Overview

- Internal Audit’s Role
- Departmental Audits - Objectives
- Internal Control
- Risk
- Fraud and Financial Impropriety
Internal Audit’s Role

- Management Assurance and Consulting Services
  - Departmental Audits & Follow-up
  - Continuous Auditing
  - IT Audits
  - Special Reviews
  - Financial Auditing
Other Auditors

- External Auditors - Ernst & Young LLP
- Funded Research Auditors - NSERC, SSHRC, MRC, MOH
- Canada Customs and Revenue Auditors
- Federal and Provincial Sales Tax Auditors
Departmental Audits - 3
Objectives

- To Assess and Report on:
  - Adequacy and Effectiveness of Internal Control/Risk Management Activities
  - Compliance with Policies, Procedures, Laws and Regulations
  - Efficiency and Effectiveness of Financial Administration
Internal Control - What is it?

Definition

“... Control is what makes an organization reliable in achieving its objectives”

from Guidance on Control, The Canadian Institute of Chartered Accountants
Internal Control

- Control Environment
- Control Activities
- Monitoring Systems
- Information Systems
Control Environment - Integrity, Ethical Values, Competence

- Policy on Conflict of Interest for faculty and staff
- Annual Administrative Accountability Reports
- Paid Activity Reports
- Training

Managers must set the tone for integrity and ethics
Control Environment - Segregation of Duties

- Asset Transactions have three components:
  - Initiating/Authorization
  - Recording
  - Custody

- No one person should be responsible for all three
Control Environment - Lack of Segregation of Duties

- Frequent Causes:
  - Delegation of Authority
  - Resource Limitations

- Effects:
  - Lack of effective control
  - Increased risk of errors and improprieties
Control Activities - Policies, Procedures, Laws and Regulations

- Guide to Financial Management (GFM)
- Purchasing Policy/Purchasing Card Guidelines
- Income Tax Manual
- Human Resources - staff/faculty Policies
- One-up approval requirement
Control Activities - Policies, Procedures, Laws and Regulations (cont)

- Funded Research Sponsor Requirements
  - Federal Granting Agency Guidelines - NSERC, SSHRC, CIHR
  - Funded Research Digests (FReDs) - RIS

- Laws and Regulations
  - Health and Safety
  - Employment Standards Act
  - Income and Sales tax legislation
Monitoring - Departmental and Central

- Departmental - Review and reconciliation of Fund and Fund Center Statements of Account and Payroll Distributions and Management Reports
- Central monitoring - Financial Services Dept., Procurement Services, Internal Audit
Monitoring - Department Head and PI Review

Objectives:

- Provides assurance that transactions recorded in AMS are complete, accurate and authorized.
- Provides reliable information about the source, use and availability of funds.
- Assists with detection of errors and/or improprieties.
Information Systems

- Used for:
  - Planning
  - Control
  - Decision Making
Risk

Risk Defined:

the probability that events or actions may jeopardize the achievement of the University’s objectives
Risk Categories

- Environmental Risk
- Process/Operations Risk
- Information Integrity Risk
Effects of Risk

- failure to attain objectives and goals
- erroneous decision making
- erroneous record keeping, inappropriate accounting practices, fraud, fraudulent financial reporting, loss and exposure
Effects of Risk

- failure to safeguard assets
- ‘customer’ dissatisfaction, negative publicity, damage to reputation
- non compliance with policy, plans, procedures, laws
- acquiring resources uneconomically or using them inefficiently or ineffectively
Risk Management

Four Ways to Manage Risk

• Accept
• Share
• Control
• Avoid
Fraud and Financial Impropriety

‘Reporting Incidents of Suspected Financial Impropriety’

- “There are no small frauds, just frauds that were discovered early”.
Fraud Facts and Stats

- Estimated annual cost is in excess of $100 billion - North America
- 2/3 of all companies victims of fraud
- 75% of all fraud goes undetected
- Nearly 85% of all fraud against companies involve former or current employees, suppliers or customers.

• Source: Ernst & Young - 2002
Fraud and Financial Impropriety

“Red Flags”
Fraud and Financial Impropriety

How to safeguard against it:

- Set the Right Tone
- Review and Reconciliation
- Adequate supervision
- Segregate inappropriate combinations of duties
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Watch for the launch of the IAD Website - Fall 2003