## Contents

Preface xv
Acknowledgements xvii

### Part I  Understanding Operational Auditing 1

1  APPROACHES TO OPERATIONAL AUDITING 3

- Definitions of “Operational Auditing” 3
- Scope 4
- Audit Approach to Operational Audits 12
- Resourcing the Internal Audit of Technical Activities 16
- Productivity and Performance Measurement Systems 19
- Value for Money (VFM) Auditing 22
- Benchmarking 23

2  BUSINESS PROCESSES 27

- Introduction 27
- An Audit Universe of Business Processes 28
- Self Assessment of Business Processes 30
- A Hybrid Audit Universe 30
- Reasons For Process Weaknesses 30
- Identifying the Processes of an Organisation 32
- Why Adopt a “Cycle” or “Process” Approach to Internal Control Design and Review? 35
- Business Processes in the Standard Audit Programme Guides 35
- The Hallmarks of a Good Business Process 36
- Academic Cycles in a University 37
Preface xv
Acknowledgements xvii

Part I Understanding Operational Auditing 1

1 APPROACHES TO OPERATIONAL AUDITING 3
Definitions of “Operational Auditing” 3
Scope 4
Audit Approach to Operational Audits 12
Resourcing the Internal Audit of Technical Activities 16
Productivity and Performance Measurement Systems 19
Value for Money (VFM) Auditing 22
Benchmarking 23

2 BUSINESS PROCESSES 27
Introduction 27
An Audit Universe of Business Processes 28
Self Assessment of Business Processes 30
A Hybrid Audit Universe 30
Reasons For Process Weaknesses 30
Identifying the Processes of an Organisation 32
Why Adopt a “Cycle” or “Process” Approach to Internal Control Design and Review? 35
Business Processes in the Standard Audit Programme Guides 35
The Hallmarks of a Good Business Process 36
Academic Cycles in a University 37
| Facilitating CSA Workshops, and Training for CSA       | 204 |
| Anonymous Voting Systems                              | 205 |
| Comparing CSA with Internal Audit                    | 205 |
| Control Self Assessment as Reassurance for Internal Audit | 206 |
| A Hybrid Approach—Integrating Internal Auditing Engagements with CSA Workshops | 206 |
| Workshop Formats                                      | 207 |
| Utilising CoCo in CSA                                 | 208 |
| Readings                                              | 210 |
| Control Self Assessment                               | 210 |

**11 EVALUATING THE INTERNAL AUDIT ACTIVITY**

- **Introduction**
- **Ongoing Monitoring**
- **Periodic Internal Reviews**
- **External Reviews**
- **Common Weaknesses Noted by Quality Assurance Reviews**
- **Internal Audit Maturity Models**
- **Effective Measuring of Internal Auditing’s Contribution to the Enterprise’s Profitability**
- **Control Objectives for the Internal Audit Activity**

**Part II Auditing Key Functions**

**12 AUDITING THE FINANCE AND ACCOUNTING FUNCTIONS**

- **Introduction**
- **System/Function Components of the Financial and Accounting Environment**
- **Control Objectives and Risk and Control Issues**
- **Treasury**
- **Payroll**
- **Accounts Payable**
- **Accounts Receivable**
- **General Ledger/Management Accounts**
- **Fixed Assets (and Capital Charges)**
- **Budgeting and Monitoring**
- **Bank Accounts and Banking Arrangements**
- **Sales Tax (VAT) Accounting**
- **Taxation**
- **Inventories**
- **Product/Project Accounting**
Petty Cash and Expenses 270
Financial Information and Reporting 272
Investments 274

13  AUDITING SUBSIDIARIES, REMOTE OPERATING UNITS AND JOINT VENTURES 276
   Introduction 276
   Fact Finding 277
   High Level Review Programme 278
   Joint Ventures 279

14  AUDITING CONTRACTS AND THE PURCHASING FUNCTION 285
   Introduction 285
   Control Objectives and Risk and Control Issues 285
   Contracting 289
   Contract Management Environment 290
   Assessing the Viability and Competence of Contractors 295
   Maintaining an Approved List of Contractors 297
   Tendering Procedures 299
   Contracting and Tendering Documentation 302
   Selection and Letting of Contracts 304
   Performance Monitoring 306
   Valuing Work for Interim Payments 308
   Contractor’s Final Account 310
   Review of Project Outturn and Performance 313

15  AUDITING OPERATIONS AND RESOURCE MANAGEMENT 317
   Introduction 317
   System/Function Components of a Production/Manufacturing Environment 318
   Control Objectives and Risk and Control Issues 318
   Planning and Production Control 318
   Facilities, Plant and Equipment 321
   Personnel 324
   Materials and Energy 327
   Quality Control 330
   Safety 332
   Environmental Issues 335
   Law and Regulatory Compliance 338
   Maintenance 339
16 **AUDITING MARKETING AND SALES**

Introduction
System/Function Components of the Marketing and Sales Functions
General Comments
Control Objectives and Risk and Control Issues
Product Development
Market Research
Promotion and Advertising
Pricing and Discount Policies
Sales Management
Sales Performance and Monitoring
Distributors
Relationship with the Parent Company
Agents
Order Processing
Warranty Arrangements
Maintenance and Servicing
Spare Parts and Supply

17 **AUDITING DISTRIBUTION**

Introduction
System/Function Components of Distribution
Control Objectives and Risk and Control Issues
Distribution, Transport and Logistics
Distributors
Stock Control
Warehousing and Storage

18 **AUDITING HUMAN RESOURCES**

Introduction
System/Function Components of the Personnel Function
Control Objectives and Risk and Control Issues
Human Resources Department
Recruitment
Manpower and Succession Planning
Staff Training and Development
Welfare
Performance-Related Compensation, Pension Schemes (and other Benefits)
Health Insurance
Staff Appraisal and Disciplinary Matters
Health and Safety
| CONTENTS |
|-------------------------|--------|
| Labour Relations        | 430    |
| Company Vehicles        | 432    |
| 19 AUDITING RESEARCH AND DEVELOPMENT | 437 |
| Introduction            | 437    |
| System/Function Components of Research and Development | 437 |
| Control Objectives and Risk and Control Issues        | 437    |
| Product Development    | 438    |
| Project Appraisal and Monitoring | 442 |
| Plant and Equipment     | 445    |
| Development Project Management | 447   |
| Legal and Regulatory Issues | 450   |
| 20 AUDITING SECURITY    | 453    |
| Introduction            | 453    |
| Control Objectives and Risk and Control Issues        | 454    |
| Security               | 454    |
| Health and Safety      | 457    |
| Insurance              | 460    |
| 21 AUDITING ENVIRONMENTAL RESPONSIBILITY               | 463    |
| Introduction            | 463    |
| Environmental Auditing  | 465    |
| The Emergence of Environmental Concerns                | 465    |
| EMAS—The European Eco-Management and Audit Scheme      | 466    |
| Linking Environmental Issues to Corporate Strategy and Securing Benefits | 467 |
| Environmental Assessment and Auditing System Considerations | 468   |
| The Role of Internal Audit                             | 470    |
| Example Programme                                       | 470    |
| Part III Auditing Information Technology                | 477    |
| 22 AUDITING INFORMATION TECHNOLOGY                      | 479    |
| Introduction                                           | 479    |
| Introduction to Recognised Standards Related to Information Technology and Related Topics | 480 |
System/Function Components of Information Technology and Management
Control Objectives and Risk and Control Issues

23 IT STRATEGIC PLANNING
24 IT ORGANISATION
25 IT POLICY FRAMEWORK
26 INFORMATION ASSET REGISTER
27 CAPACITY MANAGEMENT
28 INFORMATION MANAGEMENT (IM)
29 RECORDS MANAGEMENT (RM)
30 KNOWLEDGE MANAGEMENT (KM)
31 IT SITES AND INFRASTRUCTURE (INCLUDING PHYSICAL SECURITY)
32 PROCESSING OPERATIONS
33 BACK-UP AND MEDIA MANAGEMENT
34 REMOVABLE MEDIA
35 SYSTEM AND OPERATING SOFTWARE (INCLUDING PATCH MANAGEMENT)
36 SYSTEM ACCESS CONTROL (LOGICAL SECURITY)
37 PERSONAL COMPUTERS (INCLUDING LAPTOPS AND PDAs)
38 REMOTE WORKING 585
39 EMAIL 590
40 INTERNET USAGE 598
41 SOFTWARE MAINTENANCE (INCLUDING CHANGE MANAGEMENT) 605
42 NETWORKS 609
43 DATABASES 613
44 DATA PROTECTION 616
45 FREEDOM OF INFORMATION 627
46 DATA TRANSFER AND SHARING (STANDARDS AND PROTOCOL) 636
47 LEGAL RESPONSIBILITIES 645
48 FACILITIES MANAGEMENT 648
49 SYSTEM DEVELOPMENT 651
50 SOFTWARE SELECTION 655
51 CONTINGENCY PLANNING 658
52 HUMAN RESOURCES INFORMATION SECURITY 661
53 MONITORING AND LOGGING 667
54 INFORMATION SECURITY INCIDENTS 671
55 DATA RETENTION AND DISPOSAL 680
CONTENTS

56 ELECTRONIC DATA INTERCHANGE (EDI) 688
57 VIRUSES 691
58 USER SUPPORT 694
59 BACS 696
60 SPREADSHEET DESIGN AND GOOD PRACTICE 699
61 IT HEALTH CHECKS 707
62 IT ACCOUNTING 710

Appendix 1 Index to SAPGs on the Companion Website 712
Appendix 2 Standard Audit Programme Guides 719
Appendix 3 International Data Protection Legislation 729
Appendix 4 International Freedom of Information Legislation 763
Appendix 5 Information Management Definitions 835
Appendix 6 IT and Information Management Policies 839

Bibliography 852
Index 859