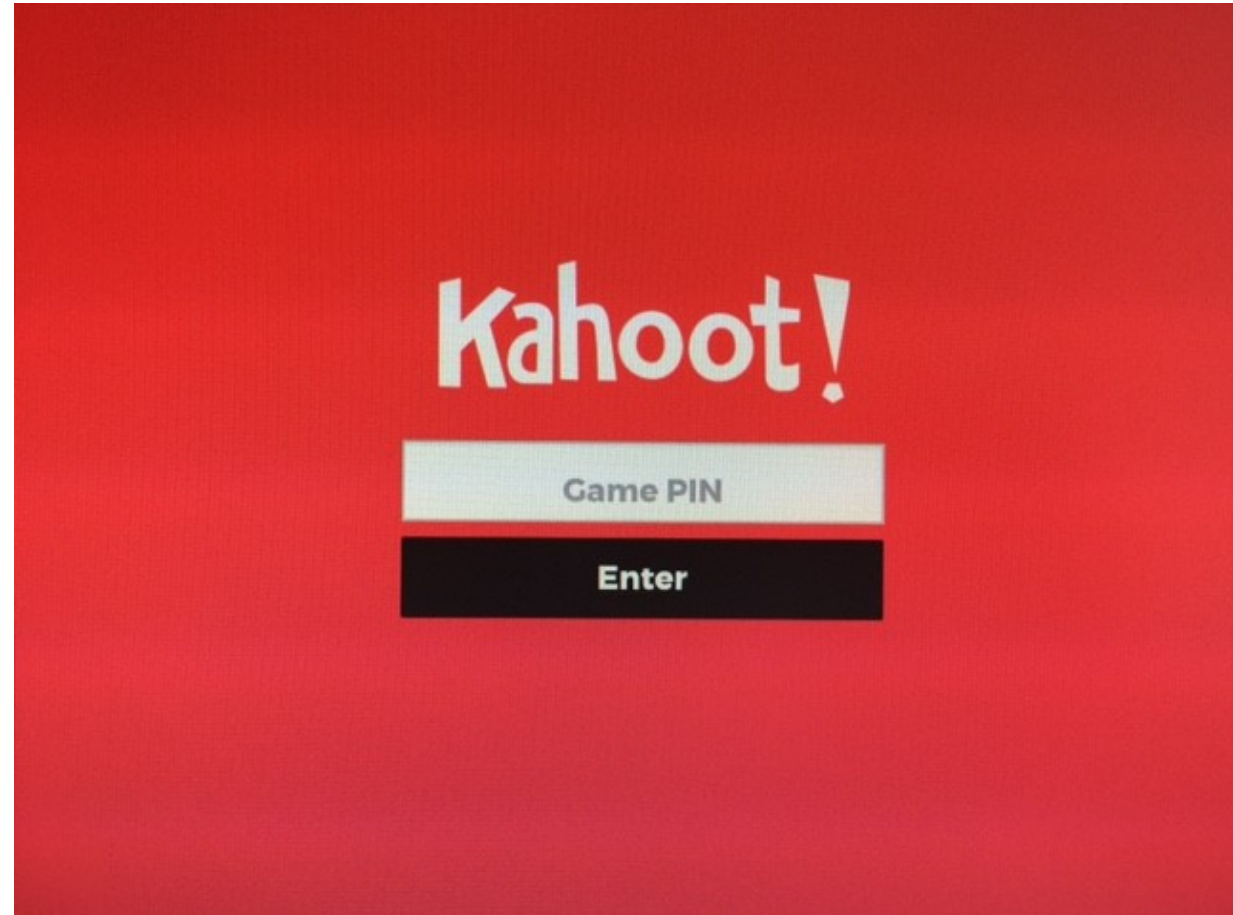
KAHOOT.IT



What to Expect

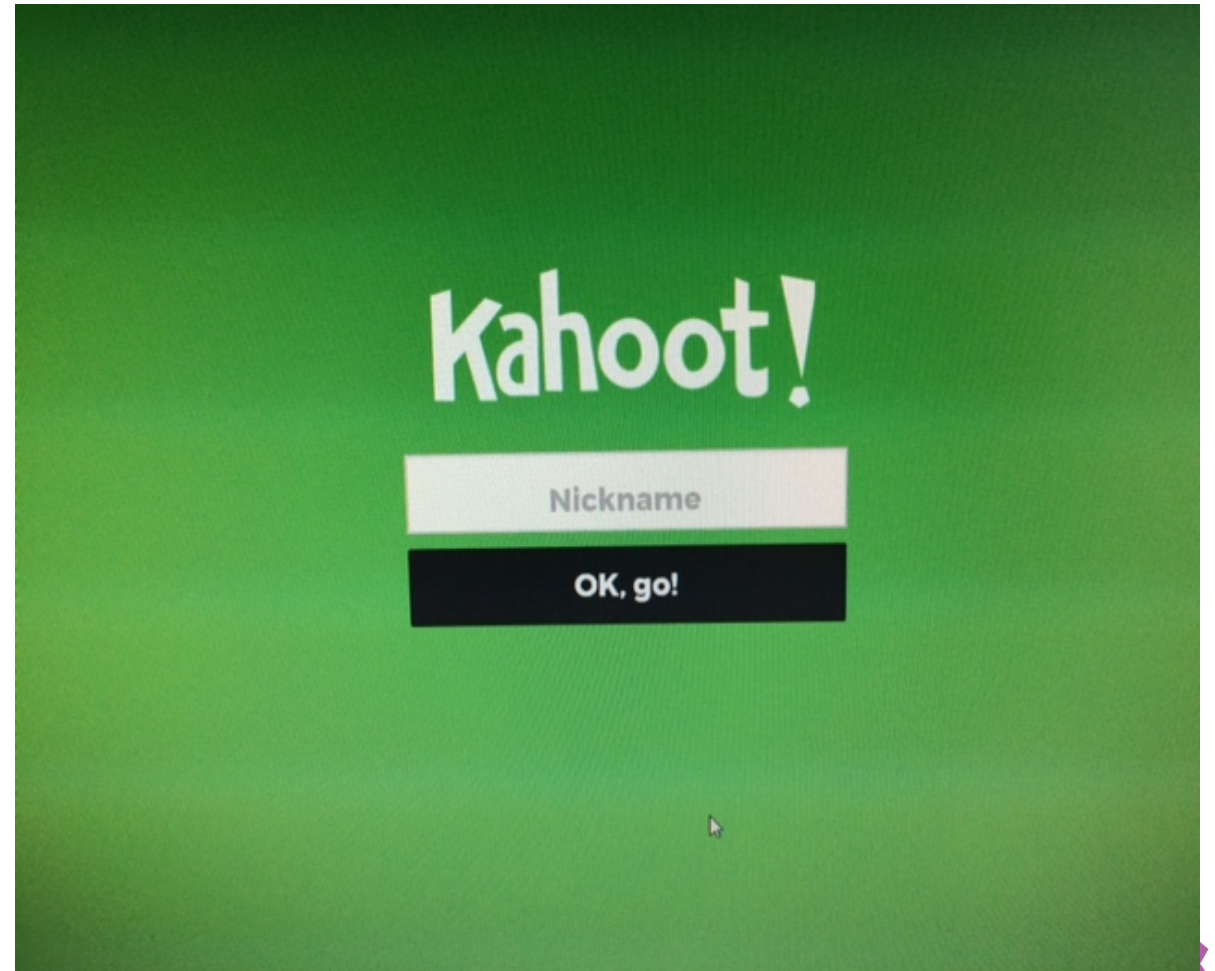
KAHOOT.IT

Enter PIN given

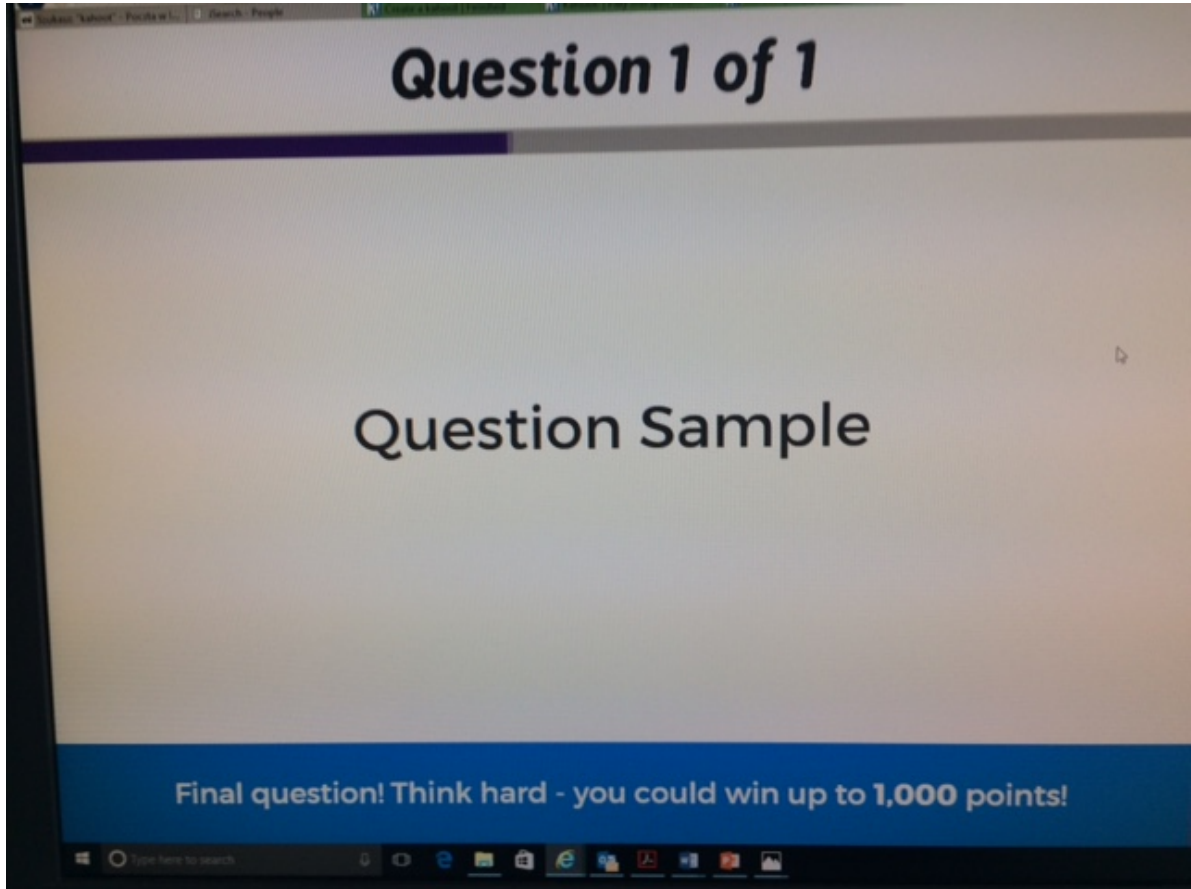


KAHOOT.IT

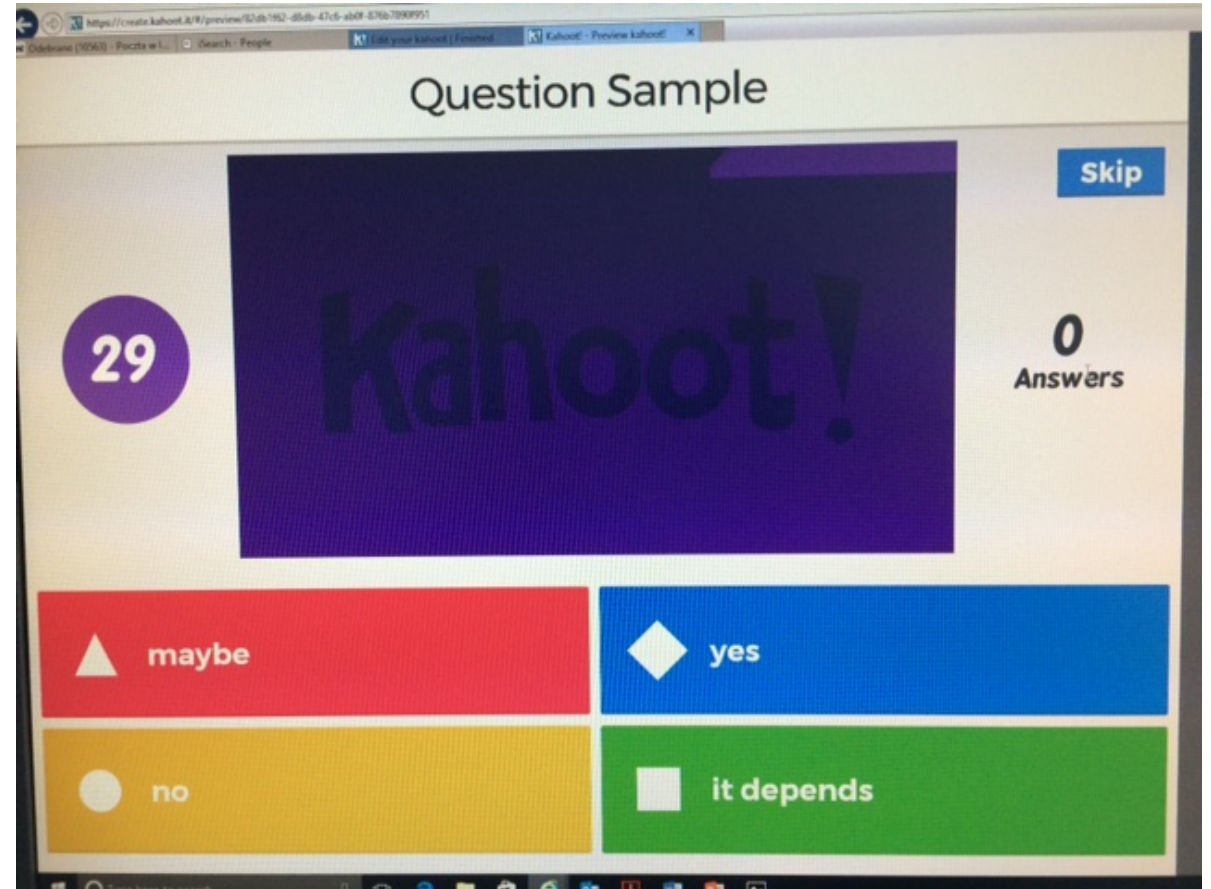
Enter specific name
provided



What to Expect



5 seconds



60 seconds



Winning Team Prize

» “The Champion of Orotavia Case Study” Certificate



Lets Start the Challenge!



Thank you!

