

Principles and Methods of Duty of Care

Duty of Care – Part III

John Kyriazoglou



JOHN KYRIAZOGLU

PRINCIPLES AND METHODS OF DUTY OF CARE

DUTY OF CARE – PART III

Principles and Methods of Duty of Care: Duty of Care – Part III

1st edition

© 2018 John Kyriazoglou & bookboon.com

ISBN 978-87-403-1984-2

CONTENTS

	Summary and Contents	5
1	The Seven Ancient Greek Wisdom Principles	6
2	Hard and Soft Controls	11
2.1	Internal Management Hard controls	11
2.2	Soft controls	18
3	Audit Process	24
3.1	General evaluation guidelines	24
3.2	Audit Methodology	25
4	Risk Evaluation Methodology	33
5	Audit Questionnaires	41
	Disclaimer	42

www.sylvania.com

We do not reinvent
the wheel we reinvent
light.

Fascinating lighting offers an infinite spectrum of possibilities: Innovative technologies and new markets provide both opportunities and challenges. An environment in which your expertise is in high demand. Enjoy the supportive working atmosphere within our global group and benefit from international career paths. Implement sustainable ideas in close cooperation with other specialists and contribute to influencing our future. Come and join us in reinventing light every day.

Light is OSRAM

**OSRAM
SYLVANIA**

SUMMARY AND CONTENTS

Summary: This is the third part of the ‘Duty of Care’ book.

It contains the description of ancient Greek principles, hard controls, etc., that support, complement and enhance the material contained in the other parts of this book.

These may be used to support better the implementation of management’s duty of care tasks.

Contents of Part 3

- Chapter 1: The Seven Ancient Greek Wisdom Principles
- Chapter 2: Hard and Soft Controls
- Chapter 3: Audit Process
- Chapter 4: Risk Evaluation Methodology
- Chapter 5: Audit Questionnaires

The contents of the other parts of this book are:

Part 1: Governance Aspects of Duty of Care

The first part contains a prologue and the first three steps of the implementation approach of seven-steps.

Part 2: Operations Aspects of Duty of Care

The second part contains the last four steps of the seven-step implementation approach.

Part 4: Plans of Duty of Care

The fourth part presents several plans that may be used to support better the implementation of management’s duty of care tasks.

Part 5: Policies of Duty of Care

The fifth part presents several policies that may be used to support better the implementation of management’s duty of care tasks.

Part 6: H R Management Controls of Duty of Care

The sixth part describes a number of human resource management controls that may be used to support better the implementation of management’s duty of care tasks.

1 THE SEVEN ANCIENT GREEK WISDOM PRINCIPLES

Summary: This chapter presents the seven ancient Greek wisdom principles (Temperance, Faith, Justice, Harmony Friendship, Kalokagathia (Goodness and Kindness) and Courage) and a set of over 27 ancient Greek wisdom sayings that may be used to implement and improve your ‘Duty of Care’ responsibilities as a manager or board member of your company or organization.

These principles form the ethical basis for the DRAPES Model as explained in Prologue of Part 1 of this book.

Description of Principles

Principles, provide the *‘why to do it’* and are one of the primary elements that capture the hearts of the people at your workplace.

Ethical principles are standards of conduct defining the kind of behavior an ethical person or business should and should not engage in. These principles driven by universal spiritual forces not only provide a guide to making decisions but they also establish the criteria by which your decisions will be judged by others.

Within the framework of this book and on the basis of the workplace wellness model (of four dimensions: **Believing; Bonding; Belonging; and Benefiting**) and the ancient Greek wisdom, I have used the following golden principles to practically improve the ‘Duty of Care’ principles of managers and board members, as well as their wellness so that they manage their business better and manage and reduce their own occupational stress and the anxiety of their employees.

Principle 1: Temperance

Prudence. What the ancient Greeks called *‘sophrosyne’*: the quality of wise moderation; Greek, ‘prudence, moderation in desires, discretion, temperance’, from *‘sophron’* of sound mind, prudent, temperate. Also prudence is the practice of always controlling your actions, thoughts, or feelings so that you do not eat or drink too much, become too angry, etc. It also denotes self-restraint and self-control. Prudence was considered by the ancient Greeks, as the cause, measure and form of all virtues. From Latin *‘temperantia’* meaning moderation, sobriety, discretion, self-control, from *‘temperans’*, present participle of *‘temperare’* to moderate. Latin *‘temperantia’* was used by Cicero to translate Greek *‘sophrosyne’* moderation.

Aristotle writes: ‘Good temper is a mean with respect to anger; the middle state being unnamed, and the extremes almost without a name as well, we place good temper in the middle position, though it inclines towards the deficiency, which is without a name. The excess might called a sort of ‘irascibility’. For the passion is anger, while its causes are many and diverse’;

Heraclitus adds: ‘It pertains to all men to know themselves and to be temperate’; and

Plato complements: ‘The man who makes everything that leads to happiness depends upon himself, and not upon other men, has adopted the very best plan for living happily. This is the man of moderation, the man of manly character and of wisdom’.

For specific application and uses of this principle in implementing hard controls, see Chapter 3 (‘Improve Board Effectiveness’) of Part 1 of this book.

Principle 2: Faith

Trust in others; Belief in a higher power; Being persuaded of something. ‘*Pistis*’, the Greek word for faith denotes intellectual and emotional acceptance of a proposition.

Pistis, in Greek mythology, was the personification of good faith, trust and reliability. She is mentioned together with such other personifications as *Elpis* (Hope), *Sophrosyne* (Prudence), and the *Charites*, who were all associated with honesty and harmony among people.

The Seven Sages: recommend: ‘Follow God’; ‘Worship God’; ‘Pray for happiness’; and ‘Pray to fortune’.

For specific application and uses of this principle in implementing hard controls, see Chapter 2 (‘Establish Governance Framework’) of Part 1 of this book.

Principle 3: Justice

Justice, in its broadest context, includes both the attainment of that which is just and the philosophical discussion of that which is just. It denotes ethical correctness and fairness.

In his dialogue ‘Republic’, Plato uses Socrates to argue for justice that covers both the just person and the just City-State. Justice, according to Socrates, is a proper, harmonious relationship between the warring parts of the person or city.

Aristotle writes: ‘Laws govern and should be above all other rules’; and ‘There is a law which is superior to all written laws and this is the law of morality’.

For specific application and uses of this principle in implementing hard controls, see Chapter 4 (‘Increase Executive Leadership’) of Part 1 of this book.

Principle 4: Harmony

Harmony is defined as the agreement in action, opinion, feeling or sounds in a social setting. The term harmony derives from the Greek ‘*harmonía*’, meaning ‘joint, agreement, concord’, from the verb ‘*harmozo*’, ‘to fit together, to join’.

To the ancient Greek mentality harmony was an attribute of beauty. The ancient Greeks believed there to be three ‘ingredients’ to beauty: symmetry, proportion, and harmony. This triad of principles infused their life. They were very much attuned to beauty as an object of love and something that was to be imitated and reproduced in their lives, architecture, education and politics.

They judged life by this mentality. Aristotle believed that the soul is a kind of harmony, for ‘harmony is a blend or composition of contraries’, etc. He says that developing good habits can make a good human being and that practicing the use of The Golden Mean (the desirable middle between two extremes, one of excess and the other of deficiency) when applicable to virtues will allow a human being to live a healthy, happy life. Harmonia (harmony) was the goddess of harmony and concord.

For specific application and uses of this principle in implementing hard controls, see Chapter 4 (‘Improve Business Operations’) of Part 2 of this book.

Principle 5: Friendship

Friendship defines how people relate to each other, feel equal to them in most standards, but still respect each other irrespective of their attributes or shortcomings.

Friendship was pivotal in the life of ancient Greeks and no one could attain happiness and tranquility without it. According to the ancient Greeks ‘friendship’ (‘*filotis*’), was more important than money, property, wealth and other material values. They greeted each other by ‘Oh Filotis’, meaning ‘Hi my friend’.

Friendship was also more than evident in names as well. There were several such names (over 35) that had the prefix of 'phil', denoting friendship (e.g. Phillip=lover of horses, Philomila=friend of harmony, Philiston, Philoklis, etc.) and which were given to the children of Ancient Greeks by their parents. **Philotes** (or Filotis) was the semi-goddess (spirit) of friendship and affection.

Epicurus considered friendship a matter of the most crucial importance. Everybody, including women and slaves attended his teachings at his school, called 'The Garden'. He claimed that friendship, more than anything else, contributed to the good and pleasant life as it is the cohesive force that makes society and human cohabitation and coexistence possible at all.

For specific application and uses of this principle in implementing hard controls, see Chapter 5 ('Manage Human Aspects') of Part 2 of this book.

Principle 6: Kalokagathia (Goodness and Kindness)

This is like a coin of two faces. Goodness defines the state or quality of being good. Kindness is a personal quality that enables an individual to be sensitive to the needs of others and to take personal action and do noble deeds on behalf of others to meet those needs. It also encompasses personal virtue, courtesy and moral excellence in character. It may be considered synonymous to the Greek term of 'christotes', meaning useful (from 'chrao'=use), good, honest, upright and magnanimous.

'**Kalokagathia**' is a word of Greek origin. It is an ideal of human upbringing, popular in ancient Greece. This meant a combination of both external and internal features, especially physical efficiency, mind and character development. It involves notions of **symmetry** important to Greeks.

The word '*kalokagathia*' means the character and conduct of '*kalos kagathos*', that is, of the perfect and just man; thus it includes kindness, uprightness, and honesty, attributes that finally lead to happiness. In classical Greek, the meaning of the word '*kalos*' is linked with the human physique rather than human character; thus, '*kalos*' has to do with the beauty, the harmony, of the body, attained through physical exercise. The word '*agathos*' means the good and virtuous man, who is wise, brave, and just.

The **Seven Sages** recommend: 'Your words should be words of kindness and respect'

Democritus adds: 'Good means not merely to do wrong, but rather not to desire to do wrong'; and

Epictetus complements: 'It takes more than just a good looking body. You've got to have the heart and soul to go with it'.

For specific application and uses of this principle in implementing hard controls, see Chapter 6 ('Augment Trust and Confidence) of Part 2 of this book.

Principle 7: Courage

Courage is one of the so-called 'cardinal values', first identified by Socrates and noted by Plato, his disciple, in 'Protagoras':

- Cardinal Value 1: Prudence = Ability to judge between actions at a given time;
- Cardinal Value 2: Temperance = Practicing self-control, abstinence and moderation;
- Cardinal Value 3: Courage = Endurance and ability to confront fear and uncertainty;
- Cardinal Value 4: Justice = Proper moderation between self-interest and the need of others.

It is also one of the four cardinal virtues of the Stoic philosophy: Wisdom (*Sophia*), Courage (*Andreia*), Justice (*Dikaiosyne*), and Temperance (*Sophrosyne*).

The **Seven Sages** recommend: 'Carry out your activities with no fear and without losing your courage'. 'Do not abandon what you have decided'. 'Do not be in a hurry to do something, although, once you have started, be steady in doing it'.

If you focus on what is beyond your control, and obsess over it, you will end up feeling helpless. Focus on what you can control, and you will feel a measure of autonomy even in chaotic situations.

Resilience was built by courage. Courage, in ancient Greek culture was based on the **agonistic ethic** which helped ancient Greeks build resilience and withstand better the rigors of life.

This ethic is based on the concept of **Agon**. **Agon** is an ancient Greek word in reference to several things. In general, the term refers to a struggle or contest. In its broader sense of a struggle or contest, 'agon' referred to a contest in athletics, music or literature at a public festival in ancient Greece.

Building personal resilience is probably best illustrated by the Socratic method of inquiry.

This method (Socratic method) named after Socrates, is a form of inquiry and discussion between individuals, based on asking and answering questions to stimulate critical thinking and to illuminate ideas and concepts.

For specific application and uses of this principle in implementing hard controls, see Chapter 7 ('Improve Internal Management Controls' of Part 2 of this book.

2 HARD AND SOFT CONTROLS

Summary: This chapter describes the terms of ‘Hard’ and ‘Soft’ controls and presents a list of over 100 sets of Internal Management hard controls, in seven categories (Governance, Board Effectiveness, Executive Leadership, etc.).

These may be used to implement and improve your ‘Duty of Care’ responsibilities as a manager or board member of your company or organization.

2.1 INTERNAL MANAGEMENT HARD CONTROLS

Internal Management Hard controls (hard controls) are tangible things, usually well-defined, formalized and approved like organizational structure, assignment of authority and responsibility, corporate standards, policies and procedures, ethics code, compliance procedures, computerized systems, company books, registers, audit trail mechanisms, personnel controls like segregation of duties, taking vacation, job descriptions, confidentiality statements, etc.

For more details on how these may be used, see Parts 1 and Parts 2 of this book.

The following list contains an indicative set of over 100 sets of internal management controls required to operate a business organization more effectively and efficiently.

(1) Governance Hard Controls

1. Business Management Controls Framework.
2. Business Management Controls System Manual.
3. Corporate Philosophy Controls (Vision, Mission and Values Statements (examples in Part 5 of this book), Corporate Ethics Policy (example in Part 5 of this book), Corporate Social Responsibility Policy, Corporate Ethics Office, Corporate Ethics Committee, and Corporate Ethics Program).
4. Risk controls (Risk Management Action Plan – see example in Part 4 of this book), Risk Register, etc.).
5. Compliance controls (Compliance Program, Compliance Action Plan, Corporate Compliance Officer, etc.).
6. Internal Audit Process.
7. Ethics and Culture Assessment.
8. Monitoring controls (System, Plan, Policies and Procedures).
 - 8.1. Monitoring Controls System.
 - 8.2. Monitoring implementation of the strategic plan.

- 8.3. Monitoring implementation of policies and procedures.
- 8.4. Continuous management monitoring procedures.
- 8.5. Communicating performance information procedure.
- 8.6. Management reports monitoring procedures.
- 8.7. Data Quality Monitoring Procedures.
9. Review of operations controls.
 - 9.1. Daily Activities Review Controls.
 - 9.2. Computer Security Monitoring and Review Procedures.
 - 9.3. The Corporate Governance Information System.
 - 9.4. External-Assessment Procedures.
 - 9.5. Self-Assessment Procedures.
10. Data Protection and Privacy Management Controls
 - 10.1. Data Protection and Privacy Management System
 - 10.2. DP&P Strategies, Policies and Plans.
 - 10.3. Data Protection Impact Assessment.
 - 10.4. Data Protection Specialized Controls.

(2) Board Effectiveness Hard Controls

1. Charters for the board of directors.
2. Charters for the corporate committees (Audit, Risk, Benefits and Personnel, Information Technology, Financial Issues, and Business Continuity, Compliance Committee, etc.). See examples in Part 6 of this book.
3. Board selection process.
4. Board training plan.
5. Board ethics code.
6. Board effectiveness assessment and compliance procedure.
7. Performance Management Framework.
8. Corporate Cultural Resilience Improvement Plan (see example in Part 4 of this book)
9. Corporate Communications Policy (see example in Part 5 of this book).
10. Conflicts of Interest Policy (see example in Part 5 of this book).

(3) Executive Leadership Hard Controls

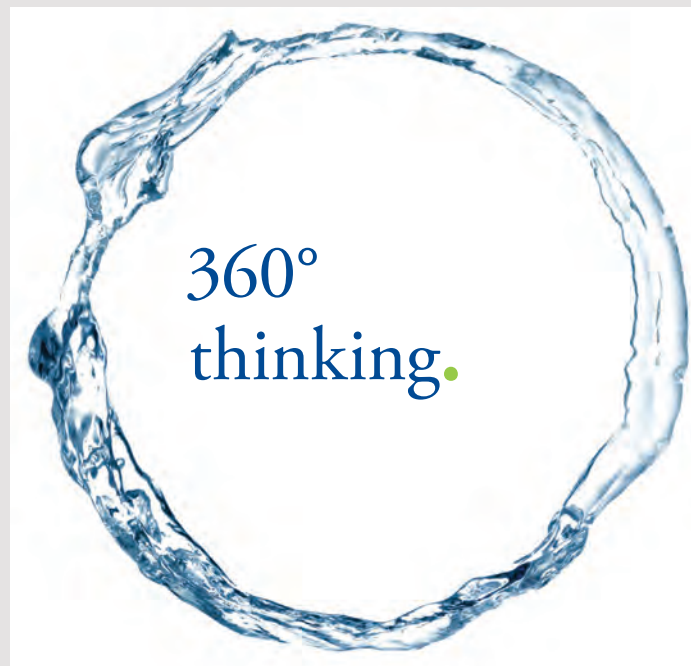
1. Strategic Management Controls (Corporate Strategic Planning Committee, Strategic Resource Plans, Strategic Plans (corporate, by business function), Strategic Budgets, Strategy Implementation Action Plans).
2. Corporate policies (Financial Accounting, Customer Relations, Fraud and Theft, Community Relations, Health and Safety, and Environment Management, Performance Management, Internal Audit, Risk Management, Business Continuity, Compliance, IT, Sales, Production, Supply Chain, Logistics, Warehouse Control, etc.),

3. Departmental Terms of Reference.
4. Corporate Policies and Procedures Manual.
5. Files, Documents and Records Management Procedures.
6. Confidential Information Release Procedures.
7. Management Reporting Procedures.
8. Asset Protection Procedures.
9. Legal Procedures.
10. Administrative office controls (Physical Security Controls, Mail Controls, EDI Controls, Facsimile Transmission Controls, daily activities controls, Forms Register, Policies, Procedures and Forms Controls, Social Engineering Controls, Daily Activities Controls etc.).
11. Business Intelligence Controls (Business Intelligence Data Manager, Business Intelligence System Management Plan, Business Intelligence Policy).
12. Corporate Espionage and Sabotage Controls.
 - 12.1. Corporate Anti-Espionage and Anti-Sabotage Manager.
 - 12.2. Corporate Espionage and Sabotage Controls Action Plan.
 - 12.3. Business Data Classification.
 - 12.4. Business Intangible Assets Register.
 - 12.5. Business Security Controls.
 - 12.6. Business Information Distribution Procedure.
13. Crafting Policies and Procedures Management Plan (see example in Part 4 of this book).
14. Corporate Intelligence Monitoring Management Plan (see example in Part 4 of this book).
15. Corporate Team Improvement plan (see example in Part 4 of this book).

(4) Business Operations Hard Controls

1. Transaction Authorization Controls
2. Financial Organization Controls (Financial Issues Committee, Function of the Controller, Accounting Manager and staff Job Descriptions, and Budget Department officer job description).
3. Financial Policies and Procedures (Financial Accounting Controls Policy, Financial Accounting Procedures, Financial Revenue Procedures, and Budgeting Procedure).
4. General Ledger Controls (Chart of accounts, General Ledger, Trial balance, and Financial Statements).
5. Computerized Financial Systems (General Ledger (GL) Systems, Customer Invoicing (CI) Systems, Accounts Payable (AP) Systems, Customer Orders / Sales Processing (COP) Systems, and Payroll Systems).

6. Financial Performance Controls.
7. Customers Sales Controls.
8. Production Policies and Procedures (Purchasing, Supply chain management, Freight management (incoming/outgoing and customer), Inventory management, Manufacturing assembly, Returns (return to stock, return to vendor), Repairs, Receiving, Customer support, etc.).
9. Manufacturing Process Controls (New Product Development Controls, Bill of Materials (BOM) File, Master Production Schedule (MPS), Material Requirements Planning (MRP), Inventory Master Records (IMR) File, Inventory Transactions File, Preventive Maintenance Controls),
10. Computerized Production Information Systems (Material Requirements Planning (MRP) System, Cost Accounting (CA) System, Production planning and control (PPC) system, Enterprise Resource Planning (ERP) system).
11. Quality Management Controls.
12. Standardization Procedures (Standardization of inputs, Standardization of conversion activities, Standardization of outputs, Time Standards)
13. Project Management Controls (Project Scheduling, Project Budget, Project Progress Report, Project problems log, Project Plan).
14. Performance Management Controls.



Discover the truth at www.deloitte.ca/careers

Deloitte.

© Deloitte & Touche LLP and affiliated entities.

15. IT Governance Controls (IT Management Responsibility Controls, Information Technology (IT) Policy, IT Asset Controls, IT Governance Standards, Policies and Procedures, IT Strategic Controls, IT Security Controls, etc.).
 - 15.1. IT Organization Controls (Information Technology (IT) Committee,
 - 15.2. Information Technology (IT) Policy, IT Vision, Mission and Values Statements, IT Department Terms of Reference, and IT Control Framework).
 - 15.3. IT Administration Controls (IT Standards, Policies and Procedures,
 - 15.4. IT Asset Controls, IT Personnel Management Controls, Vital Records Package, Offsite Facility Controls, IT Purchasing Controls).
 - 15.5. IT Strategy Controls (IT Strategic Process Methodology, IT Strategic Plan).
 - 15.6. System Development Controls (IT Systems Development Methodology, System Development Products).
 - 15.7. IT Security Controls (IT Security Organization, Plans, Policies and Procedures, Computer Operations Controls, Personnel Security Management Controls, End User Security Administration Controls, Password Controls).
 - 15.8. IT Technical Controls (Systems Operating Environment Controls, Data Base Controls, Data Communications Controls, Audit Trail Controls, and Operating System, Data Base and Data Communications software Change Management Controls).
 - 15.9. IT Operational Controls (Data Centre Controls, IT Contingency Planning, IT Disaster Recovery Plan, Hardware Controls, Personal Computers Controls).
 - 15.10. Computerized Application Controls (Input Controls, Processing Controls, Output Controls, Database Controls (File updated report, Critical transactions report, Application-specific access authorization, Data base health checks, etc.), Change Controls, and Testing Controls (Methodology, Plan, etc.).
 - 15.11. IT Management Reporting.
 - 15.12. Social Engineering Controls.
16. Business Data Management Controls (Business Operational Manuals, Business Forms Manual, Business Records System, Compliance Records System, Business Data Administration Controls, Data and Information Quality Monitoring and Improvement Process).
17. Data Security Management Plan (see example in Part 4 of this book).

(5) Human Aspects Hard Controls

1. Human resource management policies (Employee Health Records Management Policy (see example in Part 5 of this book), Human Rights Policy (see example in Part 5 of this book), Diversity Policy, Occupational Stress Policy, Health and Safety Policy).
2. Benefits and Personnel Committee.

3. Personnel Administration Procedures (screening, employment contracts and job descriptions, supervision, human resource plans, authorization controls, segregation of duties, rotation of duties, vacation taking, adoption of professional ethical standards, Labour Relations Procedures and employee documentation).
4. Employment Contracts and Job Descriptions.
5. Employee Management Policies and Procedures Handbook (for issues of: Equal Employment Opportunity; Employee classifications; Workdays, paydays, and pay advances; Overtime compensation; Meal periods and break periods; Payroll deductions; Vacation policies; Holidays; Sick days and personal leave; Performance evaluations and salary increases; Performance improvement; Termination policies, etc.). See example in Part 6 of this book.
6. HR Hiring and Dismissal System.
7. Personnel Performance System.
8. Segregation of Duties controls.
9. Human resources information systems.
10. Human resource research improvement activities.
11. Training and development procedures.
12. Emotional Intelligence Testing.
13. Corporate Employees' Wellness Improvement Plan (see example in Part 4 of this book)
14. Ten Golden Values Life Improvement plan (see example in Part 4 of this book)

(6) Trust and Confidence Hard Controls

1. Customer Service policy (see example in Part 5 of this book).
2. Quality Management policy.
3. Standardization and Quality Management procedures.
4. Health and Safety policy.
5. Environment management policy (see example in Part 5 of this book).
6. Quality Records Management procedure.
7. Personnel Training and Coaching program.
8. Personnel promotion procedures.
9. Workplace Wellness Program.
 - 9.1. Workplace Wellness Model.
 - 9.2. Workplace Wellness Policy (see example in Part 5 of this book) .
 - 9.3. Principles, Forces, Milestones.
 - 9.4. Wellness Improvement Strategies.
 - 9.5. Workplace Wellness Strategic Action Plan.
 - 9.6. Workplace Wellness Monitoring Plan.
 - 9.7. Wellness Duties and Responsibilities.

10. Community Relations policy.
11. Corporate Philosophy program.
12. Corporate Social Responsibility policy (see example in Part 5 of this book).
13. Fire Safety Management and Evacuation Plan (see example in Part 5 of this book)
14. Workplace Hazard Prevention Actions Plan (see example in Part 4 of this book)
15. Data Protection Policy (see example in Part 5 of this book).
16. Occupational Stress Management Policy (see example in Part 5 of this book).
17. Workplace Health and Safety Policy (see example in Part 5 of this book).
18. Community Relations Policy (see example in Part 5 of this book).

7 INTERNAL MANAGEMENT IMPROVEMENT HARD CONTROLS

1. Performance Management process.
2. Audit Process (see full details later in this book)
 - 2.1. General evaluation guidelines
 - 2.2. Audit Methodology
 - 2.3. Audit Report Example
 - 2.4. Management Actions
3. Assessment Questionnaires (Corporate Philosophy, Corporate Governance, Workplace Health and Safety, etc.).
4. Board Effectiveness Improvement Plan (see example in Part 4 of this book)
5. Executive Leadership Improvement Plan (see example in Part 4 of this book)
6. Business Operations Improvement Plan (see example in Part 4 of this book)
7. Manage Human Aspects Improvement Plan (see example in Part 4 of this book)
8. Trust and Confidence Improvement Plan (see example in Part 4 of this book)
9. Policies and Controls Improvement Plan (see example in Part 4 of this book)

These **internal management hard controls** are implemented and used, in everyday business practice to carry out the activities of the organization, by various participants, i.e., people such as employees, managers, board members, customers, etc.

These participants usually operate with their feelings, their beliefs, their trust and confidence, their motives, etc., collectively termed soft controls.

A good example of why strategies fail, these being hard controls, is the study of Paramount Consulting¹.

It was found that around 65% of strategic plans fail and as much as 97% of plans are ineffectively implemented. And this is mainly due to human factors (soft controls).

2.2 SOFT CONTROLS

Soft controls are intangible things that have to do with behavioral aspects and social properties inherent in employees and utilized in applying hard controls in their daily business activities, such as: tone at the top, understanding of the organization by the board, culture, structure of reporting relationships, morale, integrity and ethical values, operational philosophy, trust, etc., as described in the next paragraphs.

For more details on how these may be used, see chapters 1 to 7 of Parts 1 and 2 of this book.

The elements of this mindset, I have found relevant in effectively implementing management controls for organizations, include the following ‘soft controls’ as described next.

(1) ‘Tone at the Top’

Tone at the top refers to how an organization’s leadership creates the tone at the top – an ethical (or unethical) atmosphere in the workplace. Board’s and Management’s tone has a trickle-down effect on all employees. If top managers and board directors uphold ethics and integrity so will employees.

But if upper management and board members appear unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud and feel that ethical conduct isn’t a priority.

In short, employees will follow the examples of their bosses.

(2) Understanding of the organization by the board

Understanding of the organization by the board refers to the board directors’ needs to fully understand the organization they supervise and control so that they are as effective as possible in discharging their duties. This understanding involves both the internal (size, form, strategy, structure, people, policies, procedures, operating style, culture, beliefs, etc.) and external (industry, rules, regulations, market, geopolitical locations, etc.) aspects of the organization.

(3) Integrity

Integrity refers to the inner sense of ‘holistic sense’ (‘wholeness’) deriving from qualities such as honesty, truthfulness and consistency of personal character.

In a corporate environment, integrity complemented by ethical values mean that both employees and their managers must interact with each other, in all their business activities, on the basis of integrity, honesty, truthfulness and consistency in the actions they execute, methods and measures they use to monitor performance, principles they activate, and expectations, results and outcomes they manage.

Also in this regard, managers must lead by example, so that their employees follow.

(4) Operational philosophy

Operational philosophy is usually an explicit (written) or implicit (unwritten) declaration of how a person, group or organization operates. In corporate terms, it represents how business is conducted by all levels of management in various areas, such as: investments, funding, managing employee relationships, customer transactions, regulatory authorities, risk-taking, quality, profits, ethical standards, environment, IT, etc.

(5) Ethical Climate

Ethical climate is usually deemed to be the shared set of understandings about what is the correct behavior and how all ethical issues will be handled. This climate sets the tone for decision making at all levels of the organization and in all circumstances, activities and dealings of all participants in the affairs of the company.

(6) Empowerment

Empowerment refers to improving the spiritual, political, social, racial, educational, economic or other strength of individuals.

Empowerment in corporate environments for employees means that company employees are supported and enabled to make more, better and larger-scope decisions without having to refer to someone more senior in the organization.

(7) Leadership

Leadership refers to how an organization's leadership is 'organizing a group of people to achieve a common goal'.

Leadership in a corporate environment is manifested in managers exhibiting traits, such as: intelligence, personal effectiveness and efficiency, high level of creativity in resolving issues and problems, adjustment, extraversion, conscientiousness, and motivation, which are used for accomplishing goals for the given corporate entity.

(8) Employee Motivation

Employee motivation refers to ‘inner or social stimulus for an action’ for employees of business entities. In a corporate environment, managers need to motivate employees to do a better job.

(9) Openness and Shared Values

Openness and shared values usually refers to the quality of being open.

Values represent what a person believes in. In corporate terms openness and shared values characterize an environment in which decisions are made and communicated to all parties.

(10) Information Flow

Information flow throughout the organization refers to how information flows throughout the organization by both informal and formal communication systems.

Formal communication is used to distribute and implement rules, policies and procedures. Managers, however, must pay attention also to informal communication as this type of communication may hinder or ensure the effective conduct of work in modern organizations.

(11) Corporate Culture

Culture usually refers to the environment that surrounds you at work all of the time. Culture is made up of the values, beliefs, underlying assumptions, attitudes, and behaviors shared by a group of people. Culture is the behavior that results when a group arrives at a set of – generally unspoken and unwritten – rules for working together. An organization’s culture is made up of all of the life experiences each employee brings to the organization.

Culture is especially influenced by the organization’s founder, board of directors, executives, and other managerial staff because of their role in decision making and strategic direction.

(12) Morale

Morale also known as ‘esprit de corps’ is ‘moral principles or practice’. In corporate terms it describes the capacity of employees to maintain belief in the organization they work for, or a general goal and specific objectives set by their superiors. It refers to the level of faith of individual employees in the collective benefit gained by such performance.

(13) Trust

Trust means ‘reliance to another person or entity’. Aristotle believed that trust of a speaker by the listener, was based on the listener’s perception of three characteristics of the speaker: the intelligence of the speaker (correctness of opinions, or competence), the character of the speaker (reliability – a competence factor, and honesty – a measure of intentions), and the goodwill of the speaker (favorable intentions towards the listener).

In corporate terms, trust forms the foundation for effective communication, employee retention, and employee motivation and is a major contributor of the extra effort and energy that people voluntarily invest in work. When trust exists in an organization or in a relationship, almost everything else is easier and more comfortable to achieve.

(14) Corporate Attitude

Corporate attitude represents an individual’s degree of like or dislike for something (person, place, thing, or event). In a corporate work-place attitudes play a great role in employees executing corporate tasks and achieving strategic and operational goals predetermined by senior managers. If they like the organization or their manager or the task they will perform better, in most cases. If they dislike the organization or their manager or their task they are bound to perform at a lesser degree.

(15) Competence

Competence refers to the ‘sufficiency to deal with what is at hand’. Competence in a corporate environment is the ability, the will, the commitment, the knowledge, the skills and the dexterities of an individual to perform a job or task properly. Managers must manage and improve the competences of themselves and their employees through education, training, coaching, mentoring, etc.

(16) Expectations

Expectations is usually the act or process of knowing what is anticipated in a given work situation. This means that managers must consider the issue of expectations in dealing with their employees. Learning what interests and engages employees can help managers to distribute work in a way that promotes enthusiasm for completing tasks. This will help employees understand the employer’s expectations.

(17) Structure of Reporting Relationships

Structure of reporting relationships is usually depicted in an organizational chart. This chart can provide a great deal of information and may help organizational members understand the overall structure of the organization and its strategy. The organizational chart allows employees and other stakeholders to see employee job titles and the reporting relationships in an organization. The vertical lines demonstrate the reporting relationships of supervisors and their reporting staff. The lateral or horizontal lines indicate a working relationship.

All these soft controls are most important as they fulfill the values espoused by almost all human beings, according to Schwartz and his associates who researched the concept of universal values of more than 25,000 people in 44 countries and came up with ten types of universal values², such as:

1. Power,
2. Achievement,
3. Hedonism (pleasure of living),
4. Stimulation in life,
5. Self-direction,
6. Universalism (wisdom, justice, peace, inner harmony),
7. Benevolence (honesty, forgiveness, friendship),
8. Tradition (devoutness, moderation, accepting one's portion in life, humility),
9. Conformity (self-discipline, obedience), and
10. Security (family and national security, sense of belonging, stability of social order).

Soft controls may differ from organization to organization, but are typically set at a higher corporate level and are associated with the overall governance, mission and morale of the enterprise. In addition, measuring efforts like the ethics and integrity or the philosophy of the enterprise is not a simple task.

For more details on how soft controls are used to improve the implementation of hard controls, see chapters 1 to 7 of Part 1 of this book.

Endnotes


1. For more details, see:

<http://www.paramountlearning.co.uk/2010/04/23/six-principle-reasons-why-strategies-fail/>).


2. As per Schwartz, S.H. (1992). 'Universals in the Content and Structure of Values: Theory and Empirical Tests in 20 Countries'. In M. Zanna (ed.), *Advances in Experimental Social Psychology* (Vol. 25). New York: Academic Press: 1–65., and Schwartz, S.H. and W. Bilsky (1987). 'Toward a Universal Psychological Structure of Human Values'. *Journal of Personality and Social Psychology*, 53: 550–562.

SIMPLY CLEVER

ŠKODA



We will turn your CV into an opportunity of a lifetime



Do you like cars? Would you like to be a part of a successful brand? We will appreciate and reward both your enthusiasm and talent. Send us your CV. You will be surprised where it can take you.

Send us your CV on
www.employerforlife.com



3 AUDIT PROCESS

Summary: This chapter describes a set of general evaluation guidelines, an Audit Methodology and an Audit Report Example which may be used to implement and improve your ‘Duty of Care’ audit responsibilities as a manager or board member of your company or organization.

For more details on how the material contained in this chapter may be used to review and improve the implementation of hard controls, see chapter 7 of Part 2 of this book.

3.1 GENERAL EVALUATION GUIDELINES

1. Use the audit questionnaires contained in Parts 6 to 9 of this book to evaluate and improve the ‘Duty of Care’ responsibilities as a board member, executive, leader, manager, auditor, etc., in a corporate environment.
2. Each score has an indicative value for the purpose of becoming aware of what stress and wellness mean for you and your company.
3. Answer all these questions to the best of your ability.
4. You may use a **balancing factor** (BF = 3%) to smoothen out errors.
5. Calculate each **index for** your review and further consideration.
6. Two indices are used: A simple one; and an adjusted one for errors (using the balancing factor).
7. A **more sophisticated way** would have been to use weighted or multivariate factor analyses to measure the impact of one or more questions in calculating the given index. This way is not used for a variety of reasons, such as: absence of comparative data, cultural and belief aspects of the person conducting the audits, etc. It is best to complement the indices with performance measures, surveys, one to one interviews, discussions and other feedback mechanisms. This is due to several potential problems in constructing and using index numbers, such as: assigning weights, method of averaging, which questions have the largest impact, testing for data validity, validity of the recorded responses, etc.
8. Index calculation:
 - 8.1. For each of the questions in each questionnaire, enter the number matching the description which most closely represents how you feel or you want to measure.
 - 8.2. Use a score from 1 to 10. The highest number denotes the highest satisfaction attained in each question.
E.g. 1 = Lowest Value; 2 = Next Highest; 3, 4, 5, 6, 7, 8, 9, 10 = Top Value.
 - 8.3. Use a scale of 1 to 100 for your index results. 1 representing the lowest index number to 100 denoting the highest index number achieved.
 - 8.4. Add up the score from each question in every questionnaire into your total score (TS).

- 8.5. Use a balancing factor (BF = 3/100) to smoothen out errors as indicated.
- 8.6. The total number of questions is called the TQ.
- 8.7. Divide TS by TQ and multiply by 10. This is your **simple index**.
- 8.8. Calculate your **adjusted index** by applying the balancing factor.

Example

Assume your simple total score of 116 (TS).

Adjusted total score (ATS) = 112.52.

(Calculation: $ATS = TS - (TS \times BF) = 116 - (116 \times 3/100 = 3.48) = 112.52$).

Simple Index Calculation = $(TS/TQ) \times 10 = (116/25) \times 10$.

Simple Index = 46.4%

Adjusted Index Calculation = $(ATS/TQ) \times 10 = (112.52/25) \times 10$.

Adjusted Index = 45.008%

3.2 AUDIT METHODOLOGY

Use this audit methodology to prepare and execute audits related to 'Duty of Care' responsibilities in a company.

The approach proposed for 'Duty of Care' audits comprises of the following principal phases and steps:

1. **Phase A: Audit Planning:** Annual Audit Planning, Management and Key-users Review, Audit Objectives Planning, Data Collection and Review and Risk Assessment.
2. **Phase B: Audit Execution:** Audit each area, Evaluate and Record Findings and findings with personnel audited.
3. **Phase C: Audit Reporting:** Issue initial draft report, Review draft report, Revise draft report and Issue final audit report.
4. **Phase D: Audit Project Management:** Administration of audit project, Documentation of audit work notes.

These are presented next.

PHASE A: AUDIT PLANNING

Step 1: Annual Audit Planning

During this step the Internal Audit Management of the company will meet extensively with the senior management, board members and the audit committee in an attempt to collect all the necessary information regarding what audits should be carried out in all business activities, including 'Duty of Care', during the next year.

The primary activities of this step are:

1. Conduct in-depth interviews with board members
2. Conduct in-depth interviews with audit committee members
3. Conduct in-depth interviews with senior management
4. Conduct in-depth interviews with key stakeholders
5. Review, organize and evaluate information
6. Prepare annual internal audit plan (including IT audit activities)
7. Obtain approval for annual audit plan.

Step 2: Management and Key Positions Review

During this step the audit team will meet extensively with company management, conducting in-depth interviews and group workshops in an attempt to collect all the necessary information regarding management's view on:

1. Company's strategy, policies, standards and procedures as they are currently designed and implemented.
2. Management's view on inherent corporate strategic risks, including their views on respective significance and potentiality of existence for health and safety issues.

The primary activities of this step are:

1. Conduct in-depth interviews with company management
2. Organize and evaluate information
3. Conduct workshops with holders of key positions of company functions
4. Organize and evaluate information
5. Establish initial focal areas
6. Determine company's management needs.

Step 3: Audit Objectives Planning

The audit required within the context of the Internal Audit activities must aim on providing quick and effective results on the basis of an efficiently organized schedule, resource allocation, budget and implementation planning.

Additionally, it should focus on the company's critical business functions and its corporate objectives and should have as its most important dimension the assurance that the company's assets (systems, property, patents, data) are properly controlled and protected.

Furthermore that effective and efficient management controls are deployed for the whole organization, in order to avoid problems pertaining to potential systems and assets abuse and fraud.

The main activities of this step are:

1. Establish management strategic goals
2. Select managers and key positions to be audited
3. Define audit project scope and objectives
4. Define audit project limits and boundaries
5. Organize and plan audit project: schedule, resources, policies, business transactions, audit programs, audit checklists, etc.

Step 4: Data Collection and Review

During this step all the necessary documentation pertaining to the management of all company functions will be collected and reviewed in order for the existing resources, health and safety issues, facilities, information, data, transactions and business environments to be identified.

As an indication, some of the information which will be collected is the following:

1. Reports: annual (and other relevant) corporate reports, previous internal audit reports, management reports, board of directors reports, studies and relevant reports, customer and user satisfaction surveys, performance benchmarks, etc.
2. Corporate Operational Transactions: purchase order contracts, maintenance agreements, insurance policy agreements, etc.
3. Strategic Plans: corporate strategic plans, production and other functional plans, corporate budget and action plans, mission and vision statements, long and short-term objectives etc.

4. Standards, policies and procedures: corporate handbook (working terms and policies), security policies and procedures, performance management policies, corporate governance framework and guidelines, internal audit standards and procedures, procurement policies, computerized systems operational standards, etc.
5. Resources: personnel available for support and assistance during the auditing process, corporate management availability, etc.

The main activities of this Step are:

1. Collect basic information
2. Evaluate basic information
3. Collect additional information
4. Review and evaluate all collected information
5. Prepare final audit programs and checklists

Step 5: Risk Assessment

An effective comparative risk evaluation of all health and safety risks is essential for the completion of the ‘Duty of Care’ audits.

The main activities of this Step are:

1. Review corporate risk and health and safety risks registers
2. Record any new or additional risks
3. Assign risk importance
4. Assign risk potentiality
5. Evaluate risks

For details on risk assessment, see: Chapter 4: Risk Evaluation Methodology.

PHASE B: AUDIT EXECUTION

Step 1: Audit each area

The audit of each specific area (policy, plan procedure, job position, etc.) selected will involve:

1. Identification of the correspondence of the company’s strategic goals to the objectives and processes of each identified area
2. The examination of the risks within each process and their impact on the company’s strategy and overall operation.
3. The evaluation of the controls deployed to minimize or avoid these risks.

The main activities of this step are:

1. Prepare a list of areas to be audited
2. Collect all required documentation
3. Prepare the final audit programs and checklists
4. Execute the audit tests.

Step 2: Evaluate and Record Findings

During this step the audit team will evaluate, grade, and document all initial findings and comments, and issue a draft report.

The main activities of this Step are:

1. Complete collection of necessary evidential information
2. Record initial findings in work notes
3. Evaluate initial findings
4. Prepare draft audit report with initial findings
5. Issue draft audit report with initial findings

Step 3: Review findings with personnel audited

During this final step of the audit project, the audit team will review extensively the initial findings with the personnel audited at their respective management levels, ensuring the best possible feedback from all operational and organizational levels within the company and the specific positions audited.

The main activities of this Step are:

1. Present findings to personnel audited
2. Review findings with personnel audited
3. Review findings with the respective management levels
4. Evaluate comments and observations
5. Incorporate comments into draft audit report
6. Present draft audit report to management
7. Review draft audit report and management suggestions.

PHASE C: AUDIT REPORTING

Step 1: Issue initial draft report

Complete reporting, with an appropriate focus is critical to ensure the highest possible effectiveness of the 'Duty of Care' audit within any organization.

The main activities of this Step are:

1. Prepare draft audit report (see also audit report template in appendix 8) with summaries for management
2. Prepare draft audit report with details for personnel audited
3. Issue draft reports to the appropriate management levels

Step 2: Review draft report

The main activities of this step are:

1. Present draft audit report to senior management
2. Present draft audit report to auditees
3. Collect comments and suggestions

Step 3: Revise draft report

The main activities of this step are:

1. Incorporate the more constructive comments into the report
2. Revise initial draft audit report
3. Review the revised draft audit report with the audit committee

Step 4: Issue final audit report

The main activities of this Step are:

1. Incorporate the comments of the audit committee into the final report
2. Incorporate management's action plans to audit findings into the final report
3. Present the final audit report to audit committee members and the board
4. Issue the final audit report to auditees, audit committee and senior management

PHASE D: AUDIT PROJECT MANAGEMENT

Step 1: Administration of audit project

This step will be effectively implemented throughout the duration of the audit project. Its purpose is to ensure the best possible allocation both of internal audit resources as well as key users involved.

The main activities of this step are:

1. Conduct regular meetings with the management of the personnel audited
2. Review the progress of the audit team and its activities
3. Establishing and ensuring quick and accurate communications
4. Resolving any identified issues and problems arising during the audit process.

Step 2: Documentation of audit work notes

To ensure that the company's Internal audit personnel can continue to develop further the processes and controls required to maintain the highest possible level of audit functionality, the audit project team will document in detail all project phases, with their corresponding findings and results.

Step 3: Audit Report Example

Use this audit report example to prepare and issue an audit report on the basis of the replies and findings of an audit executed for assessing "Duty of Care" responsibilities in a company.

1. Title of Audit: <add a 'Title of your Audit'>
2. Reference Number: Issued: <date>
3. **EXECUTIVE SUMMARY**
 - 3.1. Introduction : <.....>
 - 3.2. Objectives : <.....>
 - 3.3. Scope : <.....>
 - 3.4. Opinion : <.....>

4. Detailed Audit Recommendations

One recommendation for each area audited.

4.1. Enter title of area reviewed: <.....>

- Audit Findings: <.....>
- Risk priority: <High or Medium or Low>
- Audit Evaluation: <.....>
- Audit Recommendation: <.....>
- Management Response: <.....>

4.2. Enter title of area reviewed: <.....>

- Audit Findings: <.....>
- Risk priority: <High or Medium or Low>
- Audit Evaluation: <.....>
- Audit Recommendation: <.....>
- Management Response: <.....>

4.3. Enter title of area reviewed: <.....>

- Audit Findings: <.....>
- Risk priority: <High or Medium or Low>
- Audit Evaluation: <.....>
- Audit Recommendation: <.....>
- Management Response: <.....>

4 RISK EVALUATION METHODOLOGY

Summary: The methodology contained herein, attempts to describe a method to be used in offering a concluding remark to the Management of an audited entity as to whether, for each objective assessed during an audit assignment, the situation is satisfactory, requires improvement or unsatisfactory.

Step 5: Risk Assessment

This methodology is used in Step 5 ('Risk Assessment') of Chapter 4 of this book.

General Concepts: Uncertainty and Risks

Uncertainty within a business firm or functional unit is a fact of life and is usually caused by one or more of the following factors (acting on its own or in combination):

- Irregularities in human performance
- Machine and/or systems break-downs
- Failures to maintain standard operating conditions
- Inadequate assessment of impact of external forces (market, economy, political environment)
- Inefficient use of resources (funds, personnel, equipment, technology, knowledge)
- Lack of appropriate controls of business functional complexity issues

Thus a business firm or unit will excel or fail accordingly, to the degree that it can successfully handle these or not.

Identifying and assessing a basic framework of risk factors related to the above and the level of risk associated with an audit unit and their relevance, by internal auditors, is not universal across firms or units over time.

In order to carry out a thorough risk analysis of any enterprise, a very good understanding of the business must be obtained in terms of what it is trying to achieve and what would make it successful (in the long run).

Critical Success Factors

In general terms, a set of Critical Success Factors may be utilised in order to get a full understanding of what would make a business entity or function successful (and therefore analysing its inherent risk in terms of potential failures). These may be the following:

- Make best use of resources (funds, personnel, equipment, technology, knowledge).
- Ensure best quality for services/products delivered/created by adding value to production chain/process.
- Provide efficient service to customers in the best possible time.
- Locate best vendors and obtain best prices and service.
- Interact with the market forces effectively (local market, international market, competition, co-operative agreements).

Internal Audit (IA) Objectives

Firms and functional units must establish effective internal control and develop management information systems to safeguard assets, information and company resources, measure operating performance and profitability and generally ensure company longevity.

Cynthia | AXA Graduate

AXA Global Graduate Program

Find out more and apply

redefining / standards AXA

The function of Internal Audit is to ensure that all proper measures, policies and controls/ techniques are in place in order to ascertain the Company's Management and Shareholders of proper business/functional continuity.

This is done by IA by assessing how the audited entity meets IA objectives (as per IA program and checklist of activities) and reporting the findings for all firms and functions examined, in an IA report.

An example of these objectives are listed below.

General / Financial / Operational Objectives

- written formal operational and support procedures in respect of the company's operations, are established
- there is full and no false inclusion of transactions
- the supporting documentation is bona fide
- the correct income is promptly received for all business trips
- sales are conducted in accordance with the terms of the relevant contracts
- interest is being correctly charged
- sales are backed by adequate guarantees in case of late payments
- procurement procedures exist
- quotations are sought from capable and pre-qualified subcontractors/contractors
- there is a budget and it is strictly followed
- a business plan exists
- adequate training is provided to all critical personnel
- agreements between company and customers exist
- correct invoicing procedures are applied
- management reporting is performed regularly
- correct approval/authorisation is sought for all business dealings
- emergency procedures are in place
- regular monitoring by management is performed and is evident through the process

Information Technology Objectives

- there is an IT budget and it is strictly followed
- a business plan exists
- adequate training is provided to all critical personnel
- agreements between company and maintenance contractors exist
- existing hardware is properly purchased and used
- only licensed software packages exist

- management monitoring and reporting is performed regularly
- emergency procedures are in place
- IT standards, procedures and policies exist
- the IT support function is properly set-up
- on site and off site storage procedures exist
- an IT strategy is established and followed closely
- the relevant computerised systems are properly used
- an adequate IT security policy exists
- adequate security of computer systems exist
- adequate security of physical environment is set-up
- back-up of computer data and software is taken regularly
- adequate testing for implemented applications is performed
- adequate auditability of computer system exists

Risks

Risk is the potential that events, either expected or unanticipated, may have an adverse impact on the firms' (or functions') earnings or capital.

The existence of risk is not a major reason for concern. Rather, how management plans to mitigate risks by controlling or limiting exposure to each warranted or unwarranted risk is most important.

The major risks to any company or organizational are:

General issues (including Financial and Operational)

- Incorrect Management monitoring and reporting
- Operational problems (and inadequate controls over costs, stock, structure, expenses, income, process)
- Statutory (legal, regulatory) breaches (violations)
- Loss of income (due to non-compliance with requirements)
- Misuse (loss, wastage) of resources (funds, personnel, equipment, information, technology)
- Bad debts (including non-payment by clients)
- Confidentiality breaches
- Business interruption
- Inferior quality of goods or end products and services delivered
- Incorrect information resulting in wrong services

Information Technology

- lack of business plan
- lack of IT strategy
- lack of IT budget
- lack of IT security policy
- deviations from the Company's established procedures
- inadequate separation of duties
- failure to anticipate market trends
- computer systems and software not properly supported
- lack of security of computer systems
- lack of security of physical environment
- improper or inadequate or non-existent maintenance contracts
- no adequate management monitoring and reporting
- improper information systems documentation
- incomplete IT standards, procedures and policies
- software packages not authorised
- business interruption
- incorrect recording/maintaining/processing of information/data
- not evaluating needs properly
- failing to control development costs
- incorrect hardware selection and sizing
- delays in implementation
- inadequate back-up of software and data
- lack of contingency and fall-back procedures
- unauthorised disclosure of confidential information
- loss of extremely valuable information (stored in application systems)
- No audit trail exists

Evaluation of Objectives and Risks

A concise method of communicating and documenting judgements about the quality of risks inherent as a result of assessing whether a set of objectives is met is required. The following approach for measuring and assessing risk is an example and represents one such methodology.

Role of Internal Audit (IA)

The objective of IA is simply to assist management and staff to carry out their duties and activities most efficiently and effectively and encourage them to make the best use of proper controls.

The scope of IA therefore includes:

1. Reviewing the reliability of the company's information systems
2. Reviewing the systems used for ensuring compliance with the company's policies, operating procedures and all statutory, legal and regulatory body requirements
3. Reviewing the means for safe guarding, valuing and verifying the existence of the company's assets
4. Assessing whether value for money is achieved over the company's use of its resources
5. Assessing whether the company's operating performance is consistent with its defined objectives and being carried out as planned

As part of this scope and in order to offer an objective opinion on how each business objective is met (or not), IA is required to conduct an evaluation of the audit findings at the end of the assignment.

Evaluating risks in an entrepreneurial environment is deemed to be a function of ensuring that objectives may or may not met via the undertaking of various types of tests, the application of testing techniques and rating the audit findings (of each audit assignment) in order to formulate a calculated opinion.

Audit Tests

The types of audit tests conducted may be compliance, weakness, substantive or any combination thereof.

Compliance tests are used to verify whether a specific control is operating in accordance with expectations.

Weakness tests are utilized when a compliance test has indicated a major failure of a control to establish whether the control system has broken down entirely or the failure is merely due to an isolated error.

Substantive tests are used to verify the existence and value of specific assets, liabilities, revenues and expenditures, either as part of general confirmation or in response to a known breakdown in control.

The testing techniques utilized on any audit examination may be one or more of the following:

- additions of transactions
- walk-through
- vouching
- observation
- spot checks
- analytical review
- predictive analysis (via modelling software)
- execution of audit software (upon extracted data)

Additions tests are used for confirming totals, balances and other quantitative amounts.

Walk-through tests are used to confirm one's understanding of how a transaction or document flows.

Vouching is used to verify the authenticity and accuracy of individual transactions against supporting evidence.

Observation is used to confirm that dynamic operations and procedures are being effectively and efficiently employed.

Spot checks are surprise checks designed to detect irregularities.

Analytical review is a method for analyzing data intended to highlight inefficiencies, inconsistencies or irregularities for subsequent investigation.

Predictive analysis is a set of computer programs used for performing various audit functions on computer held data.

Application of evaluation methodology

The evaluation of findings in relation to the objectives and risks assessed is conducted in a step-wise fashion whereby:

1. The audit objectives are stated in the beginning of the audit assignment.
2. The risk factors are associated to each stated objective.
The risk factors are rated in a scale (1 to 10, 1 for least important, 10 for most important).
3. The audit assignment is conducted according to the program, sample data, checklist, tests and techniques.
4. The audit findings are recorded in the audit report (and each outstanding point rated according to a priority level indicator: High, Medium, Low for action purposes).
5. The outstanding points, local management recommendations and other audit findings (as per work notes) are inserted and documented in the evaluation table (containing objectives and risks).
6. The evaluation results are tabulated.

Conclusion

Risk analysis and evaluation involves an assessment of the quality of risk management. Accurate and timely measurement is critical to effective risk management systems. The risks are controlled by the implementation of policies, standards and procedures and by capable management, appropriate staffing and informed boards endorsing and approving strategic policies in order to reduce the company's risk tolerance.

5 AUDIT QUESTIONNAIRES

Audit questionnaires may be used to evaluate and improve all aspects of the ‘Duty of Care’ responsibilities of managers of companies and organizations.

A full set of these is included in my book ‘Duty of Care Support Tools’ (available on www.bookboon.com).

This contains a set of a set of 69 questionnaires with over 1000 (1057) questions on the most critical issues related to ‘Duty of Care’ responsibilities, such as: *Ethics, Strategic Planning; Policies; IT, Data Privacy, HR, Production, Health and Safety, Monitoring, etc.*

For more details on how these may be used to evaluate and improve the performance aspects of the implementation process of hard controls, see chapter 7 of Part 2 of this book.

Also details on evaluating the replies to the audit questions, the audit methodology used and an audit report example, see Chapter 3 in Part 3 of this book and the practical example at:

<https://www.slideshare.net/jkyriazoglou/corporate-strategy-audit-questionnaires>

DISCLAIMER

The material, concepts, ideas, plans, policies, procedures, forms, methods, tools, etc. presented, described and analyzed in all chapters and appendices, are for educational and training purposes only. These may be used only, possibly, as an indicative base set, and should be customized by each organization, after careful and considerable thought as to the needs and requirements of each organization, taking into effect the implications and aspects of the legal, national, religious, philosophical, cultural and social environments, and expectations, within which each organization operates and exists.

Every possible effort has been made to ensure that the information contained in this book is accurate at the time of going to press, and the publishers and the author cannot accept responsibility for any errors or omissions, however caused. No responsibility for loss or damage occasioned to any person acting, or refraining from action, as a result of the material in this publication can be accepted by the publisher or the author.