

PCEF guidance notes

Area J – Business consultancy and internal review

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Unit PC24 – Prepare for and control an internal review or investigation

This unit is concerned with the initial stage of an internal review or investigation including the coordination function. A wide variety of reviews or investigations may be carried out within any organisation and, as a result, you will need to understand the nature of the business, its areas of operation, the environment in which it operates and the reason(s) why the review or investigation is needed.

Element reference	Demonstrated behaviour and examples
Element BC1 Determine the scope, purpose and objectives of an internal review or investigation	<ul style="list-style-type: none">• Determine the scope and objectives of the review or investigation and the specific areas to be reviewed• Establish criteria against which the evidence will be judged• Clarify and communicate the scope, purpose and objective of the review with all relevant people• Collect any relevant background documentation• Design and review programmes and planning documentation
Element BC2 Deliver evidence for an internal review or investigation	<ul style="list-style-type: none">• Manage staff and resources to ensure that the agreed outcomes are delivered• Agree plan and timetable with client and provide progress reports• Monitor the completion of the programme and amend it where necessary• Ensure that any organisational and other regulatory requirements are met• Resolve any problems as they arise through discussion with the commissioner of the review or investigation

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Area J – Business consultancy and internal review

Unit PC25 – Deliver the objectives of an internal review or investigation

This unit contains functions relating to the process of conducting an internal review or investigation. It involves obtaining and judging evidence gained during the investigative process, preparing written reports and, where required, providing evidence as an expert witness.

Element reference	Demonstrated behaviour and examples
Element BC3 Obtain evidence for analysis against the objectives of an internal review or investigation	<ul style="list-style-type: none">• Collect evidence for the review• Produce systems documentation and working papers• Conduct interviews with relevant people• Consider whether the evidence obtained meets the objectives of the review• Investigate any areas of inconsistency or concern and document all significant findings• Corroborate management representations• Maintain records that contain sufficient evidence to support the review findings
Element BC4 Make judgements against the objectives of an internal review or investigation	<ul style="list-style-type: none">• Analyse the evidence gathered• Compare results with the criteria established at the planning stage• Select appropriate areas for further investigation and collect further evidence where necessary• Make informed decisions based on the evidence• Identify outcomes of the internal review
Element BC5 Report on the findings and outcomes of an internal review or investigation	<ul style="list-style-type: none">• Prepare a written report on the outcomes of the review ensuring that it meets the set requirements• Present the report to the commissioner of the review or investigation• Deliver clear recommendations based upon the findings of the review• Raise matters of concern or outstanding issues with the appropriate stakeholders• Record the responses to the report and agree actions to resolve them
Element BC6 Present evidence as an expert witness for litigation or criminal proceedings	<ul style="list-style-type: none">• Present evidence to court or any other investigating body in a clear and logical manner• Only offer evidence that is a truthful representation of the evidence gained through investigation• Provide evidence that is relevant to the questions asked• Ensure assertions and opinions provided to the investigating body can be justified by evidence gained during the investigations

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Unit PC24 – Prepare for and control an internal review or investigation

ELEMENTS	
BC1	Determine the scope, purpose and objectives of an internal review or investigation
BC2	Deliver evidence for an internal review or investigation

EXAMPLE 1**BC1**

One of our existing clients approached us with a request to conduct a review of the HR controls and procedures in a small company, which he had recently acquired. He wanted to ensure that all HR processes and controls were operating effectively and was also looking for any recommendations for their improvement.

I prepared the plan for the review including what resources were required and discussed these with the partner. One of the suggested staff members was recently involved in a similar review and his experience was very relevant to this engagement. I also prepared a summary document which explained the purpose of the review, which the client could share with all of the relevant HR employees. We have used similar documents in the past and have found them very effective as they increase the awareness amongst the client staff members and make the review more efficient.

I asked the client to provide me with more information prior to the commencement of the review. In particular, the process documentation currently in place, a list of existing internal controls and the names of the individuals involved in the HR function. The client provided the information a week before the commencement of the fieldwork, which allowed me to design the internal review programme, including testing of all of their HR controls and identify potential risk areas to be tested. The main risks that were identified included unauthorised changes to the database and override of controls.

BC2

The timetable for the review was agreed with the client prior to the commencement of the fieldwork. I had a meeting with the assistant who was booked to conduct the review where I explained my main concerns based on the information that I had received from the client.

Half way through the review the assistant shared some concerns about the authorisation process the firm had in place with regards to holiday pay. He had identified a weakness in the process where HR staff members were able to approve their own holiday pay. Following this I amended the programme used for the review and asked the assistant

to perform an additional test in order to identify whether any breach had occurred since the acquisition of the company. No breaches were identified; however, this significant weakness was reported to the client along with recommendations to resolve the issue. The client agreed to introduce an additional IT control in place, where staff members will not be able to approve their own holiday pay.

EXAMPLE 2**BC1**

I am part of the firm's Engagement Quality Control Review (EQCR) group. Our role is to work independently and objectively to evaluate the significant judgments the audit team made and the conclusions reached in formulating the auditor's report.

As part of this process the group needs to consider what audits will be subjected to the EQCR process. Generally we have responsibility for reviewing the audits of all listed entities, but we also have to consider whether it is applicable to other high risk files. In order to do this we have to collate the relevant information relating to our audits from each individual office. In my office there are five listed companies and three potentially high risk audits. Whilst I cannot be part of the EQCR process for these clients as I am not sufficiently independent, this is a starting point for the group to assess what reviews are due to be undertaken and by whom.

In all cases I look to ensure that the review programmes are still valid, updating the documentation where required. As a Financial Reporting Standards expert for the firm, I have responsibility for ensuring that this aspect is fully reflected in the review programme.

BC2

Once we are aware of the timings and location of the listed company audits, they are allocated between the EQCR group. I was required to attend our London office to undertake the review of their AIM listed construction company. Due to the tight timescales expected I had to liaise frequently with the audit manager to ensure that I was aware of the key risk areas during the audit. The size of the audit also required a colleague to attend with me to ensure that we had sufficient resources for our review.

I was responsible for ensuring that all risks had been identified as part of the planning process. Upon reviewing the audit I discussed a couple of issues that the audit team had identified – the increased level of provisions linked to certain contracts and the non-compliance to project change procedures flagged by one of the tests performed. I ensured that the audit team's documentation was sufficient to meet the firm's regulatory requirements. The audit report could not be signed off until the EQCR had been completed. Despite the two issues discussed above, there were no material items identified which would impact on the audit opinion and therefore the audit was concluded in a timely fashion.

EXAMPLE 3

BC1

During the period I worked alongside our Internal Audit department, I was tasked with the objective of investigating a potential theft from a small number of our stores. The purpose of my investigation was to identify the root cause of the missing money. I completed a full review of our accounts. It appeared to show that these stores' reports had cash missing from the tills. The scope of the investigation was to determine what, or who, was the cause of the cash shortfall in the tills and to address the issue which was having a negative impact on the sales reported and profit margins of the affected stores, and the resultant regional impact. It was part of my role to ensure that my findings were communicated to the Head of Internal Audit and ensure that I collected relevant documentation, evidence and procedural documentation from the stores in which the missing cash had been identified.

BC2

I analysed the transactions of one such store over a period of time, reviewing how the cash was physically going through the tills and subsequently being recorded. A review of CCTV footage was also being carried out to assist our investigations and try to determine whether the cause of this shortfall was simple human error or more worryingly, a case of criminal behaviour. The footage was reviewed against sales information closely for a period of two weeks and it transpired that genuine refunds were being issued to customers without the appropriate transactions being recorded through the till, nor accounted for on the cashing up sheets at the end of the work day, hence the physical cash shortfall.

These findings were presented to the Head of Internal Audit who ensured that the matter was brought to the attention of the affected store managers and additional training was given to till-trained staff. The procedures were also highlighted as part of new staff inductions. Further monitoring of the affected stores three months later following the same procedures as before, reported sales increased by 5–10% and the resultant effect on the profit margin was pleasing to management.

Area J – Business consultancy and internal review

Unit PG25 – Deliver the objectives of an internal review or investigation

ELEMENTS	
BC3	Obtain evidence for analysis against the objectives of an internal review or investigation
BC4	Make judgements against the objectives of an internal review or investigation
BC5	Report on the findings and outcomes of an internal review or investigation
BC6	Present evidence as an expert witness for litigation or criminal proceedings

EXAMPLE 1**BC3**

One of our manufacturing clients requested an internal review of the operation of the inventory system as there had been an increased number of internal complaints. As part of the review I conducted interviews with the production manager, warehouse manager and the inventory accountant. I noted their concerns, which allowed me to focus my review on the problem areas. I identified that the stock level on the system was not always updated following shipment of certain items. This led to customer issues as the system was showing availability of these items, however, there were sometimes shortages of these products in the warehouse. All of these items were part of the same inventory class on the system, which suggested that there was an underlying IT issue. This was recorded on my working papers and the work was referenced to a number of inventory reports, which were also saved on the file.

BC4

I decided to speak to the IT department who had designed the bespoke inventory system used by the company. The IT manager confirmed that they had created a new inventory class following the introduction of a new product line. I explained my findings and requested further investigation of the system configuration of the new product line. Following further investigation, the IT manager confirmed that there was an error in the configuration for this specific inventory class and changes had been made to rectify the issue. The configuration was made a week before the issue was identified and I undertook additional tests to confirm that there were no similar errors in other inventory classes and there was no impact on other product lines caused by the identified error. I then conducted a number of tests in order to confirm that the system was now recording the inventory movements correctly and no further issues were identified.

BC5

I prepared an internal review report which was reviewed by the partner and presented to the client. I held a closing meeting with the client where we discussed the outcomes of the review and the actions that were taken by the IT department. I recommended the introduction of more regular inventory reconciliations and an additional review of the IT configuration if there are future changes in the product lines. The client was satisfied with the review and was willing to implement my recommendations. Minutes from this meeting were recorded on file.

BC6

One of the partners was called as an expert witness in a case of breach of contract in the civil courts. We were the accountants for one of the companies who was defrauded by the accused and had to present comments on the past few years financial statements, highlighting the cost to our client of the fraud. It involved artificially inflated prices being charged for assets bought by our client and the accused was being sued for breach of contract by several customers, our client included. In this case we were called to court in person to present our findings. It was great experience as I drafted the comments on the financial implications of the breach in the accounts for the partner to present in court. I accompanied the partner to court with lots of supporting documents in case we were asked for them on the day and I was asked to give the judge a copy of the previous year's fixed asset working papers.

EXAMPLE 2

BC3

The Engagement Quality Control Review (EQCR) team is responsible for regular cold file reviews for each office. Offices are visited on a rotation basis. I was responsible for reviewing audit files for the Leeds office. The audit manager was required to submit a list of all audits undertaken by the office. Once I selected the sample I liaised with the audit manager to ensure that the audit files and the relevant audit teams were available at the time of my review.

Once the sample has been selected I tailor the review checklist accordingly depending on the type of organisation that I am reviewing. This forms the basis of my review. The Leeds office had a large fresh produce company. Due to the complexity of this client, I had a meeting with the audit manager in advance of my review to understand the client. I collected the evidence required by my checklist to ensure that the file sufficiently reflected the audit opinion. This was mainly done by reviewing the audit documentation and speaking to the audit manager and the partner.

BC4

My review involves ensuring that the financial statements comply with statutory and financial reporting standard disclosure requirements. I review all aspects of the audit file. In relation to another client (a toy selling company), there were significant concerns regarding intercompany balances and related party transactions. I discussed this at length with the audit partner to understand the various intercompany relationships. On the basis of these discussions and the evidence on file I agreed that the disclosures in the financial statements were appropriate.

BC5

Following a cold file review of a big consultancy business undertaken in our Manchester office, I prepared a report summarising the outcomes of the review. The report highlighted weaknesses in the audit file where firm policies had not been applied and there were concerns over the evidence kept on file following the implementation of the new data protection rules. The report was discussed with the audit partner, the client engagement partner and the audit manager involved. The audit team was required to put an action plan in place addressing any issues identified in the report. The plan included additional training on the new requirements and the introduction of a checklist, which should eliminate similar errors in the future. For one of the other offices I visited there was concern that some of the audit team on a big charity client were not fully aware of the impact of the charities SORP. The office therefore undertook a training session following the recommendation in my report.

BC6

During the audit of a large corporation I discovered a number of errors in the accounting records relating to payments from one of their largest customers. I discussed my findings with the partner and we concluded that the errors could indicate a potential fraud had occurred. We reported our findings to the directors and a criminal investigation followed. During the investigation we supplied all the evidence that we had obtained in order to answer any questions that the authorities and directors had. Our evidence formed the basis of the prosecution and I supported the audit partner when she was required to discuss the findings in court.

EXAMPLE 3

BC3

I carried out an internal review on the procurement process of the company as I felt that the existing process was outdated and in need of an overhaul since we were not being offered competitive prices for the products we were buying. Existing suppliers, with a long standing history with the company, were used time after time without benchmarking the costs of supply against other potential suppliers in the market. I carried out a sample check by compiling a listing of the most regularly purchased items and obtaining quotes from at least two alternative suppliers for each item.

BC4

Quality control was carried out on these products to ensure that the quality was up to the required, existing standard that we expected and to do this I requested a number of samples from the potential new suppliers which were then sent to our operations plant for quality testing and approval. Unsurprisingly, a number of the lower-priced products did not stand up to such quality control testing so were rejected immediately.

BC5

A report was prepared to management to include those suppliers whose products passed the quality control process. These suppliers were added to a recommended list of preferred suppliers which was created alongside a newly implemented procurement process for the company. This has resulted in tangible savings for the company and an improved gross profit margin. Management has instructed that the procurement process be reviewed at least every three years in light of my current findings, to ensure that we remain competitive in an ever-evolving marketplace.

BC6

I was engaged as an accounting expert witness to provide an opinion on the financial loss suffered by the company as a result of potential negligence of the previous financial accountant whilst conducting the financial due diligence on the acquisition of an overseas business. I prepared a report identifying the failings in their work by reviewing evidence relating to the accountant's valuation of the said business whereby simplistic calculations had failed to take into account future earnings of the business given a known downward trend in the specific market place and a devalued sterling. This resulted in the company overpaying significantly for the business and a quantification of the future loss-making position of the business, along with the impact on the group's projected results, was prepared and presented to the investigating body.