

# Opportunities for Internal Audit

In an Era of Administrative Review  
May 19, 2010



# ▶ Objectives of This Presentation

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- Provide context around administrative review
- Identify a number of scenarios where Internal Audit can add value
- Present an audit approach which supports the dual objectives of preserving controls while identifying potential efficiencies
- Provide the Departmental Audit Committee perspective



# ▶ Context

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- **Administrative Services Review**
  - Not the same as program review in the 90's
  - Similar enough to make people uneasy
- **“The Freeze”**
  - Implicit budget cut
  - Increasing pressure
- **Administrative services: Do more with less**



# ▶ Typical Process Improvement

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- Focus on "non-value-added" activities
- The challenge is in the definition of "value"
- Standard definition is something that the taxpayer (or customer) is willing to pay for
- Internal controls frequently do not "make the cut"!



# ▶ Internal Audit's Value Add

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- Competency
- Objectivity
- Mandate
- Knowledge of the organization
- Ability to think in terms of risk and controls



# ► Potential Scenarios

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We have identified 3 potential scenarios in which CAE's may find themselves:

Scenario 1: Internal audit currently has one or more audits of administrative services on its plan-wishes to ensure audit objective of efficiency & effectiveness (i.e. savings) is well served;

Scenario 2: Internal audit wishes to undertake a project with the specific objective of identifying savings; and

Scenario 3: CAE is asked for his or her opinion, aka "The Ambush".



## ▶ Typical Audit

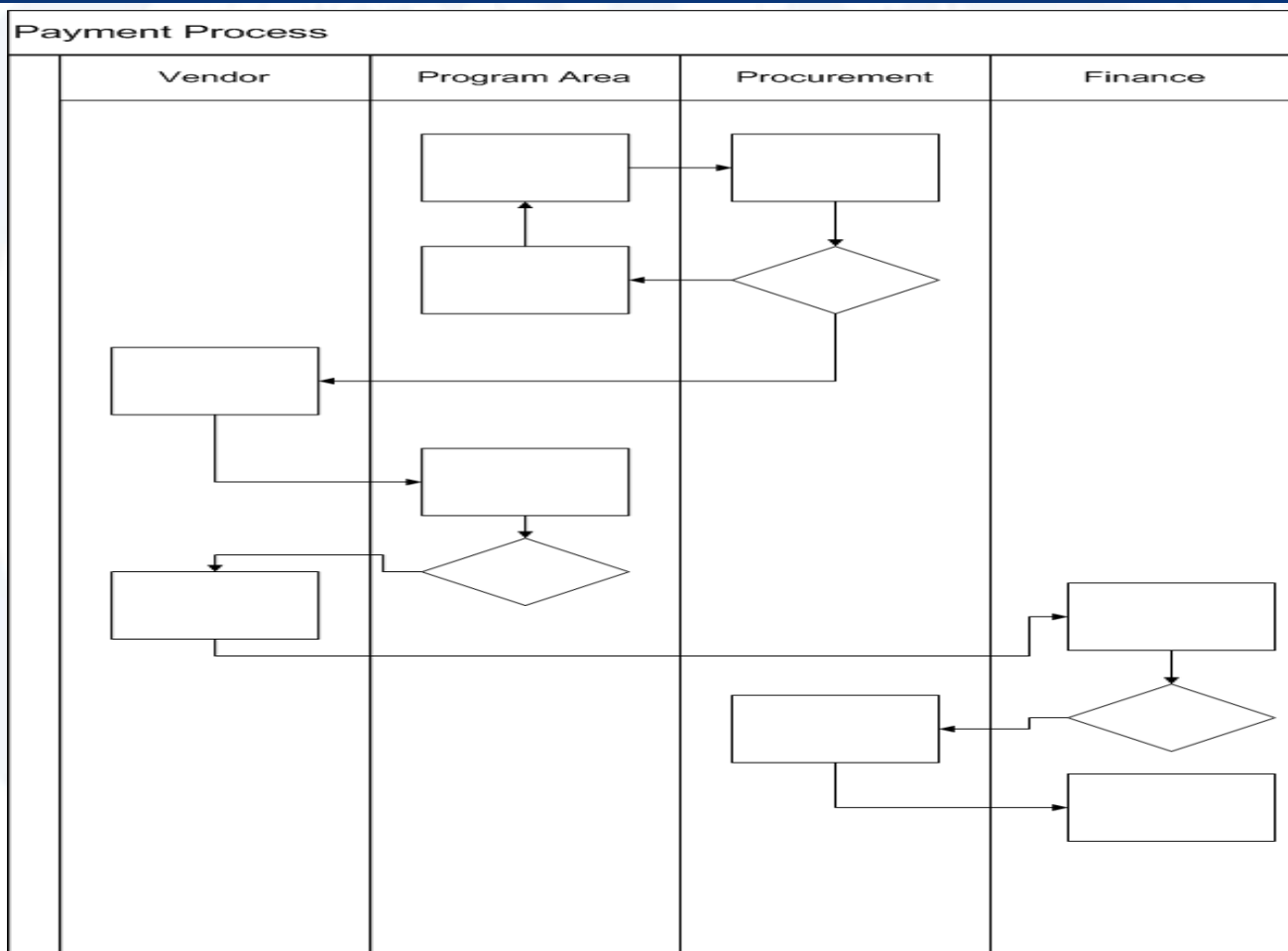
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- Explicit objectives usually centre around Management Control Framework
- Usually includes implicit objective of identifying opportunities for efficiency/effectiveness, however methodology doesn't always support this
- Recommendations usually focus on control weaknesses, not excessive controls





# Process Documentation-Swimlane



# ▶ Process Driven Approach

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- Traditional flowcharting focused on the paper flow
- Current technology has driven more of a process focus, but still heavy on “who does what”
- Process documentation takes a top down approach
- Better suited to identifying the true risks, and opportunities for improvement



# ► Importance of Audit Criteria

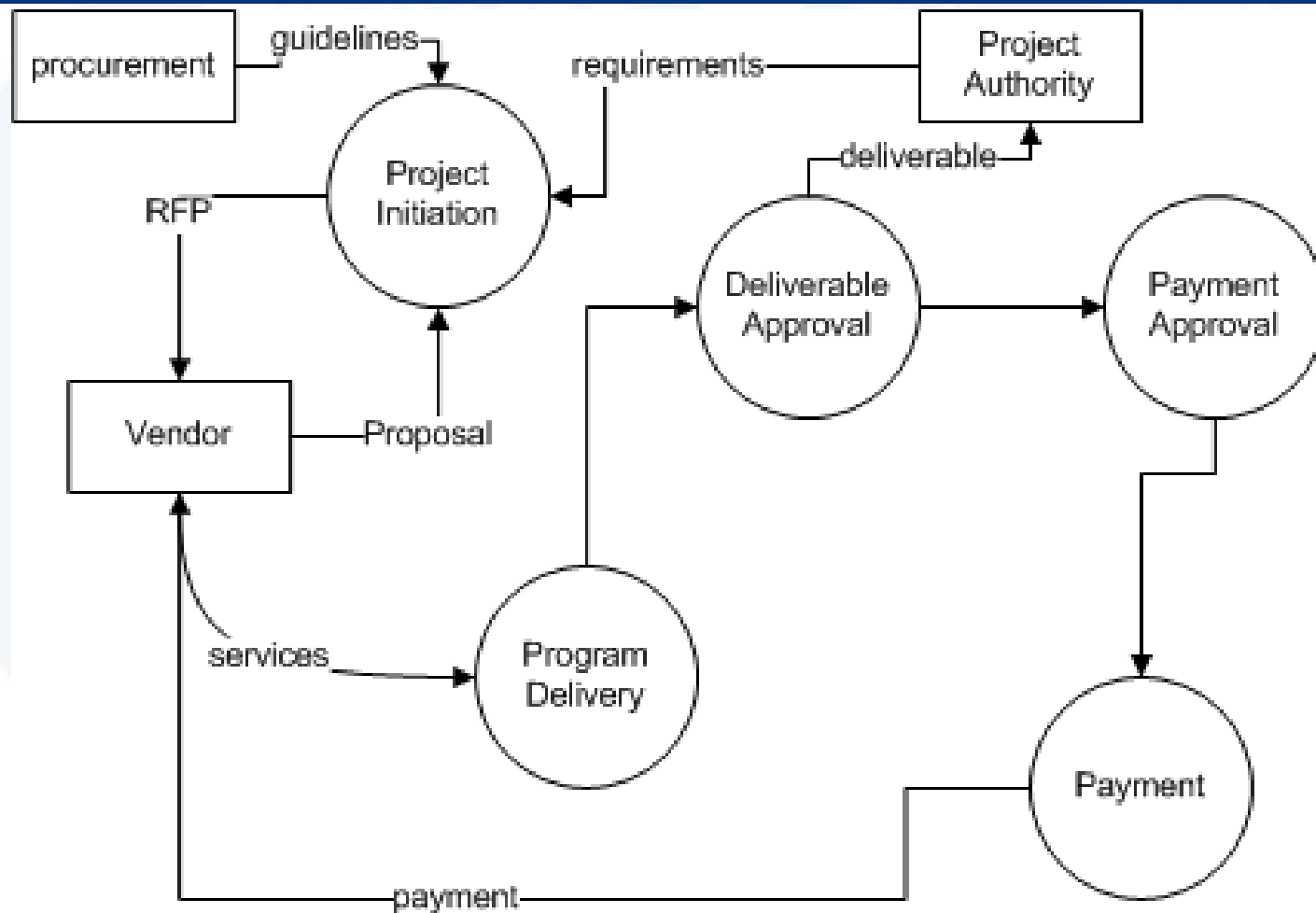
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- In order to ensure a clear mandate to the auditors, and no surprises for the auditee, audit criteria should reflect savings agenda, for example:
  - “...to ensure that processes contain controls commensurate with their risk...”
  - “...to ensure that the cost of the control framework, expressed in FTE’s, is consistent with other similar Departments/Agencies...”



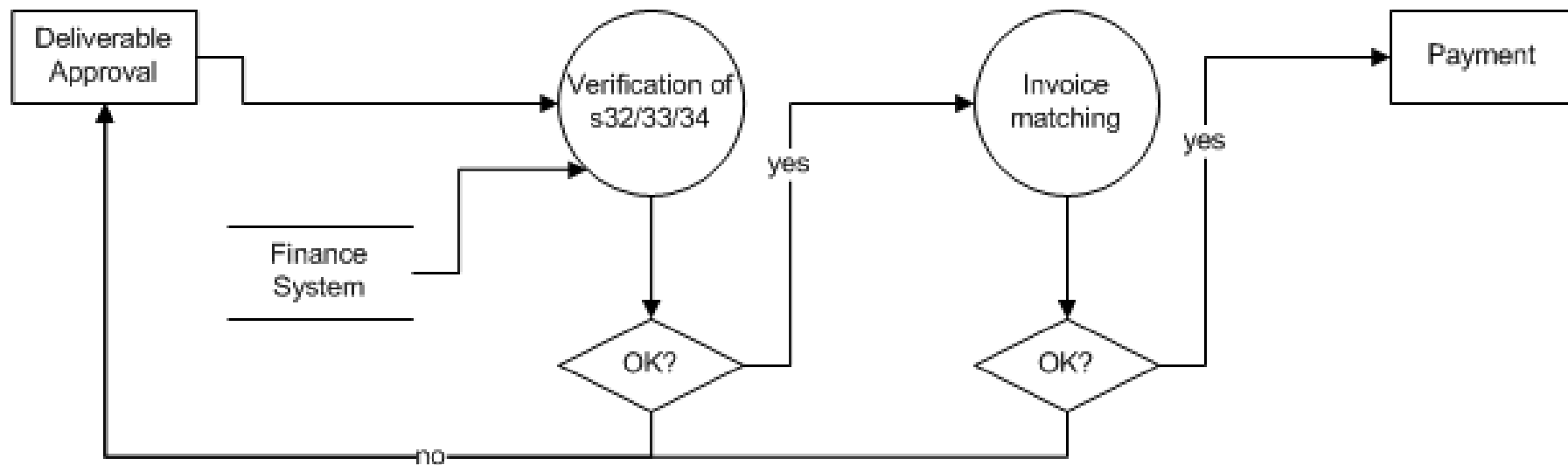


# Process Driven Approach: Step 1— Document the High Level Process



# Process Driven Approach: Step 2— Drill Down

## Payment Approval



# Process Driven Approach: Step 3— Risk/Control Analysis

		Process Step	
		<i>Automated Verification of s32/33/34</i>	<i>Manual Verification &amp; Invoice matching</i>
Risks		Controls	
s32 inappropriately signed off		Finance system enforces budgetary control	Print screen with manual sign-off
s33 invalid		Finance System enforces delegated authority	Finance manually verifies delegated authority
s34 inappropriately signed off		Goods require signed packing slip, services two signatures	Finance obtains all originals, reviews sign-offs, re-validates all transactions
Controls over IT system do not provide assurance that S32/33/34 are valid			Manual verification of s32/33/34 (see above)
Invoice does not match the services received		Invoice selected from pull down list in system, based on PO	Finance manually matches invoice to packing slips and contract/PO





# Process Driven Approach: Step 3— Risk/Control/Efficiency (lite) Analysis

		Process Step	
		<i>Automated Verification of s32/33/34</i>	<i>Manual Verification &amp; Invoice matching</i>
	<b>Cycle Time</b>	0 Days	7 Days
Risks		Controls	
s32 inappropriately signed off		Finance system enforces budgetary control	Print screen with manual sign-off
s33 invalid		Finance System enforces delegated authority	Finance manually verifies delegated authority
s34 inappropriately signed off		Goods require signed packing slip, services two signatures	Finance obtains all originals, reviews sign-offs, re-validates all transactions
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# Process Driven Approach: Step 3— Risk/Control/Efficiency Analysis

		Process Step	
		<i>Automated Verification of s32/33/34</i>	<i>Manual Verification &amp; Invoice matching</i>
	<b>Cycle Time</b>	0 Days	7 Days
	<b>FTE's</b>	5 FTE's	20 FTE's
Risks		Controls	
s32 inappropriately signed off		Finance system enforces budgetary control	Print screen with manual sign-off
s33 invalid		Finance System enforces delegated authority	Finance manually verifies delegated authority
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## ► Scenario 1 and 2: Summary

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- With some training, process documentation can yield useful control information with little or no additional time on the assignment
- Additional metrics can be tracked to provide additional information, including process recommendations and quantification of savings





# Scenario 3: CAE is asked for his or her “Opinion”

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- In this scenario, the word “opinion” is used loosely!
- Characteristics:
  - Limited time
  - Incomplete information
- Objective: To be the voice of reason





# Scenario 3: Sample Tool

	Initiative 1	Initiative 2	Initiative 3
<b>Risk Areas:</b>			
<b>Mandate</b>			
Sustainability			
Compliance with Regulations	Yellow	Green	Green
Operational Capacity	Green	Yellow	Yellow
<b>Governance</b>			
Operational Planning	Red	Yellow	Green
Measurement & Reporting	Green	Green	Green
<b>Stewardship</b>			
IT systems	Green	Green	Yellow
Overpayments/fraud	Yellow	Green	Green
Health and Safety	Green	Green	Green
Facilities Rust Out	Green	Green	Yellow
Financial Management	Green	Red	Yellow
People Management	Green	Green	Red
<b>Savings:</b>			
People	\$	\$\$	\$\$\$
Process	\$\$	\$	\$
Technology	\$\$\$	\$\$	\$\$



# A Few Words on Objectivity

- In the area of administrative services, it is highly likely that IA will be tasked with the post-implementation audit of significant changes
- To maintain objectivity, important not to “cross the line”, for example:
  - “We recommend that management investigate options to streamline financial management controls through reliance on systems”; or
  - “The audit identified significant control redundancies in the area of contractor payments which added two weeks to the average processing time and cost an estimated XXXX. We recommend that management streamline the control framework to focus on key controls; instead of:
  - “We recommend management eliminate manual verification of *FAA* requirements, and implement appropriate controls over the information systems in order to rely upon them.



## ▶ Other Considerations in Adding Value

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- The controls pendulum...always moving
- The importance of audit scoping and its impact on cycle time and value
- An audit committee member's perspective:
  - How to help the audit committee add value



## ▶ Wrap-up

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- Questions?
  - Presentation will be available at [www.cpm.ca](http://www.cpm.ca) tomorrow
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