



**USAID**  
FROM THE AMERICAN PEOPLE



**PEPFAR**  
U.S. President's Emergency Plan for AIDS Relief

# WEBINAR

## USAID Financial Policies, Internal Controls and Compliance

**6 March 2024**

**Presented by:**

**Accelerating Support to Advanced Local Partners  
(ASAP II)**



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- Yellow Book audit expert
- NGOs/LIPs worldwide are clients
- Only peer-reviewed audit firm in Africa

# USAID FINANCIAL POLICIES & COMPLIANCE



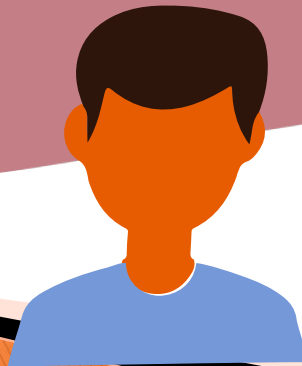


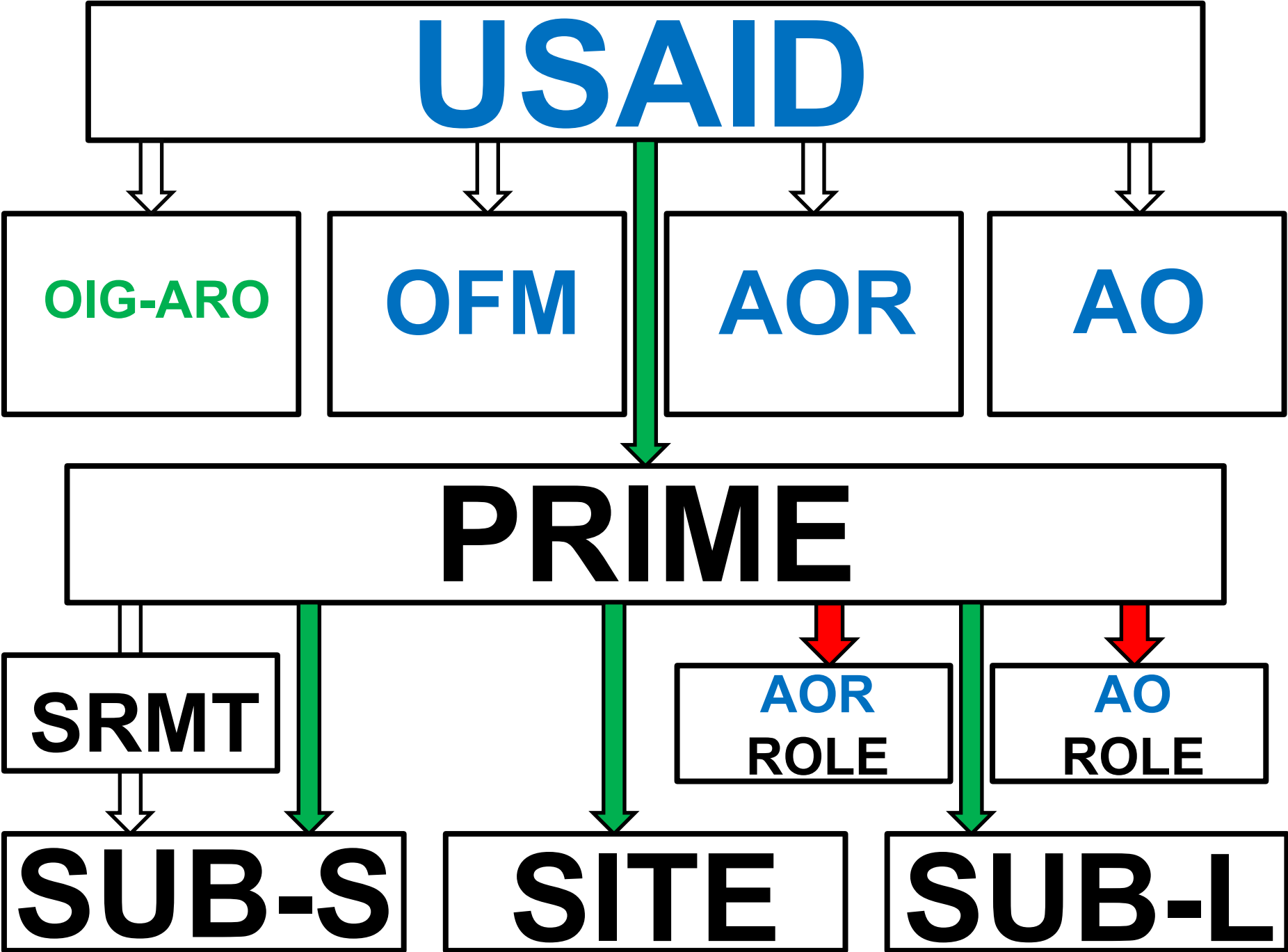
# RELATIONSHIP BETWEEN USAID/CDC, PRIME RECIPIENTS AND GRANTEES

Successful implementation of a Co-op Agreement with USAID/CDC and the agreements between a prime recipient and future Recipients requires continuous communications between a number of parties.

USAID/CDC and Recipient officials have defined roles that need to be understood. (ADS 303 and HHS/GPS discussed and pitfalls of not working with the relevant person, e.g., informal commitments).

USAID/CDC, as part of the US government, are also bound by rules and regulations. Many of the USG rules are passed down through a prime recipient to the sub-recipient (e.g., Pass Down provisions in the Mandatory Standard Provisions). Auditors must be aware of rules for compliance testing.





# ACRONYMS

<b>OIG-ARO</b>	– USAID OIG African Regional Office
<b>OFM</b>	– Office of Financial Management
<b>AOR</b>	– Agreement Officer Rep.(USAID)
<b>AO</b>	– Agreement Officer (USAID)
<b>SRMT</b>	– Subrecipient Management Team
<b>SUB-S</b>	– Subrecipient (Small)
<b>SUB-L</b>	– Subrecipient (Large)

**SUBPART D .300**  
POST-FEDERAL AWARD  
REQUIREMENTS STANDARDS  
FOR FINANCIAL &  
PROGRAM MANAGEMENT

**MSP ADS 303**  
**HHS/GPS**

**SUBPART C .200**  
PRE-FEDERAL AWARD  
REQUIREMENTS & CONTENTS  
OF FEDERAL AWARDS

**22 CFR 226** **X**  
**45 CFR 74** **X**

**Co-AG**  
**NoA**

**SUBPART E .400**  
COST PRINCIPLES

**COST PRINCIPLES**  
**OMB A-122** **X**  
**OMB A-21** **X**  
**FAR 31.2**

**SUBPART F .500**  
AUDIT REQUIREMENTS

**AUDIT**  
**US GAGAS**  
**“YELLOW BOOK”**  
**OMB A-133** **X**



**OMB A-110** x

**OMB A-102** x

**A-122** x

**A-21** x

**A-87** x

**A-133** x

**2 CFR 200**

**45 CFR 75**

**NON-US MSPs & RAAPs**

**US MSPs & RAAPs**



# Code of Federal Regulations

A point in time eCFR system



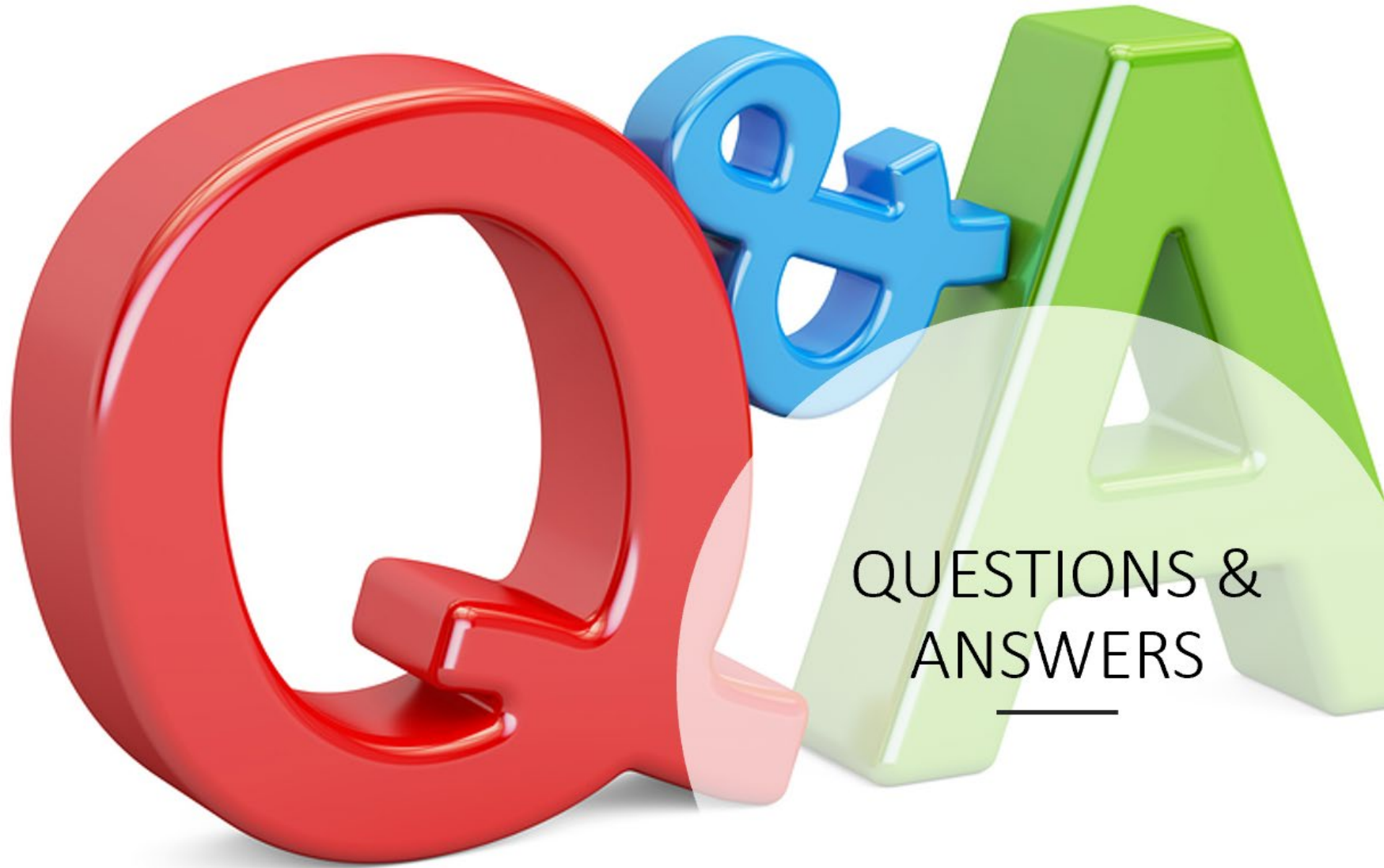
## Title 2

Displaying title 2, up to date as of 2/26/2024. Title 2 was last amended 10/23/2023. [view historical versions](#)

Enter a search term or CFR reference (eg. fishing or 1 CFR 1.1)

ECFR CONTENT

<ul style="list-style-type: none"> <li> Details</li> <li> Print</li> <li> Search</li> <li> Subscribe</li> </ul>	▼ <b>Title 2</b> Grants and Agreements	Part / Section
	▼ <b>Subtitle A</b> Office of Management and Budget Guidance for Grants and Agreements	1 – 299
	<b>Part 1</b> About Title 2 of the Code of Federal Regulations and Subtitle A	1.100 – 1.305
	<b>Chapter I</b> Office of Management and Budget Governmentwide Guidance for Grants and Agreements	2 – 199
	<b>Chapter II</b> Office of Management and Budget Guidance	200 – 299
▶ <b>Subtitle B</b> Federal Agency Regulations for Grants and Agreements	300 – 6099	



QUESTIONS &  
ANSWERS

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# PROBABLE UPCOMING CHANGES TO THE UNIFORM GUIDANCE MARCH/APRIL 2024

01

02

03

04

## CHANGES DIRECTLY IMPACTING RECIPIENTS

Increase the single audit threshold from \$750,000 to \$1 million and the thresholds for equipment and supplies from \$5,000 to \$10,000. Sec. 200.313, 200.314 & 200.501

Clarify what Federal agencies approve costs requiring prior approval when the Federal award is issued if the costs were included in the recipient's proposal and do not require subsequent approval prior to expenditure. Sec. 200.407

Continue to provide Federal agencies with discretion to apply subparts A-E of part 200 to for-profit entities, foreign public entities, or foreign organizations. Sec. 200.101(c)

Change the definition of "Modified Total Direct Costs" to exclude subaward costs above \$50,000 rather than \$25,000. Sec. 200.1

# PROBABLE UPCOMING CHANGES TO THE UNIFORM GUIDANCE MARCH/APRIL 2024

05

06

07

08

09

## CHANGES DIRECTLY IMPACTING RECIPIENTS

Clarify that recipients and subrecipients must promptly disclose any “credible evidence” of a Federal criminal law potentially affecting the Federal award. Sec. 200.113

Entitle recipients to any unexpected funds under a fixed amount award. Sec. 200.201

Remove the current Simplified Acquisition Threshold (\$250,000) for fixed amount awards. Sec. 200.333

Provide additional flexibilities for recipients when interest bearing accounts are not accessible in a foreign country. Sec. 200.305

Allow program income for certain closeout costs. Sec. 200.307

# PROBABLE UPCOMING CHANGES TO THE UNIFORM GUIDANCE MARCH/APRIL 2024

10

11

12

13

## CHANGES DIRECTLY IMPACTING RECIPIENTS

Clarify that recipients do not need approval of individual subrecipients, but only when making subawards of programmatic activities not proposed by the recipient in the application for an award. Sec. 200.308

Eliminate prior approvals for real property, direct costs, entertainment costs, exchange rates, memberships, participant support costs, selling and marketing costs, and taxes. Sec. 200.407

Clarify recipients and subrecipients may notify OMB of any disputes with regards to a Federal agency's application or acceptance of a federally negotiated indirect cost rate. Para. (c)(2) of Sec. 200.414

Clarify that pass-through entities must accept all federally negotiated indirect cost rates for subrecipients. Para. (d) of Sec. 200.414

# PROBABLE UPCOMING CHANGES TO THE UNIFORM GUIDANCE MARCH/APRIL 2024

14

15

16

17

## CHANGES DIRECTLY IMPACTING RECIPIENTS

**Raise the *de minimis* rate from 10% to 15%. Para. (f) of Sec. 200.414**

Require subrecipients to certify to pass-through entities that financial information submitted to the pass-through entity is complete and accurate. Sec. 200.415

Remove the requirement for prior approval of fluctuations of exchange rates. No approval is required because an exchange rate has fluctuated and resulted in a necessary charge to available funding. Sec. 200.440

Remove the prior approval requirement for participant support costs or selling and marketing costs. Sec. 200.456 & 200.467

# PROBABLE UPCOMING CHANGES TO THE UNIFORM GUIDANCE MARCH/APRIL 2024

18

19

20

21

## CHANGES DIRECTLY IMPACTING RECIPIENTS

Include closeout costs upon termination. Sec. 200.472

Allow charging administrative costs specifically associated with the closeout of a Federal award. Sec. 200.472

Require that compliance testing must include a test of transactions to provide the auditor with sufficient evidence to support an opinion on compliance. Sec. 200.514

Clarify that under the direct cost allocation method, joint costs include costs for information technology. Appendix IV to Part 200



# **MUST VERSUS SHOULD EXPLAINED**

**ECFR 200.101 APPLICABILITY/UNIFORM GUIDANCE:**

**884 MUSTS** (including appendices)

**2 CFR 200 ADS303mab/MANDATORY STANDARD  
PROVISIONS AND REQUIRED AS APPLICABLE  
PROVISIONS**

**315 MUSTs**

**38 MUST NOTs**

# **COOPERATIVE AGREEMENT**

**ATTACHMENT A: SCHEDULE**

**ATTACHMENT B: PROGRAM DESCRIPTION**

**ATTACHMENT C: NON-US MSPs & RAAPs  
OR  
US MSPs & RAAPS**

**ATTACHMENT D: MARKING/BRANDING**

**ATTACHMENT E: INITIAL ENVIRONMENTAL  
EXAMINATION**

# **ATTACHMENT A: SCHEDULE**

- A.1 Purpose of Cooperative Agreement**
- A.2 Period of Cooperative Agreement**
- A.3 Amount of Cooperative Agreement and Payment**
- A.4 Cooperative Agreement Budget**
- A.5 Reporting, Monitoring and Evaluation**
- A.6 Title To and Use of Property**
- A.7 Indirect Cost Rate**
- A.8 Program Income**
- A.9 Cost-Sharing (Matching)**
- A.10 Authorized Geographic Code**
- A.11 Substantial Involvement Understandings**
- A.12 Resolution of Conflicts**
- A.13 Post-Award Agreement Administration**
- A.14 Special Provisions**
- A.15 Environmental Compliance and Management**
- A.16 Standard/Mandatory Provisions**
- A.17 Branding Strategy and Marking Plan**
- A.18 Termination**
- A.19 Disputes**
- A.20 Management Review and External Evaluation**



# Standard Provisions for Non-U.S. Nongovernmental Organizations

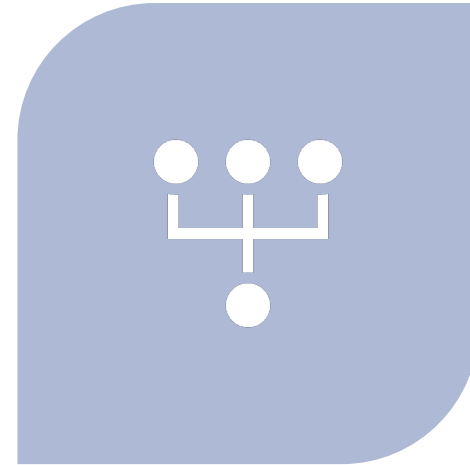
A Mandatory Reference for ADS Chapter 303

Partial Revision Date: 10/24/2023  
Responsible Office: M/OAA/P  
File Name: 303mab\_102423

# WHY IS IT NECESSARY FOR YOU TO UNDERSTAND THE NEW USG RULES?



SO THAT YOU CAN  
PROPERLY ADMINISTER/  
AUDIT THE AGREEMENT



UNDER THE NEW RULES,  
COMPLYING WITH THE RULES  
WILL AFFECT YOUR ABILITY TO  
WIN NEW WORK (AT THE  
PRIME AND SUB LEVELS)



**ARE YOU READY?**

# FIXED AMOUNT AWARD



# SUBRECIPIENT





# PRIME RECIPIENT WITHOUT SUBRECIPIENT



# PRIME RECIPIENT WITH SUBRECIPIENT



# WHAT IS THE GOAL?



# OMB AND FAR COST PRINCIPLES

**OMB Circular A-21:** Cost principles for Higher Education Institution,  
**OMB Circular A-122:** Cost principles for NGO's,  
**OMB Circular A-87:** Cost principles for State & Local Governments  
Have all been consolidated into a single set at Subpart E 2 CFR 200.400.

**FAR 31.2:** Cost principles for For-profit organizations remains the same.

- ▶ Subpart E are the principles for determining costs of grants, contracts and other agreements with non-Federal entities.
- ▶ **Provide that Federal Government bear its fair share of costs except where restricted/prohibited by law.**
- ▶ All federal agencies and their grantees and, if passed down, sub-grantees are subject to these principles in determining costs of work performed under grants / cooperative agreements.

**REASONABLE**

**ALLOCABLE**

**ALLOWABLE**

**SUPPORTED**

# REASONABLENESS

[ § 200.404 ]

“ A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.”

# REASONABLENESS

## [ § 200.404 ]

Consideration shall be given to:

- ▶ Generally recognized cost for the operation.
- ▶ Restraints/requirements imposed by factors like arm-length bargaining, State laws, etc.
- ▶ Market prices for comparable goods or services for the geographic area
- ▶ Individuals acted with prudence
- ▶ Significant deviations from established practices.

# ALLOCABILITY

[ § 200.405 ]

“ A Cost is allocable to a particular cost objective (Grant/project/service) in accordance with relative benefits received.”



# ALLOCABILITY

[ § 200.405 ]

A cost is allocable to a Federal Award if treated consistently with other costs incurred for the same purpose and:

- ▶ Incurred specifically for award
- ▶ Benefit both award and other work and can be distributed in reasonable proportion to the benefits received; or
- ▶ Necessary to overall operation of the organization although a direct relationship cannot be shown.

## 200.405 Allocable costs.

(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

(1) Is incurred specifically for the Federal award;

(2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and

(3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

(b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

(c) Not applicable to this webinar

(d) Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

# ALLOCABILITY

[ § 200.405 ]

- ▶ All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
- ▶ No cost allocable to a particular award, may be shifted to other Awards to overcome funding deficiencies!

# ALLOWABILITY

[ § 200.403 ]

To be allowable under an award, costs must meet the following general criteria:

- a) Be reasonable for the performance of the award and be allocable thereto under these principles.
- b) Conform to any limitations or exclusions set forth in these principles or in the award as to the types or amount of cost items.
- c) Be **consistent** with policies and procedures that apply uniformly to both the agency-funded project and other activities of the organization.
- d) Be accorded **consistent** treatment.

# ALLOWABILITY

[ § 200.403 ]

- e) Be determined in accordance with Generally Accepted Accounting Principles (GAAP)\*.
- f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program.
- g) Be adequately documented.

\* *M2a in the Standard Provision for Non-U.S. NGOs has three choices: “generally accepted accounting principles in the US, the cooperating country, or by the International Standards Accounting Board.*

# WHICH RULES APPLY TO WHO?

**USAID – CDC/NIH**

**U.S. PRIME**

APPLY THE 2 CFR 700 or 45 CFR 75 & NEW GPS  
2 CFR 200 & U.S. MSPs

**U.S. SUBs**

GET U.S. MSPs WHICH INCLUDE  
2 CFR 200 & 700  
45 CFR 75 & NEW GPS

**NON-U.S. SUBs**

GET NON-U.S. MSPs WHICH  
INCLUDE 2 CFR 200.400 ONLY  
45 CFR 75 & NEW GPS

**NON-U.S. OFFICE**

SAME RULES AS HOME OFFICE

# WHICH RULES APPLY TO WHO?

**USAID – CDC/NIH**

**NON-U.S. (FOREIGN) PRIME**

GET NON-U.S. MSPs WHICH or 45 CFR 75 & NEW GPS  
INCLUDE 2 CFR 200.400 ONLY

**U.S. SUBs**

GET U.S. MSPs WHICH INCLUDE  
2 CFR 200 & 700  
45 CFR 75 & NEW GPS

**NON-U.S. SUBs**

GET NON-U.S. MSPs WHICH  
INCLUDE 2 CFR 200.400 ONLY  
45 CFR 75 & NEW GPS



QUESTIONS &  
ANSWERS

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**SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS (SEFA)**

**INTERNAL CONT.**

**TERMS & COND<sub>s</sub>**

**PRIOR REC<sub>s</sub>**

**INDIR. COSTS**

**COST SHARE**

**STAT F/S**

1.1 Fund Accountability Statement – US Dollars

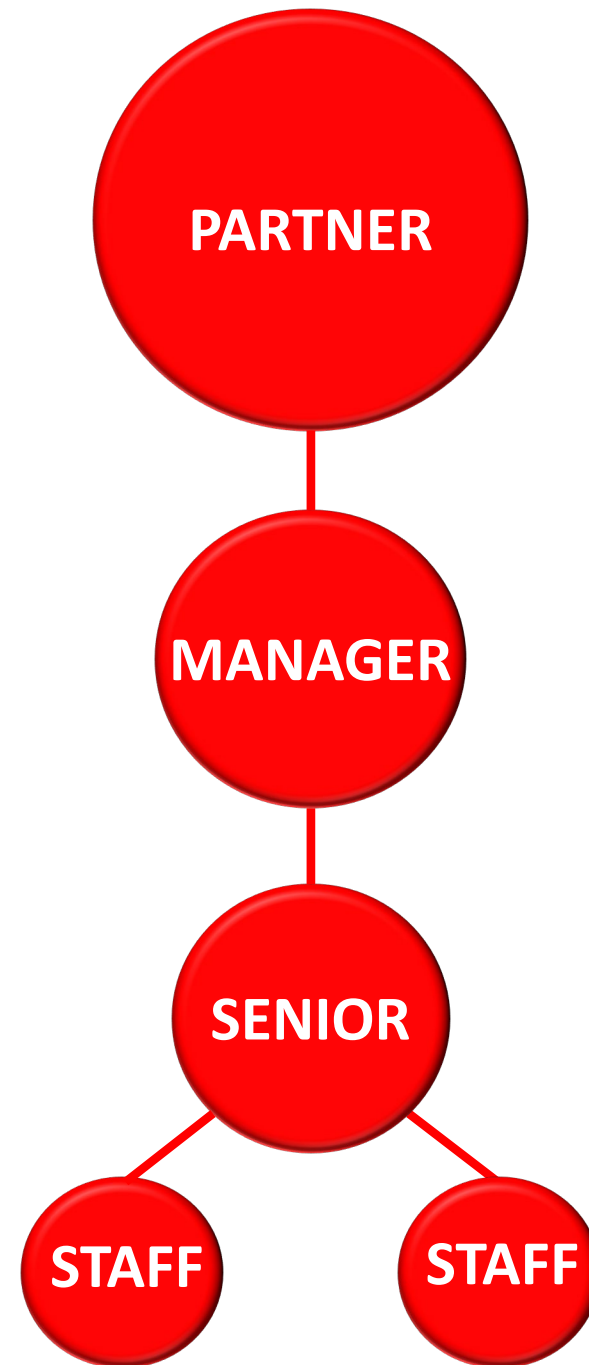
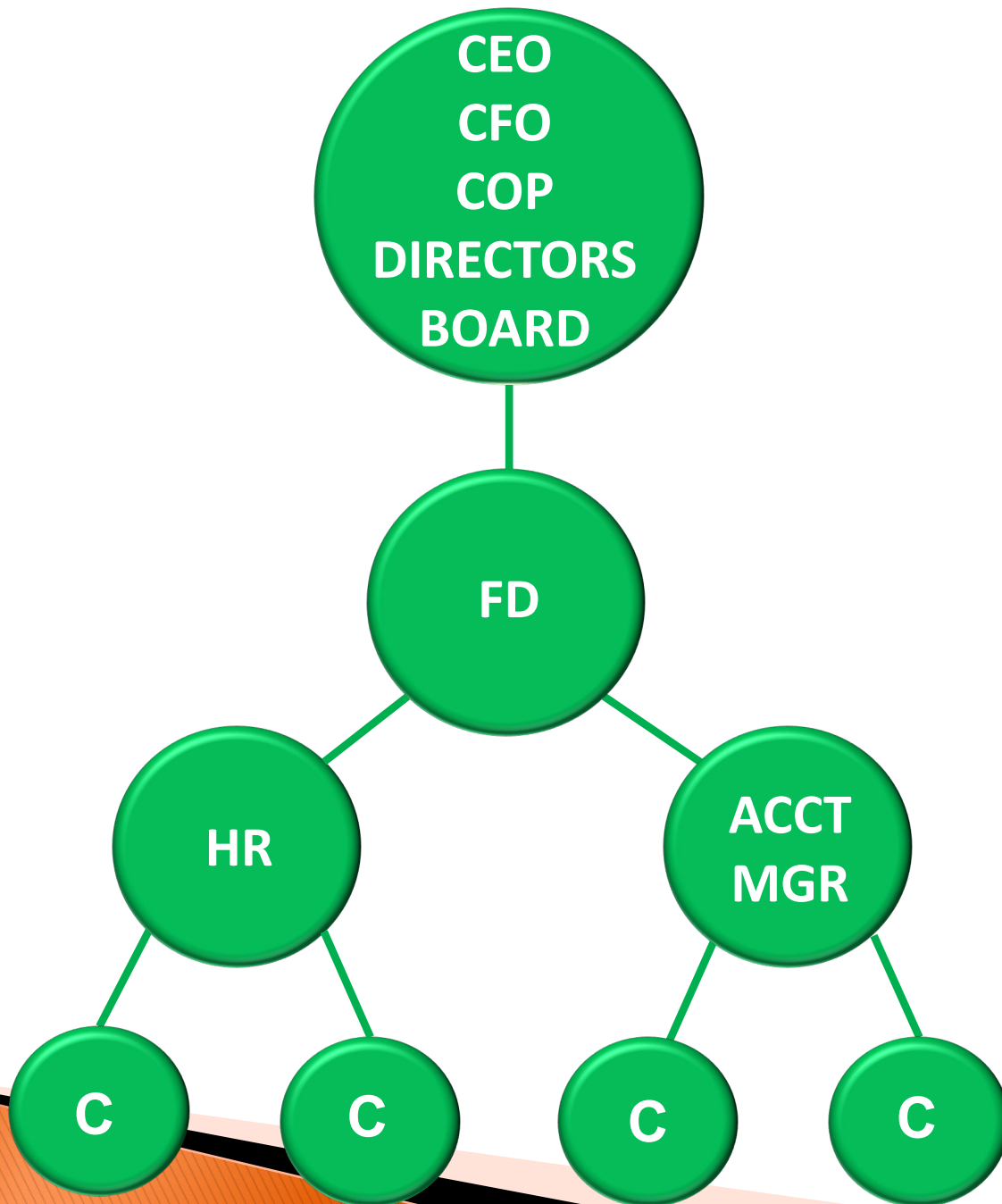
FUND ACCOUNTABILITY STATEMENT

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
	<u>£</u>	<u>£</u>	<u>£</u> <u>Ineligible</u>	<u>£</u> <u>Unsupported</u>	
<b>Revenue</b>	<b>4,463,233</b>	<b>4,753,489</b>			
Cooperative Agreement: ██████████	4,463,233	4,748,100			
Interest Income		5,389			
<b>Expenses</b>	<b>(4,463,233)</b>	<b>(4,902,867)</b>	<b>(371)</b>	<b>(795)</b>	
Salaries & Wages	1,601,362	517,230	92		8
Fringe Benefits	173,335	6,809			
Equipment	47,969	14,959			
Supplies	49,016	-			
Contractual/Subawards	1,215,441	3,640,983	279	795	9
Travel	90,055	49,636			
Other	1,286,055	673,250			
<b>Surplus</b>		<b>149,378</b>			
<b>Reconciliation Between Surplus and Cash on Hand</b>					
Net cash outflow from operations/surplus		(149,378)			
Opening Balance (from prior period)		264,109			7
Interest received from Sub A in ██████, remitted to USAID in ██████		540			
Interest received from Sub B in ██████, remitted to USAID in ██████		5,226			
December ██████ expenses paid using ██████ funds, reimbursed in January ██████		21,009			
December ██████ expenses paid using ██████ funds, reimbursed in January ██████		(23,494)			
Funds received from Sub A for use of ██████ motor vehicle		5,252			
		<b>123,264</b>			
Cash on hand at 31 December ██████		<b>8,753</b>			
Variance		<b>114,511*</b>			

## Schedule of Expenditures of USAID Awards

(Multiple awards, 1<sup>st</sup> year presented, no cumulative amounts, in USD)

Elements	Budget Agreement A	Actual Revenues and Expenditures 01/1/20X1 to 12/31/20X1 Agreement A	Budget Agreement B	Actual Revenues and Expenditures 03/15/20X1 to 12/31/20X1 Agreement B	Questioned Costs		Notes
					Ineligible	Unsupported	
<b>Revenues</b>							
USAID Contribution	3,554,399	984,389	2,300,550	1,245,405			Note 1
Program Income	-			245,829			
<b>Total Revenues</b>	<b>3,554,399</b>	<b>984,389</b>	<b>2,300,550</b>	<b>1,491,234</b>			
<b>Costs</b>							
Salaries	817,512	180,666	529,127	213,085	36,000		Note 3
Transportation	142,176	31,420	92,022	37,058			
Program activities	2,185,955	483,086	1,414,838	569,772		14,350	
Other costs	408,756	90,333	264,563	106,543			
<b>Total costs</b>	<b>3,554,399</b>	<b>785,505</b>	<b>2,300,550</b>	<b>926,458</b>			

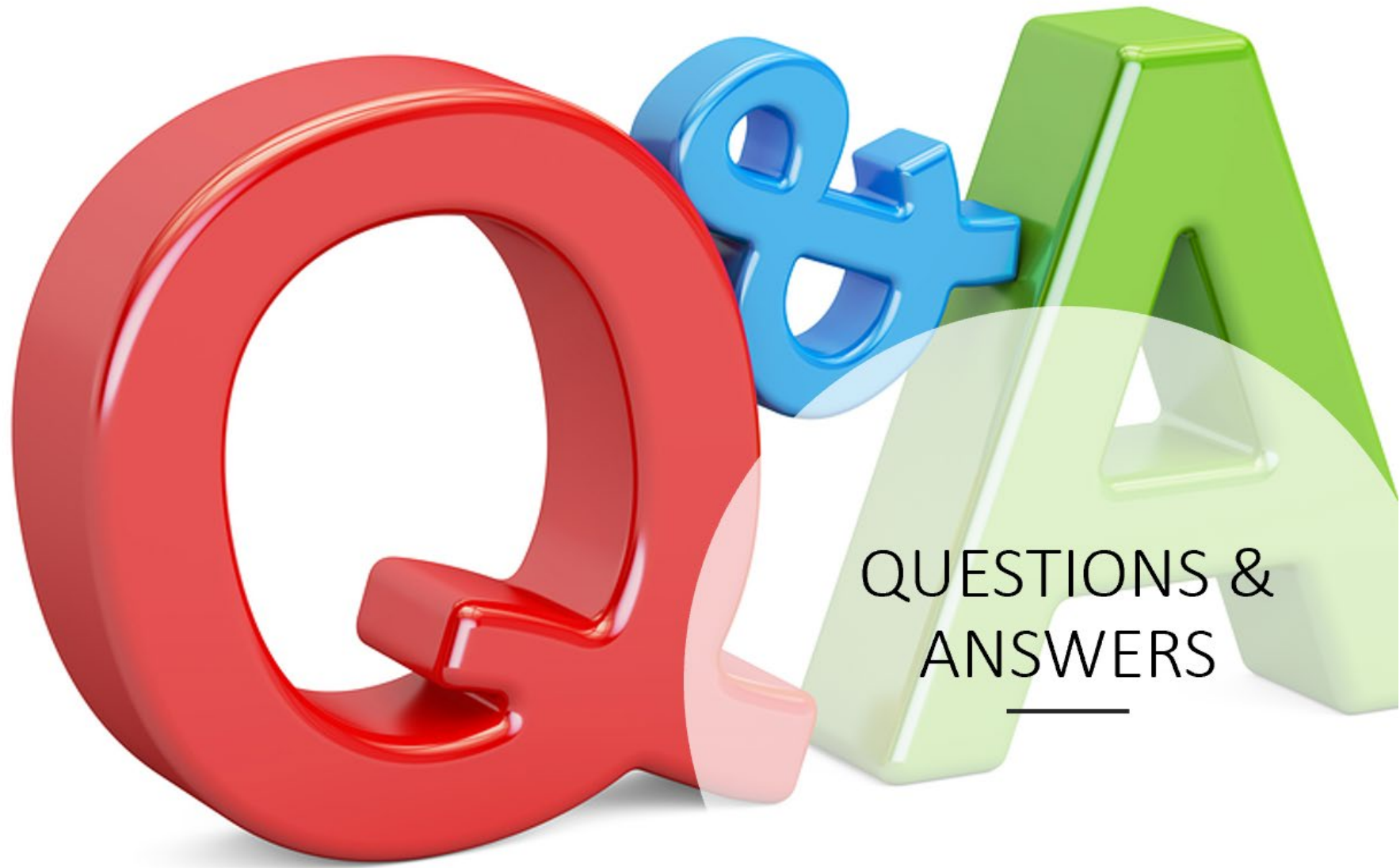


# **AUDIT FINDINGS ELEMENTS**

- **CRITERIA**
- **CONDITION**
- **CAUSE**
- **EFFECT**

**Auditor Recommendation**

**Management Comments**



QUESTIONS &  
ANSWERS

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# INTERNAL CONTROLS

*(A.K.A. GREEN BOOK)*




# History of the “*Green Book*”

 The “*Green Book*” was first issued in 1983 by the Comptroller General of The G.A.O.

 There have been numerous updates since 1983. Latest update was in September 2014. Last update before this one was 1999.

✓ 1999 version had 17 pages of information versus 80 pages of the 2014 version

 1999 version had the 5 Components, 2014 version has the 5 Components and then the 17 Principles and 48 Attributes

 Significant change has been the alignment with the *Internal Controls - Integrated Framework* issued by COSO. This is to bring it in line with commercial practices and include a significant portion on the IT control environment.



# What is the Purpose of Internal Control

For USAID & HHS/CDC/NIH Recipients of US Government funding there are separate but similar pieces of legislation that deal with the requirements of internal controls

For USAID Recipients the Federal Register 2 CFR 200.303 requires that entities have an internal control system

- ***The non-Federal entity must:***

- (a) *Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

# What is the Purpose of Internal Control Cont...

- b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.*
- c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.*
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.*
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality*

**For HHS/CDC/NIH, 45 CFR 75.303 is effectively the same as  
2 CFR 200.303**

# Overview of Internal Control Systems

*ACHIEVING OBJECTIVES THROUGH INTERNAL CONTROLS*



OBJECTIVE IDENTIFIED



CONTROLS DESIGNED



CONTROLS IN PLACE



OBJECTIVE ACHIEVED

***Possibly!***



**NICK LEESON**



# BARINGS BANK

# FINANCIAL

MONDAY FEBRUARY 27 1995

## Bank of England set to provide liquidity to system ■ Singapore trader in Barings forced to cease trading

By John Gapper and James Bizzi

Barings, the UK's oldest merchant banking group, was last night placed under administration owing to massive losses on financial derivatives contracts after the Bank of England failed to orchestrate a rescue by other banks.

Mr Kenneth Clarke, the Chancellor, is to make a statement on the cause of the most serious crisis to date in the London markets since the rescue of Johnson Matthey Bankers a decade ago.

A decision to allow Mr Leeson to resign came from the Bank of England.

**Early February:** Barings derivatives trader in Singapore takes a huge gamble on futures contracts on movements in the Nikkei 225 index.

**Mid-February:** Trader agrees to further derivatives contracts to provide cash for losses he is sustaining as index falls.

**Thursday, Feb 23:** Barings fails to roll over derivative contracts in Asia. Bank's senior executives in London are told that the contracts expose it to catastrophic losses.

**Friday, Feb 24:** Barings advises Bank of England of its plight.

Monday, Feb 25



Nick Leeson arriving back at prison after appearing in court in Singapore. The defence said Leeson had been ruined financially. PHOTOGRAPH: BOB LOV

## Shocked and confused dealer spends his first night in a Frankfurt prison

# Leeson flies back to legal battle



End of the road... Nick Leeson arrives at Frankfurt airport escorted by German police

NICK LEESON, the 28-year-old heart of the Barings bank collapse, who surrendered to Frankfurt police yesterday, is said to be "shocked and confused" as he prepares for a long legal battle to avoid being extradited to Singapore where he could face a maximum sentence of up to 15 years.

The 28-year-old dealer was consulting lawyers as he started his first night in a Frankfurt prison after being apprehended when he and his wife Lisa used a chartered plane to flee the scene of the disaster.

Police were waiting for the couple who were seen on the run since a multi-billion pound trading loss was discovered to have been built up by Mr Leeson at the Barings Singapore office six days ago.

After visiting Mr Leeson in Frankfurt's prison, his lawyer, Richard Barrett, said his client was "shocked and confused" and was "not sure of his own mind".

Refusing to say whether Mr Leeson is a "victim" of the crash, Mr Barrett said he had just been advised that the bank had a valid restriction on its trading with Germany.

The Singapore stock exchange cleared six weeks of Mr Leeson's trading as broken.

The huge trading loss has bankrupted the City's oldest merchant bank and caused the Nikkei to fall.

Mr Leeson was later allowed to leave and is understood to have flown back to a rooming house in London in a private jet.

The British Consulate in Singapore is thought to have sent a message to his relatives.

But his family refused to accept him last night. His 18-year-old sister told a local newspaper: "Nick is being blamed for everything."

The Singapore authorities in London pressed ahead with criminal proceedings against Mr Leeson by presenting a specific charge of an 80 million dollar trading loss.

Some charges of 12 years in jail, according to international law.

Singapore officials are expected to arrive in Frankfurt today to press their case against Mr Leeson on the full scope of the charges.

On Thursday, Singapore's commercial court issued a warrant for Mr Leeson's arrest.

Mr Leeson was arrested on Monday this week. Three passport photos were taken for Mr Leeson and he flew back to Singapore.

Mr Leeson was detained after a police report by a Singaporean citizen that he had been seen in the city.

Mr Leeson was arrested after a police report by a Singaporean citizen that he had been seen in the city.

Mr Leeson was arrested after a police report by a Singaporean citizen that he had been seen in the city.

### Enjoying the good life on the run

THE TANGUNG ARU, a luxury hotel, has 100 rooms, most with marble floors. It is situated on the south coast of Sumatra, Indonesia. It has a swimming pool, a tennis court, a golf course, and a private jet terminal.

Mr Leeson is said to be enjoying the good life on the run. He is believed to have a private jet and a large sum of money hidden away in various banks and offshore accounts.

Mr Leeson is believed to be in contact with his family and friends, and is said to be planning to flee the country.

Mr Leeson is believed to be in contact with his family and friends, and is said to be planning to flee the country.

## Leeson gets 6½ years

Barings bosses move into frame as judge passes harsher sentence than expected on former trader

FORMER Barings trader Nick Leeson was jailed for six years in Singapore early this morning in an unexpectedly harsh sentence for his part in the bank's crash.

Senior Judge Richard Magan, known as one of the toughest members of Singapore's judiciary, handed down a sentence on two charges of cheating and forgery just short of the nine-year maximum. It is backdated to include the nine months he spent in custody in Germany awaiting extradition.

With remission for his cooperation Mr Leeson may expect to serve no more than three years and seven months.

It remains to be seen whether his lawyer, John Koh, will exercise his right of appeal against a sentence that seems heavier than envisaged by the prosecution, which had noted Mr Leeson's cooperation with investigation.

Legal action against his former bosses is expected to be quickly launched by the Singaporean authorities. Mr Leeson is understood to have provided information about the role of top directors in the hope of a shorter prison term.

Investigators have been waiting until sentence was passed on 28-year-old Mr Leeson before proceeding against his immediate superiors.

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Mr Koh emphasised: "It is not disputed (by the prosecution) that there are no secret profits."

The offences to which Mr Leeson has pleaded guilty were committed during a series of disastrous share deals he carried out from the Barings Singapore office which eventually resulted in the collapse of the bank with losses of more than £840 million this year. Nine other charges, each of which carries a maximum sentence of seven years, have been dropped.

But the Singapore authorities have announced that they have identified other former Barings staff who were "grossly negligent or wilfully blind" and need to be tried.

Directors being investigated include James Bax, the former Barings regional manager for Southeast Asia, and Simon Jones, the operations manager. Both are understood to be in Singapore.

Investigators are also anxious to question Peter Marston, the former chief executive who is in Britain but could face extradition if the Singapore authorities compile a strong enough case. Legal experts said yesterday that Marston would be paid soon. Leeson had to borrow against his interest in London properties owned by his wife to do so, Mr Koh said.

After agreeing that Mr Leeson would pay the prosecution costs, Mr Koh handed prosecutor Lawrence Ang a £50,000 cheque for his legal fees and pledged that the remainder of the £70,000 costs would be paid soon. Leeson had to borrow against his interest in London properties owned by his wife to do so, Mr Koh said.

Another other likelihood of Leeson's profiting from his notoriety was remote, because a writ had been served in Britain to strip him of possible gains. Nor was there a Hollywood movie featuring Hugh Grant planned, despite rumours.

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# The Guardian

## Receivers called in after £500m goes walkabout

# Barings sinks goes bust

Barings, the UK's oldest merchant banking group, was last night placed under administration owing to massive losses on financial derivatives contracts after the Bank of England failed to orchestrate a rescue by other banks.

Mr Kenneth Clarke, the Chancellor, is to make a statement on the cause of the most serious crisis to date in the London markets since the rescue of Johnson Matthey Bankers a decade ago.

A decision to allow Mr Leeson to resign came from the Bank of England.

Barings bosses move into frame as judge passes harsher sentence than expected on former trader

FORMER Barings trader Nick Leeson was jailed for six years in Singapore early this morning in an unexpectedly harsh sentence for his part in the bank's crash.

Senior Judge Richard Magan, known as one of the toughest members of Singapore's judiciary, handed down a sentence on two charges of cheating and forgery just short of the nine-year maximum. It is backdated to include the nine months he spent in custody in Germany awaiting extradition.

With remission for his cooperation Mr Leeson may expect to serve no more than three years and seven months.

It remains to be seen whether his lawyer, John Koh, will exercise his right of appeal against a sentence that seems heavier than envisaged by the prosecution, which had noted Mr Leeson's cooperation with investigation.

Legal action against his former bosses is expected to be quickly launched by the Singaporean authorities. Mr Leeson is understood to have provided information about the role of top directors in the hope of a shorter prison term.

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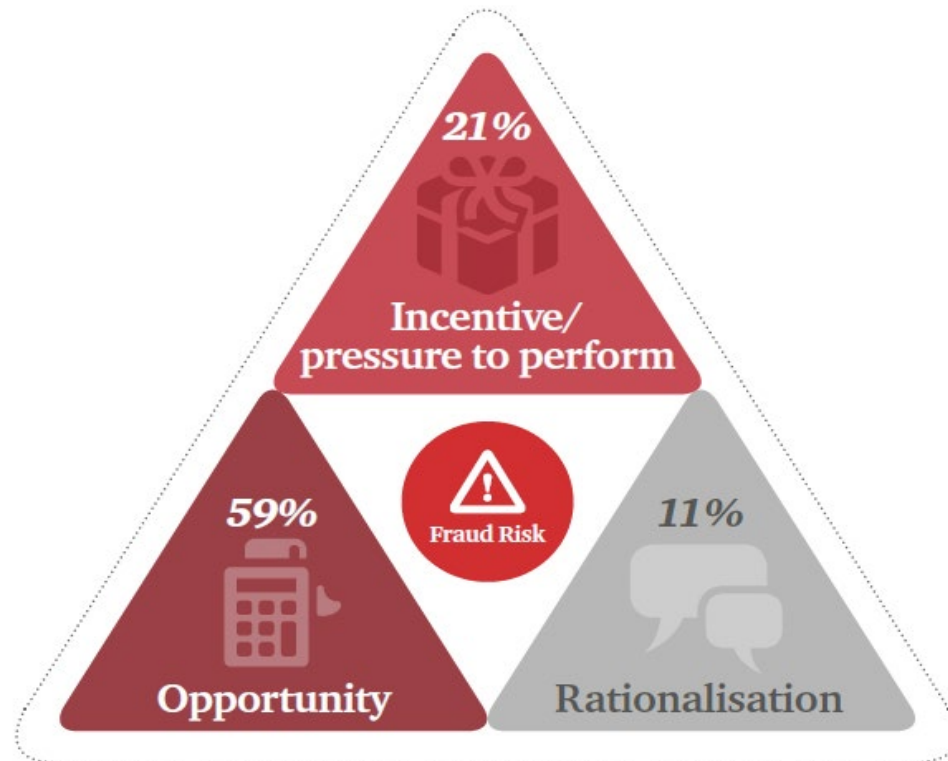
Full report, page 10. Don't miss the new CharityCard, page 10. Don't miss the new CharityCard, page 10.

***Losses  
eventually  
reached  
£827 million  
(US\$ 1.4 billion)***



# Most Common Contributing Factor to Internal Fraud

A global survey conducted by PWC revealed the following percentages of respondents who ranked the factor as the leading contributing factor to internal fraud (*Source: PWC's Global Economic Crime and Fraud Surveys 2018*):





# Levels of Organizational Structure

- *Audit Committee*
- *Compensation & Benefits Committee*
- *Nominating & Corporate Governance Committee*
- *Finance Committee*
- *Regulatory and Compliance Committee*
- *Technology & Sustainability Committee*

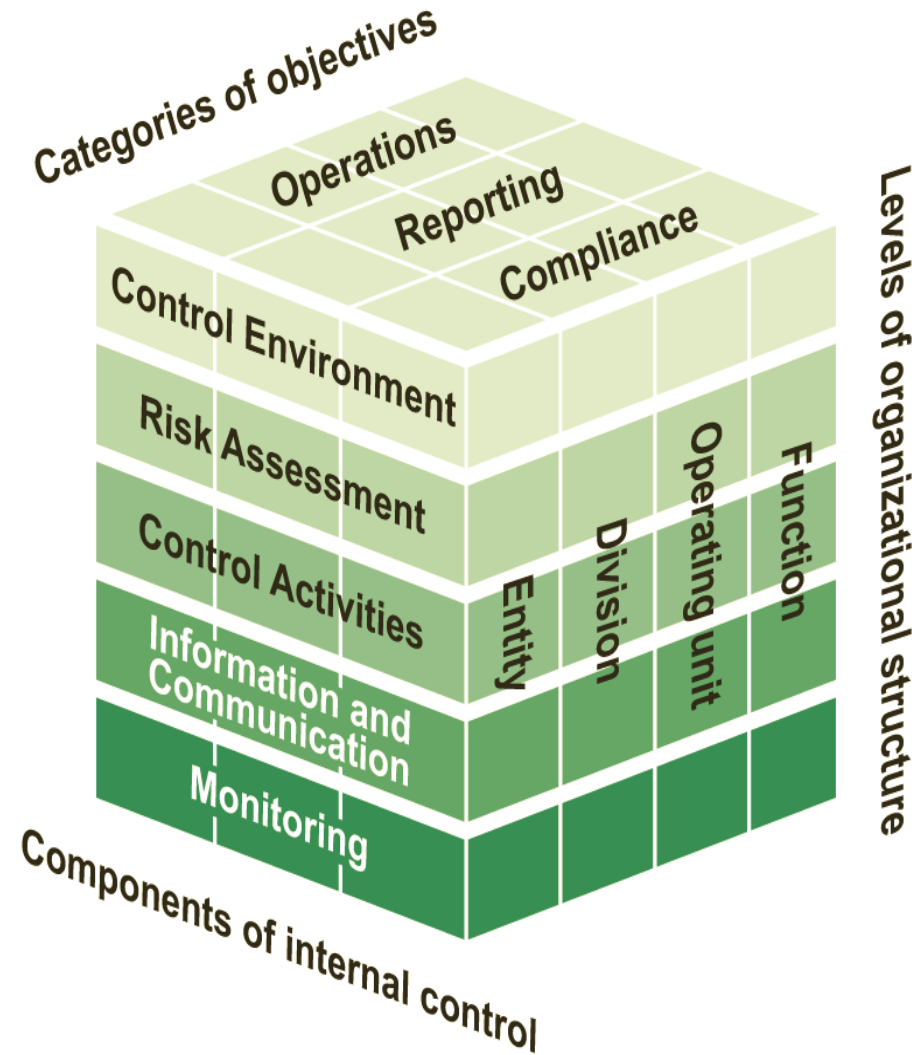
**Board**

**Management**

- *Chief Executive Officer*
- *Chief Financial Officer*
- *Chief Operations Officer*
- *Head of Human Resources*
- *Head of Finance and Administration*

**Personnel**

# Structure of the “Green Book”



Sources: COSO and GAO. | GAO-14-704G

# Components of Internal Control Cont...

There are five Components that represent the highest level of the hierarchy of the standards:

## CONTROL ENVIRONMENT

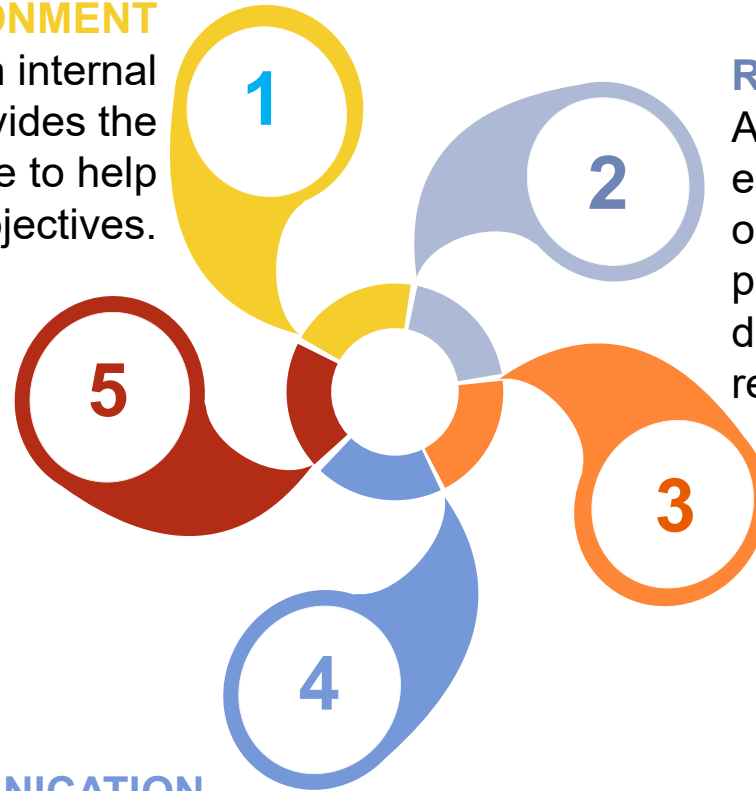
The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

## MONITORING

Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews

## INFORMATION & COMMUNICATION

The quality information that management and personnel communicate and use to support the internal control system



## RISK ASSESSMENT

Assess the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses

## CONTROL ACTIVITIES

The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system

# Components of Internal Control Cont...

## Control Environment

- Demonstrate Commitment to Integrity and Ethical Values
- Exercise Oversight Responsibility
- Establish Structure, Responsibility, and Authority
- Demonstrate Commitment to Competence
- Enforce Accountability

## Risk Assessment

- Define Objectives and Risk Tolerances
- Identify, Analyze, and Respond to Risks
- Assess Fraud Risk
- Identify, Analyze and Respond to Change

# Components of Internal Control Cont...

## Control Activities

- Design Control Activities
- Design Activities for the Information Systems
- Implement Control Activities

## Information and Communication

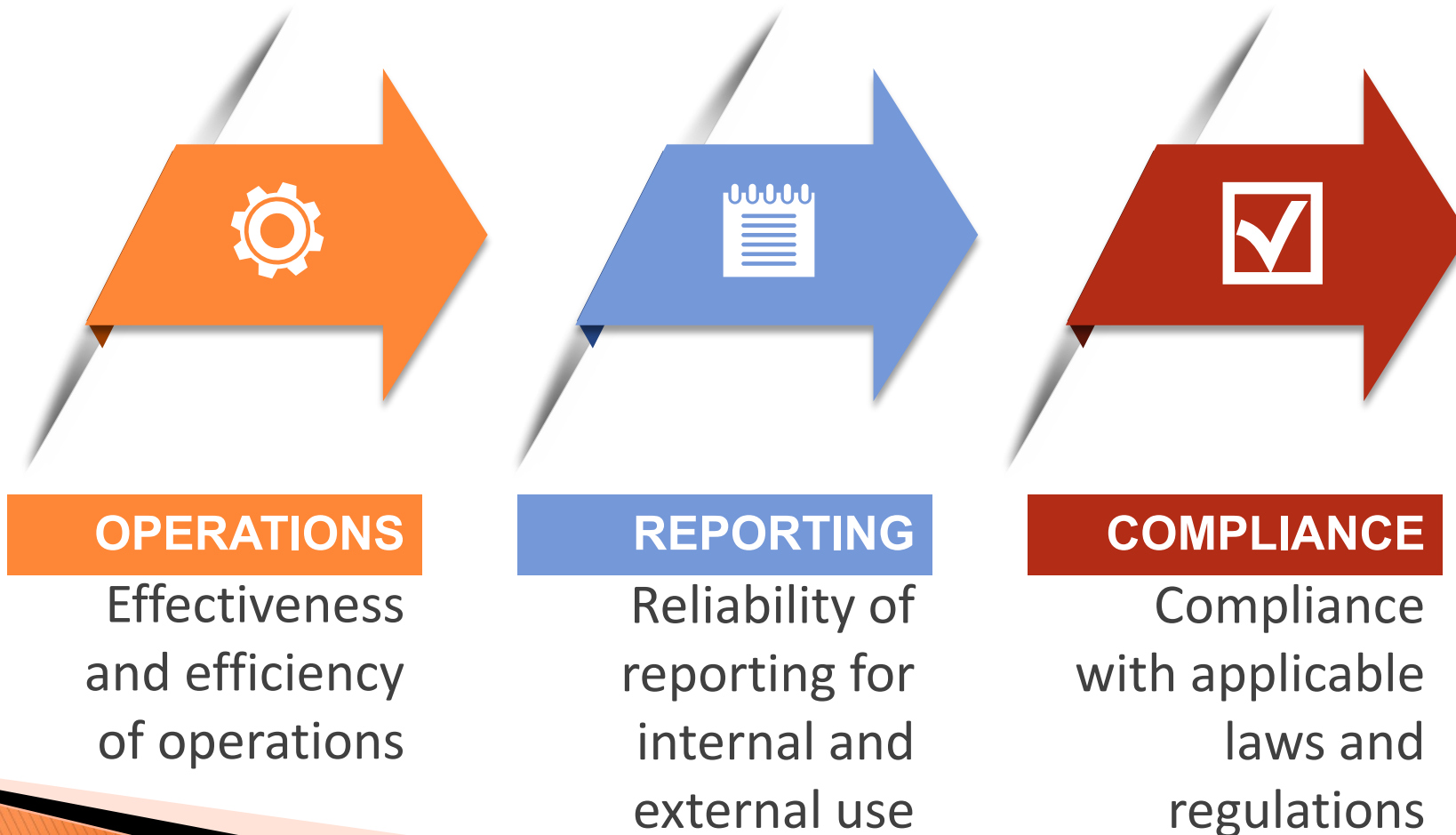
- Use Quality Information
- Communicate Internally
- Communicate Externally

## Monitoring

- Perform Monitoring Activities
- Evaluate Issues and Remediate Deficiencies

# Categories of Objectives

An entity can group its objectives into one of these three Categories of Objectives:



# Levels of Organizational Structure



No two organizations have the same structure.



The intention of the model is to show that each of the 5 Components need to be considered across not just the entity but at the divisional, operating unit and function level.



Example of this would be a bank. A bank has very strong internal controls across the whole entity. However, it has different internal controls for each division in the bank. And each operating unit has its own controls and the various functions in the operating units will have their own controls.



QUESTIONS &  
ANSWERS

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# Fraud Risk Register - Example

## (FRAUD) RISK REGISTER

Office/ Corporate Function Name: \_\_\_\_\_

Date \_\_\_\_\_

Risk ID	Risk Description	Risk Causes	Current Key Controls	Risk Likelihood	Risk Impact	Risk Score	Risk Owner	Further Management Actions	If yes, what further actions	Action Plan Owner	Target Completion Date	Action Status	Review Date
	<i>A statement of the main organizational/functional objective impacted by the risk.</i>	<i>A list of the proximate causes of the risk.</i>	<i>A description of the key controls currently in place to mitigate the risk.</i>	<i>An assessment of the likelihood of the risk occurring after taking account of the key controls in place. [see risk evaluation criteria]</i>	<i>An assessment of the potential financial or non-financial impact of the risk to the Organization, if it were to materialise after taking account of the controls in place. [see risk evaluation criteria]</i>	<i>A single measure of the risk's overall significance based on likelihood and impact.  (Likelihood score X Impact score)</i>	<i>The individual responsible for the risk at the Business Unit or Centralised Function</i>	<i>Indicate whether any future actions are planned to improve the existing controls and further address/ reduce the risk.</i>	<i>Outline the further actions that are required to manage the risk.</i>	<i>The individual responsible for completing the Further Management Actions.</i>	<i>The date when the action(s) must be completed by.</i>	<i>An indication of the status of the agreed actions.  (Complete/In progress/ Not started)</i>	<i>The next date that the risk should be reviewed.</i>
A1						0							
B1						0							

# Fraud Risk Register - Example

## (FRAUD) RISK REGISTER

Office/ Corporate Function Name: \_\_\_\_\_

Date \_\_\_\_\_

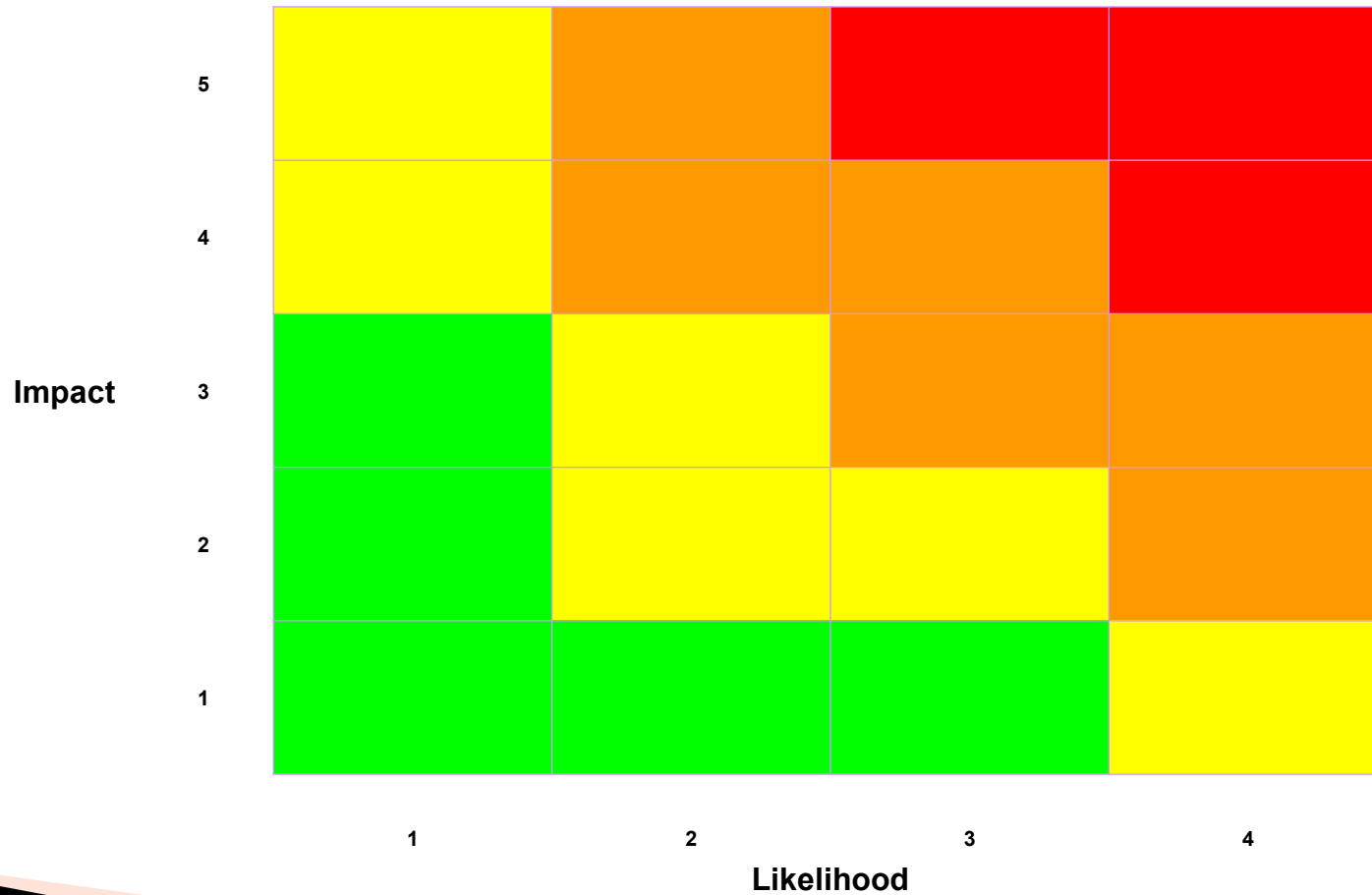
Risk ID	Risk Description	Risk Causes	Current Key Controls	Risk Likelihood	Risk Impact	Risk Score
	<i>A statement of the main organizational/functional objective impacted by the risk.</i>	<i>A list of the proximate causes of the risk.</i>	<i>A description of the key controls currently in place to mitigate the risk.</i>	<i>An assessment of the likelihood of the risk occurring after taking account of the key controls in place. [see risk evaluation criteria]</i>	<i>An assessment of the potential financial or non-financial impact of the risk to the Organization, if it were to materialise after taking account of the controls in place. [see risk evaluation criteria]</i>	<i>A single measure of the risk's overall significance based on likelihood and impact.  (Likelihood score X Impact score)</i>
A1						0
B1						0

# Fraud Risk Register - Example

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# Fraud Risk Register – Risk Map Example

## RISK MAP



## Internal Control Health Check©

Internal Control Health Check© – is designed to be used as part of the Sustainability Solutions Internal Controls Course. The Health Check© is completed during the training to assist an organization in determining if they have a healthy or unhealthy Internal Control system in their organization. This Health Check© is not designed to be a definitive guide but only guidance to the organization to ensure that all items are in place.

	Strong	Moderate	Weak	Non-Existent
<b>1. Control Environment</b>				
1. Demonstrate Commitment to Integrity and Ethical Values <ul style="list-style-type: none"> <li>• Tone at the Top (<i>Does the board of directors and management of the organization demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control?</i>)</li> <li>• Standards of Conduct (<i>Does your organization have documented policies or codes of conduct clearly explaining ethical and morally acceptable standards. Is adequate training provided to staff and are they required to acknowledge receipt and understanding of these documents?</i>)</li> <li>• Adherence to Standards of Conduct (<i>Does your organization have measures, like performance evaluations, whistle-blow/hotline facilities etc. to identify non-compliance with documented standards of conduct and take disciplinary action in such circumstances?</i>)</li> </ul>				


## 2. Exercise Oversight Responsibility

- Oversight Structure (*Is a body, such as the Board of Directors, in place that oversees operations and makes oversight decisions, are members independent and knowledgeable of the organization's operations?*)
- **Oversight for the Internal Control System** (*Does the oversight body oversee all aspects of the system of internal control, including the control environment, risk assessment, control activities, information and communication and monitoring? This oversight role is usually assigned to the Audit Committee by the Board.*)
- **Input for Remediation of Deficiencies** (*Are control deficiencies reported to the oversight body and do they provide input on management's plans for remediation?*)

**3. Establish Structure, Responsibility, and Authority**

- Organizational Structure (*Does your organizational structure facilitate the upward and downward flow of information and is it appropriate for the size and nature of your operations?*)
- Assignment of Responsibility and Delegation of Authority (*Are staff members fully aware of their duties and responsibilities and are up-to-date organizational charts maintained? Are reporting structures well-established and understood?*)
- Documentation of Internal Control System (*Does your organization have documentation supporting the system of internal control including process descriptions and flowcharts, policies and procedures and risk and control matrices?*)

# REAL LIFE ANALYSIS OF INTERNAL CONTROL ENVIRONMENTS

A decorative graphic consisting of several overlapping, curved shapes in shades of orange and blue, sweeping across the right side of the slide.

*In the following example there were Big 4 firms, local NGOs and local government DOH officials*

A decorative graphic at the bottom left corner, featuring a textured orange shape and a white swoosh.



	Strong	Moderate	Weak	Non-Existent
<b>1. Control Environment</b>				
1. Demonstrate Commitment to Integrity and Ethical Values	<ul style="list-style-type: none"> <li>• Tone at the Top</li> <li>• Standards of Conduct</li> <li>• Adherence to Standards of Conduct</li> </ul>			
2. Exercise Oversight Responsibility	<ul style="list-style-type: none"> <li>• Oversight Structure</li> <li>• Oversight for the Internal Control System</li> <li>• Input for Remediation of Deficiencies</li> </ul>			
3. Establish Structure, Responsibility, and Authority	<ul style="list-style-type: none"> <li>• Organisational Structure</li> <li>• Assignment of Responsibility and Delegation of Authority</li> <li>• Documentation of Internal Control System</li> </ul>			
4. Demonstrate Commitment to Competence	<ul style="list-style-type: none"> <li>• Expectations of Competence</li> <li>• Recruitment, Development, and Retention of Individuals</li> <li>• Succession and Contingency Plans and Preparation</li> </ul>			
5. Enforce Accountability	<ul style="list-style-type: none"> <li>• Enforcement of Accountability</li> <li>• Consideration of Excessive Pressures</li> </ul>			
<b>Total for Component 1</b>				
<b>SUB-TOTAL COMPONENT 1</b>				
<b>2. Risk Assessment</b>				
6. Define Objectives and Risk Tolerances	<ul style="list-style-type: none"> <li>• Definitions of Objectives</li> <li>• Definitions of Risk Tolerances</li> </ul>			
7. Identify, Analyze, and Respond to Risks	<ul style="list-style-type: none"> <li>• Identification of Risks</li> <li>• Analysis of Risks</li> <li>• Response to Risks</li> </ul>			
8. Assess Fraud Risk	<ul style="list-style-type: none"> <li>• Types of Fraud</li> <li>• Fraud Risk Factors</li> <li>• Response to Fraud Risks</li> </ul>			
9. Identify, Analyze, and Respond to Change	<ul style="list-style-type: none"> <li>• Identification of Change</li> <li>• Analysis of and Response to Change</li> </ul>			
<b>Total for Component 2</b>				
<b>SUB-TOTAL COMPONENT 2</b>				

# REAL LIFE ANALYSIS OF INTERNAL CONTROL ENVIRONMENTS

*In the following example there were many of the leading US and international universities.*

*Note that on average just about every organization rated themselves moderate to weak throughout.*

# CUGH (USA) 28 FEB – 1 MARCH 2018

		Strong	Moderate	Weak	Non-Existent
<b>1. Control Environment</b>					
1.	Demonstrate Commitment to Integrity and Ethical Values				
	• Tone at the Top				
	• Standards of Conduct				
	• Adherence to Standards of Conduct				
2.	Exercise Oversight Responsibility				
	• Oversight Structure				
	• Oversight for the Internal Control System				
	• Input for Remediation of Deficiencies				
3.	Establish Structure, Responsibility, and Authority				
	• Organisational Structure				
	• Assignment of Responsibility and Delegation of Authority				
	• Documentation of Internal Control System				
4.	Demonstrate Commitment to Competence				
	• Expectations of Competence				
	• Recruitment, Development, and Retention of Individuals				
	• Succession and Contingency Plans and Preparation				
5.	Enforce Accountability				
	• Enforcement of Accountability				
	• Consideration of Excessive Pressures				
<b>Total for Component 1</b>					
<b>SUB-TOTAL COMPONENT 1</b>					
<b>2. Risk Assessment</b>					
6.	Define Objectives and Risk Tolerances				
	• Definitions of Objectives				
	• Definitions of Risk Tolerances				
7.	Identify, Analyze, and Respond to Risks				
	• Identification of Risks				
	• Analysis of Risks				
	• Response to Risks				
8.	Assess Fraud Risk				
	• Types of Fraud				
	• Fraud Risk Factors				
	• Response to Fraud Risks				
9.	Identify, Analyze, and Respond to Change				
	• Identification of Change				
	• Analysis of and Response to Change				
<b>Total for Component 2</b>					
<b>SUB-TOTAL COMPONENT 2</b>					

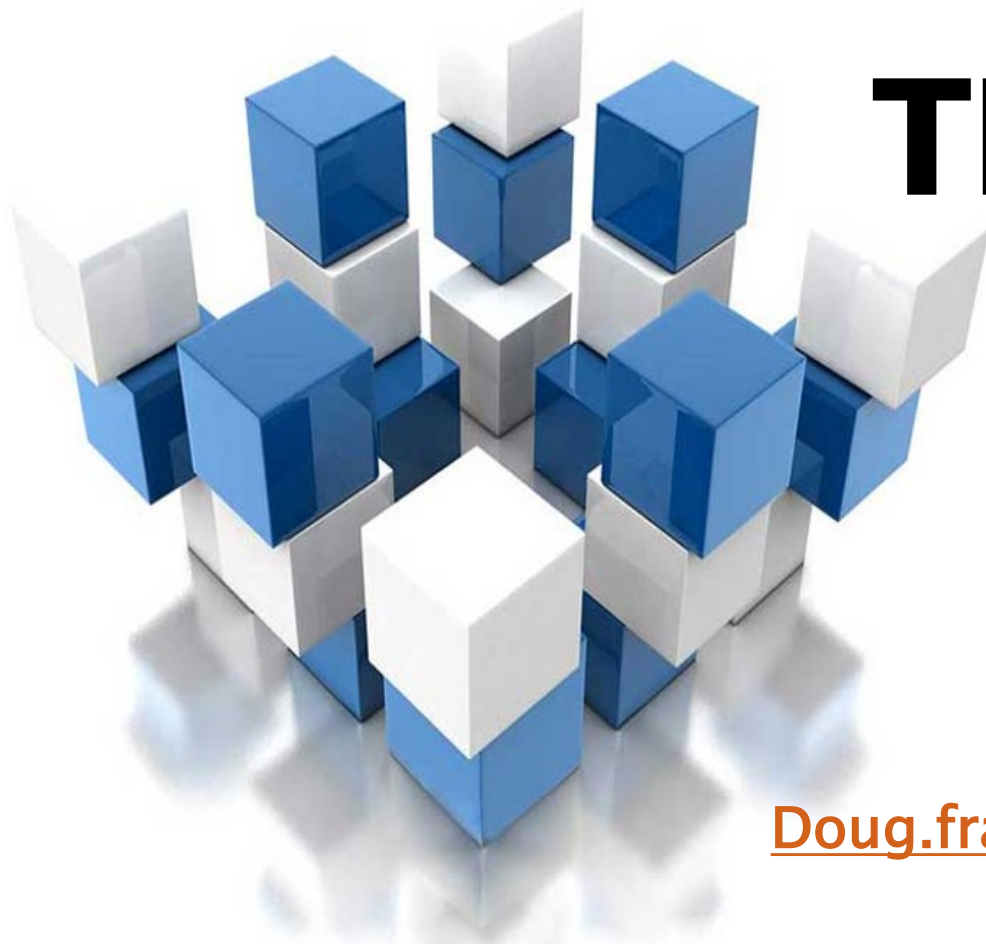
# REAL LIFE ANALYSIS OF INTERNAL CONTROL ENVIRONMENTS

*In the following example there were mainly Big 4 firms, mid-sized and small auditing firms.*

*There were a few local NGOs which tended to rate themselves generally weaker than the auditing firms.*

Nexia-SAB+T 14-16 March 2018

	Strong	Moderate	Weak	Non-Existent
<b>1. Control Environment</b>				
1. Demonstrate Commitment to Integrity and Ethical Values				
• Tone at the Top				
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• Identification of Change				
• Analysis of and Response to Change				
<b>Total for Component 2</b>				
<b>SUB-TOTAL COMPONENT 2</b>				



# THANK YOU

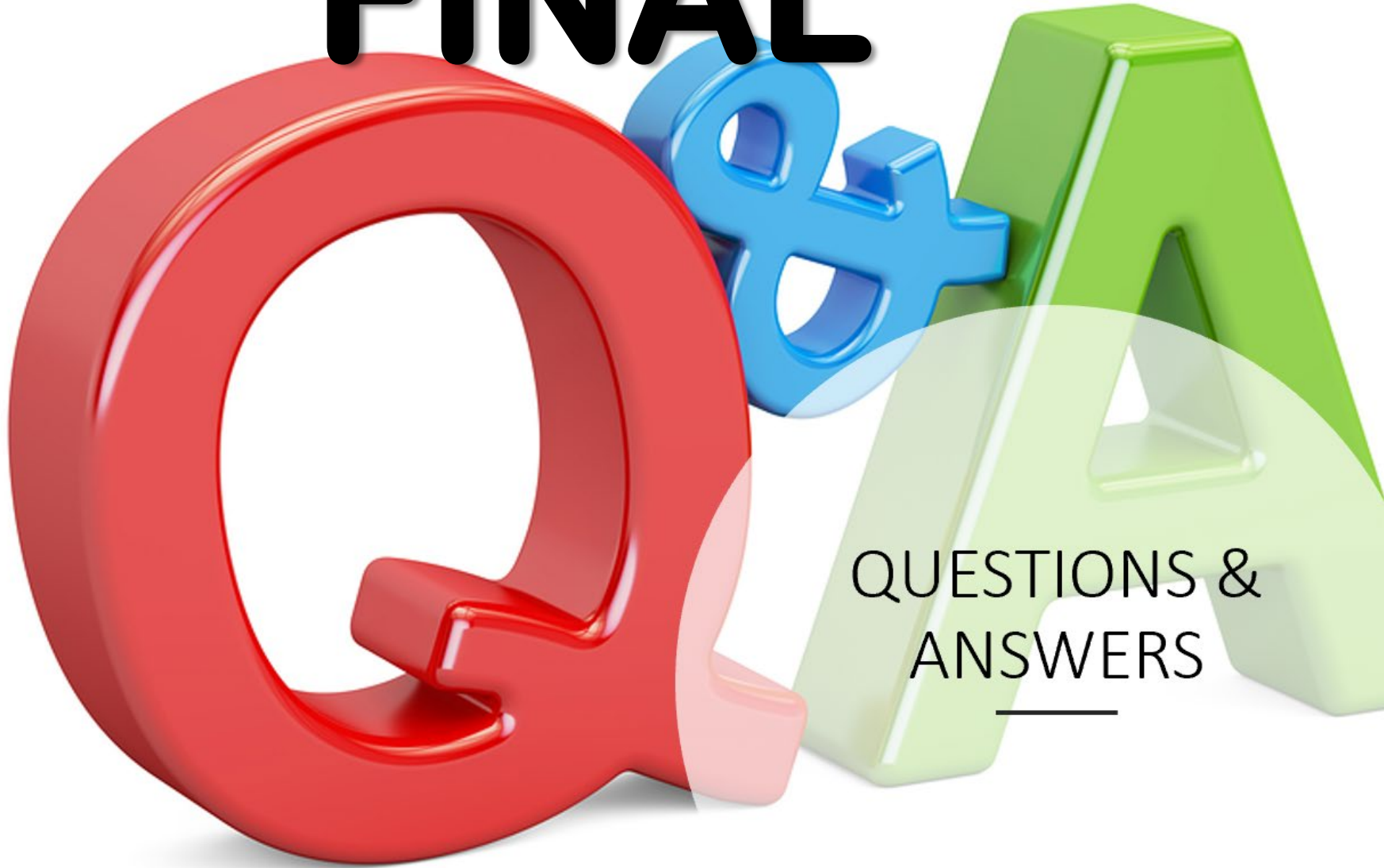
Facilitator:

**Doug Franke**

[Doug.franke@sustainabilitysolutions.co.za](mailto:Doug.franke@sustainabilitysolutions.co.za)

+27(0)82 444 2894

# FINAL



QUESTIONS &  
ANSWERS

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