

Global Internal Audit Services

Conducted in Accordance with the International Standards
for the Professional Practice of Internal Auditing

Org. Unit:	Unit XY	Report No.:	38/2007
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Audit Title:

Purchasing Follow-up Audit

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| 1 | Management Summary |
| 2 | Implementation Report |
| 3 | Classification/Status 1 of 2 |
| 4 | Classification/Status 2 of 2 |

Audit Title: Purchasing Follow-up Audit				Audit Report No.: 38/2007	
Audit Type: Standard		Audit Status: Follow-up Audit I		Date of Audit: 17 - 21 December 2007	
Auditor(s): Jane Myers, Bill Smith		Executive Responsible: Catherine Dubois		Date of Closing Meeting: 21 December 2007	
Participants of Closing Meeting: Tim Cohen, Catherine Dubois, Sonia Jiang, Jane Myers, Maria Rojas, Bill Smith					
Distribution List: Tim Cohen, Catherine Dubois, Sonia Jiang, Maria Rojas					
Note: Due to confidentiality requirements, the distribution of audit reports must be limited. Therefore, please forward this report only to the additional parties which should be informed and / or might be part of the implementation of the audit recommendations.					
Overview/Audit Objectives: This audit was focused on the findings in report no. 15/2007. Of these findings, the status of 1 finding is "open", and the status of 1 finding is "in process". One finding has been closed. The overall follow-up rating is yellow. No new findings.					
Audit Status (please tick)	Date	Audit Rating	Overall Audit Statement/ Scoring	Findings / Recommendations	Ref. Impl Report
Basic Audit <input checked="" type="checkbox"/>	12 - 23 Febr. 2007		Needs Improvement		
Status Check I <input checked="" type="checkbox"/>	9 - 11 July 2007		Needs Improvement		
Follow-up Audit I <input checked="" type="checkbox"/>	17 - 21 Dec. 2007		Needs Improvement	1. <u>Signature policy:</u> Finding/observation: The signature policy has not been adapted to the current organizational structure and is thus not up-to-date. Recommendation: The signature policy is to be adapted to the current organizational structure as laid out in the organizational chart.	1
				2. <u>Vendor selection and competitive bidding process:</u> Finding/observation: The practice of soliciting at least two bids from external vendors prior to award of contract has not been implemented in all Purchasing areas and has not been included in the purchasing guidelines as a requirement. Recommendation: A rule is to be included in the purchasing guidelines requiring the solicitation of at least two offers from external vendors. This rule is to be implemented in all Purchasing areas.	2
Status Check II <input type="checkbox"/>			Meets Standard		
# of findings: 3			New: 0	In process: 1	GIAS Pending: 0
			Reasonably contr.: 0	Done: 1	Open: 1
					Mgmt. disagreed: 0

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Audit Title: Purchasing Follow-up Audit						Audit No.: 38/2007				
Audit Status: Follow-up Audit I						Auditor(s): Jane Myers, Bill Smith				
Audit Items						Monitoring				
No.	ref. Report no. ref. Item	Classi- fica- tion	Observation/Finding	Risk Category	Recommendation	Action/ Management Responses	Responsible	Com- pletion date	Status Local Manage- ment	Status GIAS
			Strategy and organizational structure							
1	15/2007 Nr.1	B	<p>Signature policy</p> <p><u>Risk condition:</u> The signature policy has not been adapted to the current organizational structure and is thus not up-to-date.</p> <p><u>Risk consequence:</u> There is a risk that unauthorized persons might sign documents to the disadvantage of the company.</p>	Business risk	The signature policy is to be adapted to the current organizational structure as laid out in the organizational chart.	The Purchasing organisation is currently undergoing a restructuring process. Final responsibilities have not yet been laid down. The signature policy will be updated as soon as responsibilities have been determined.	Catherine Dubois	Q1/2008	O	Open
			Purchasing process							
2	15/2007 Nr. 3, item 2	B	<p>Vendor selection and competitive bidding process</p> <p><u>Risk condition:</u> Good business practice requires that at least two offers from external vendors be available prior to award of contract. This requirement has not been implemented in all Purchasing areas.</p> <p><u>Risk consequence:</u> There is a risk that the supplier selection process is not guided by efficiency and effectiveness considerations. This may lead to financial and/or quality loss.</p>	Business and financial risk	A rule is to be added to the purchasing guidelines requiring the solicitation of at least two offers from external vendors. This rule is to be implemented in all Purchasing areas.	Recommendation has been partly implemented but not yet been rolled out in all subsidiaries.	Catherine Dubois	Q1/2008	P	In Process
			Accounting							
3	15/2007 Nr. 2	L	<p>Finance and administration responsibilities</p> <p>All accounting entries, including supplier invoices, are to be carried out by the financial accounting department. GIAS found out that all supplier invoices related to the car pool are being entered into the accounting system not by the financial accounting department but by the respective area within Purchasing.</p> <p><u>Risk condition:</u> Segregation of duties and the dual control principle are not guaranteed.</p> <p><u>Risk consequence:</u> Risk of incorrect accounting entries.</p>	Financial risk	All supplier invoices are to be entered into the system by the financial accounting department.	Recommendation has been implemented.	Catherine Dubois	10/2007	C	Done

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18

Classification	Status Local Management	Status GIAS	
B = Board R = Region L = Local	C = Closed P = In process O = Open	New	= New issue
		In Process	= Execution had been started by responsables before issuance of final internal audit report
		GIAS Pending	= Pending GIAS verification only for issues that have recommendations that have been implemented but could not be reviewed or checked by GIAS (AM and Audit Lead decision)
		Open	= Not implemented (no confirmation by Local Management or significant open issue from Follow-up)
		Reasonably controlled	= Issue reasonably controlled (i.e. process)
		Done	= Execution has been finalized by Local Management (Yes/No) (i.e. facts)
		Mgt. disagreed	= Local Mgt. Disagreed to GIAS recommendation

FU Implementation Scoring

GIAS Status Classification	Open	In Process	Done / Reas. Controlled
Board	Red / 12 pts.	Red / 6 pts.	Green / 0 pts.
Regional	Red / 6 pts.	Yellow / 3 pts.	Green / 0 pts.
Local	Yellow / 3 pts.	Yellow / 1 pts.	Green / 0 pts.

Scoring: 0-11 Points **Meets Standard**
 12-23 Points **Needs Improvement**
 > 23 Points **Weak**

FU NEW FINDINGS RATING

Audit Results	Audit Statement	Audit Results			Audit Statement
# of Findings	Preliminary Rating	Classification			Final Rating
		B	R	L	
0	Exceeds Standards	-	-	-	Exceeds Standard
1 – 4	Meets Standard	0 – 50% 51 – 80% 81 – 100% Fraud	-	-	Meets Standard Needs Improvement Weak Substantial Weakness
5 – 14	Needs Improvement	0 – 50% 51 – 100% Fraud	-	-	Needs Improvement Weak Substantial Weakness
15 – 24	Weak	21 – 100% Fraud	-	-	Weak Substantial Weakness
25 or greater	Substantial Weakness	21 – 100%	-	-	Substantial Weakness

OVERALL FOLLOW-UP RATING

<div>FU New Findings Rating</div> <div>FU Scoring</div>	Exceeds Standard (green)	Meets Standard (green)	Needs Improvement (yellow)	Weak (red)	Substantial Weakness (red)
Green	Green	Green	Yellow	Red	Red
Yellow	Yellow	Yellow	Yellow	Red	Red
Red	Red	Red	Red	Red	Red