



**CROWN AGENTS**  
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

# **FINANCIAL MANAGEMENT OF DEVELOPMENT PROJECTS**

13 – 24 May 2019



# Programme Introduction

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## Course Aim

This course provides a detailed look at the financial management components within the project life cycle and provides an overview of the tools available for assessing financial management systems. It covers budgeting, accounting policies, financial management staffing considerations, procurement and contract management, audit and internal controls.

**Objectives** – by the end of this course, you will be able to:

- Adopt appropriate systems for managing projects and finances
- Assess weaknesses in your own financial systems
- Draw up and maintain financial plans and project financial accounts and reports
- Align financial management of procurement in accordance with international best practice
- Evaluate risks and establish an appropriate financial control environment

**Course Time-table** – see hand-out



# Daily Agenda

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## Day 5

1. Internal Controls & Internal Audit
2. External Audit
3. Project Appraisal
4. Group Exercise – Project Appraisal



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# **RISK MANAGEMENT, AUDIT & ASSURANCE**

# What Is Risk?

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**The threat of an event occurring that could undermine or stop your organisation from successfully achieving its objectives**





# Introduction to Risk

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- Every activity involves risk
- People and organisations which try to avoid all risks are unlikely to achieve their objectives
- BUT rushing into a venture without considering what might go wrong, or taking excessive and poorly judged risks, is likely to lead to serious problems
- Risk management is *not* about avoiding or eliminating risk
- Risk management *is* about understanding what the risks are, what the likely impacts would be if the risk should materialise and how it would be managed

*It is only by understanding risk that we are able to make informed decisions about managing the uncertainties we face*



# Risk Management

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- A major part of effective corporate governance
  - Private and public sectors
  - Financial service institutions
- Many of the failures in business and public sector life can be traced to poor or absent risk management
  - The banking crisis can be seen as largely caused by ineffective risk management
  - Many large scale project failures are seen as risk management failures
- International institutions becoming more insistent on risk management practices being in place
- Internal Audit is increasingly basing its work around risk



# Generic Risk Management

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- Identify the risks
- Codify the risks in a register
- Assess the level of risk acceptable to the organisation
- Assess the likelihood of a risk occurring
- Quantify the impact of these risks on the organisation
- Take remedial action to reduce risk
- Consider how to manage the risk should it still occur
- Make sure the remedial risk is within the organisation's risk appetite
- Monitor the position closely and reassess risk regularly
- Report in a structured way through the organisation to Board level
- Make informed decisions about whether or not to proceed





# Risk Management Benefits

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- Increased certainty and fewer nasty surprises
- Greater organisational resilience
- Better service delivery – better outcomes
- More efficient use of resources
- Better organisational focus
- Effective change



# Financial Risk Management

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Financial risk management is a subset of overall risk management

And most risks have a financial consequence



# Risk: Cause and Effect?

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Risk has a cause and it has an effect

And....

The impact of the risk on an organisation will vary, as will the likelihood of occurrence

# Risk Impact - Scoring



Impact Value	Impact Title	Impact Description
1	Relatively Insignificant	Relatively unimportant. Little or no impact.
2	Minor	Minor financial loss/damage to reputation. Minor impact on business objectives, strategic priorities, interventions or milestones.
3	Significant	Significant financial loss/damage to reputation. Significant impact on business objectives, strategic priorities, interventions or milestones
4	Serious	Serious financial loss/damage to reputation. Serious impact on business objectives, strategic priorities, interventions or milestones.
5	Severe	Major national coverage. Major financial loss. Severe damage to reputation. Critical impact on business objectives, strategic priorities

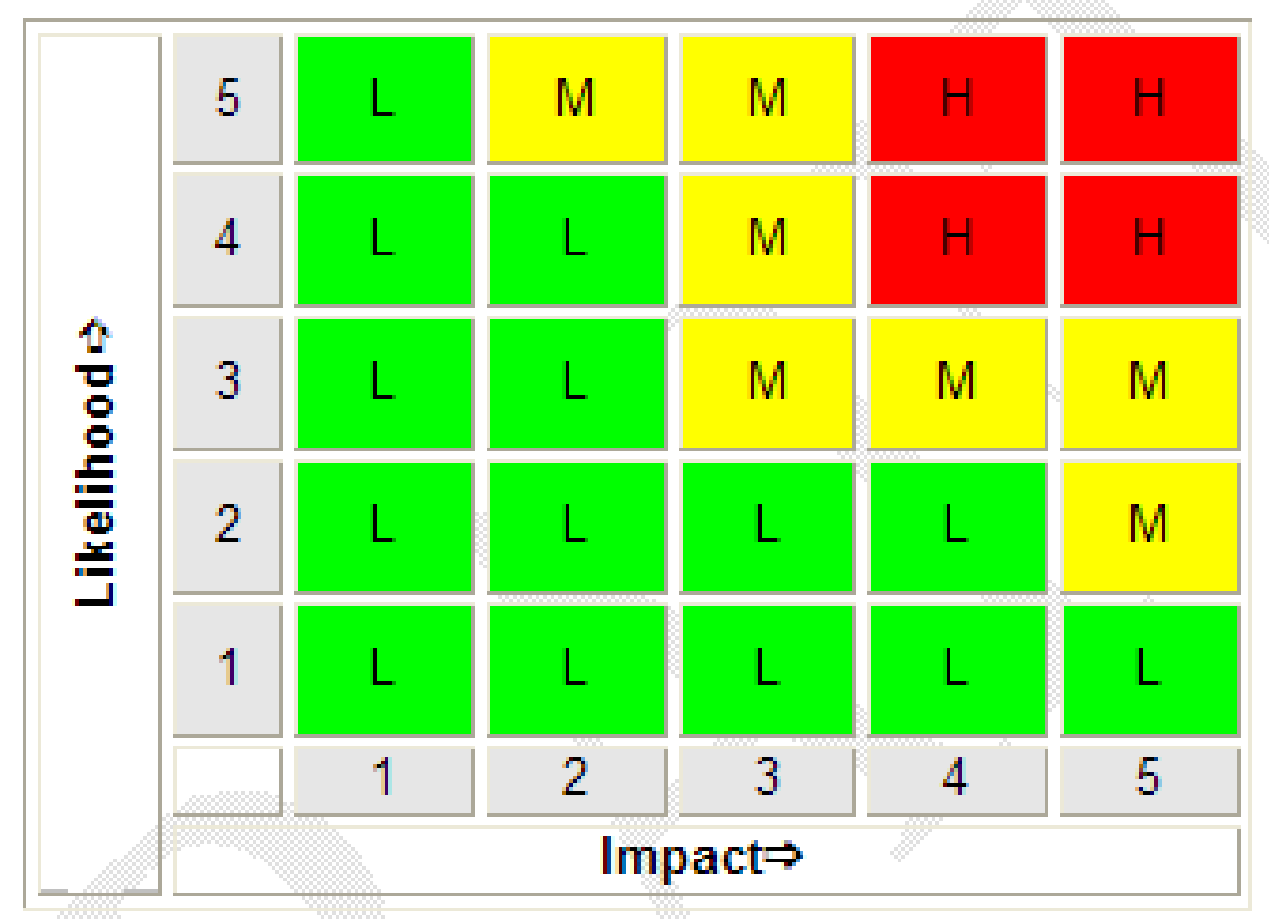


# Risk Likelihood - Scoring

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Likelihood Value	Likelihood Title	Likelihood Definition
1	Very Unlikely	The possibility that this risk may occur is rare or exceptional.
2	Unlikely	There is a slight possibility this risk may occur at some time.
3	Possible	The probability of this risk occurring is moderate.
4	Quite Likely	There is a strong possibility this risk will occur in most circumstances.
5	Very Likely	The probability of this risk occurring is almost certain.

# Risk Prioritisation



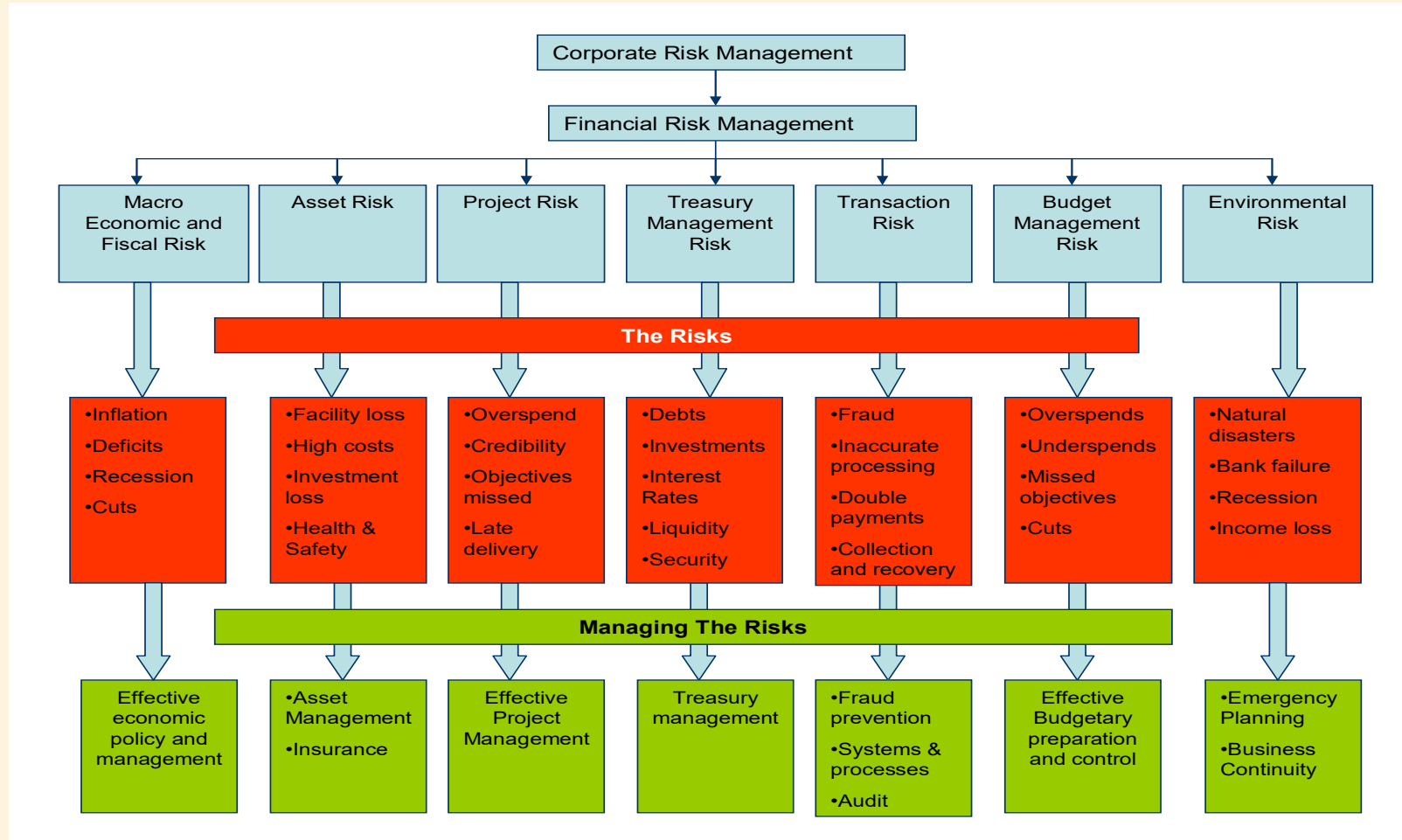


# Managing the Risk

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- Use risk analysis to prioritise management of risks that have high likelihood and high impact
- Ensures resources and actions are proportionate and optimally effective in reducing risk
- Provides a basis for structured and well evidenced risk management
- Recognises that not all risks can be removed
- Insurance may be the easiest way of addressing a limited number of risks or bringing risk within the organisation's risk appetite
  - But insurance is not managing risk - it is outsourcing it!

# Financial Management Risks







# Develop The Risk Management Framework

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- Requires a Risk Management Function – even if only one person part time
- Map the business unit risk registers
  - Should equate to organisational/ financial reporting structures
- Create standard processes and templates
  - Risk registers
  - Standard processes for identifying, assessing and introducing controls for risks
  - Library of templates and process manuals (Intranet?)
- Ongoing review and reporting processes
  - Business unit management processes
  - Divisional/ Corporate reporting
  - Risk Committee (sometimes combined with Audit Committee)



# Risk Maturity Levels

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- Risk Enabled – Risk management fully embedded
- Risk Managed – Enterprise wide approach to risk management deployed
- Risk Defined – Strategies and policies defined but not wholly deployed across the enterprise
- Risk Aware – Scattered silo approach to risk management
- Risk Naive – No formal approach to risk management

*These are grounds for an audit opinion. What maturity level is your organisation at?*



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Financial Management of Development Projects  
17 May 2019

# **INTERNAL CONTROLS & INTERNAL AUDIT**



# Internal controls

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*“the set of procedures and tools that help managers achieve operational, financial, and compliance objectives... effected by an entity’s management, designed to provide reasonable assurance that the objectives of the entity are being achieved”*

- INTOSAI



# Internal controls

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Based on recommendations by the Committee of Sponsoring Organizations of the Treadway Commission

COSO is joint initiative of the five private sector organizations

- Develop frameworks and guidance on, enterprise risk, management, internal control and fraud deterrence

COSO made up of various organisations including:

- American Accounting Association (AAA)
- The Institute of Internal Auditors (IIA)
- Financial Executives International (FEI)
- American Institute of CPAs (AICPA)
- The Association of Accountants and Financial Professionals in Business (IMA)

COSO internal control recommendations are used universally by other standard setting organisations (IFAC, INTOSAI, etc.)



# Internal controls

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Effected by an entity's board of directors, management and other personnel

Designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations



# Internal controls

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## Effectiveness and efficiency of operations

- Business objectives
  - including performance and profitability goals and safeguarding of resources

## Reliability of financial reporting

- Preparation of reliable published financial statements
  - including interim financial statements and
  - selected financial data derived from such statements (such as earnings releases etc.)

## Compliance with applicable laws and regulations

- Those laws and regulations to which the entity is subject



# Internal control – key concepts

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Is a process

- It is a means to an end, not an end in itself.

Internal control is affected by people

- Not merely policy manuals and forms, but about people at every level of an organisation

Internal control can be expected to provide only reasonable assurance, not absolute assurance to an entity's stakeholders

Internal control is geared to the achievement of objectives





# Internal controls: components

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The control environment

The entity's risk assessment process

The information system, including the related business processes, relevant to financial reporting, and communication

Control activities

Monitoring of controls



# Control environment

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Sets the tone of an organisation

- Influencing the control consciousness of employees

It is the foundation for all other components of internal control, providing discipline and structure

Control environment factors include:

- Integrity
- Ethical values
- Management's operating style
- Delegation of authority systems



# Risk assessment

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Every entity faces a variety of risks from external and internal sources that must be assessed

Risk assessment requires establishment of objectives

- Risk assessment is the identification and analysis of risks relevant to achievement of assigned objectives

Risk assessment is a prerequisite for determining how the risks should be managed



# Information and communication

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Information systems play a key role in internal control systems

- Responsible for reports, including operational, financial and compliance-related information, that make it possible to run and control the business

Effective communication must ensure information flows down, across and up the organisation

Effective communication should also be ensured with external parties and other stakeholders



# Control activities

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Policies and procedures that help ensure management directives are carried out

Ensure that necessary actions are taken to address risks to achievement of the entity's objectives

Control activities occur throughout the organization, at all levels and in all functions



# Control activities

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Include a range of activities

- Approvals
- Authorisations
- Verifications
- Reconciliations
- Reviews of operating performance
- Security of assets
- Segregation of duties



# Monitoring

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Internal control systems need to be monitored

- To process that assesses the quality of the system's performance over time

Accomplished through ongoing monitoring activities or periodic evaluation

Internal control deficiencies detected through these monitoring activities should be reported upstream and corrective actions taken to ensure continuous improvement of the system



# Internal controls: Relevance for audit

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In some entities control components will be treated together

Distinction between components not vital to auditor

The auditor is concerned with whether the controls prevent, detect or correct material misstatements in the financial statements

Auditor needs to evaluate the strength / effectiveness of control environment





# Documentation of internal controls

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Should provide information on

- The design of internal control over all relevant assertions related to significant accounts and disclosures
- How significant transactions are initiated, authorised, recorded, processed and reported
- The flow of transactions sufficient to identify the points at which material misstatements due to error or fraud could occur
- Internal control over period end financial reporting process, including significant accounting estimates and disclosures



# Documentation of internal controls

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Narrative descriptions

Flowcharts

Questionnaires and checklists

A combination of the above

Paper or electronic



# Evaluating the control environment

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Communication and enforcement of integrity and ethical values:

- Essential elements which influence the effectiveness of the design, administration and monitoring of controls

Key questions:

- What is management's reputation in the community?
- What verbal/written communications exist?
- What example does management set in day to day activities?
- How were instances of unethical behaviour or lack of integrity handled?



# Evaluating the control environment

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Participation by those charged with governance:

- Independence from management, their experience and stature, the extent of their involvement and scrutiny of activities, the information they receive, the degree to which difficult questions are raised and pursued with management and their interaction with internal and external auditors

Key questions:

- Who are they?
- How often do they meet?
- What do they discuss and what happens with any output they produce?



# Evaluating the control environment

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## Commitment to competence:

- Management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge

## Key questions:

- What is the reputation or evidence (results, awards etc.) of management's competence?
- Does the entity hire the most competent people or the least expensive?
- How does the entity deal with incompetent employees?



# Evaluating the control environment

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Management's philosophy and operating style:

- Management's approach to taking and managing risks, and management's attitudes and actions toward financial reporting, information processing , accounting functions and personnel

Key questions:

- What is the management's attitude toward internal control?
- What is their approach to risk taking?



# Evaluating the control environment

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Assignment of authority and responsibility:

- How authority and responsibility for operating activities are assigned and how reporting relationships and authorisation hierarchies are established

Key questions:

- Do entity staff know what is expected from them?
- Are there clear job descriptions in place?



# Evaluating the control environment

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Human resource policies and practices:

- Recruitment, orientation, training, evaluating, counselling, promoting, compensating and remedial actions

Key questions:

- Are policies and procedures in place that address recruitment, orientation, training, evaluating, counselling, promoting, compensating and remedial actions?





# Internal Audit

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“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

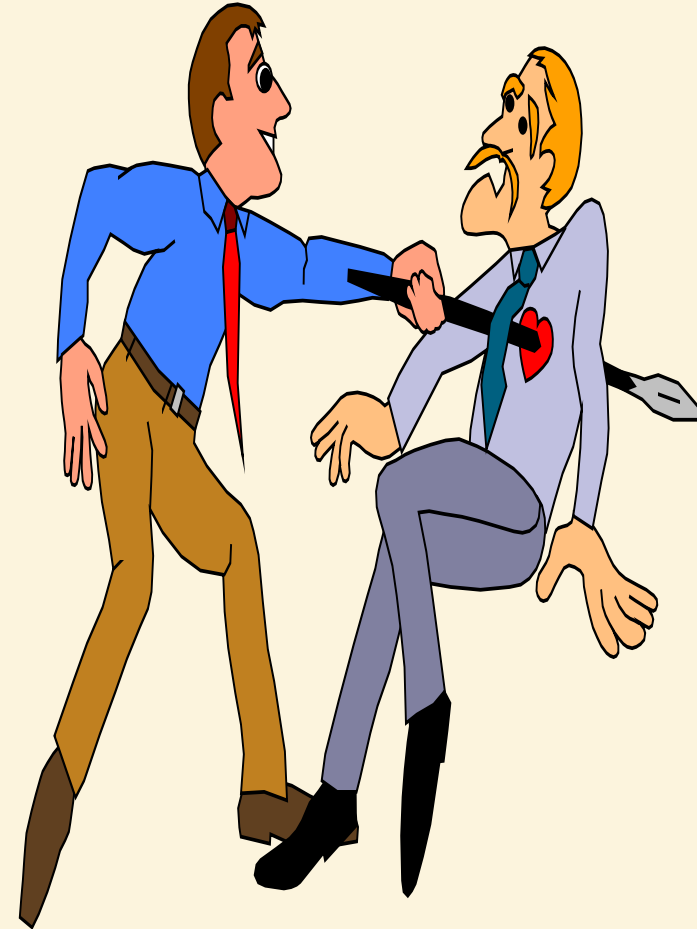
*Source: Standards for the Professional Practice of Internal Auditing, the Institute of Internal Auditors 2011*

# Traditional image

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- Bayoneting the wounded
- Internal Police Force
- Bloodhound
- Nit-picking
- Ivory Tower
- Negative
- Bureaucratic



# Modern Internal Audit

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- Advisory
- Pragmatic
- Constructive
- Approachable
- Value Added
- Professional
- Accountable





# What form can it take?

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- In-house
- Consortia
- Out-sourced – external internal audit!
- Partnerships/Hybrid





# Internal Audit Institutes

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Over 165,000 members in more than 160 countries

## A history of standard setting

- 1968: Code of Ethics
- 1978: *Standards*
- 2000: Professional Practices Framework
- 2009: International  
Professional  
Practices  
Framework



# Features of IPPF

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- Clarity of structure with fewer elements; each element clearly defined
- Transparency of development processes and transparency of plans – on global web site
- Accountability and rigour in review and approval
- Stringent maintenance and review cycles

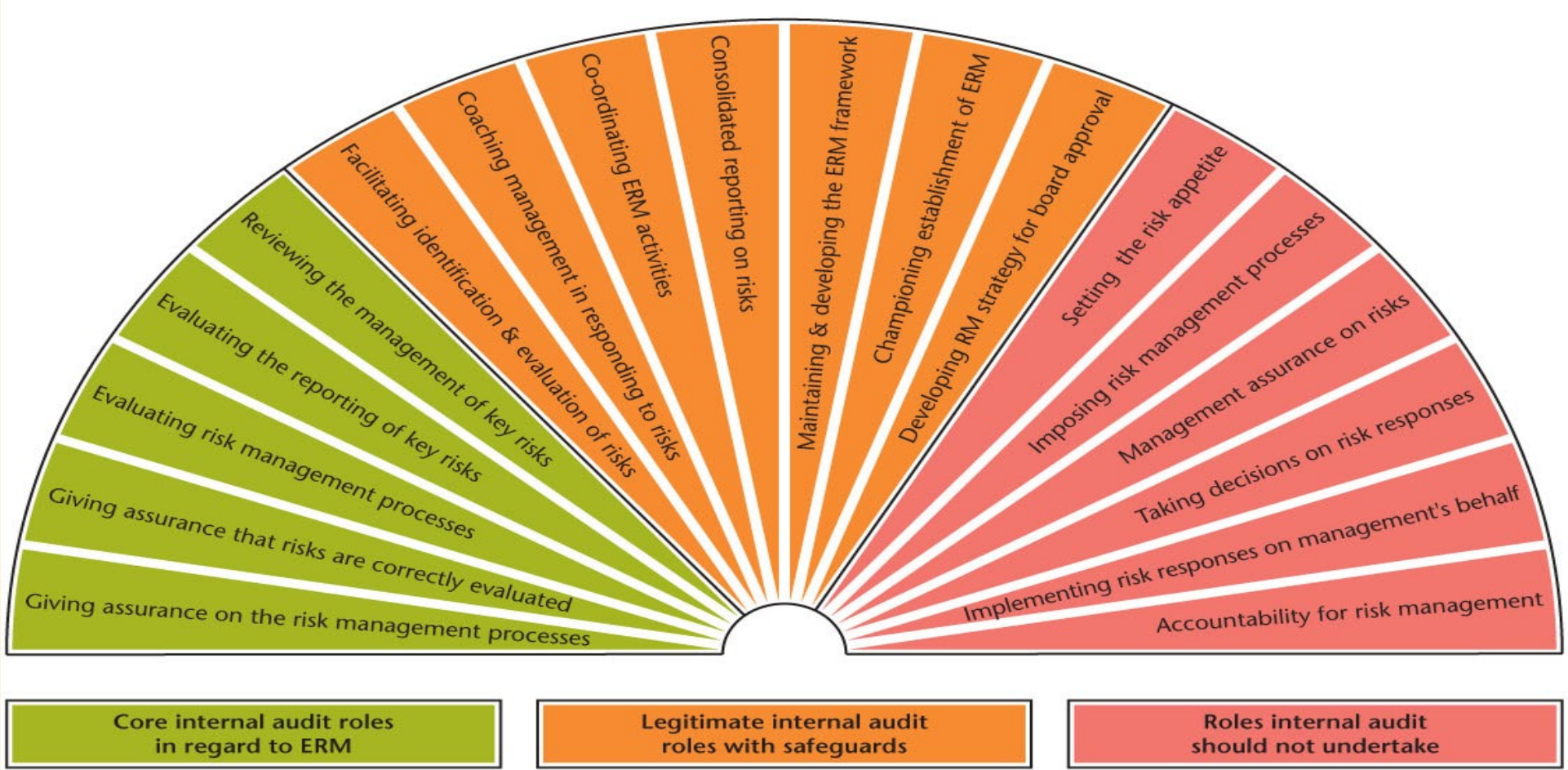
# Internal Audit Professional Practices Framework







# Internal Audit Professional Practices Framework



This diagram is taken from "Position Statement: The Role of Internal Audit in Enterprise-wide Risk Management", reproduced with the permission of the Institute of Internal Auditors – UK and Ireland. For the full Statement visit [www.iaa.org.uk](http://www.iaa.org.uk).

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# Differences: Internal Audit & External Audit

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## Internal Audit

An integral part of the organisation  
Independent of activity under review  
Continuous review  
Covers all activities  
Focus on objectives, risk and controls  
Responsible to audit committee  
No standardised format of reporting  
Depth of analysis

## External Audit

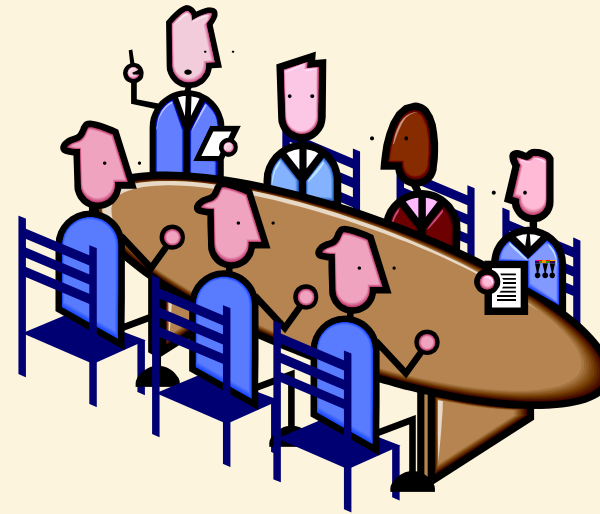
- External to the organisation
- Independent of the entire organisation
- Periodic review
- Covers financial systems only
- Focus on accuracy of financial reports
- Responsible to shareholders
- Opinion format standardised



# Internal audit – Terms of Reference

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To whom do they report?



Are they independent?



# Internal audit functions

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Assessment of adequacy and effectiveness of decision making processes, risk management and internal control procedures

Reporting internal control issues and recommending improving systems

Reviewing efficiency and effectiveness of existing services

Liaising with external audit



# Objectives of Internal Audit

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Improvement – continual improvement of the organisation's internal control system

Assurance – provide assurance to the accounting officer that significant business risks are being appropriately managed, through an emphasis on internal controls



# Duties of the Internal Audit Service

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Appraise the soundness and application of accounting, financial and operational controls, in particular:

- a) Receipt, custody and utilisation of financial resources
- b) Conformity with financial and operational procedures
- c) Classification and allocation of revenue and expenditure accounts
- e) Reliability and integrity of financial and operating data systems to safeguard and verify existence of assets
- f) Review programs to ascertain whether results are consistent with goals and objectives
- g) Report on and assist management to implement audit recommendations
- h) Report on adequacy of controls in computerised systems

Respond, subject to resource constraints, to ad hoc requests for audit assistance or advice as may be requested by the Accounting Officer



# The Audit Cycle

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- Internal Audit work covers reviews of individual systems and overall management arrangements
- The objective is to achieve continual improvement in systems through periodic review, evaluation and recommendation
- The work is therefore a cycle, with the systems reviewed periodically according to their significance to the organisation
- Fundamental systems reviewed annually; others every 2-5 years

# The Audit Cycle





**THANK YOU /**





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